

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH



Volume XXIII

DECEMBER 1932 TO SEPTEMBER 1933

London : MACMILLAN & CO., LTD.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
• THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
The Foundation for Disarmament	I
I. <i>The Pre-War System and the Paris Settlement.</i> II. <i>The Last Twelve Years.</i> III. <i>The Search for Stability and Security in Europe.</i> IV. <i>Great Britain and the United States.</i> V. <i>The Far East.</i> VI. <i>Reparations, War Debts and Economics.</i> VII. <i>Conclusion.</i>	
The Task of the World Economic Conference	21
I. <i>Introduction.</i> II. <i>The Causes of the Crisis.</i> III. <i>The Consequences of the Crisis.</i> IV. <i>The Remedies.</i>	
Ottawa and the Trade Agreements	44
I. <i>The Course of the Conference.</i> II. <i>The Agreements.</i>	
The Lytton Report	64
I. <i>China: An Unparalleled Situation.</i> II. <i>Manchuria: An Unparalleled Situation.</i> III. <i>The Report.</i> IV. <i>A Plan of Action.</i>	
The President Elect	90
I. <i>Mr. Roosevelt's Record.</i> II. <i>The Democratic Victory.</i> III. <i>The War Debts Question.</i>	
Russia and the Five Years Plan	99
I. <i>Appearance and Reality.</i> II. <i>The Material Achievement.</i> III. <i>The Human Side.</i> IV. <i>Collectivisation and Village Life.</i>	

(Continued on next page.)

Nº 89. Price 5/-. DECEMBER MCMXXXII

London: MACMILLAN & CO., LTD.

Entered as second class matter March 15th, 1929, at the Post Office at Boston, Mass., under the Act of March 3rd, 1879 (Sec. 397, P.L. and R).

JL
V56m N32
N32.23



CONTENTS (*continued*)

	PAGE
Ireland : The Tariff War	118
I. <i>The Economic Struggle.</i> II. <i>Political Reactions at Home.</i> III. <i>Political Developments Abroad.</i>	
India : The Reaction to the Communal Award	142
I. <i>The Reception of the Award.</i> II. <i>Mr. Gandhi's Fast.</i> III. <i>Terrorism in Bengal.</i>	
Great Britain	162
I. <i>The Resignation of the Liberal Ministers.</i> II. <i>The Position of the Labour Party.</i> III. <i>The Future of the National Government.</i>	
Canada	174
I. <i>The Ottawa Conference.</i> II. <i>The Railways: The Royal Commission's Report.</i> III. <i>The St. Lawrence Waterway Treaty.</i>	
Australia	191
I. <i>The Ottawa Agreements and Australian Trade.</i> II. <i>Government Finance and Banking Policy.</i>	
Southern Africa	207
I. <i>South West Africa.</i> II. <i>The Situation in Southern Rhodesia.</i>	
New Zealand	227
I. <i>The Ottawa Conference.</i> II. <i>Domestic Problems.</i>	

CONTENTS OF Nos. 87 and 88

	PAGE
No. 87. JUNE 1932	
Ottawa	461
Reflections on the Crisis	479
Ireland and the Treaty	489
The United States : A Year of Despair	520
Disarmament	532
The Far East	552
The Shanghai Standpoint	569
India : Ordinances and Reforms	574
Great Britain : The Progress of Protection	594
Canada : <i>The Session—The Prairie Provinces</i>	612
Australia : <i>New South Wales versus The Commonwealth—Imperial Preference</i>	631
South Africa : <i>The Parliamentary Session and Other Matters—The Native Policy of the Union, 1910-1932</i>	650
New Zealand : <i>The Export Credit Pool—The Economic Committee's Report—The Ottawa Conference—The Special Session</i>	673
No. 88. SEPTEMBER 1932	
Towards the World Conference together with an Appendix containing a Speech by Mr. Stimson to the Council on Foreign Relations in America on August 8	693
The Future of India	705
Ottawa : Interim Reflections	721
The Tragedy of Japan	726
Ireland	747
The Crisis in Central Europe	770
The United States before the Election	794
Manchukuo	808
India : A Less Tense Quarter	819
Great Britain : <i>The Position of the Government—Coal, Cotton and Railways</i>	839
Canada : <i>Personalities at the Imperial Conference—The Broadcasting Problem</i>	853
Australia : <i>The Economists' Report—The Fall of Mr. Lang and the State Elections</i>	871
South Africa : <i>The Session and After—The Native Economic Commission, 1930-1932</i>	891
New Zealand : <i>The Government's Plan—The Reaction—Imperial Matters</i>	909
East India (Constitutional Reforms) Summary of Communal Decision	933

NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of **THE ROUND TABLE** in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way **THE ROUND TABLE** will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

THE ROUND TABLE can be obtained through any bookseller or any of the following:

GREAT BRITAIN AND IRELAND: Messrs. Macmillan & Co., Ltd., St. Martin's Street, London, W.C.2.

CANADA: The Macmillan Co. of Canada, Ltd., 70 Bond Street, Toronto.

AUSTRALIA: Messrs. Macmillan & Co., Ltd., 32 Flinders Street, Melbourne.

SOUTH AFRICA: J. Tyndall, Esq., 126 Corporation Buildings, Johannesburg.

NEW ZEALAND: The Secretary, **THE ROUND TABLE**, c/o Messrs. McKay and Little, A.M.P. Building, Wellington.

INDIA: Messrs. Macmillan & Co., Ltd., Bombay, Calcutta and Madras.

EGYPT: The Express Book and Stationery Store, near Sheppard's Hotel, Cairo.

CHINA AND STRAITS SETTLEMENTS: Messrs. Kelly & Walsh, Shanghai, Hong-Kong and Singapore.

JAPAN: The Maruzen Company, Ltd., 14-16 Nihonbashi Tori Sanchoime, Tokyo.

UNITED STATES: The Macmillan Co., 60 Fifth Avenue, New York.

Should information be required or difficulty experienced in obtaining a copy of **THE ROUND TABLE**, application should be made to **THE ROUND TABLE**, 2 Paper Buildings, Temple, London, E.C.4, or to the above mentioned, or in Australia to Professor T. Laby, F.R.S., The University, Melbourne.

The price of **THE ROUND TABLE** is 5s. or \$1.00 per copy, and the annual subscription (including postage) 20s., in U.S.A. and Canada \$4, or in India Rs. 15.

Covers for binding volumes, 3s. 6d. each, and back numbers, price 5s. (except Nos. 1, 2, 16, 27 and 33, which are out of print), can also be obtained from Messrs. Macmillan & Co., Ltd., London.

THE FOUNDATION FOR DISARMAMENT

THERE is general recognition that we have reached a crisis in international affairs. Newspapers and politicians alike assert that on the issue of the Disarmament Conference and the Manchurian deadlock will depend the question whether there is to be a strengthening of the system of international relations represented by the League of Nations and the Kellogg Pact, or a new race of competitive armaments which is bound to end in another and more destructive world war. It is true that we are confronted by a peculiarly complex set of problems at the moment, and that the difficulty of solving them is aggravated by the economic depression in which the world is sunk. But we are not inclined to take a tragic view. What is certain is that the European system represented by the Treaty of Versailles and the French military predominance in Europe is coming to an end. But we are not sure that something more durable and stable will not come into being, amid alarums and excursions, in its place. It is not the purpose of this article to discuss the technical problems before the Disarmament Conference, which are changing every hour as one plan after another is put forward by the Powers. It is rather, in continuation of an earlier article,* to try to set forth in a perspective which goes back to 1913 the political realities which are the foundations upon which alone a solution of the disarmament problem can be based and a permanent system of international peace reared.

I. THE PRE-WAR SYSTEM AND THE PARIS SETTLEMENT

THE essence of the pre-war international situation was anarchy—caused by the claim of all nations to exercise a lawless sovereignty. The world was divided into a number

* See **THE ROUND TABLE**, No. 79, June 1930, p. 451.

The Foundation for Disarmament

of sovereign States, some of them liberal and democratic, like France and the United States, some of them dynastic and autocratic, like Germany and Russia, others mediæval and little affected by modern civilisation, like China or Persia. There were also the colonies and dependencies, mostly in the East or in Africa, which sovereign States had acquired. There was no system of international conference, no concert of Europe or of the world. International law, so called, recognised war as the inevitable method of settling disputes when diplomacy failed. In the West rapid industrialisation on the basis of private enterprise was in progress. Great Britain still clung to free trade, because, as the first of the great industrial Powers, she exchanged her manufactured products with the whole world in return for raw materials and foodstuffs, developed largely by her own surplus capital. Most of the other Western nations were moderately protectionist, in order to secure their own domestic markets for their own nascent industrialism and, with the exception of Germany, they hardly thought of competing for world trade. In this international anarchy every State inevitably relied upon its own armaments, and on alliances with its neighbours, as the means of self-defence or of promoting its own ends. Yet as political and economic adjustments became more and more necessary in a rapidly changing world, it became ever more difficult to bring them about by diplomacy. As democracy threatened the old autocracies, as minor nationalities clamoured for the right of self-government and self-expression, as national rivalries intensified the competition for colonies and markets, for power and prestige, one nation after another increased its armaments either for the sake of security or to give force to its demands. The great commercial and financial corporations were usually more internationally minded than the governments and their general staffs, and on the whole they strove to prevent war, which, they saw, could only bring ruin in its train. But this competitive and lawless anarchy gradually produced such

Pre-War System and the Paris Settlement

a state of diplomatic and military tension, that an accident, a mistake, or a minor provocation was enough to create a crisis that statesmen and diplomats were powerless to control. So did the assassination of the Archduke Ferdinand plunge first Europe, then Asia and Africa, and most of America into the greatest war of all time in 1914.

Two leading ideas, coming mainly from the United States and the British Commonwealth, emerged during the agony of the conflict. The first was that any settlement, to be durable, must recognise the idea of determination—that all civilised peoples who wished to do so ought to be free to govern themselves, preferably as democracies. The second was that, unless world war was to recur constantly, international anarchy must be ended by the creation of a permanent league of all nations, pledged to regular conference, to the solution of international problems and disputes by resort to a pacific machinery of settlement, instead of by resort to war, and to collective action against any nation which went to war in defiance of those obligations. These ideas bore fruit in Paris, first in the creation of a number of new States, the second in the Covenant of the League of Nations—the beginning of the world constitution which is destined ultimately to come into being.

Unfortunately, though almost inevitably, the effective operation of these ideas was defeated by the passage of time and the war itself. In the first place, the Treaty of Versailles settlement was imposed by force and without any consent, and it contained temporary provisions kept in force for the unduly long period of fifteen years. In the second place, though the new frontiers were immeasurably better than the old and gave freedom to every nation, the new alignments were to some extent unwise and biased, and all Germany's overseas possessions were taken away. In the third place, the settlement paid no adequate attention to economic realities, partly because it created claims for reparations, both national and international, in respect

The Foundation for Disarmament

reparations and war debts, which were impossibly large, and partly because it made no provision whatever for a limitation in the barriers to international trade which were the inevitable result of higher tariffs and the creation of new and highly protectionist States.

It seems to have been expected that the stability of the new order would be assured partly by its inherent merits, and partly by the Covenant of the League of Nations, which, while making general provision, in Article 19, for the revision, through the Assembly, of treaties which were unjust or out of date, forbade any attempt to settle disputes by war, except after recourse to the machinery of the League, and provided, in Article 16, for an economic boycott by all members of the League of any State which went to war in defiance of the Covenant. In order, however, to remove the anxiety of France and to give yet more stability to the peace settlement, the Anglo-American treaty of guarantee to France was drawn up, whereby Great Britain (not the Dominions) and the United States undertook "to come immediately to her assistance in the event of any unprovoked movement of aggression being made against her by Germany." This guarantee was to continue until the Council of the League "agrees that the League itself affords sufficient protection."

II.—THE LAST TWELVE YEARS

THE Paris settlement, therefore, was a consistent whole which aimed at bringing into being a new world order, whereby, after a period of stability, defects in the Peace Treaties and new anomalies arising from the unceasing activities of mankind, could be remedied, not as in the past by war, but by rational processes based on justice, under the guarantee and supervision of a body representing the whole of mankind. Whether the system conceived at Paris could ever have been made to work is

The Last Twelve Years

a matter of opinion, but in practice it was never brought into being. The history of the last thirteen years and the fundamental problems that confront us to-day are the consequence of its breakdown, and they centre around the efforts which have been made to find a new and more practical basis for international relations. It broke down, in the first place, because the largest and most powerful State in the world, the United States, reverting to the fundamental tradition which had governed her foreign policy ever since 1787, rejected not only the League and the treaty of guarantee to France, but all co-operation with Europe under the Treaty of Versailles, and in a lesser degree because Russia had arrayed herself against Western civilisation, including the League of Nations. And it broke down, secondly, because of the inexorable operation of economic laws which have been disregarded from 1919 onwards. If we are to understand the fundamental problems that confront us to-day, we must trace the consequences of these facts and of the failure of the Peace Conference to grapple with economic realities. Let us then trace the history of these years under four heads: (a) the search for stability and security in Europe; (b) Anglo-American relations and the freedom of the seas; (c) the Far East, and (d) the economic impasse.

III. THE SEARCH FOR STABILITY AND SECURITY IN EUROPE

IT was inevitable that France, which had been successfully invaded twice in fifty years, and had on the second occasion ejected the invaders only with the assistance of the British Commonwealth and the United States, and also such new nations as Poland and Czecho-Slovakia and Jugoslavia, which had been carved out of the old German, Austro-Hungarian or Russian Empires, should feel profound dismay at the complete withdrawal of the United States both from Europe and the League, and at the lapse of the

The Foundation for Disarmament

Anglo-American treaty of guarantee as a result of its rejection by the Senate. Not only did this action enormously weaken the direct guarantee behind the Treaties, and correspondingly hearten Germany and her associates, but it limited seriously the possibilities of the League, partly by depriving it of its most important single member, partly by throwing doubt upon the readiness and the power of Great Britain to act under Article 16 owing to uncertainty whether the United States would not regard such action as a violation of her own doctrine of the freedom of the seas. The policy of France, therefore, was from that time onward almost wholly preoccupied with the endeavour to construct an alternative system for the purpose of guaranteeing the stability of the Versailles Settlement and her own security. The inviolability of every article of the Treaties became the first article of her policy, and instead of the relatively flexible system of the Covenant and the Anglo-American treaty, she relied on the armaments of Belgium, Czechoslovakia, Poland and Rumania. A series of treaties between herself and these four countries were signed in 1920, 1924, 1921, and 1927 respectively. They amounted to military alliances, whereby disarmed Germany, Austria, Hungary and Bulgaria were encircled by a military combination of irresistible strength, capable at any time of enforcing compliance with the Treaties of Peace. This military machinery for the enforcement of the Versailles system she brought into operation in 1923, despite the protests of Great Britain, when the French armies marched into the Ruhr to prove to Germany that she could not hope to nullify the Treaty settlement, and to make her comply with her reparation obligations.

But while the Ruhr expedition succeeded in a military sense, its failure from an economic standpoint, the pressure of world opinion, and a dawning recognition that a great Power like Germany could not be kept in permanent subordination, and that the emergence of Russia, or the opposition of a revitalised Italy would inevitably eventually

Search for Stability and Security in Europe

create a balance of power in place of a French preponderance in Europe, resulted in a period of attempted appeasement. Repeated efforts were made to devise an alternative to the Versailles system. In 1924 France and her associates proposed the Geneva Protocol, embodying the popular formula, arbitration, security, disarmament. But the Protocol implied a new military guarantee by Great Britain against any revision of the whole Treaty settlement by force, and failed on the refusal of Great Britain to enter into further military commitments of this kind.

The Protocol of 1924 was followed by the Locarno Treaties of 1925. These Treaties were prefaced by definite statements by Sir Austen Chamberlain, then Foreign Secretary, that Great Britain could in no circumstances give any guarantees about eastern Europe beyond those which were contained in the Covenant itself. The treaties themselves were of two kinds. By the first Germany agreed with France, Belgium, Poland and Czechoslovakia that war should be ruled out entirely as a method of settling disputes, and that arbitration (or conciliation) should be substituted. By the second Great Britain (but not the Dominions) guaranteed the inviolability of the German-Belgian and German-French frontiers, and also the demilitarised zone in the Rhineland, and further undertook, if the Council of the League should be satisfied that a violation of the Treaty or the demilitarised zone had been committed, "to come immediately to the assistance" of the aggrieved Power, and, "in case of a flagrant violation," to do so without waiting for the Council of the League to act. Germany, at the same time, joined the League of Nations.

The Locarno agreements promised, for a time, to lead to an appeasement in Europe. The policy of "fulfilment" under Stresemann, coupled with the response of M. Briand and Sir Austen Chamberlain, restored Germany to the comity of European nations and paved the way both

The Foundation for Disarmament

for the evacuation of the Rhineland in 1929-30, and for considerable reductions in the size of the French army. But it did not lead to a real reconciliation with Germany because it did not lead to a solution of the reparation and war debts problems, or to a reduction of tariffs, or to a reconsideration of those features of the Treaties of Peace which were particularly obnoxious to the ex-enemy Powers, especially the Polish corridor and the Silesian and Hungarian frontiers. Nor did it fundamentally allay the fears of France and her allies, who were not prepared to consider revision and came to regard the Locarno Treaty as of little value on the ground that the Council of the League would be sure to absolve Great Britain from the liability to take immediate military action. In fact, despite Locarno, the complete military domination of France and her allies, as the "sanction" behind the Treaty settlement, was preserved intact. Gradually but inevitably, the "spirit of Locarno" died. Italy withdrew to a position of isolation and of hostility to France, both in the Balkans and the Mediterranean. The demand for "equality," for the cancellation of reparations, and for the revision of the Treaties in eastern Europe grew more insistent in Germany, until it culminated in elections at which immense numbers of votes were polled by Hitler, in the overthrow of the Brüning combination, and the installation of the frankly non-parliamentary "presidential" Government under Chancellor von Papen, an act which began to reawaken anxiety in other countries lest the spirit of the old Imperial Germany should regain control. The von Papen Government formally demanded that a status of "equality" should be recognised by fulfilment by the allies of the declarations about eventual disarmament which M. Clemenceau made in his letter to the German delegation to the Peace Conference, as the only alternative to re-armament. Such a status, which, while it does not imply exact equality of armaments between France and Germany, does imply the end of that

Great Britain and the United States

irresistible military preponderance by France and her allies as the guarantee of the Peace Treaties, which has been the centre of the European system since 1919, and will inevitably lead to a revision of the Treaties, in so far as eastern Europe is concerned, either by consent or by force. We are clearly now on the verge of a new order in Europe.

IV. GREAT BRITAIN AND THE UNITED STATES

THE rejection of the League of Nations and the treaty of guarantee by the United States placed Great Britain in a position of great difficulty, because she did not know the attitude of the United States, and this made it impossible for her to fulfil whole-heartedly her obligations under Article 16 of the Covenant—an article which provided international security against an aggressor and alone could make a general disarmament agreement possible. The primary principle of American foreign policy for 150 years had been to keep out of "European entanglements." Hardly less important had been their opposition to the British doctrine of the right of belligerents to interfere with neutral ships in order to search for or confiscate contraband of war. If the United States had joined the League of Nations this problem would have been largely solved by the Covenant itself, for American, like British, sea power would then have been the ultimate sanction behind the pacific system embodied in the Covenant, and when the Covenant had been broken there would have been no such thing as a neutral. When the United States rejected the League and reverted to isolation, however, not only was Great Britain uncertain whether she would regard action by the British Navy, say, against a Germany violating the Covenant, as a challenge to her own doctrine of "the freedom of the seas," but public opinion in the United States had begun to demand a navy strong enough to enforce observance by belligerents of that doctrine.

The Foundation for Disarmament

The incipient tension between Great Britain and the United States was relaxed by the Washington Treaties of 1921-22, in which the principle of equality was accepted as between the British and the American navies, a large number of superfluous ships of war were scrapped and tonnage limits fixed for the capital ships of all naval Powers, including Japan, France and Italy. The principle of equality was not specifically worked out in the case of cruisers, with the result that a series of acrimonious disputes arose in later years about the cruiser building programme of the two countries and of Japan, which were only composed by the naval treaties drawn up at the London Conference of 1930, which settled the various issues until 1936. None of these treaties, however, covered the cruisers and submarines of the French and Italian navies, and the Anglo-American and Japanese agreements may be upset at any time by a new naval programme being adopted by these Powers.

Nor did the Washington Conference discuss the problem of "the freedom of the seas" and its bearing on the Covenant of the League. The whole question remained in suspense until, mainly on the initiative of the United States, the Pact of Paris, better known as the Briand-Kellogg Pact, was signed by practically all the nations of the world, including both Russia and the United States. By that Pact the signatories declared that "they condemn recourse to war for the solution of international controversies and renounce it as an instrument of national policy in their relations with one another," and they agreed "that the settlement or solution of all disputes or conflicts, of whatever nature or of whatever origin they may be, which may arise among them shall never be sought except by pacific means." Though the Kellogg Pact created no machinery to ensure observance of its provisions, and though it has been held not to preclude the inherent right of self-defence, its ratification in effect ended the isolation of the United States, and made her

Great Britain and the United States

participation inevitable in all international discussions when there was an actual or possible breach of the Pact. The principle of American participation in such consultation was set forth by Mr. Stimson, the American Secretary of State, in August last, in an address to the Council on Foreign Relations, in which he also stated* that

the Pact had changed the whole doctrine of neutrality. War was no longer the concern only of the nations engaged in it, but of every nation in the world. The Pact had provided a means for mobilising the opinion of the world against war, and although there was no provision in it for consultation between neutrals, consultation was implicit both in the Pact itself and in the use which had been made of it in the disputes between Soviet Russia and China in 1929, and between Japan and China in 1931.

Mr. Stimson went on to add that the Pact and the Covenant marked a revolution in international law, in so far as it related to war, and that the principle of consultation under the Pact could be taken as a permanent element in American foreign policy because both the great party organisations had recently embodied it in their programmes.

Although, so far as is known, no discussions have taken place as to how the Kellogg Pact affects action under the Covenant of the League or the Locarno Treaties, and though Mr. Stimson made it clear that the sanction upon which he relied was the mobilisation of world opinion and not the specific economic sanctions contemplated against an aggressor under Article 16, the way is clearly open for a fresh consideration of the whole problem of what common action can be taken by the world collectively, and especially by the British Commonwealth and the United States—the two great sea Powers—to prevent war, to bring it to an end if it breaks out, and to create that collective "security" against an aggressor State, which is the necessary condition of a real and permanent reduction of armaments.

* THE ROUND TABLE, No. 88, September 1932, p. 701.

The Foundation for Disarmament

V. THE FAR EAST

THE Paris Peace Conference was only able to pay cursory attention to the Far Eastern theatre of war, though it allotted Germany's rights in Shantung to Japan, and the German islands in the northern and southern Pacific respectively to Japan and the British Empire, under mandate from the League of Nations. The real settlement of the Far East took place at the Washington Conference of 1921-22. The elements in that settlement were four. In the first place, the Anglo-Japanese alliance, which had guaranteed Japan against war in the Far East, or interference from Europe, since 1904, and had enabled Great Britain to mobilise the whole of her fighting fleet in home waters as the German navy increased, was allowed to lapse. In the second place, Shantung was restored to China, and all the Pacific Powers, including the United States, Japan, the British Empire and France, by treaty undertook to "respect the sovereignty, the independence, and the territorial and administrative integrity of China, to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government," and to establish and maintain "the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China." "China" was recognised to include Manchuria. In the third place, a limitation of naval armaments and fortifications in the Pacific which was accepted by the British Empire, the United States and Japan, gives to each effective control of its own zone and makes it impossible for any navy to attack the others effectively. In the fourth place, the Powers agreed to consult together in the event of controversy between themselves or of a threat of aggression by any other Power.

These treaties, with some naval modifications made in

Reparations, War Debts and Economics

1930, successfully preserved the peace in the Far East until the Manchurian crisis in 1931. That crisis is discussed elsewhere.* It had, however, the important effect of bringing about a close association between the United States and the League of Nations in order to secure common international action under the Covenant and the Kellogg Pact in defence of the Nine and Four-Power Treaties, in dealing with events in Shanghai and Manchuria, and in the appointment of the Lytton Commission. The principle of world consultation whenever a crisis threatening war and the sanctity of major treaties, even in the Far East, has to be dealt with seems now firmly established. It is the question as to whether such consultation will be effective as a force for the just and reasonable settlement of disputes by pacific means which gives such great importance to the forthcoming deliberations at Geneva on the Report of the Lytton Commission.

VI. REPARATIONS, WAR DEBTS AND ECONOMICS

THE Peace Conference utterly failed to deal with the economic realities of the post-war world; it recognised without demur the new economic boundaries created by the high tariff succession States of Austria-Hungary, and the delegates went cheerfully home hugging claims for reparations and war debts running to astronomic figures. In this respect, too, the situation was rendered more acute by the refusal of the United States to co-operate under the Treaties. For the Treaty of Versailles, though imposing gigantic reparation obligations on Germany, provided for the creation of a Reparations Commission of five, on which the United States representative was expected to exercise an impartial influence and to have a casting vote. The Commission was instructed to assess the actual amount payable by Germany within two years, on the basis

* See p. 65

The Foundation for Disarmament

of what it considered she could in fact pay. The withdrawal of the United States gave the chairmanship and the casting vote to France, and paralysed the intended working of the Commission.

The economic consequences of the triumph of the ideas of 1919 were foreseen by many, but their warnings made but little impression upon public opinion. The indomitable energy of agriculturists, capitalists, business men and workers achieved miracles in making good the wastage of war, and in reconstructing industry and agriculture and reorganising distribution and exchange, so that within a few years of the armistice, the production not only of the world but of Europe exceeded the level of 1913 (the rise of population was 11 per cent., and of production 30 per cent.). But the barriers in the way of permanent recovery presented by tariffs, subsidies, war debts and reparations eventually had their inexorable effect. For a time the borrowings of prostrated countries, and later of Germany, from Great Britain and the United States, disguised what was really going on. But as nation after nation, in their efforts to make themselves self-sufficient, both in agriculture and manufacture, diverted capital and labour from natural economic channels into the development of industries of all kinds for the supply of which ample plant already existed elsewhere, subsidised the production of foodstuffs and raw materials within their own borders when world supplies were already excessive, and endeavoured to transfer, through the exchanges, the huge payments required by war debts and reparations, obligations which represented not economic construction but the devastation of the war, the economic balance of the world became more and more upset. Efforts were made to diminish the impediments to trade at the International Financial Conference of 1920, and later at conferences held under the auspices of the League, but without practical result. The debts to the United States and Great Britain were scaled down from their nominal totals in 1922-25; the Dawes Committee

Reparations, War Debts and Economics

in 1924, and later the Young Committee in 1929, made some reductions in the reparation obligations that France in 1923 had marched into the Ruhr to enforce. But none of these measures were sufficient to remedy the fundamental dislocation caused by the war, the peace settlement, and economic nationalism. As the dislocation became worse, nations hastened to protect themselves by yet higher tariffs, exchange restrictions and subsidies of all kinds, expedients which only aggravated the disease. As a result, during the last two years, we have witnessed the most prodigious economic collapse that history has recorded since the advent of the machine age. World prices for most staple commodities are below the cost of production, the international gold standard, so laboriously restored in 1925, has gone, unemployment in every country has risen to heights previously unknown, and the economic structure of modern civilisation is clearly threatened with collapse. In this crisis reparations have at last been given a decent burial. It is inevitable that inter-allied debts should go the same way, because for every pound or dollar the national treasury receives, at least ten times as much is lost to trade. But the end is not yet in sight, for the reason that the capitalist and individualist system, which has raised the standard of living of the world so immensely in the last century, can only function properly if given a reasonable degree of freedom. Under the restrictions placed upon it by war taxation, war debts, and nationalist impediments to trade, the system itself is beginning to run down, with repercussions, political as well as economic. The Peace Conference created in the Covenant a means of abating political nationalism, and in the International Labour Office an institution whereby the standard of social protection for labour might be made uniform. It is obvious that, if the world is to recover, the nations must limit economic as well as political nationalism. They must create something like an economic covenant of nations, which would limit tariff barriers and sub-

The Foundation for Disarmament

sidies, as armaments should be limited, and impose certain minimum standards of international decency in economic affairs.

VII. CONCLUSION

IF the whole field of international policy during the past twenty years be surveyed, four broad conclusions seem to stand out. The first is that the ideals underlying the Covenant of the League of Nations and the Kellogg Pact are entirely sound, and that the peace and progress of mankind depend upon their practical realisation. The only alternative is international anarchy with its correlatives, competition in armaments, peace settlements which are inherently unstable because they are imposed by force and therefore usually unwise and unjust, and periodically recurring world war. But if the Covenant and Kellogg Pact system is to prevail, it must prevail universally, in the Far East and South America no less than in Europe, and it must become indubitably clear that the nations mean to take effective common action to restrain aggressor nations which take the law into their own hands. Otherwise, no disarmament is possible, and competitive armaments will precipitate a new war. No doubt the validity of this new international system cannot be established all at once. Difficulties, too, arise from the fact that the sanctions behind the international system depend, in practice, mainly upon the British Empire and the United States, except in Europe, and there is as yet no clear understanding as to where the United States will stand, when violations of the Pact, and of international treaties to which she is a party, are in question. None the less, the first duty of any British foreign policy worthy of the name is to maintain the League and Kellogg Pact system, and, in association with the United States, to strengthen the collective action in support of it, upon which its effectiveness and a successful issue to the Disarmament Conference depend.

Conclusion

The second conclusion is that in Paris the League system became far too much enmeshed in the internal politics of Europe, with unfortunate results for both. On the one hand, it led to the withdrawal of the United States from the League, on the ground that she was determined not to be entangled in the vortex of internal European politics. On the other hand, it left Great Britain half in Europe and half out, thereby encouraging France and her associates to think that it would be possible to maintain permanently an irresistible military sanction behind the Treaties of Versailles, instead of setting to work to produce a reasonable and agreed equilibrium for Europe herself inside the larger League. It is essential alike for the development of the League and Kellogg Pact system and for the real pacification of Europe that both the United States and the British Empire should withdraw from the domestic politics of Europe, so that a regional European structure may come into being, with an interior stability of its own, because it would represent general consent and no longer would rely for its stability on outside guarantees, beyond the general guarantee afforded to all States, members of the League and signatories of the Pact. This will involve a revision of the Locarno Treaty of Guarantee, for the clauses about the demilitarisation of the Rhineland cannot form part of a permanently pacified Europe, are dangerously ambiguous, and inspire no confidence in either France or Germany. Great Britain has a part to play in a regional European system, but that part should be based on realities tested by history, or the fact that she is actively interested in the maintenance of the integrity of Belgium and of France, but will not entangle herself or take part in struggles in which even these Powers may be involved, if they are concerned with other parts of Europe.

The third conclusion is that any lasting solution of the European disarmament problem can only follow a reconsideration of the Peace Treaties if it is voluntary and excludes nothing except the Western frontier of Europe, finally settled

The Foundation for Disarmament

at Locarno. For no permanent basis of peace can be found by trying to create guarantees behind imposed political settlements, which are not agreed upon and do not command general consent. The question of revision is inseparably intermingled with that of disarmament. France now realises that her real security depends on preventing the re-armament of Germany, and on substituting for the Treaty of Versailles equality in armaments which are in future to be defensive and not offensive in character. But the guarantee against revision has hitherto been the military preponderance of France and her allies, and equality in armaments removes that guarantee. If the Disarmament Conference succeeds, it will only be because it has become accepted that, in the near future, the whole question of the revision of the eastern European frontiers is to be taken in hand, that this revision is to be effected by agreement and not by force, and that Great Britain and the other members of the League, and the United States under the Kellogg Pact, will regard attempts to bring about revision by force as a violation of these pacts. When this point has been reached, there will be good hope that Europe, though the negotiations may be long and difficult, will have taken the road to lasting stability and peace.

The fourth conclusion is that all the political goodwill in the world will not achieve permanent stability unless the effects of economic nationalism are mitigated by international law. Nations, like social classes, cannot be expected to behave reasonably when they are suffering from poverty and unemployment caused by the economic action of others. Whatever the ultimate economic system may be, the immediate need is to restore the system of private enterprise, which worked such marvels in recent decades, to normal efficiency once more. The individualist system, whatever its defects, has not failed. If it were allowed to function freely once more, the world would begin to progress again as it did during the nine-

Conclusion

teenth century. The crisis of to-day is caused by politics, by political interference with economic freedom in the form of tariffs, excessive taxation, exchange restrictions, debts and subsidies, the results of which present gratuitous evidence to those who seek to remedy them by revolutionary action. It can be ended by removing these political impediments. If we are to move forward, the immense gap in the international system created by the Covenant and the Kellogg Pact must be filled. The nations must recognise that the mad pursuit of national self-sufficiency and economic nationalism is involving all alike in ruin, exactly as did the pursuit of national security by means of armaments and political nationalism before the war. It is essential that limits should be put to international barriers to trade, that nations should recognise that they must not take economic action calculated to damage or ruin their neighbours, without conference and consideration, and that their primary common interest is, by common action, to promote the prosperity of the world as a whole. Is it too late for an economic covenant among the nations to take its place alongside the political and the labour covenants already in being?

In all political affairs it is necessary to take into account both the long and the short view. No attempt has been made in this article to consider what the next move in the great series of disarmament, political and economic conferences now taking place should be. But just as the earlier series of conferences which have met since 1919 failed because the delegates were usually concerned to deal with the immediate difficulty rather than to consider first principles, so to-day what is most needed is to discover the foundations upon which permanent settlements can be safely based. The justification of this article is that it attempts to make such a survey.

* * * * *

The Foundation for Disarmament

Later.—Since this article was written, the French plan for disarmament has been proposed. It is too early as yet to judge of the international reactions, or of the merits of the plan itself. But this can be said immediately. It takes one vital step forward, for it appears to concede the principle both of equality and of revision. It is no longer based upon the unequivocal maintenance of the whole treaty settlement. As such, we may welcome it, as the most important advance towards lasting peace made in recent years. But to be effective it must also, we think, recognise that the permanent basis of European peace cannot be a regional pact designed to maintain a settlement which satisfies only half of Europe. It must be a pact to maintain a settlement representing general consent. For consent is the only guarantee which will last.

Sir John Simon's speech of November 10 also represents a step forward, for it recognises fully the German claim to equality, though it rightly stresses the fact that to secure equality in practice a reaffirmation by Germany of her willingness not to attempt to revise the treaties by war is required, in order to dispel the suspicions raised in the rest of Europe by the extravagances of the Hitler movement and the speeches of General von Schleicher. Both the French and the British statements also imply that the solution of the problem cannot be made to depend upon further guarantees by Great Britain or the United States. Though we are by no means out of the wood, and it is not yet certain that Germany will return to the Disarmament Conference, the events of the last few weeks certainly give ground for renewed hope.

THE TASK OF THE WORLD ECONOMIC CONFERENCE

I. INTRODUCTION

THERE is some reason to hope—at any rate the world for whatever reason is beginning to hope—that the greatest financial and economic depression ever experienced has reached its nadir. Perhaps human minds must necessarily react after a time from unrelieved gloom. Perhaps like other toxins the toxin of the crisis produces automatically its anti-toxin. The improvement, it is true, is as yet apparent mainly in the stock exchanges, where psychological influences have a free field, often without much regard to actual developments in the outside world. Nevertheless it is a suitable moment to take a bird's-eye view over the stricken field and to see if one can descry any fresh movement of life.

If one is to express an opinion of any value as to the future course of events—and none of us, not even the wisest economist, can see beyond a few steps into the future—one must obviously hold some view as to the fundamental causes which have brought the world to the present pass. The public in general may well be excused for being bewildered. Some authorities tell them the disaster is due to the scarcity of gold; others to its maldistribution; others again see its origin in a greatly increased power in many directions of wealth production, or in other words, believe that there is scarcity *because* there is too great plenty; the Labour party again, whose reactions to an infinitely complex world are usually of a simple anthropomorphic character, have fixed upon the bankers as the all-powerful instruments of the Satanic will. To all those who wish to study in some detail the origins or the course of the crisis the writer would recommend the informing

Task of the World Economic Conference

and comprehensive volumes: *The Course and Phases of the World Economic Depression*, and *The World Economic Survey*, recently published by the League of Nations. They well illustrate the complex and baffling nature of the problem—or rather the whole series of problems—with which the world is faced, and they must convince any reader whose mind is not encrusted with prejudice that a solution must ultimately depend far more on the daily and hourly efforts of multitudes of individuals and institutions all over the world to adjust themselves to the new economic conditions which press upon them, than on any conscious decisions or actions of governments. In these few pages the writer can do no more than sketch with the broadest brush his view of the fundamental influences at work.

At bottom the causes of the crisis are not economic—not even monetary—but political. The crisis springs directly from the war of 1914-18 and from the post-war policy (the antithesis of mutual self-help) pursued by the leading nations. It is in its origin essentially a political crisis. The pressure of circumstances forces the whole financial and business world year by year more and more to attempt to transcend national boundaries; such a process is spontaneous and inevitable; it is indeed the only way to attain that material prosperity which, *granted political peace and stable economic conditions*, now lies open to all countries and peoples. The process leads necessarily to the growth of a delicate and complex system of international credit, and indeed of international economic and financial relations. In the most favourable circumstances and with the wisest co-operation that system will suffer from ups and downs, from severe stresses and strains, and it will without question be smashed—as it has been smashed—by great wars and enduring national animosities. It is then that, as a climax of misfortune, the instability resulting from the rupture of all these ties forces each nation back on itself. Its neighbours appear to be the culprits and, in the attempt of each at self-defence, the international

The Causes of the Crisis

mechanism is still further damaged and the economic and financial world thrust still further down into chaos.

We have in fact reached the moment when we must all make our choice. If we cannot forgo the luxury of national hatreds, national distrusts and selfishness, then we must limit our prosperity and our standard of living to that which each nation, living more or less to itself, can achieve. If we wish to secure the far higher standard which should be within our reach we must all live at peace.

II. THE CAUSES OF THE CRISIS

IF the world is to proceed on a more or less even keel, disturbed only by the normal instability of the trade cycle, then international trade and commerce must be reasonably free, the production of each nation be more or less in equilibrium with the demand, internal and external, the relative position of the creditor and debtor nations only change to that moderate degree to which the world can in any brief interval of time adapt itself, and monetary and credit fluctuations must be reduced to a minimum. All the great nations must either be attached to a single international monetary standard and have sufficient internal elasticity to adjust to it their interest rates, price levels and money incomes, or, if they have—as, for instance, we have now—their own domestic currency, they must make every effort to keep the fluctuations in its value relative to that of other currencies within the smallest limits.

To use other words, nations must, in general, advance step by step together, the changes in their relative conditions not being too sudden and abnormal. Changes in relative economic strength must no doubt be constantly proceeding. Some countries will be falling back and others coming to the fore. Some will no doubt be richer than others; some will accumulate day by day a credit balance in respect of their claims on other nations, as against the claims of others on themselves, and these others will face a debit balance which they must temporarily

Task of the World Economic Conference

adjust by long or short loans or by shipment of gold. But obviously these inequalities must be kept within comparatively narrow limits and nations must proceed on the basis of buying from and selling to one another rather than of borrowing or lending. For a nation with a balance of claims in its favour against other nations must either lend an equivalent sum back to the debtors or take payment in gold. If the balance becomes too large, either course must end in disaster. The second course will quickly destroy the international monetary standard; the first will merely postpone the day of reckoning. Nations, like individuals, must restrict their borrowings within the limits of what they can use to produce the means of paying interest and redemption, and these limits it is only too easy for a nation to overstep. If they are generally overstepped, then a crisis matures which, through a fall of prices and general profound economic disturbances, adds enormously to the burden and makes an indebtedness suddenly become intolerable which, had no crisis intervened, might have been supported.

All this gradual process of change and adjustment which had been proceeding during many years before the war, and under which the world was rapidly increasing in wealth, was smashed to pieces by the war. While the belligerent nations were building up to an unparalleled degree industrial plant required for the war, part of which could later be turned to peaceful uses, and were also stimulating as far as possible their production of food and raw material, the neutral nations were also engaged in developing production in directions of which they before had never thought. The world found, therefore, at the end of the war its equilibrium as regards production entirely disorganised, and for various reasons has never yet recovered it.

The war left many nations impoverished, but one, the United States, much richer, at least in its claims on other countries, having been transformed in a few short years from a country heavily in debt to the rest of the world to

The Causes of the Crisis

one heavily in credit. Not only had they during the war collected large supplies of gold, but this process continued afterwards. Their huge surplus of exports over imports, which had its origin in war necessities, lasted for years afterwards. Now it is possible that, given the most far-sighted wisdom on the part of the world's rulers, the great disequilibrium caused by the war might have been overcome and the main countries brought once more to advance more or less step by step, had international trade and competition been freed and tariffs lowered, had price levels and internal economic conditions been able freely to adjust themselves to the new conditions, and had international indebtedness been kept within moderate limits.

But the course of affairs was wholly different. Tariffs were raised; internal conditions were found to be more rigid than before the war, and above all, the already great disequilibrium between the creditor and debtor countries received a staggering intensification by the insistence on huge reparations and on the payment of war debts. Let us very briefly trace the chief consequences. First were the consequences of the war and the American Government's policy as to war debts on the United States, and through them on the world. The United States, not taking goods freely, balanced their account by lending large sums to debtor countries at high interest rates rather than by buying goods from them. In the first years after the war, these loans were mainly to non-European countries—*e.g.*, South America—and encouraged an extension of credit there, and an increased production of food and raw materials. London also continued, though on a much smaller scale, its pre-war foreign lending. The non-European debtor countries thus developed the habit of basing their economy on a continuous receipt of foreign loans. Meanwhile, Germany and some other European countries had suffered from an enormous inflation of currency due partly to the pressure of reparation payments and all the concomitant political troubles, and had in consequence been drained of a large part of their internal

Task of the World Economic Conference

working capital. Into this vacuum the United States (and to a less extent, Great Britain and other creditor countries) began to pour loans, short and long, and during the years 1925-29, Europe equally showed a great increase of production and prosperity, and European conditions also were largely based on a constant receipt of loans.

All this while, however, the gold accumulated in the United States during and after the war had been working out its effects in a vast extension of credit, which caused a huge security boom. American investors, finding what appeared to be greater opportunities of profit at home than abroad, began to lose interest in foreign loans, and simultaneously investors throughout the world, drawn towards the huge and apparently profitable speculation in New York, transferred very large sums from their own countries to the United States. This double strain on the debtor countries, which relied on a large import of capital to balance their account, produced a crisis, and the fall of prices began, first in South America and other raw material countries, and then in Europe. A few months more and the American boom itself collapsed, with the effects of a great restriction of American prosperity and a tremendous fall in American requirements in the way of foreign raw materials, which naturally fell much further in price. This was a second and still more staggering blow to the world, and particularly to the raw material and food-producing countries.

Several other events conspired to deepen the confusion. The strain on all gold countries, creditor and debtor, had been intensified, not only by the drain towards the United States owing to the boom, but by the still more severe drain towards France due to the repatriation of French balances sent abroad during the currency depreciation.

Moreover, accompanying these huge swings of capital backward and forward from country to country in post-war years, there had been a rapid cheapening of the cost, particularly of agricultural production, which would probably in any case have brought a considerable fall in prices. An

The Causes of the Crisis

accumulation of difficulties, therefore, fell upon the raw material and food-producing countries. They found the burden of their debts, which in some cases even before the fall of prices were too large, growing heavier and heavier, while the value of their exports fell enormously as a result mainly of the crisis itself, but partly also of other and more permanent causes.

As the depression deepened, all prices fell steeply, and when finally an acute financial crisis supervened on the economic and industrial crisis, all debtor countries, and particularly Germany, with its huge short-term debt, were overwhelmed with difficulties, which they had no means of surmounting.

The main cause of this unparalleled crisis was not, therefore, the shortage of gold, nor was it reckless international lending in the form of long and short loans by bankers. It was the profound inequality between one nation and another produced by the war and greatly exaggerated by the post-war policy of reparations, war debts and tariffs, which led to the equal but contrary disasters of vast credit inflation in the United States, because of their unbalanced creditor position, and equally vast currency depreciations in Germany and elsewhere, because of her unbalanced debtor position. These instances of fundamental disequilibrium were masked, in the case of central Europe on the one hand, and the raw material-producing debtor countries on the other, by the process of lending and borrowing in place of increased buying and selling.

It is easy to see now that only a great increase in international trade, so great that it could hardly be anticipated, could have rendered the burden of some, at any rate, of the debtor countries tolerable. What no single human being could, or at least did, foresee, was the combination of circumstances which brought about the disaster. Bankers cannot see further than other human beings. The peoples and their rulers had produced a condition of affairs, where some countries had overgreat sums to lend abroad, and others were stripped even of their working

Task of the World Economic Conference

capital. The bankers tried to right matters by lending the surplus of the rich nations to the poor, a process which, when conducted under normal conditions is, as all economists tell us, essential to the world's prosperity. There were few cases in which issuing bankers failed to take great pains to protect the interests of the lending investor. But neither the chief banking houses and banks of the world, nor the Financial Committee of the League of Nations, nor the experts of the Young Committee foresaw that their work was built upon sand. If "national planners," whose aim is to replace the free play of economic forces by the decisions of human reason, ever have full play, they will find that this complex, dynamic and changing world is a dark forest into which the vision of human foresight can penetrate but a little way. The delicate fabric of international credit and exchange can only be woven through years of peace and stability and by the efforts of multitudes of human beings guided more or less unconsciously by economic forces. As the nations of the world are drawn closer together and the fabric becomes ever more closely interwoven, the disaster likely to be caused by war and national animosities becomes ever greater. The confusion into which the world is now thrown is the direct consequence of the great war, and years must pass before the stability of 1914 is recovered.

III. THE CONSEQUENCES OF THE CRISIS

THE following information and figures, taken in the main from the *World Economic Survey*, published by the League of Nations, will bring home the extraordinarily acute nature of the crisis.

(1) There has been an unprecedented fall in industrial production of which the following figures present a sample. If 1928=100, German industrial production had by May, 1932, fallen to 58, the United States to 55, France to 73.

The Consequences of the Crisis

The table given below indicates how much more the production of "investment goods," e.g., timber, iron and steel, cement, machines, commercial motors, electrical motors and so forth has fallen than that of "consumers' goods," e.g., foodstuffs, paper, clothing, furniture, tobacco, etc.

INDICES OF PRODUCTION OF INVESTMENT AND CONSUMERS' GOODS FOR THE FIRST QUARTER OF EACH OF THE FOLLOWING YEARS
(1925 to 1929=100.)

Country	Grouping	1929	1930	1931	1932
Germany	Investment goods	105	100	72	46
	Consumers' goods	108	103	86	86
United Kingdom	Investment goods	105	108	83	78
	Consumers' goods	99	94	85	93
United States..	Investment goods	110	96	65	35
	Consumers' goods	104	95	88	83

The great fall in the output of investment, or producers' goods, is in part caused by the fact that the prices of these goods have fallen far less than the prices of consumers' goods. Raw material prices as a whole have fallen heavily, but prices of finished goods have not fallen as much. The resistance to any reduction of wages and other charges, which enter into the cost of finished articles and of some raw materials for producers' goods, e.g., minerals, has been greater than the resistance in the case of the less organised agricultural and raw material industries. To bring closer together these two sets of prices is one of the crucial problems to be faced.

(2) International trade shows an enormous reduction. World imports and exports have fallen from \$59,491 millions in 1929 to \$34,479 millions in 1931, and there has been a further continuous fall in 1932. In fact, in the first four months of 1932, the value of international trade was only 42 per cent. of what it was in the first four months of 1929, and the decline has continued.

(3) The fall in wholesale prices is indicated by the following few figures. The wholesale prices of commodities freely bought or sold in organised world markets have dropped between 1929 and 1932 by 55 to 60 per cent.

Task of the World Economic Conference

The average fall in all wholesale prices had by June, 1932, reached in gold standard countries between 30 and 40 per cent.

(4) At March 31, 1932, the United States and France held \$6,995,000,000 gold in their central banks out of total central bank gold reserves in the world of \$11,236,000,000.

(5) It is estimated roughly that in the spring of 1932 there were 20-25 million workers unemployed in the world.

(6) In a desperate effort by each country to find some shelter from the economic storm the imposition of restrictions upon commerce has assumed ever growing proportions. The ground is littered with "standstill agreements," exchange controls, increased tariff barriers, contingent and quota systems, import prohibitions, export bonuses, clearing and barter systems, etc., etc. However inevitable it is that nations should have been driven down this road to economic nationalism by the complete collapse of equilibrium, international trade must necessarily suffer from every one of such measures.

(7) By the huge fall in prices, quite unprecedented in any known crisis, the burden of internal and external indebtedness in every country, which by 1929 had risen generally to very high figures, has been rendered almost intolerable. The weight of fixed indebtedness, added to the rigidity of wages and other fixed charges, has thrown an unbearable strain on the small section of every community upon which rest the risks of enterprise.

(8) Short-term indebtedness, due especially from European countries, and particularly Germany, has grown to very large proportions. With failure of confidence all creditors require repayment at once, and no country has the means of making it. Exchange control represents the only, but an extraordinarily harmful, method of preventing immediate currency depreciation. The solution of this deadlock represents one of the most urgent problems.

(9) These vast economic and financial changes have largely destroyed the international monetary systems based on the gold standard. The extraordinary maldistribution

The Consequences of the Crisis

of gold reserves, the very large liquid short-term balances now ready at a moment's notice to fly from one country to another, and the complete lack of confidence among depositors and investors throughout the world present exceedingly serious obstacles to its restoration. No monetary centre now exists in the world in which there is unquestioned confidence.

This short catalogue of what could only be described fully in a volume indicates the unparalleled acuteness of the crisis. It affords a striking—too striking—illustration of the consequences of a great war upon our modern civilisation. It may well be that human nature, and particularly perhaps democratic human nature, cannot yet rise to the level of goodwill which alone is consistent with the working of the complex international machine erected almost unconsciously by mankind in the last fifty years. If so, we shall have to return to a simpler system based more on national self-sufficiency. What the consequences would be on the general standard of living, and whether the present population of Europe could even be supported at all, would remain to be seen.

The last two or three years have witnessed a desperate effort on the part of nations, governments, banks, industries and individuals to keep their balance and to maintain their solvency amidst the earthquake. Each unit has had perforce to take such steps as seemed likely to help it to stand upright regardless of their effect on all other units. A process of universal liquidation has followed with disastrous results. In order merely to meet its obligations, so far as it could, and to save its currency from collapse, each debtor nation had to limit its imports, knowing full well that these imports were its neighbours' exports. Its neighbours followed suit. Since you cannot both have your cake and eat it, the exports of great creditor nations like the United States and France were necessarily cut to pieces, for no one could pay for them. Most governments and whole financial communities, *e.g.*, in Germany and central Europe, have been unable to meet

The Remedies

Task of the World Economic Conference

their obligations. Similarly, banks in all parts of the world, faced with a universal lack of confidence and credit and with the inability of their debtors to pay them, have seen the necessity of having regard solely to their own liquidity and solvency, and have had to call in loans and restrict all new business. The countries which could now place a foreign loan in any centre in the world could almost be counted on the fingers of one hand. With the painful memory in their minds of their colossal losses it will be long before the confidence of investors in such loans returns.

This vast process of liquidation and restriction has, however, not achieved equilibrium. No main problems have yet been solved. But it may perhaps be said that the foundations are being laid upon which ultimately some new superstructure may be erected by the forcible and even temporarily disastrous process of levelling the too great inequalities between debtor and creditor nations. The surpluses of the creditor nations are being destroyed; the debtors are, by default, or by accommodation with their creditors, or by reduction of imports, striving to bridge the gap in their debit balances. It was argued above that a fundamental cause of the crisis lay in this too great inequality between nations, arising from the war, and greatly accentuated by post-war policy. However painful, therefore, the process appears inevitable. There is no way of escape by lending more money to nations already too deeply in debt. Like individuals they must live within their means. But in the urgent necessity of finding this new equilibrium, all nations have been forced down to a lower standard.

IV. THE REMEDIES

THERE is no specific remedy for the confusion in which the world has been thrown. Yet there is doubt in which direction relief must be sought. It is movement towards the liberation of private enter-

industry and commerce. That, indeed, is not the direction in which the world has been travelling since the war, nor in which democracies have recently looked for a solution—democracies like short cuts and simple remedies. It is comforting to believe that the disasters that have overtaken the world are the inevitable outcome of private enterprise, rather than of war and its aftermath, and that the path to recovery is through a wider and wider extension of governmental and other bureaucratic activities, and through “national planning,” presided over by those who have been fortunate enough, or expert enough, to secure a majority of votes. The advocates of planning forget to enquire into the competence of those who are to take on the stupendous task, under which the rulers of Russia are now staggering, of guiding all the activities, great and small, of the millions of human beings which comprise a nation. They forget the narrow limitations of human brain power and foresight.

It is easy for Dr. Dalton and Mrs. Leah Manning and their friends to move resolutions to nationalise all banking and a few other trifles. What is of more importance to the people is whether these ladies and gentlemen would have the capacity, experience and strength to administer so huge an enterprise, or even to choose and supervise those who could. The members of a government in a great modern State are already set problems which in number and complexity are almost more than human beings can master. How are they to add to their burdens a thousand-fold? And if they merely delegate their authority to others, what becomes of responsibility to Parliament and of that central control on which the efficacy of national planning must depend? The international economic and financial machine cannot be run in this manner.

When governments take a step forward towards the control of industry or finance, private enterprise takes two steps backwards. The intervention of governments, it is as well to remember, must be nearly always national and not international in its character, and for that reason, if more widely extended, can only enmesh the world in a net of

Task of the World Economic Conference

rigidities and controls which will finally destroy all progress and initiative. Governments have a vitally important sphere of action, but they cannot replace the spontaneous energy of whole nations.

Let us enumerate the main problems which will face the World Economic and Monetary Conference:—

- (1) How to secure a rise in the wholesale prices of world commodities.
- (2) How to adjust the dislocation between the prices of raw materials and food and those of manufactured articles.
- (3) How to lighten the burden of indebtedness, internal and external, including war debts.
- (4) How to solve the problem of short term debts.
- (5) How to diminish tariffs, and abolish exchange controls, clearing schemes, quotas, prohibitions, etc.
- (6) How to restore a sound international monetary standard.

In facing all these problems the sole preoccupation of the Conference should be—what can governments do to free these brakes sufficiently to release the wheels of private industry and commerce.

If the first object could be achieved and world prices were to rise substantially, the second, third and fourth problems would all be on their way to solution also, but the influence of governments and central banks on prices must be indirect. They can keep money and credit cheap and plentiful. They cannot secure that industry and commerce can immediately make use of it.

Governments can, of course, engage in huge public works themselves, and high authorities urge them to do it, even in enterprises which are in no sense economically remunerative. Whether this is a sound policy must depend on whether ultimately production is increased and more capital and labour employed by this method than by keeping government and municipal expenditure within normal bounds. In general, our opinion is that abnormally large public expenditure will be more than counterbalanced in its good effects by the disadvantages to industry in the way of higher charges for rates and taxes and other drawbacks. To bring about a true revival of industry is far more

The Remedies

important than temporary and spasmodic public expenditure. The real utility of cheap money is gradually to lower the rate of interest, not only for governments, but for all industry, and so make profitable many constructive enterprises which could not otherwise be embarked upon. But its effects are slow and must be given time to manifest themselves. It is all important too that cheap money should rule in all great centres and not only in one or more. One centre cannot go far ahead of the others without danger. As to the adjustment of prices of raw material and finished articles respectively, it is clear that governments can do nothing except encourage the free play of economic forces by which alone can the correct result be attained.

The second and allied problem is that of indebtedness. Most indeed of the problems which require solution are the direct consequence, partly of the unprecedented fall in prices, and partly of the fact that that fall has been much more severe in certain groups of commodities than in others, thereby adding a still further serious cause of dislocation. Or if one looks at the other side of the medal, it is the enormous increase in the burden of indebtedness, taxation and all fixed money incomes on the one hand, and the abnormally low price of raw materials and food products, as compared with manufactured articles, particularly producers' goods, on the other, which are the great obstacles in the way of a general resumption of activity. The disastrous effect of so great a fall of prices was depicted in strong terms by the Macmillan Committee, and is constantly harped upon by economists. It is doubtful, however, to what extent it is appreciated by the public. In the international sphere the wholesale defaults of debtor countries are clear evidence of the consequences, but it is not always realised that internal indebtedness, which after all is far larger in amount, presents still more serious problems. The national income in all countries is very greatly reduced; yet owing to the fall of prices a greatly increased portion of that reduced income goes to

Task of the World Economic Conference

the possessors of fixed money income, rentiers, wage earners and officials, leaving too little to the shareholders and the enterprising classes, e.g. farmers and business men who take the risks of enterprise, to make their activities worth while. It has been estimated, for instance, that in 1928 taxation and fixed charges for interest on non-government bonds, and on mortgages and other debts (altogether excluding payment of fixed money incomes such as salaries and wages) absorbed about 17 per cent. or 18 per cent. of the national income of the United States, and to-day, with the decrease in production and fall in prices, they absorb 40 per cent. Can the rest of the community live on the balance, or commerce and industry support the burden? The same internal problem in greater or less degree faces every country, indeed every government, State, municipality and industry, and also any individual, who owes money on loan or mortgage. Added to this increased burden of debt and taxation is the fact that all salaries and wages, unless reduced in more or less the same proportion with the fall in the cost of living, take an increased share out of the product of the concern that has to pay them. Thus almost every business is hit from both ends. Its profits decrease and its payments, fixed in money, absorb a larger share of the decreased profits. The shareholder and entrepreneur is ground between the upper and nether millstones. Enterprise languishes and unemployment increases. It is the unemployed, the entrepreneur and the shareholder who suffer.

It would at first sight seem to be logical and equitable that all debt charges and fixed money incomes should be automatically decreased more or less in proportion to the fall of prices or the change in the value of money. But the practical difficulties are immense. Germany, under Dr. Brüning's guidance and under extreme economic pressure, made an effort to reduce all fixed money incomes. In England the forces of resistance would be much greater, and moreover a compulsory reduction of interest would be quite inconsistent with the opposite policy of reducing

The Remedies

debt by conversion. Furthermore, if debts were to be written down because money had risen in value, they should be written up if money fell again, *i.e.*, if prices were to rise.

In our view, all progress depends on maintaining the principle that debt must be firmly based on contract. If the debtor is under obligation to do what he now finds he cannot do, debtor and creditor must come to an accommodation. Each case must be considered on its merits and by the parties concerned, since each case differs from every other. This road is a long and difficult one. It is being followed and has been followed daily for two years or so by all debtors and creditors. Something, indeed much, has been done. Governments are carrying through funding schemes; companies are reorganised; conversions are arranged; debtors are given time. By divers means debts are reduced or repaid. But, unless prices rise, the complete task of reducing debts in proportion to the rise in the value of money must be a very lengthy process. It is not, however, a process in which governments can do much by intervening. It is possible that government credits might be used to fund a part of the short term indebtedness of European countries. But, by and large, debts must be settled direct between debtor and creditor. It would be impossible for a world conference of governments to announce to the world that debtors were free unilaterally to write down their debts.

The problem must be and will be tackled from two sides. World prices will, with any sign of recovery, rise and day by day debts are slowly being adjusted. In the past twelve months or so Germany, for instance, has repaid probably between 20 per cent. and 30 per cent. of her short term standstill debts. With a return of confidence and a recommencement of the flow of capital into Germany this process would be accelerated.

From the point of view of the restoration of the international monetary and credit machinery, a solution of the problem of short term banking indebtedness, and particu-

Task of the World Economic Conference

larity of Germany's indebtedness, is far more pressing even than that of the long term, perhaps indeed the most pressing problem of all in view of the extraordinarily harmful character of exchange controls. The difficulties are of a most perplexing character, and become greater, the more all the countries concerned take steps which seem necessary to protect their vital interests, but which, in fact, reduce inevitably their own and all other countries' foreign trade. No immediate solution is in sight. There seem to be two broad alternatives. The one is that the governments of both debtor and creditor nations should combine to untie the Gordian knot by the use of their credit, so that money can be obtained from the investor in the creditor countries, which would unfreeze the banking advances, the bankers remaining liable to the governments for any ultimate loss. There can be no question that such assistance given by governments would repay them and their people many times, if thereby the central European exchange controls could be eliminated and trade and credit move more easily. But the proposal that even temporary assistance should be provided by governments raises at once political difficulties, at any rate in the case of the creditor countries, which are, it may well be, insuperable.

A less comprehensive scheme might be for the governments of the debtors to offer to fund at any rate part of the debts by substituting for them a government bond.

If debtors and creditors are thrown back purely on their own efforts, then the debts must be gradually reduced by various means and through various channels, as, in fact, is happening now. If confidence returns and if the whole world moves forward, the problem before long might be found to have reduced itself to more manageable proportions. If the depression continues unabated, this road may be a long one. Meanwhile, exchange controls and other impediments to recovery will continue to exercise their baleful effects.

There is, however, one species of debts, namely war debts, which lies wholly within the sphere of action of

The Remedies

governments and which, if the analysis of this article is right, requires urgently to be dealt with. The payment to the United States of these huge sums continues the process which lies at the root of the crisis. It is unnecessary to say more here. The history of this subject offers a supreme example of "national planning" and of the difficulties which may be expected to arise when all industry and finance are controlled by governments, and each government is controlled by an uninformed public opinion.

We come then to the fifth point, the diminution of tariffs, the abolition of exchange controls, the raising of moratoriums, and so forth. There is no doubt that here governments can do much. But it is to be borne in mind that these impediments, in so far as they have been interposed recently, are the direct result of the disequilibrium produced by the fall of prices and the consequent extra burden of indebtedness. The true escape lies in a rise of prices, in a solution of the short term debt problem and in the adjustment, where necessary, of the long term. When nations see their way to make both ends meet as regards their external obligations, and to release exchange controls without the collapse of the currency, most of these barriers will disappear. The dilemma is the usual vicious circle. Exchange controls cannot be withdrawn before the return of confidence, and confidence waits on the withdrawal of exchange controls.

The last question referred to above, and in the long run much the most important, is whether an international monetary standard can slowly be restored, or in other words whether the international gold standard can be reconstituted, since in fact no other practical alternative presents itself. This is much too big a question to be adequately dealt with here, and reference can only be made to a few broad considerations. It has already been shown above that the war and its consequences, together with the change in the psychology of investors, as the result partly of a speculative boom and partly of an ultimate collapse

Task of the World Economic Conference

of confidence, put certain creditor countries into the position of forcing the rest of the world to pay its debts to them, not in goods nor out of the proceeds of foreign loans, but in gold. It is obvious that if these creditor countries are to continue to enjoy a credit balance and to enforce payment in gold, the gold standard would quickly break down again even more completely. If the United States, for instance, insists on the payment of war debts, and if these can only be paid in gold, what folly it is to talk of the general resumption of the gold standard.

It is true that the surpluses of the highly protectionist creditor countries will certainly grow less. But whatever they may be they must be disposed of in some other way than by the constant attraction of gold. If these countries do not want to buy goods or to make foreign loans, the last resort is that the debtor countries must have the pleasure of receiving a larger proportion of their citizens as paying guests.

In the best of circumstances it is unlikely that a commodity required by nearly all countries, and yet so predominantly held by two only, will be stable in value in the next few years. It is impossible to foresee how the trend of the last two decades is to be reversed and gold to become distributed more reasonably among the countries wishing to adhere to the gold standard. It is certain that big economic changes will be required and that in the course of them gold may fluctuate greatly in value. There are therefore advantages in this country not tying itself irrevocably to gold at present. Who can say, for instance, what may be the future in the next few years in that vast and speculative country, the United States? A country which can create and in a year or two uncreate thousands of millions of dollars of credit by means of brokers' loans, and which carries out these operations through the agency of 25,000 banks, may be an attractive, but is certainly a dangerous, partner.

Another great obstacle to the normal working of the

The Remedies

gold standard is the huge amount of liquid capital represented by foreign claims held in the form of short term deposits or saleable securities, which can be shifted from one country to another at a moment's notice. These short term funds, estimated by the Bank for International Settlements at perhaps \$10,000,000,000, are in great part an indication of the general lack of confidence. They represent a real problem. When, owing to some sudden panic as regards the soundness of any given financial centre, these great blocks of liquid capital begin, so to speak, to "throw their weight about," the result can, as we know to our cost, be disastrous. If we were to return to the gold standard, very large foreign deposits might be expected to be built up in London, and since complete confidence in us will take many years to restore, they might be quickly withdrawn if there were any signs of strain. For in order to be the financial centre of the world we require a considerable surplus on our balance of payments, *i.e.*, considerable amounts of capital to lend abroad, and the power pretty freely to adjust our interest rates and price level so as to retain our competitive position. At present we have neither. Twenty years ago we were by far the greatest creditor nation in the world; to-day, without taking account of any foreign lending, we are probably short by about £65,000,000 to £75,000,000 a year.

But while it would be dangerous to return at once to the gold standard, there are equal dangers in floating loose. We must not get into the habit of adjusting our position to the outside world by the depreciation of our exchange. That is indeed what many countries, particularly some South American republics, have done for many years. Since 1820, for instance, the sterling value of the Brazilian milreis has dropped by irregular stages from 5s. to under 6d. We can hardly wish the pound sterling to have the same history. It would be a suicidal procedure, moreover, in view of our huge sterling assets abroad, which would diminish in value

Task of the World Economic Conference

with each drop in sterling. Our exports must be maintained, not by temporary "cocktails" administered by a fall in the exchange, but by a definite power to compete on level terms in the world's markets. There is a very widespread feeling that somehow our abandonment of the gold standard has freed us from the disagreeable discipline which is required to maintain the stability of a currency. That is a dangerous delusion. It is true we are freed from the necessity of following the vagaries of gold, if it displays any. But that is all. It is still as necessary as ever for our own health and the world at large that sterling should be a stable standard of value and, if an adjustment of our internal costs is necessary to secure this result, that must be made, difficult as from the rigidity of our conditions it may be, and made otherwise than by a depreciation of our currency. At present we are inclined to evade this painful necessity by using up all and more than all our invisible resources for living expenses. But this process must have an end. Recently, it is true, our exchange has been affected far more by capital movements than by failure to adjust what may be called our long-term competitive situation. And at the moment the Government's conversion policy and the necessity of very cheap money stand in the way of the Bank Rate being effectively used to stiffen up our exchange. But the movement of capital from London is influenced not only by interest rates, but also by foreign opinion as to our underlying strength and our power to adjust our internal conditions, if need be.

Profound changes will indeed gradually work themselves out in our whole situation relative to that of other countries, unless we are able to maintain our costs, whether in industry or in shipping or in commerce, on a truly competitive basis.

As a nation which depends more than any other on international trade in the widest sense, it is greatly to our interest to see the most stable international monetary conditions restored. Therefore, while we should not

The Remedies

return to the gold standard until the way is much clearer, we must at least play our part in preventing a depreciation of our own currency—and unless and until gold shows an instability greater than we can stand, in maintaining the pound substantially in a stable relation with the gold currencies. When it will be possible to return to gold, it is too early to say. It depends not only on a general understanding between the governments and central banks of the greater countries as to the working of the system, but still more on other fundamental adjustments, which governments by themselves cannot make. Raw material and food prices must rise relatively to the prices of finished articles; creditor countries must be more willing buyers of goods from debtor countries; international indebtedness must be brought, either by a general rise of prices or by other adjustments, to bearable proportions. But it is certainly in our best interests to work towards rather than away from a common international standard.

There is no opportunity to discuss more fully the great importance to the world of the re-establishment as widely as possible of such a standard, or the probable attitude of other non gold-standard countries towards this question. The immediate future will in any case be very largely determined by the policy of this country. That the pound sterling should continue to be classed among the world's widely fluctuating currencies will be a disaster not only to our own interests but to international credit and trade in general. It is for this reason that a strong government and a united and steadfast attitude on the part of all sections of the population are of the utmost importance. Our national crisis is by no means over. A great financial centre such as we are is peculiarly open to attack. In a world bereft of confidence its strength becomes weakness. Its only defence is to exhibit to the world an unshaken national unity.

OTTAWA AND THE TRADE AGREEMENTS

THE Ottawa Conference was primarily a business meeting for the negotiation of a series of preferential trade agreements between the nations of the British Commonwealth, and its success or failure is to be measured according as the agreements arrived at are or are not good business agreements—that is to say, bargains by which both parties benefit, not bargains under which a gain to one party is offset by a loss to the other.

High hopes have certainly been entertained that the Conference might result in the participating nations being drawn more closely together in sentiment and by a common self interest than they were before, just as individuals who have satisfactory business relations with one another are more to one another than strangers; but from this point of view again the merits of the Ottawa agreements from the economic or business point of view are the criterion of the success of the Conference. No one in these days could have expected it to result in the closer integration of the Empire in the directly political or constitutional sphere. Ever since the Dominions won their earliest self-governing rights and particularly during and since the war, the powerful urge of national independence has driven the Commonwealth along the path of political detachment. With the grant of full nationhood to those Dominions which choose to adopt it in the Statute of Westminster legally rounding out what Professor Elliott calls the

Ottawa and the Trade Agreements

“Theological subtlety” of the Balfour Memorandum,* that phase necessarily came to an end. The road stopped at a precipice, and there remained only for Mr. de Valera to dance precariously on its edge, trusting to the angels of Hibernian patriotism to bear him up. Now when others than suicides come upon precipices they either sit down and admire the view or go back along the path that brought them thither, or, turning to right or left, seek some other way of continuing their journey. Nations never stand still, nor do they commonly retrace their steps once painfully taken. Hence the time and circumstances were ripe for a new line of progress for the British Commonwealth. Political devolution was over, integration but a dream; the hope lay in co-operation, and particularly in economic co-operation, since economic problems cried loudest for solution.

What of this hope? We must examine carefully what happened at Ottawa before we can answer that question, but right at the start it can be truthfully claimed that the desire of the Commonwealth for co-operation was as strong as even the most optimistic dared hope. In the midst of argument and dispute, sometimes over details and sometimes over the whole economic future of the Commonwealth, the statesmen assembled in conference realised that they dared not publicly fail. The peoples whom they represented wanted agreements, and agreements they have been given. Some would say that it were better to have exposed the hollowness of some of the apparent agreement, to have risked a betrayal of partial failure in order that the full truth about imperial economic co-operation should not be concealed from the citizens of the Commonwealth. That is a matter which each must determine for himself, but the intensity of the desire that the Conference should succeed

* “Theology,” Professor Elliott explains, “is characteristically a stubborn attempt to explain an irrational or at least a superrational order in terms of reason, with the aid of appropriate texts.” *The New British Empire*, by W. Y. Elliott (McGraw-Hill, London and New York) p. 7.

Ottawa and the Trade Agreements

is itself encouraging. Furthermore, there was another and wider reason than the will of British electorates why the failure of the Conference could scarcely be contemplated. "If we, the British peoples," as Mr. Bruce said in his opening speech to the Conference, "united by ties of kinship and common interest, cannot in this hour of crisis act together in a spirit of co-operation and goodwill, what hope is there of international action between nations divided in sympathy and outlook and in many cases the inheritors of centuries of prejudice and hostility?"

I. THE COURSE OF THE CONFERENCE

THEREFORE the desire for an agreement was all the stronger. The delegates realised that it would not only mean co-operation between the peoples of the Empire but would also be an example, possibly a fresh inspiration, to the peoples of the world struggling to discover means of tackling the most severe economic crisis in history, and shortly to meet in world conference for that purpose. A failure of the British nations to agree would be a severe shock. That there were difficulties was recognised, and the very insistence on the unthinkability of failure struck a note of apprehension at the opening session. One had a feeling that dogged determination would be required to carry the Conference through to a satisfactory conclusion.

And—a description of the proceedings to be of any use to students of imperial problems must be candid—the Conference was often in trouble. The delegations spoke their minds to one another, explaining their respective difficulties in forceful language and airing freely such complaints as they had against each other. Sometimes the atmosphere was strained, sometimes the negotiations seemed on the brink of failure. But the Conference having, despite all troubles, succeeded in reaching a series of agreements, the disputations at Ottawa have probably been all to the good. There was plain speaking between the accredited represent-

The Course of the Conference

atives of the sister States of the Commonwealth—yet the Empire survives, none the weaker and probably all the stronger for it. Moreover, the Conference was a liberal education for many people who thought that it would be a simple matter to reach agreement on imperial economic policy, that the Governments concerned would quickly see eye to eye, and that the Dominions could and would easily grant to Great Britain the concessions that she desired. Appreciation of the real problems of economic co-operation between one group of nations is juster since the Conference than it was before.

The main difficulty was of a double nature. In the first place it was far less simple to reach agreement to-day than it would have been thirty years ago. Then to a large extent the production of the Dominions was complementary to that of Great Britain; now they have developed their own secondary industries and in certain fields there is considerable competition between Dominion and United Kingdom industries. Secondly, apart from, and to some extent owing to, the actual clash of economic interests, there is a clash of political thought between Great Britain and at any rate the two wealthiest Dominions, Canada and Australia. Great Britain is fundamentally a free trade country. Situated at the centre of world trade, and dependent for her life and prosperity on international trade she has seen, in the last two years especially, the damage wrought by trade barriers such as tariffs. Her new tariff policy has only been forced upon her in self-defence in a tariff-ridden world, and one of the purposes of that policy is that the tariff should be used as a bargaining counter with which to bring about reductions in world tariffs generally. In the United Kingdom a tariff is not liked for its own sake. The Dominions, on the other hand, have had a different experience, which has made them protectionist. For them a tariff has been a useful wall behind which they have been able to build up industry, and they are inclined to like it for its own sake.

Ottawa and the Trade Agreements

Mr. Baldwin stated at the outset the objective which the United Kingdom delegation hoped the Conference would set before itself.

What then (he asked) should be the first aim of this Conference? It should be to clear out the channels of trade among ourselves. . . .

Certainly he and his colleagues were anxious for an extension of inter-imperial trade, and believed that it should be achieved by a development of the system of imperial preference. But tariff preferences could be increased in either of two ways, by raising the rates of duty against foreign imports or by reducing the rates against British imports. The United Kingdom delegation declared strongly for the latter method, and were at pains to point out that the interests of the Dominions as well as those of the United Kingdom lay in freeing world trade as far as possible from its present barriers. Mr. Baldwin reminded the Conference that

The countries of the Commonwealth depend upon world prosperity both directly when they are selling commodities for which a world market is indispensable to them, and also indirectly when they sell to the United Kingdom, because the purchasing power of the United Kingdom depends upon her ability to sell in a world market, and that in turn depends upon the ability of the world to buy.

The United Kingdom delegation, in a word, came anxious to establish freer trade within the Empire. They desired to secure as much reduction as possible in the Dominion preferential tariff, to avoid as far as possible increases in Dominion duties against the foreigner; and on their side they wished to limit to the minimum the increases of duties that would be required against foreign imports into the United Kingdom relying on a guarantee of continued free entry for Dominion imports as the most valuable concession that they could make.

The Dominion statesmen showed appreciation of the importance of world markets, and were emphatic that the idea of a self-sufficing Empire, economically independent of

The Course of the Conference

the rest of the world, was unthinkable. Nevertheless, they appeared to believe that self-sufficiency could be more nearly attained than their colleagues from the United Kingdom did. Different reasons actuated them—for instance, a belief in high protection, in the case of Canada, and a dependence upon customs duties for revenue in the case of Newfoundland; but in varying degree the object of the Dominions was, generally speaking, the opposite of that which their colleagues from Great Britain cherished; they hoped to gain the maximum possible advantage for their imports into the United Kingdom by the imposition of tariffs on the foreigner, whilst they themselves made the minimum reductions possible in the tariffs which protected their own industries against British, as well as foreign, competition. They sincerely sought to increase the British preference in their own markets, but they desired to do it rather by increases in their general or intermediate rates of duty than by directly lowering their preferential rates.

But the whole Conference was united in the main object—the expansion of imperial trade by the development of imperial preference—and although, when the Conference opened, there was not quite so much accord as to ways and means, in the course of four weeks of extremely hard work and close negotiation divisions of opinion were narrowed, compromise where necessary was reached, and a series of agreements—the merits of which are discussed in a later section—was concluded.

After the first plenary session opened by the Governor-General, at which general statements were made on behalf of each delegation, the full Conference did not meet again until the closing day, when the agreements were formally signed. The detailed work was carried on in the meantime mainly by five committees, each with appropriate sub-committees. Committee No. 1 concerned itself with the promotion of trade within the Empire, No. 2 discussed questions of customs administration, No. 3 commercial

Ottawa and the Trade Agreements

relations with foreign Powers, No. 4 monetary and financial policy, and No. 5 methods of economic co-operation within the Empire. The work of the Committees was assisted from time to time by meetings of the heads of delegations.

The tasks of these Committees were naturally of varying importance. No. 2 was able to recommend principles which would enable the administration of customs to be carried on in practice in such a way as not to vitiate preferences after they had been granted. No. 3 also reached agreement on general principles calculated to bring the system of most favoured nation agreements with foreign countries into harmony with the system of preference between Empire countries. No. 4 had some exceedingly interesting discussions, but carefully avoided making any statements of policy likely to prejudice the wider discussions that are to take place at the World Economic Conference. No. 5 produced recommendations with regard to industrial standardisation and voluntary "rationalisation" between industries in different parts of the Empire, and it proposed the establishment of a special committee to examine the question of how the work of existing official imperial bodies in the economic and scientific sphere should be co-ordinated.

Committee No. 1 however was, at any rate nominally, responsible for the most important work of the Conference. It was invited to consider the means of promoting trade within the Empire. Its objective was the primary aim of the whole Conference, the purpose for which it had been called together. This was the object of the trade agreements that the delegations had come to Ottawa to negotiate. So in a sense No. 1 Committee *was* the Conference. It considered certain questions allied to the proposed trade agreements, such as that of Empire content, the "exchange dumping" duties which have been imposed, since Great Britain went off the gold standard, against United Kingdom imports into certain Dominions, and the problem of Russian and other State "dumping," which might render

The Course of the Conference

preferences granted under the trade agreements ineffective. But although the Committee was nominally responsible for negotiating the all-important trade agreements, its meetings did not, in fact, prove to be the best way of actually attaining agreement. In the case of the Canadian and United Kingdom delegations, for instance, informal and private conversations among themselves were found, in actual practice, a far more effective method—at any rate until they were on the point of agreement—than formal meetings round a table in a large committee room, with a chairman presiding, a secretary taking minutes and representatives of all the other delegations listening-in. The same was true of negotiations between the United Kingdom Ministers and the various Dominion delegations. And so the Committee itself stood adjourned during practically the whole of the middle and latter part of the Conference, whilst these private conversations were proceeding, meeting again at the end simply to give formal approval to the agreements that had been reached, and to pass them on for the approval of the Conference as a whole.

But the Committee nevertheless made most valuable recommendations as to the best way of tackling the complicated problems and network of negotiations involved in the creation of a balanced system of reciprocal preferences for Dominion goods entering the United Kingdom market, and United Kingdom goods entering the Dominion markets. Some Dominions were interested in the same kinds of imports. A number of them, for example, were concerned with the importation into Great Britain of butter and other dairy produce. It was decided at an early stage that the United Kingdom could not treat butter from different Dominions in different ways—the same treatment must be meted out to all butter coming from any Empire source. Otherwise there would be invidious distinctions; misunderstanding and bad feeling might easily arise between Dominions; there would certainly be unnecessary complications for the United Kingdom customs authorities.

Ottawa and the Trade Agreements

From every point of view it was desirable that similar imports from different Dominions should receive similar treatment. The negotiations would have been unnecessarily complicated had New Zealand put forward one proposal with regard to Great Britain's treatment of butter imports and Australia another. Imagine the effect of diverse proposals to the United Kingdom delegation not only about butter, but also about other dairy produce, and fruits, metals and minerals and other commodities in which more than one Dominion is interested. So the Committee recommended that the group of Dominions interested in dairy produce should first meet together and agree upon a joint specific request to be put forward. The group of Dominions interested in fruit were to do the same, and so on; and as each group reached agreement its proposals were placed before the United Kingdom delegation.

At the same time the Committee recommended a series of bilateral conversations between the United Kingdom delegation and each of the Dominion delegations with reference to the United Kingdom requirements in Dominion markets. Thus two sets of conversations—one with regard to the preferences that the Dominions desired in the United Kingdom market, the other with regard to the preferences desired by the United Kingdom in Dominion markets—proceeded at one and the same time. At a later stage they were integrated.

It should be pointed out that if the delegations had waited until they met at Ottawa to examine all the details involved, the Conference might still be sitting. But in actual fact the negotiations were enormously helped by preliminary communications which had been going on between the different Governments for some months before the Conference met. Early in the year, for instance, the United Kingdom Government sent to each Dominion Government a schedule containing a tentative list of requests for concessions to United Kingdom imports

The Course of the Conference

which the United Kingdom delegation proposed to put forward; and it invited each Dominion Government to send a similar list of what it intended to ask of the United Kingdom. A preliminary exchange of views then took place on these mutual requests, so that in some cases the work was in a fairly advanced stage before the delegations met at Ottawa at all. In other cases, where the preliminary examination had not gone very far, the work at Ottawa was exceedingly difficult owing to the shortness of the time in which it had to be done. Such preparatory work is of the utmost importance, and should be a prelude to any future Imperial Conferences at which economic questions are to be examined in detail.

By the somewhat complicated but logical process described above a series of important agreements between the United Kingdom and each Dominion—except the Irish Free State, between whom and the United Kingdom no negotiations took place—was gradually, and occasionally painfully, evolved. The three most troublesome of the larger questions proved to be how to grant a preference to Dominion meat imports into the United Kingdom, how to guard against preferences being rendered ineffective by Russian or other State “dumping,” and how to increase the British preferences in the Canadian tariff. The first was settled by an agreement upon the principles, and some of the details, of a quota system of import regulation. The second was solved with the aid of the celebrated Article 21* of the United Kingdom-Canada agreement. The third was the most stubbornly contested issue of all. It proved a very difficult task to get any reduction in the Canadian tariff. The Canadian delegation was in a more difficult position than any other, for the Conference was held in its own capital, which was easily accessible to lobbyists. Ottawa was filled with manufacturers, the

* Article 21 provides for the contingency of foreign State action frustrating a preference.

Ottawa and the Trade Agreements

spoilt children of the Canadian protective system, determined not to give up their privileges against United Kingdom imports. Discussion continued right through the Conference between the United Kingdom delegation, the Canadian delegation and the Canadian manufacturing interests working behind the scenes. The issue was in doubt till the very end. Finally it was settled by the granting of considerable concessions by the Canadian Government, in return for those granted by the United Kingdom Government. A long list of immediate changes in the Canadian tariff schedule was agreed upon, and the Canadian Government also undertook to establish the tariff board whose functions are discussed later.

Some of the general effects of the agreements that were reached are discussed in the next section. Their main feature is clear. The first care of each Government is recognised to be to look after the industries or agriculture upon which its population depends, and aiding those of another part of the Empire is only a secondary consideration. Nevertheless preference, except in exceptional cases, is to be given, by the Dominions to United Kingdom manufactures, and by the United Kingdom to Dominion agricultural produce, even when competition with their own industries or agriculture is involved. The agreements establish the principle that there is to be fair competition throughout the Empire. They recognise that the prosperity of each part will help the prosperity of the whole. At the same time there is no attempt to make Imperial preference the means of establishing a self-sufficient Empire or to damage trade relations with the rest of the world.

II. THE AGREEMENTS

THE agreements have been variously criticised according to the fiscal views of the commentator. For our own part, in applying our criterion of what good business agreements should be, the benefit of both parties, we should

The Agreements

ask ourselves to what extent do they mean a stimulation, not a mere diversion—which inevitably implies a restriction—of trade, and to what extent do they further or handicap the liberation of world trade by action outside the Commonwealth.

The first question is tantamount to asking how far the agreements entail a net reduction of tariffs. Since the Import Duties Act already gave free entry to Dominion products, the guarantee that such free entry would be preserved was the only concession open for Great Britain to grant that did not imply some increase of restriction on trade. Beyond that, we have guaranteed the permanence of duties of at least 10 per cent. *ad valorem* on an important list of commodities, including timber, fish, leather, lead and zinc. Besides this, we have promised to impose new or increased duties on a further list of commodities, among which wheat, butter and cheese, fruit, eggs, maize, rice, and copper are the most notable. At the same time it must be remembered that the exemptions granted to the Dominions cover a very considerable volume of trade, and but for the agreements these exemptions would have all lapsed on November 15. Tariffs of some kind might then have resulted for these imports too. The effects of the concessions granted by the Dominions to the United Kingdom will be discussed later on.

How far the interests of the consumer will be safeguarded by the maintenance of free entry into the United Kingdom for Empire products in the above-mentioned classes is a matter on which opinions must inevitably differ. The stern free trader will regard it as at least probable that the new duties will increase the cost of living with consequent detriment to the British export trade, and will find it significant that it was thought necessary to demand from the Dominions a guarantee that, as regards wheat, copper, lead and zinc, supplies would be available in the United Kingdom at world prices, and in quantities sufficient to supply our requirements. From this point of view, the

Ottawa and the Trade Agreements

wheat preference is a remarkable item; as Empire wheat producers are bound to sell some of their crop outside the Empire, they cannot gain any larger market, and they are prevented by the guarantee (as they would in any case have been prevented by economic circumstances, unless they established a monopoly) from obtaining any higher price. Hence the conclusion might be said to follow that Great Britain has granted a concession for the sake not of Dominion farmers but of the political prestige of Dominion Governments. The advocates of the agreements, in reply to what is said above, point out that the effect of the Import Duties Act has not yet been to raise the cost of living for the consumer in this country, or of export from it, and that certainly in these days of glut no such ill effects are to be apprehended from the new duties.

This brings us to the question of the quota. The decision on bacon and ham was reserved until the Pig Industry Commission had reported,* though Canada was promised a large untaxed quota,† while the principles of a scheme for the quantitative regulation of the importation of mutton, lamb and beef were agreed upon with the Dominions affected, who for their part undertook to control their own export of meat. This is not the place to discuss the relative merits of quantitative regulation and direct taxes on imports. The meat quota has been criticised as a food tax in disguise, for if it brings no revenue into the United Kingdom Treasury, it will at least raise the price of a staple food for the British consumer. Its whole object is, however, admittedly to increase the return to the Dominion and home producer by raising the price, and Mr. Chamberlain has explained to the House of Commons why it was preferred to a direct duty.

The conclusion is obvious (he said). What you have to do if you are to restore the prices which have been ruined by this excessive increase in importation into a market of which the capacity was not

* The Commission reported on October 25.

† Australia and New Zealand were also to benefit from any bacon quota scheme.

The Agreements

increasing is to regulate the supply of imports until you reach some reasonable relation between what the market can take and what is going to be offered to it. A duty on foreign meat would be useless for this purpose, in the first place, because the foreigner would pay the duty and send in the meat just the same, and, in the second place, because the excess was not coming from the foreigner. The excess was coming from the Dominions.

The event will show whether the experiment is justified.*

So far the general result seems to be that, while the concessions made by Great Britain fell far short of what the Dominion Governments originally proposed, they were substantial, and required large reductions of Dominion tariffs if the net results were not to be a mere enhancement of trade barriers.

These reductions in their turn were certainly also substantial, though space does not allow of a detailed review of them here. The concessions† to the United Kingdom, in themselves considerable, are given partly by increasing the tariff against the foreigner, partly by a direct reduction in the tariff against British goods. Thus, South Africa has on the balance increased her preference to us by raising her tariff against foreign goods, but in Canada a total of 223 concessions includes 132 items, representing \$45.7 million worth of British trade, in which the duty against our goods is reduced. There will be no accompanying increase, either in the intermediate or in the general tariff in 81 of these items, and in between 70 and 80 of them, representing \$8.3 million of British trade, our imports will be admitted free; in two further cases all the rates, and in another the British preferential and the intermediate rates, have been lowered. The rest of the 223 concessions have been effected simply by raising

* Regulation is to continue for the five years, but the parties will, in 1933, try to arrive at a permanent policy. If they fail to do so by June 30, 1934, the percentage reduction fixed for foreign meat will, unless otherwise agreed, continue in force. The restrictions can be removed whenever a shortage due to them is in existence.

† At Delhi the agreement with India has been referred to a Committee of the Legislative Assembly. For further details of the Canadian concessions see the Appendix.

Ottawa and the Trade Agreements

the tariff against the foreigner, and in one case the British preferential rate as well.

In New Zealand the changes consist entirely of reductions in the duties on British goods, and although in Australia the new preference is, for the moment, being effected by raising the duties on foreign goods, Mr. Bruce has made it clear that "this was a temporary necessity," since the Australian electors had been given a pledge that their Government would reduce no tariff without a recommendation from the Tariff Board, which is now, we understand, engaged on the work of revision and has already commenced making reductions. In both Australia and New Zealand various prohibitions, surcharges, primage duties and surtaxes against United Kingdom goods have been done away with since the Conference, and in Canada an enactment permitting arbitrary valuation, which led to increased duties and uncertainty, is being abolished. The administrative reforms are dealt with in the succeeding paragraphs.

It is, of course, possible to look askance at what the Dominions have conceded, and to contend, as is done, for instance, in the *Economist* of October 15, that many of the British goods placed on the Canadian free list are such as will still be unable to compete with similar goods from the United States, notably motor cars, which, notwithstanding our own tariff and currency depreciation, are still sold in the British market; or that even after the promised reduction in favour of British, and increases against foreign, goods have been made, the duties which will remain on British imports will still be prohibitively high, and will exclude them from competition with articles of Canadian manufacture. Experience must decide what measure of truth there is in these criticisms; but it appears to be clear that some important British industries, notably the iron and steel and chemical industries, stand to gain materially—in the case of the iron and steel industry, largely as the result of their own negotiations—from the concessions

The Agreements

offered, and the balance of British opinion would, we believe, support the view that the Dominions are giving a fair *quid pro quo* for the advantages awarded to them. It will also share the hope of the United Kingdom delegates that the concessions obtained will themselves prove to be only a beginning, and that the new principles which are to govern tariff administration in the Dominions, and the competition of British and Dominion industries will, as time goes on, result in still further improvement.

For apart from the detailed schedules of tariff changes, Canada and Australia and New Zealand have entered into a wider commitment. They have undertaken that protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success, that protective duties shall not, except in the case of young industries needing special shelter, exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, and that non-political tariff boards, before which United Kingdom producers shall be entitled to be heard, will review the whole range of protective duties and make recommendations to the Dominion legislatures in accordance with the principles above set forth. Here again there is plenty of opportunity for the critic who may choose to point out that in the interpretation of such phrases as "full opportunity of reasonable competition," "economic and efficient production," or "reasonably assured of sound opportunities for success," the widest latitude is possible, that much will depend on the composition and operation of the tariff boards which must be appointed by the Dominion Government concerned; that economy and efficiency become quite arbitrary conceptions as soon as the test of international competition is relaxed; that the principle of equalisation of costs through tariffs, which implies that the more costly a local industry, the stronger its claim to a tariff, has in the United States been

Ottawa and the Trade Agreements

made the excuse for one of the highest tariffs in the world ; and that formula expressed in general terms may lead to disputes over questions of interpretation.

The answer must be that responsible Governments like those the Dominions, in entering into important agreements with the United Kingdom, the whole object of which is to increase the volume of inter-imperial trade, do not lightly put their hands to pledges involving far-reaching changes of policy ; that there must be no suspicion of bad faith, and that Governments as honourable as our own can be relied upon to interpret their pledges honestly and to carry them out in the spirit as well as in the letter.*

Nor will the tariff boards in the Dominions resemble that of the United States, which has no concern outside the interests of its own people. The Dominion boards must also under the agreements take into account considerations which affect the United Kingdom producer.

A fair conclusion appears to be that, on balance, the Ottawa agreements will represent a net reduction of tariffs, should lead to a stimulation of trade, and thus in themselves are, upon the whole, good bargains ; and this conclusion is strengthened by the fact that, while in Canada they are criticised by the "lower tariff" Opposition led by Mr. Mackenzie King, as not going far enough in the direction of reduction of duties,† in Australia, they are attacked by Mr. Scullin as a betrayal of the Labour doctrine of high protection. Mr. Fenton has resigned from the Government because he thinks the agreement a threat to the system of high tariffs. But possibly as good a judge as anyone is Mr. Dafoe.

For two years (says the *Manitoba Free Press* of October 13) Canadians have suffered from the exactions and oppressions of a

* See Mr. Chamberlain's reply on this point in the House of Commons to an interruption by Mr. Lansbury, October 18. House of Commons Debates.

† See *The Times*, November 1, 1932.

The Agreements

tariff framed in a spirit of protection gone mad. Thanks to the insistence of the British delegation, instead of being fobbed off with meaningless preferences based upon increased tariffs, there are in the schedules submitted considerable remissions of taxation. This is a definite step in the right direction. . . . The crumbling of the tariff wall in Canada has begun.

Our second question, which followed that to which we have just offered an answer, was to what extent the agreements further or handicap the liberation of world trade by action outside the Commonwealth. Here it is important to have an outside opinion, and Mr. Chamberlain was able to quote very effectively in the House of Commons, on October 18, the opinion of a great American industrialist, Mr. Charles M. Schwab.

The Ottawa agreements (said Mr. Schwab) are going to hit America. They are going to hit my own concerns, especially in the Canadian markets. We must take a wide view. If the British Empire prospers under these agreements, America and all the rest of the world must prosper in the long run.

Again, we have the comment of the American Ambassador:

The trade which the United States might lose for the time being as the result of Ottawa (said Mr. Mellon) will not in the end be worth nearly so much to them as a more prosperous Great Britain as a customer.

We ourselves have heard from another foreign source that traders and economists abroad regard it as of good augury for Europe, struggling as she now is in a network of restrictions, that the British nations should have been able to set an example of economic collaboration and freer trade among themselves, for what one set of nations has done, others, if well disposed and anxious to trade with one another, may do.

The Ottawa agreements then bid fair to be a useful object-lesson to the world outside ; nor, although they bind us to impose duties on a number of foreign imports, are these so heavy in themselves, nor do they cover so

Ottawa and the Trade Agreements

wide a range as to make it impossible for us, consistently with what has been done at Ottawa, to negotiate further trade agreements with foreign countries. Indeed Sir John Simon has been able to assure the House of Commons that, whereas, while Great Britain was standing upon an absolute free trade basis, all efforts to bring about a tariff truce with foreign countries failed,

since the day when the Import Duties Act was on the scene, and again now that the Ottawa agreements had been produced, they (the Foreign Office) were constantly invaded to a quite unusual extent by the representatives of different countries who wanted to negotiate. Presumably Norway, Sweden, Denmark and Argentina know their business.

The hope seems justified that a breach in the tariff walls effected in the British Commonwealth may lead to their further crumbling not only in Canada but also in the outside world.

It may not be out of place to add a word on the political aspect of this matter. The retirement from the National Cabinet of Sir Herbert Samuel and his Liberal (as distinguished from Liberal National) colleagues was probably always inevitable, and its effect on the Government's position is referred to elsewhere.* Whatever the loss, the unanimity of the delegation under the pressure of "hard bargaining" is now reflected in the British Government. On the other hand, the Opposition in Parliament would reject the agreements with no less unanimity; and both in Canada and in Australia and New Zealand the parliamentary Oppositions are all arrayed against the agreements, although on diametrically different grounds. That it is regrettable that arrangements which affect so nearly the mutual relations of the nations of the Commonwealth should become matters of acute local controversy on party lines is not to be denied; but we may cherish the hope that if, as it is legitimate to expect, the agreements are found to work

* See page 162.

Appendix

reasonably satisfactorily in practice, the fires of party controversy will burn down. And, because the agreements are but business arrangements after all, the British genius for compromise can be relied upon, if in the actual operation of them they are found to need it, to make the necessary adjustment by the same process by which they were made. Just as we hope that they may help to clear the road to a return to prosperity, but do not hail in them the creation of a new and more glorious British Commonwealth, so we are confident that, were our hopes unhappily to be disappointed, the unity in diversity of the Commonwealth would survive the disappointment. Great as is the importance of the Ottawa agreements in the business sphere, they are not the *articulus stantis aut cadentis imperii*.

APPENDIX

The effect of the concessions by Canada to British trade was summarised as follows in *The Times* of October 13:—

"On the basis of the 1931-1932 Trade Returns the value of the trade in the items on which freedom from customs duty is to be given by Canada to imports from the United Kingdom is as follows: Total imports,* \$31.2 million (£6,240,000 at par), of which \$8.3 million came from the United Kingdom. The corresponding figures for those items on which the duties are to be reduced are: Total imports,* \$58.9 million (£11,780,000 at par), and \$37.4 million. For the items on which duties on foreign goods will be increased the figures are: Total imports, \$35.1 million (£7,020,000 at par) and \$8.8 million.†

"The total imports of all commodities into Canada in the same year were valued as follows: From all sources \$578.5 million (£115,700,000 at par), of which there were imported from the United Kingdom \$106.4 million (£21,280,000 at par). Hence, on the basis of last year's trade, over 40 per cent. of the imports from the United Kingdom will enjoy immediately the advantage of lower customs duties, and goods to the value of over \$8 million will be admitted free of duty."‡

* *I.e.* all the imports from whatever sources which, when they come from the United Kingdom, are to receive this particular preference.

† The duties on this \$8.8 million worth of British goods were not of course raised, except presumably in the one case mentioned by Mr. Bennett. (Canadian Hansard, October 12, p. 126). The increase of duties will be on \$35.5 million, less \$8.8 million.

‡ This will be in addition to the British imports already admitted free, the value of which, for the year ended March 1932, was \$26.7 million. In the same year there were foreign goods to the value of \$150 million and British (other than United Kingdom) goods to the value of \$13 million (both estimates approximate) admitted free.

THE LYTTON REPORT

NO more important document has ever come under the consideration of the Council of the League of Nations than the Report of the Commission of Enquiry appointed, on an appeal by the Chinese Government, "to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them on which peace depends." The importance of the Report is due, on the face of it, to the facts that many involved questions are in dispute between a first-class Power on the one side and a vast but weak country on the other, that the dispute has already led to hostilities covering a wide area and causing much bloodshed, and that while the dispute continues incalculable economic loss is inevitable.

Many—particularly in smaller nations, who perhaps have had less opportunity of apprehending all the circumstances—would add to the importance of the issue by regarding this as a test case—a case which will serve as a precedent for the League in deciding what they should do when a stronger Power takes the law into its own hands when dealing with a weaker one. In fact, the prospect that any other case will arise which is truly analogous is extremely remote. As the Commission say, there are in this case "many features without an exact parallel in other parts of the world." The multiplicity of these features has added to the difficulty of the Commission's investigation, it must add to our difficulty in comprehending why they have been led to certain conclusions, but it detracts from the importance of the case as a test of what is applicable in cases which may arise elsewhere. Nevertheless, whether immediate action on the lines which the Commission recommend proves possible or whether unhappily it does not, it is essential that we should correctly appreciate the nature of the

China : An Unparalleled Situation

peculiar features to which the Commission refer and which they have endeavoured to explain. In the first event it will enable us to see the wisdom of the Commission's recommendations, in the second it will enable us to decide what alternative course of action is immediately open to us.

Paradoxically, the case is peculiar because China is involved, and China is not as other countries, and because a region is involved which is part of China but is not as other parts of China. What, then, are the features that distinguish China from other countries? What are the features that distinguish China's Three Eastern Provinces from other parts of China?

I. CHINA: AN UNPARALLELED SITUATION

CHINA is heir to a social and ethical tradition sublimated in the precepts of the sages, expounded in the writings of the commentators of a hundred generations. Out of this tradition there grew a system of government which drew its vital energy from a congenial soil. Under the supreme authority of the Son of Heaven, but free from any meticulous control, a *corps d'élite*, selected from among the people by examination in classical scholarship, conducted the business of government. In his administration the wise and good mandarin sought to interpret classical precept, to apply, in varying circumstances, traditional principles. His acts were not governed, and nobody wanted them to be governed, by the precision of law or of arithmetic. In the matter of taxes and fees, for instance, he took what he thought right in the circumstances, he passed to higher authority what he judged adequate in the circumstances. In China an agreement—be it written or be it verbal—is binding and, ordinarily, it is scrupulously honoured, so long as the circumstances remain what they were, or were expected to be, at the time when the agreement was concluded. It is not binding and, ordinarily, it is not honoured for one moment longer. Negotiation and com-

The Lytton Report

promise become necessary. Law and government edict have little more validity than a private bargain, unless established by the sanction of tradition.

This despotism, tempered by respect for a tradition common to governors and to governed, differed from other despotisms in this, that it provided for an official Opposition. No office in the State was of higher dignity, no office called for the exercise of greater wisdom or of greater courage than that of censor. But even censors are neither all-present nor all-knowing, while often they were neither wise nor brave. Chinese despotism was consequently like other despotisms in this, that it gave rise to an unofficial Opposition to the tyrannical exercise of power. Such unofficial opposition might mean a sudden end for the tyrant, it inevitably meant outlawry to the agents of the Opposition if not to its instigators. Consequently, banditry has always been endemic in China, and its amount has varied more or less directly with the demerit of the administration—though with a certain time-lag.

The attitude of this society, steeped in its ancient tradition, to the outer barbarian was one of contemptuous pity. This was not due to any conviction that he was misgoverned or to any certainty that he was uncultured. It was due to the belief that, having been denied all knowledge of the wisdom of the sages, he did not know what was really worth cultivating—he could not distinguish weeds from flowers.

It has often been asserted that it was inherently impossible that the knowledge and ideals of Christian countries should impinge upon this ancient culture without a concussion so violent as to cause general confusion and destruction of much that was worth retaining. In fact, the first close and continuous contact of Europeans with Chinese society produced no such untoward result. The first missionaries to reside in China, members of the Society of Jesus, brought with them a taste for scholarship. They appeared anxious to make good the shortcomings of their early training by acquiring some knowledge of the Chinese

China : An Unparalleled Situation

classics. If, with due humility, they suggested that certain exotic flowers would bear transplanting to Chinese soil and adorn the Chinese garden, they did not condemn the native blooms as weeds, much less try ruthlessly to uproot them.

The confusion and the destruction which have come about must be attributed to later contacts with the products of Western civilisation. If evil consequences have come from the contemptuous indifference of the foreign merchant to the Celestial garden and all that is in it, still more serious have been the consequences, direct and indirect, of the facile optimism displayed by certain missionaries, educationists and others. The hope that the good seed was about to spring up both quickly and abundantly led to the assumption that it mattered little if much that the Chinese revered was trampled under foot. 'Tis true that many of these men have now revised their opinions. 'Tis true that other equally zealous workers never entertained these opinions. It is undeniable, however, that many American and British missionaries and educationists were prompted by their confidence in a regenerating acceptance of Western light and learning to broadcast opinions in regard to matters outside their immediate province. These men, with more justice than wisdom, condemned, as the bearer of evil fruit, the tree of government under whose shade the people rested. They, and those whom they had taught, cried out that it should be hewn down—destroyed root and branch—that to replace it they had the seeds of a magic mango-tree concealed in a carpet-bag. And what results of the intrusion of this West has the present century brought ?

In 1900 a popular uprising was directed mainly against the new teaching and its exponents. This uprising was secretly encouraged by the vigorous old lady who controlled her country's policy, and who was more incensed by foreign greed, recently displayed in the misappropriation of Chinese territory, than by the foreign teaching which she despised. That was China's last active and overt resistance to the onslaught of the new ideas. Thereafter, events came fast.

The Lytton Report

In 1904, this same old lady, the Empress Dowager, decided to abolish the system of selection by classical examination. It was one of the last things she did. No one knows what she would have put in its place had she lived to see her plans executed. In 1911 the Manchu dynasty was overthrown and China was declared a republic. The magic mango-tree was about to grow before a wondering people's eyes. The wondering people, vaguely conscious that the foundations of their society had been shaken, that the basis of authority had been destroyed, trembled, but did not always obey. Some degree of coercion was necessary. Yuan Shih-kai had ready to his hand men able to exert it—not scholars of the mild, classical school, but men, presumably of iron, trained in the new military academies, whose graduates were to render China capable of withstanding the Japanese, the Russians—indeed, the four corners of the world in arms. These men, in all China but the south, became military governors of provinces—the tuchuns of whom we hear so much. As might be expected, the office of civil governor rapidly became a sinecure.

But, though the sword might thus seem mightier than the pen, it was too clumsy an instrument for dealing with the minutiae of government business. Assistants were required, trained to the use of the pen and of the tongue. With many officials of the old régime retiring, disgusted or discouraged, it was inevitable that those assistants should be selected mainly from the ranks of the returned students, or of the graduates of missionary educational institutions in China. Selection, moreover, by these military despots, themselves tyros in the business of administration, was unlikely to display a wise discrimination. Young men were chosen on account of their claim to qualities and opinions which would not have recommended them to their instructors. What was the consequence for these products of Western education, eager, adaptable, intelligent, as many of them were? Crammed with ill-digested knowledge, dizzy from a surfeit of half-baked ideas, flattered by their teachers, hastily promoted by

China : An Unparalleled Situation

new patrons even less sophisticated than themselves, fawned upon by craftier men who would use them for their own purpose, constituting among themselves a semi-alien society for mutual admiration, they were inebriated by the exaltation of their own self-confidence. No task was too great or too difficult for them. Each felt that if his particular patron could but make himself master of all China—well, the world would see.

Thus it has come about that during a most critical period in the history of a civilisation, a period which called for selfless devotion to the public service, ambition has been the ruling passion. In certain noble minds at all times, and in other minds at noble moments, this ambition may have been worthy. More often, unhappily, it has been ambition due to greed of personal gain or to the flatulence of conceit. To this circumstance is mainly due the endless succession of civil wars, waged by combinations of tuchuns, abetted as much by their civil as by their military staffs. So long as Peking remained the "capital" it was the great prize in the civil war game, as the super-tuchun who made himself master of it could select from his own following "the Government of China," whether they might be recognised by foreign Powers as such or not. A *de facto* independent government existed, nevertheless, wherever a tuchun held sway who was unwilling to obey the commands of the super-tuchun in occupation of Peking. With the local government of each such tuchun foreign Powers were compelled to come to understandings, through their consular officials or otherwise, if they desired to make business possible for their nationals in the region that the tuchun controlled.

There has been but one instance in which it can be truthfully said that civil war has been waged for a body of ideas or ideals, rather than on account of personal ambition. Wherever the political capital of China may have been, the people of three of the southern provinces of China have always looked upon Canton as the fountain-head of their particular culture. Whether from heredity, or

The Lytton Report

environment, or both, the people of these provinces are more nimble-witted, more volatile, less reliable than the people of other provinces, who have always regarded the southerner as only less alien than the outer barbarian. These provinces have had far more contact with the foreigner than the rest of China, scarcely a family* but some member of it has worked abroad. In these provinces the tuchun never attained the same undisputed domination over the civilian that he held elsewhere. Sun Yat-sen waged with the pen and with the tongue a continuous struggle for local control over the men of the sword. Up to the year 1924 he met with a very varying degree of success. In that year, however, a new catalytic element was introduced. The help of Soviet Russia was enlisted, a corps of Soviet agents, civil and military, under a leader of great ability and force of character, arrived from Moscow. These men displayed much of the wisdom of the first Jesuit missionaries. They lived as Chinese, they sought to learn Chinese, they set themselves to graft rather than to uproot. Their immediate success was staggering. Working on and with Sun, they gave colour to a body of political doctrine, which he outlined in his "Manifesto" and amplified in his "Three Principles of the People." They imparted to Sun's adherents, the Kuomintang, the military training, the cohesion, the driving force which enabled them by force of arms, supplemented by systematic propaganda, to acquire control of China south of the Yang-tse river. There, while Hankow was temporarily the headquarters of the movement, the moderates of the party were scared by the excesses of their own left wing, supported by the Russians. A breach took place which has never, in fact, been healed. The Russians were expelled—a fate which all along had been in store for them as soon as this catalytic element had served its temporary purpose. The movement had, however, acquired enough impetus, and the party sufficient cohesion, to carry the nationalist arms to the Great Wall. There,

* The word "family" when used in connection with China has a significance approaching that of the word "clan."

China : An Unparalleled Situation

for reasons which we shall discuss, it abruptly ceased its advance; it straightway began to disintegrate. Its generals began, as occasion offered, to adopt the rôle of tuchun, its civil disciples to consider what could be made out of the political game. Chiang Kai-shek, who on the apotheosis of Sun Yat-sen had become the military leader of the movement, became, in the eyes of the unsophisticated peasant, but as other tuchuns, though for the moment *primus inter pares*, the Ministers established in the new capital of Nanking, became as the assistants of other tuchuns.

When the Kuomintang left the three southern provinces behind them, they advanced into a country in which the body of the people knew nothing of the Three Principles and cared less, a region in which all that emanated from Canton was under suspicion, and control by Cantonese* was anathema. Of the Three Principles—national independence, democratic government and social reorganisation—the first only was readily understood and accepted without argument. It was natural, therefore, that both in word and in deed greatest stress should be laid on the principle of national independence. Thus only could the prestige of the Government be enhanced at home, thus only could some show of unity be made abroad. The efforts of the Kuomintang Government in this direction were greatly facilitated by the excellent press which, largely as a result of skilful propaganda, the party enjoyed abroad, and by the decision of the British Government, notwithstanding such unfortunate incidents as the murderous attack on foreigners at Nanking and the assault on the British Concession at Hankow, to increase the *tempo* of the policy of conciliation adopted at Washington in 1922.

Whether for good or for evil, it is unquestionable that the achievements of the Kuomintang Government in the sphere of foreign affairs were considerable; so considerable that a feeling spread that China had now acquired such

* Chiang and most of his principal Ministers come from the lower Yang-tse provinces.

The Lytton Report

moral weight, if not such physical force, that she might safely bid defiance to anybody—even to Russia or to Japan.

Again, in the Department of Finance, for five strenuous years an able Minister has been endeavouring to introduce into financial procedure regularity, as regularity is understood in the West, and to obtain central control over the collection and disbursement of revenue. With the help of a number of competent foreign assistants, he has been building up a Treasury Department. Unhappily, the dead weight of opposition to regularity and control has been so great that, except in the case of the tariff, where a foreign-made service was ready to do his bidding, no appreciable result affecting the general financial position and welfare of the people has been visible outside the four walls of the Treasury. The same Minister has been mainly responsible, in collaboration with a corps of able and self-sacrificing assistants, foreign and Chinese, for the very special famine relief measures necessitated by the great floods of 1930. The considerable success which these measures have achieved wherever the writ of the central government ran has been as a ray of hope in the darkness to all well-wishers of China. These successes, be it noted, are attributed to a person and to co-operation with that person, not to any fundamental improvement in the general situation.

That measures the material change which has been wrought by the rise to power of the Kuomintang party. Paper reform there has been in abundance, but otherwise things go on as before—tuchuns and their assistants, rapacity and injustice, civil war and the balance of power, banditry and communist rebellion which is indistinguishable from it, flood and famine, starvation and death.

There still flourish tuchuns, and others, who are not under the control of the central government in this very practical sense that an instruction from the central government will be regarded as an order. Consequently direct negotiation is still necessary between the representatives of foreign Powers and local governments in regard to matters affecting

Manchuria : An Unparalleled Situation

the interests of foreigners in the areas which those local governments control. The difficulties that are liable to occur when a serious dispute arises regarding the rights of foreigners in such an area, particularly the difficulty of fixing responsibility, can well be imagined. They have been experienced to the full in Manchuria.

It may, as the Commission suggest, be an exaggeration to speak of "complete chaos" and "utter anarchy," in describing the general situation of China. It is no exaggeration to say that it becomes progressively more difficult for an enlightened Chinese to carry on an honest business, a humble peasant to support himself and his family in life. Perhaps these circumstances do not distinguish China from all other parts of the world, but the situation created in the social, political and moral spheres by the clash of two civilisations does so distinguish it.

II. MANCHURIA : AN UNPARALLELED SITUATION

AS has been said, Manchuria is part of China. Till the other day the fact had never been questioned. It is true that, while for more than three hundred years Chinese governed Manchus, for close on three centuries Manchus nominally governed Chinese. But this does not affect the matter. The Manchus have practically ceased to exist as a separate race; the Manchus, like Manchuria, have become Chinese by absorption. Being, then, part of China, Manchuria has shared the history of China.

When the Kuomintang made their drive from the south, the Three Eastern Provinces (as the Chinese call Manchuria) had long been governed by a super-tuchun, Chang Tso-lin, whose character and antecedents have already been sketched in *THE ROUND TABLE*.^{*} As tuchuns go, he was able and shrewd, he was often actuated by laudable motives, nevertheless, whether moved by personal ambition or by the

^{*} See *THE ROUND TABLE*, No. 49, December 1922, p. 106.

The Lytton Report

persuasion of an ambitious staff, he was conspicuous in the civil war game. All that has been said about tuchuns and their assistants is generally true of the Chang Tso-lin régime. How comes it, then, that Manchuria is not as other parts of China? To answer this question we must glance at the recent history of Manchuria, which will bring us to the matters now in dispute.

When the Manchu Banners passed inside the Great Wall in 1628, they left their homeland—the great central plain of Manchuria with its surrounding hills and forests—almost empty. This vast region, rich in its fertility as in its minerals, supported in the south a few Chinese settlements, a few less enterprising Manchus remained in scattered villages, elsewhere a few nomadic Mongols roamed at will. Though Chinese immigration into Manchuria was thenceforth banned, neither regulations nor the Great War were able altogether to exclude them. Gradually Chinese worked their way northward over the great plain, absorbing the remnants of the Manchus as they went, pushing the Mongols before them. For two and a half centuries this slow and peaceful penetration continued—the Chinese conquering with the plough the country of their conquerors. Then, in 1878, Peking became alarmed by another encroachment. From the north and north-west the Russians were slowly moving into a territory of which the frontiers were vague. To fill the void into which this advance was taking place, Chinese immigration was not only permitted but even encouraged. The rolling flood of Chinese peasants flowed northward. Russia built her trans-Siberian railway by a circuitous route outside the northern frontier of Manchuria.

The Sino-Japanese war of 1894-5 afforded Russia the opportunity for obtaining by secret diplomacy and the corruption of Chinese officials something of what she wanted. As a *quid pro quo* for help in securing the return to China of the Liaotung peninsula and in paying off the war indemnity, she was granted the right to build a 900-

Manchuria : An Unparalleled Situation

mile chord to her transcontinental railway across northern Manchuria from west to east, and to “administer” the land acquired for the purpose. In 1898 she obtained a lease of the southern part of the Liaotung peninsula, the Kwangtung territory—required for her projected naval base, Port Arthur—and the right to connect this territory with the chord line already built by the construction of another great railway on her own peculiar gauge, traversing Manchuria from north to south. Similar rights of administration and the additional right to mine coal and fell timber for this railway formed part of the new concession.

In 1900 the Boxer rising gave Russia an excuse for occupying Manchuria, and, when the rising was suppressed, she was with difficulty prevented from concluding another secret treaty which would have given her a virtual protectorate over the whole territory. This did not prevent her, however, from continuing her pressure, particularly in the direction of Korea. Japan, who had been closely watching these events, had already become alarmed. Meeting with no success in her attempts to obtain by negotiation an undertaking that the “open door” and the territorial integrity of China would be maintained, she declared war in 1904. Japan’s victories on land and sea enabled her to wrest from Russia much of what Russia had squeezed from China.

By the treaty of Peking, in 1905, Japan obtained from China the Russian rights in the greater part of the stem of the railway T that Russia had built and in the leased territory of Kwangtung. At the same time she obtained a concession to improve the military railway which she had built from Antung, on the Korean frontier, to Mukden. She converted this line and her section of the T’s stem to standard gauge (the gauge of Europe, except Russia, and of America, China and Korea, though not of Japan). Russia retained for the time being her rights in connection with the railways which she had already built in northern Manchuria, the Chinese Eastern Railway. Since that

The Lytton Report

date it has been the persistent policy of Japan to fasten more tightly her hold upon southern Manchuria by increasing the privileges of her position there. Equally it has been the policy of China to baulk these attempts to encroach upon her sovereign rights.

The considerations which have determined the policy of Japan are strategic as well as economic. She has spent great sums on railway and other works designed with the object of taking up in central Manchuria a first line of defence against attack from Russia. She has endeavoured to secure the construction of other railways which would facilitate rapid deployment on this front. If it be accepted that it is wise for Japan to establish her front line trenches in central Manchuria, no one will question her wisdom in taking steps to ensure that she can rapidly transport and adequately maintain the force required to man them. What the Commission do very reasonably question is the wisdom of establishing a front supported by long lines of land communication in a region which is passively, and may become actively, hostile.

In the economic sphere Japan looks to the development of these virgin tracts, lying before her own back door, for employment for her heavy industries. She rightly supposes that a newly-opened country, specialising in its agricultural production, will produce more external trade *per capita* than an old country whose agriculturists strive to produce all that its citizens require. Japan anticipates an ever-increasing exchange of Manchurian beans, rice and coal for Japanese piece-goods and general manufactures. These visions may be prophetic, but, gazing at them in entrancement, Japan may, as the Commission hint, at times lose sight of the immediate facts that China has 400 million inhabitants, or more, against Manchuria's 30 million, that from among Japan's principal manufactures more than half the exports go to China inside the Wall. It is possible, too, that Japan's judgment may be warped by pride in her technical achievement. She has

Manchuria : An Unparalleled Situation

produced in the South Manchurian Railway, its ancillary mines, works and townships, a magnificently efficient machine. She has a justifiable pride in the work of her hands.

It is only possible to glance at the means by which Japan has sought to give effect to her policy, China to defeat it. At various times and in various ways Japan sought to make firmer the hold that the South Manchurian Railway gave her. She secured from the Chinese an extension of the lease to a period of ninety-nine years; China contended that agreement in this, as in other matters, had been wrung from her under duress. Japan stationed military police, to the number of 10,000 or more, along her railways, and denied the use of them to Chinese troops except on cash payment (thereby discouraging civil war); China contended that Japan had been permitted to police her railways only for so long as Russia policed hers and China could not afford adequate protection; she pointed out that Russian police had been withdrawn and asserted that Chinese police could now give all the protection required. Japan claimed, on somewhat flimsy grounds, that there was an agreement that the Chinese should not construct any parallel line or any branch line which would prejudice the Japanese railway interest: the Chinese built railways to attract traffic from northern, eastern and western Manchuria, and adjusted their freight rates in such a way as to keep this traffic on their own metals. The Japanese lent* money for the construction of lines expected to bring traffic to the South Manchurian Railway, or to serve their strategic plans; the Chinese failed to meet the service of the loans or to appoint Japanese officials as required by the loan agreements. The Japanese did all they could (even by sheltering Japanese residents from the payment of legitimate taxes) to add to the commercial importance of townships

* By accession to the "Twenty-one Demands," into which the Chinese had, as they contend, been browbeaten in 1915, the Chinese had undertaken not to borrow from anywhere else than Japan for the purposes of such railway construction.

The Lytton Report

built on their railway land, and so under their administration; the Chinese collected taxes on the boundaries of railway land, on the contention that similar taxes were imposed elsewhere.

More general questions were also made bones of contention. Jurisdiction over some 800,000 Koreans resident in Manchuria was claimed by the Japanese, since the annexation of Korea in 1910 had made Koreans Japanese subjects. This in turn was mixed up with the question of land ownership, since the general understanding has been that extra-territorial rights and the right to own land are incompatible, and with the question of consular guards, since they were used for the apprehension of Koreans and thus brought to loggerheads with the Chinese police forces.

In Manchuria, as Japan had a national policy, so had China a national policy, national in the sense that it was the consistent policy of successive Governments, whether selected by the super-tuchun of the moment or representative of the Kuomintang. As the policies were diametrically opposed, neither side made any strenuous attempt to be accommodating when occasion arose to discuss any of these controversial matters; each endeavoured to use the particular occasion to further its main policy.

But, as we have seen, all foreign Powers have found it necessary to discuss with *de facto* local governments questions affecting the interests of their nationals in the area that those governments control, and neither the Japanese, nor Manchurian, questions have been an exception to this generalisation. From 1918 when Chang Tso-lin attained to that position, the military government of Manchuria was in fact independent of, or merely in alliance with, the central government, except during those periods throughout which Chang himself was master of Peking, and had consequently created the central government. It is necessary, therefore, to notice briefly what had been the relations of Japan's representatives with Chang and with his successor.

Although the national policies of Japan and China were

Manchuria : An Unparalleled Situation

radically opposite, and Chang Tso-lin supported the aims of Chinese policy, his relations with Japan were not unfriendly. The character of the man assured strong personal government in Manchuria and freedom from interference from the centre. It permitted a man-to-man method of dealing with affairs which brought respect if not agreement. Moderate Japanese opinion, which predominated, regarded Chang as on the whole an asset; it considered that peace in Manchuria, while Japan by slow but constant pressure pursued her ultimate objectives, was desirable. Japan's representatives, official and unofficial, were, therefore, ready to assist Chang in many practical ways—in strengthening his armed forces, for example, and in quelling a mutinous rebellion. They did not, however, favour Chang's intervention in affairs inside the Wall, because they sought to divorce Manchuria and its affairs from China's domestic turmoil.

There was, however, a body of Chauvinist opinion among the Japanese in Manchuria which remained unsatisfied by these Fabian tactics, and desired by more forceful methods to achieve quicker results. When it became evident that the nationalist arms must sweep before them Chang's subordinate tuchuns, and that a conflict between the Manchurian armies and the nationalist forces was imminent, Japan's representatives tendered to the super-tuchun advice which was consistent with their tactical aims. They intimated that Japan would not permit fighting in Manchuria itself, and threatened, if necessary, to prevent it by direct intervention. They advised Chang to retire, therefore, in good order and in good time. This advice was accepted, and Chang bade farewell to Peking with becoming dignity. He was done to death as he re-entered Mukden.

It is universally believed in China, and many known facts support the belief, that this political assassination was the work of Japanese Chauvinists. Their object, if Chinese reasoning does not misjudge them, was at this critical moment to create such confusion in Manchuria as to justify

The Lytton Report

the direct assumption by Japan of political control. The plan, if plan there was, was frustrated by the coolness of the Chinese. They gained ten days' breathing space by pretending that the Old Marshal still lived, and arranged to support the succession to the tuchunate of the Young Marshal, his son, Chang Hsueh-liang.

Though Chang Hsueh-liang inherited his father's position, it was impossible that his personal relations with the Japanese should be on the same footing as his predecessor's. It was inevitable that in fact, whatever tactics policy might dictate, fear and hatred should be his uppermost feelings. There were other circumstances, too, which must in any case have jeopardised the continuance of mutual respect. The young man, who thus prematurely had greatness thrust upon him, was not brought up in the same hard school as his illustrious father. The spoilt child of a rough but oriental court, he had received a semi-western but very fragmentary education. A base advantage had been taken of his love of sport and experiment. Temptation to excesses had been dangled before him which he had not been able to resist. Men, and women, who had quailed before the father's glance, were able by fawning flattery and artful misrepresentation to get their way with the son. Before a year was over he had officially assassinated his two most vigorous and trusted lieutenants, on a suspicion which was almost certainly ill-founded.

The Japanese had no longer one man to deal with, they had a court with all the arts of court intrigue as practised from time immemorial in Asia—arts, incidentally, in which they themselves are not altogether unversed. With such a legacy of trouble and such an accumulation of personal and pressing difficulty, is it surprising that this young ruler felt himself unable without help from outside to support his country's policy against Japan? The hoisting of the nationalist flag at Mukden was not evidence that Chang Hsueh-liang and his followers had imbibed the pure milk of the Three Principles, but merely an acknowledgment

Manchuria: An Unparalleled Situation

of the fact that in an alliance with Nanking they found the only alternative to a virtual Japanese protectorate. But despite this alliance and continuous Japanese incidents, Manchuria maintained a position of virtual autonomy which was not turned to any very good account.

Not to be behindhand in the national independence movement, the Young Marshal attempted to get rid of Russian joint-control over the Chinese Eastern Railway, secured by an agreement in 1924. The panic-stricken flight of his armed hordes, before a small but efficient force supported by numerous 'planes, taught him the consequences of sticking pins into the Russian Bear. Throughout the "Three Provinces" he resorted to a favourite device of the tuchun in distress, which had been practised tentatively in his father's time. He issued paper money against no security, on a scale which no one else had ventured. World economic depression and the slump in the price of produce deprived the peasant of his accustomed revenue; drawing on his savings he found that in some mysterious way his hard-won money had turned into waste paper. Small wonder that banditry increased. Undeterred by an ominous financial situation at home and trouble enough abroad, Chang entered into a contract for the construction, at a cost which will not be less than thirty million silver dollars, of a new port obviously intended to be a rival to Dairen, but never likely to justify its cost. Verily rash seamanship in stormy weather, the ballast thrown overboard, a heavy press of sail set, "youth at the helm and folly at the prow." There were indeed so many "features without an exact parallel" that a spark must sooner or later have set light to the mass of inflammable material. It matters little whether the spark struck by a certain Japanese lieutenant was due to his own Chauvinist proclivities or to orders from higher authority. His action merely fixed the exact moment at which Japan's representatives put into operation a carefully prepared plan for bundling Chang Hsueh-liang, his entourage, and his

The Lytton Report

army, out of Manchuria. The apparent failure of the moderates' policy to achieve results, extremely difficult personal relations in Manchuria, the starting in China of the seventh boycott of Japanese goods since the 1911 revolution, made an eventual loss of temper by Japan's representatives all but inevitable.

It must be remembered, however, that we have been speaking here of a military *coup d'état* which was essentially destructive in its aim. There is no evidence that, as a counterpart to this, the civil Government of Japan had ready any constructive plan for the creation of a new State. Indeed, the somewhat haphazard way in which a new government of Manchuria came into being affords presumptive evidence of the lack of any preconceived plan. The course of events, and the reaction of popular opinion to these events, may have forced upon the Imperial Government the conclusion that a certain course of action was unavoidable. The nature of that action, the circumstances attending the birth of Manchukuo, and the present failure of her puppet government to establish order and to gain general respect have already been explained in these pages.* The growing conviction in the army and among the mass of the Japanese people that in the main the Chauvinists were right, and that the moderates had proceeded so cautiously that an intolerable situation had been created for Japan, has since led to the official recognition of Manchukuo. On September 4, eleven days prior to this recognition, the Commission signed their Report at Peiping (Peking).

III. THE REPORT

IN their Report the Commission give an account of the general situation in the Far East and of certain historic events which contributed to the creation of that situation. In this account, no doubt for very proper reasons, though

* See THE ROUND TABLE, No. 88, September 1932, p. 808.

The Report

there is scarcely a phrase that can be challenged, the stark truth is sometimes shrouded in the euphemism of diplomatic language. In the foregoing paragraphs an attempt has been made to show the truth in all its naked unpleasantness. This is no time for mincing words. The unvarnished truth must be faced. In the light of the facts, however deplorable, each of the Commission's recommendations must be considered.

Let us, then, review these recommendations, taking first the Commission's findings and suggestion in regard to boycotts—a subject which has scarcely been touched upon here, but to which the Commission devote a very lucid chapter. The Commission find that, in present circumstances in China, boycotts are organised and controlled by the Kuomintang party as a means of bringing economic pressure to bear on some other country with which China happens to have a dispute. They find that in order to enforce such boycotts illegal acts are perpetrated which are neither punished nor suppressed. They hold that these two circumstances taken together implicate the government. These findings mean that with government connivance or approval the boycott is being used as a weapon in international disputes, economic war is being carried on without an official declaration. They suggest that the decision whether this is a legitimate weapon is a "problem of international law" rather than a subject for their enquiry. They "express the hope that, in the interests of all States, this problem should be considered at an early date and regulated by international agreement." We, too, may express the hope that whatever else is done a genuine attempt will be made to give effect to this suggestion of the Commission.

The proposals of the Commission for bringing order out of confusion in Manchuria are necessarily more elaborate. Briefly they amount to this. The Council should invite the Governments of China and Japan to depute representatives to attend two separate conferences.

The Lytton Report

The purpose of the first, or advisory, conference would be to draft proposals for the constitution of a special régime in Manchuria. These proposals would be submitted to the Government of China which would embody them in a declaration and submit it to the League of Nations and the signatories of the Nine-Power Treaty, who would receive this declaration as having the binding character of an international engagement. The countries interested would then conclude a treaty of non-aggression against Manchuria. The second conference would be concerned with the drafting of new treaties between China and Japan dealing with (1) the definition of Japan's special interests in Manchuria, including her railway interest; (2) conciliation, arbitration, non-aggression and mutual assistance, including provision for the ultimate demilitarisation of Manchuria; (3) the reconciliation of commercial interests. The Commission contemplates the possibility of the Government of the U.S.S.R. participating, through a separate tripartite treaty, in the agreements coming to regarding non-aggression and mutual assistance.

The régime in Manchuria which the Commission envisages is a semi-autonomous government under Chinese sovereignty. The Chinese Government would appoint, at any rate the first, chief executive. They would retain control over foreign affairs, the posts, the customs and certain other principal sources of revenue. Revenues collected from these sources would be divided between the central and the local governments in agreed proportions. As soon as conditions permitted there would be no armed forces maintained in Manchuria, save a gendarmerie, "organised with the collaboration of foreign instructors." For this and other purposes "an adequate number of foreign advisers would be appointed"—a substantial proportion of them Japanese—in a manner consistent with the sovereignty of China. Further, "two foreigners of different nationalities," enjoying "during the period of reorganisation and trial" "extensive powers" "defined in

A Plan of Action

the Declaration," would be appointed in the same way to supervise (1) the gendarmerie, (2) the fiscal administration.

The last of the Commission's "conditions of a satisfactory solution" is this. "Since the present political instability in China is an obstacle to friendship with Japan and an anxiety to the rest of the world . . . and since the conditions enumerated above cannot be fulfilled without a strong central government in China, the final requisite for a satisfactory solution is temporary international co-operation in the internal reconstruction of China . . ." This requisite, though "final" in the sense that it has been placed at the end of the Commission's list, is evidently first in order of importance.

IV. A PLAN OF ACTION

HERE, then, are two co-related problems of the first magnitude. In each case the Commission have proposed for the Council's consideration a solution which, if it be attainable, appears to be ideal. But what are the prospects of attainment, and what can we do to enhance them?

In the first case, the action that the Commission propose to the Council can be simply stated. It amounts to no more than this: that the Council should endeavour to bring Japan and China together to discuss, in a spirit of mutual respect and concession, an agreement on certain lines. We may take it for granted that at their forthcoming meeting the Council will adopt the Commission's recommendation and make this endeavour. While earnestly hoping that the endeavour will succeed—and despite all that has happened there is no cause to abandon this hope—we must admit the possibility of temporary failure. Any such failure will not detract from the wisdom of the Commission's plan, though it must postpone its realisation.

Such failure must not lead the Council to countenance any

The Lytton Report

alternative plan. The new State of Manchukuo, for example, must not, cannot, be recognised. It rests on no sure foundation. As a State it must remain an unrecognised upstart, politically ostracised. This is not to say that an attempt must be made to upset Manchukuo by force or economic pressure. The Japanese may have been wrong in trying to force this bastard State upon Manchuria, and to introduce it to the world as a respectable member of international society. This is but one of a thousand wrongs that have been committed in and on Manchuria, and it would be rash to assume that the Japanese have been the gravest offenders.

But, whoever may have committed these wrongs, it most certainly has not been Great Britain; we have no responsibility for the creation of the Manchurian mess. We may properly join with the League, acting, let us hope, in consonance with the United States of America, in an attempt to bring the parties together and in keeping the way open for a reasonable and permanent settlement. We are under obligation to decline to recognise a situation which, as the Commission say, is incompatible with "the fundamental principles of existing international obligations"; but we are not required to rush to arms to rectify it. Nor is there need. If the world, undeterred by threats or by eloquence, persists in maintaining with one voice that the Commission's plan is right and that neither the Manchukuo nor any alternative plan will be forced upon its recognition, in the end the world will have its way. The danger is that one or other of the disputants will succeed in causing dissension in the Council or in the Assembly—tactics for which the Chinese particularly have shown a remarkable flair. The Council and the Assembly must remain united on their Commission's recommendations. They can never be unanimous on any other platform.

Still, as the Commission point out, agreement on the particular questions at issue between Japan and China, even though that agreement be endorsed by the whole

A Plan of Action

world, cannot by itself prove an adequate guarantee of a happier future for the Far East. There is no prospect of such a future unless stable and effective government can be restored to China, and there is no hope of restoring such government except through temporary international co-operation. This is *the* "Capital Question" in the Far East, first in importance for China, for Japan and for the world at large. Faced by the grim realities of the situation, to sit by with folded hands and a benign smile waiting for China to work out her own salvation cannot be counted for righteousness. It indicates rather ignorance, cynicism or cowardice.

It is true that, while the Commission have explained in considerable detail how international co-operation should be organised in Manchuria, they have not explained how they think that such co-operation should be organised in the rest of China. Evidently the Commission's plan for Manchuria is not entirely suitable for China inside the Wall. Yet if we may judge from the insight, the breadth of vision and the statesmanship displayed in the Commission's Report, it would be difficult to find five men better able to recommend a plan for China inside the Wall as well as outside. Perhaps they may be asked to do it. In the meantime certain outstanding points only can be noticed.

The area involved is too immense, and the conditions in that area are too various to permit of an immediate plan for all China. Co-operation can only take place where the will to co-operate is present.

Powers who have undertaken "to respect the sovereignty, the independence and the territorial and administrative integrity of China," cannot force upon a Government of China, recognised as such, an administrative system in which foreigners participate. By doing so they would lay themselves open to that very charge of breach of faith, to which the Japanese have made themselves liable in Manchuria. However limited may be the area in which co-operation takes place, it is essential that within that

The Lytton Report

area representative Chinese opinion should genuinely desire temporary foreign help in a task which presents great temporary difficulty. Furthermore, it is impossible for Japan to participate in this task—an attempt by more active measures to give China, or some part of it, that opportunity to develop a stable and effective Government which the Washington agreement contemplates—until there has been a settlement in Manchuria that is in accord with the spirit of the same treaty.

On the other hand, Chinese opinion is unlikely to favour co-operation, even with the League of Nations and America, so long as Japan is, not only outside the arrangement, but liable to repeat such attempts to rectify matters by the use of force as were made at Shanghai early this year. There will be no desire for co-operation, and no hope of successful co-operation, in any part of China, unless the most positive assurances can be given that while this help is being afforded in any part of China, there will be no attempt by any foreign Power to further the objects of its own policy by the use of force against that part of China. Given international co-operation with a recognised Government of China, in which Japan plays her part, the Japanese contention that China cannot exercise sovereign rights in Manchuria because she is incapable of exercising them anywhere will lose all its force, the liquidation of the Manchurian situation will be facilitated, and a guarantee of immunity from coercion will present no difficulty. The different parts of the Commission's plan—a settlement in Manchuria, co-operation in China, guarantees against aggression—dovetail into one another. But, if Japan is temporarily opposed to any part of the plan while the rest of the world, including China, supports the whole plan, it is most desirable that so much of the plan as possible should be immediately carried out. The Manchurian settlement, being dependent on Japanese action, would have to wait. Co-operation, being dependent on League action, need not wait; assurances, being dependent on action by the

A Plan of Action

interested Powers, need not wait either. To refuse such assurances would be entirely opposed to the treaty obligations which these Powers have assumed. Japan, even though in Manchuria she may remain for the time recalcitrant, can find no excuse for refusing assurances in regard to another part of China while that other part of China is being governed under agreements made with the League for temporary co-operation. Great Britain and the United States of America, by obtaining for China the requisite assurances, and by taking an active part in the arrangements for co-operation, can do much to retrieve a position for which they are in part responsible, since it is to the activities of their nationals, however good may have been their intentions, that much of the mess is due.

If these assurances are given and co-operation is arranged, it will not be long before Japan decides to act upon the recommendation of Lord Lytton's Commission for the liquidation of her disputes in Manchuria. The Japanese people, shrewd realists as they are, will see which way their greatest interest lies. *Their* help too will become available in the greatest task that ever fell upon the League of Nations. A hundred lesser issues will then be merged in a greater one.

THE PRESIDENT ELECT

FRANKLIN D. ROOSEVELT was elected President of the United States on November eighth : he will take office on the fourth of next March. Mr. Roosevelt is fifty-one years old ; he was educated at Groton, Harvard College and Columbia Law School, and has practised law in New York City. In 1910, when he was twenty-eight, he was elected to the State Senate, resigning in 1913 to become Assistant Secretary of the Navy under Josephus Daniels and Woodrow Wilson. His administrative record during the war was good, and served to enhance an already good reputation. He was nominated for the Vice-Presidency of the United States on the Democratic ticket in 1920 ; but Governor Cox of Ohio and he were defeated by Harding and Coolidge. Eleven years ago he was struck down by infantile paralysis ; but, except for the total loss of the use of one leg, he regained his health and strength completely. He became Governor of New York in January, 1929, and he is now serving his second term. His record as Governor has not been notable but he has been conscientious in the performance of his duties, moderately progressive in his social and economic views, adroit in his political manœuvres and honest in his acts. Franklin Roosevelt should acquit himself satisfactorily as President—unless the peculiar problems of these difficult times prove too much for him.

The election of a Democratic President is, in itself, a rare event. During the past fifty years thirteen men have held that post and all but two of them—Cleveland and Wilson—were Republicans. In the last three campaigns the Republican majorities were overwhelming ; Harding, Coolidge and Hoover each defeated his Democratic rival by six and a half million votes or more. In 1928 Hoover engulfed his opponent, polling 444 votes in the Electoral College to

The President Elect

Smith's 87. Thus for Roosevelt to convert a 1928 deficiency of six and a half million votes into a plurality of the same figure, and to turn a negligible 87 in the Electoral College into a thumping 472 would seem, on the face of it, to be an astonishing feat. Such a statement of the case, however, would be misleading ; for when the results were made known, very few people in the United States were really astonished. The Maine elections in September had shown the way the wind had shifted, and long before November first the stock market had begun to "discount" a Roosevelt victory. As the campaign progressed, betting odds rose steadily in his favor, and without a break, from even money to 7—1 ; and the *Literary Digest* magazine, collecting the unofficial votes of more than three million citizens, gave Roosevelt a commanding lead, week after week, as the "returns" poured in and were counted. It would likewise be misleading to attribute too great a part in the victory to the victor himself. The depression elected him. From the army of ten million unemployed, from the three million more men and women who may be out of jobs this winter, from the hundreds of thousands who have seen their capital savings disappear into thin air, came Roosevelt's huge majority. Their disillusionment and their despair accrued to him. Their uncompromising resentment against Hoover was ready to be turned into Democratic votes long before anyone knew whether Roosevelt or Baker or Smith or Ritchie would be the nominee of the Democratic party. Almost any Democratic candidate could have won this election hands down. It is, therefore, most fortunate for the country that a man of Roosevelt's character and record will occupy the White House for the next four years.

The winner's strategy lay along simple lines. First, he realized that he must prove to the satisfaction of the country that his serious illness, ten years back, had not impaired his health and strength. He seems to have dissipated this doubt conclusively. On the morning after his nomination, he flew by airplane from Albany to Chicago in bad weather

The President Elect

and made his acceptance speech from the platform before the Convention adjourned. He then took a two weeks' holiday off the Atlantic coast in a yawl, accompanied only by his sons. His campaign involved a gruelling train journey of 20,000 miles around the United States in the course of which he spoke to huge audiences at every turn. And he ended this remarkable personal demonstration by driving six hundred miles in the rain through the New England States in an open car, converting hundreds of thousands of skeptics who came out to the roadside to see him with their own eyes. He delivered a carefully prepared address on the railway situation; he elaborated his views on the relation of the government to public utilities; he emphasized the need of balancing the budget and he declared against any consideration of the soldiers' bonus, at least until the budget had been balanced and a cash surplus had been shown by the Treasury. But while these speeches did clear up some uncertainties with regard to Governor Roosevelt's own views, they nowhere joined issue with Republican policies, nor did they contribute anything of value to the solution of national and international problems. He promised a "new deal." He solicited the vote of the "forgotten" man. Above all, in season and out of season, he rang changes on the theme—so sweet to his listeners—that Hoover and the Republican party with their sins of omission and their sins of commission were responsible for the present parlous state of affairs in the United States. Mr. Roosevelt set his cap for the Presidency and in this way he got it. From the standpoint of strategy, his conduct of the campaign was perfect. And be it said to his everlasting credit that, while he made capital out of the prevailing discontent, he did nothing to foment it.

The President Elect

II.

THE Democratic victory was complete. Their Presidential candidate was given more than twenty-four million votes, his plurality over his rival ran to six and a half million; he captured forty-two States out of forty-eight, and he will receive 472 votes out of 531 in the formal poll of the Electoral College. In thirty-four State contests for Governor, twenty-eight Democrats appear to have been elected, though the returns are not yet fully tabulated. What is more important, the next House of Representatives and Senate will both be Democratic by large working margins; the victorious party will have a majority of twenty-three in the Senate and will control the House by an unprecedented majority of about two hundred. Newspapers on the desk before me describe the day before yesterday's doings as a "cyclone," an "avalanche," a "tornado," a "landslide"; but the country, in fact, is very much at rest after its brief convulsion, and by next week the affair will be a nine days wonder. Many people regret that a change of administration had to take place just now, many are concerned about the course of events between now and next March; many wish that there had been more discriminating recognition of the strong leadership shown by Mr. Hoover during the past eleven months, and a more sympathetic response to his last desperate effort to snatch victory out of defeat. Yet, in the main, the people are either pleased with Roosevelt's triumph or are reconciled to it. Jim Watson of Indiana will not be heard in the Senate next Spring, nor Moses of New Hampshire, nor Smoot of Utah. We shall have a new Cabinet, including, it is hoped, a man comparable in moral courage with Mr. Stimson—and a new flock of Ambassadors will go forth. But though the "avalanche" bowled over a lot of landmarks, it did not plough deep beneath the surface. Thirteen million voters,

The President Elect

brought almost to the edge of ruin by playing the red, decided to play the black on the off chance. Their chief motives for changing from the Republican to the Democratic side of the table were neither profound nor radical; they had lost confidence in Hoover and his party and they determined to turn them out. They were warned that if they did so "the grass would grow in the streets of a hundred cities, a thousand towns; the weeds would overrun the fields of millions of farms." That didn't frighten them. They were besought "not to swap horses when crossing a stream." That didn't dissuade them. They took their brooms and swept out the house, and they feel much the better for a good day's exercise.

The very size of the Democratic victory is certainly a favorable factor. In his first message after election Governor Roosevelt declared that the result was more than a personal tribute, more than a party triumph; and there is every indication that he is approaching his new duties with a grave sense of national responsibility. When the new Congress meets in a special session, which he will undoubtedly call next March, both Houses will be friendly to him, and disposed to assist rather than obstruct his program for recovery. What is more, the size of his vote ought to free his hands from the fetters of special obligations which might otherwise have been incurred in his campaign. His friends from the central South headed by Huey Long of Louisiana, his friends from California led by Mr. McAdoo, and William Randolph Hearst, all lent useful support to him in the late spring and summer. But unless Mr. Roosevelt gave specific pledges to these groups in the stress of the campaign (and it is understood that he did not) his huge majority ought now to refute any claims on their part that they played a decisive rôle in his victory.

Immediately after the election the air was filled with rumors of this and that. It was said, for instance, that Mr. Hoover would pursue a course contemplated by Woodrow

The President Elect

defeat him—it was reported that Mr. Hoover would request the resignations of Vice-President Curtis and Mr. Stimson, that he would name Roosevelt as Secretary of State, and that he would then submit to Congress these two resignations together with his own, with the result that Mr. Roosevelt would become acting President immediately. But Mr. Hoover's most intimate friends promptly announced that he had no such thought in his mind, and Mr. Roosevelt as promptly stated that he intended to serve until January first as Governor of the State of New York. So the first of the flock of rumors fluttered down with a broken wing. Then the amateurs began to select the new President's Cabinet for him—Norman Davis or John W. Davis would be Secretary of State, Owen D. Young, Bernard Baruch, Senator Carter Glass or Melvin Traylor, the Chicago banker, would be Secretary of the Treasury. And so it went. Today Mr. Roosevelt took a hand in this game himself, characterizing all such rumors as "wholly unauthorized" and making it clear "that no decision will be reached in regard to any appointments for at least two months." Expectations at this moment run so high—there seem to be so many Talents available for this new Ministry—that even after the cooling effect of a two months wait the final announcement is sure to cause disappointment in some quarters. For the man in the street is apt to forget that tradition and expediency set a limit to the number of Cabinet members who can be drawn from one district such as New York City; and he is also likely to lose sight of the fact that a Cabinet is assembled to be a harmonious working unit of government and not to be a collection of operatic stars.

Something more than rumor, however, has led to the hope that there will be active collaboration between Mr. Hoover and Mr. Roosevelt on national problems during the next four months. The President can hardly fail to consult his successor with respect to next year's appropriations: he may well call for help when the long-awaited

The President Elect

war debt notes reach Washington ; and it is reasonable to suppose that the American experts, now engaged in drawing up an agenda for the International Economic Conference, will ask Mr. Hoover, almost at once, whether they are to continue to act under the set of instructions given to them in Washington before they went abroad, or what they are to do. It seems quite logical for Mr. Hoover to refer this question to his successor. Since these matters are urgent, it is a hopeful sign that in his magnanimous message of congratulations, Mr. Hoover added : " In the common purpose of all of us I shall dedicate myself to every possible helpful effort." Likewise in Mr. Roosevelt's statement of November 10 a real prospect of collaboration may be read between the lines : " From now until January 1, 1933, the *greater part* of my time will be occupied with my duties as Governor of the State of New York." The evidence, so far, is admittedly thin ; but the need for consultation is obvious, hopes are high, and both the principals are patriotic gentlemen.

One question, however, need cause them no concern. For if the present Congress does not decide to modify the Volstead Act to permit the manufacture and sale of light wines and beer, Mr. Roosevelt's Congress will do it as soon as it is convened. Exigencies of budget making may force action more quickly than is now expected ; for a tax on these consumables would yield substantial revenue without strain, and without a further burden on individual and corporate income. Perhaps we shall have to wait until Spring to be done with this iniquitous legislation ; but the end is near and sure. On this point at least the mandate of the election is unmistakable ; for though prohibition was not an issue in the Presidential campaign, it was a specific issue in contests for seats in the Senate and the House. Candidates were asked to state their position unequivocally, and most of them did so. Of the twenty-seven Senators who were elected on November 8 nineteen had declared themselves " wet," and four others, who did

The President Elect

not state their position in so many words, ran for election on platforms which declared either for resubmission of the Eighteenth Amendment to the voters of the several States, or for its outright repeal. Three hundred and fifty-one Representatives were elected ; two hundred and twelve of them were self-styled " wets " and a hundred more rested on the statements in their respective platforms. Far more than two thirds of the new House will vote for repeal or resubmission, and the Senate majority will be substantial. The Volstead Act is as good as killed, whether by the present Congress or the next one, and the repeal of the Eighteenth Amendment, which has hitherto been regarded as beyond the pale of possibility, now seems within reach. The great twelve year experiment has failed. It is now coming to an end, and with that smoke screen for bootleggers, racketeers and other criminals swept out of the way, it may be possible to deal somewhat with this gentry.

III.

DURING the twelve years which have passed since the war ended, we have been witnessing a second " noble experiment," and now its failure, too, must be confessed. We imagined, in this country, that international debts, incurred during the war and finally ratified after the conclusion of peace, could and would be paid. It becomes clear that we shall fail to collect a large part of the sums due us over the next two generations. It also becomes clear—and it may perhaps be expressed in this way too—that our debtors will fail to meet their engagements to us. Once, in the solemn language of the legal instrument, they were able and willing to pay. This is not true any longer. In some quarters the ability is lacking, in other quarters it is the will that is not there. In either case the result to the taxpayer is the same. The scene shifts from Lausanne to Washington, and so we get on with the world's

The President Elect

work. It is often said that the world's return to prosperity waits on the resumption of American foreign lending. It will be a long long time before that practice is resumed on any scale. Rightly or wrongly, the American investor and the American taxpayer counted on payment : and it would be a gross perversion of truth to suggest that he is going to be pleased when he realizes that he'll never get it. Antonio, he will sadly recall, didn't pay Shylock either, in the end. May the writer of this article now add that he has knowingly exceeded the limits of good taste in what he has written ; but he considers it important, even at some risk, to correct certain exaggerated expectations of free and happy cooperation between the United States and the rest of the world as the result of Mr. Roosevelt's election. For twelve years we have tried to take an elaborate by-pass around the wreckage of the war : we have come to the end of the by-pass and it just doesn't lead out. Much of the distance travelled since 1920 must be retraced, and we must clean the wreckage in the main road, piece by piece.

Franklin Roosevelt is fair, patient, and intelligent ; he has the gift of getting men to agree. He is possibly a very great genius in the art of politics. His amazing triumph over his own personal disability is an act of character : and character can't just be ordered in packages to suit occasions. It seems quite foolish to try to predict what his specific contribution to the settlement of international problems will be. But, in general, the people of the United States may confidently entrust the next four years to a man whose courage, self-discipline and good cheer have pulled him out of his own depression and have set his feet on the way to the White House.

United States of America.
Armistice Day, 1932.

RUSSIA AND THE FIVE YEARS PLAN

I. APPEARANCE AND REALITY

OUTWARDLY Moscow has never looked so bright and snappy as it does to-day, at the end of the Five Years Plan. In street after street one finds the old cobbles replaced by shining asphalt. The shop windows in the main thoroughfares, dingy and dirty enough only the other day for a deserted graveyard, are now washed and wiped until they positively glisten. Nor are they as empty as they used to be. Tiers of vegetables—cabbages, carrots, tomatoes, beetroot, egg-plants and cauliflowers, neatly arranged in even rows—give variety and colour to the food shops. In the drapers and clothing stores garments and stuffs are neatly displayed. True, the Westerner is quick to notice the shoddy quality, the cheapness of the material, the style and the workmanship ; but for Russia even such a show as this is an achievement.

Outwardly Moscow seems not only bright but happy. For the first time I found once more a semblance of the old night life. Hitherto the enjoyment of what there was of it had been confined to foreigners, but to-day Russians, too, if they have the money, are free to indulge in it. One sees, every day in the newspapers, advertisements of restaurants which keep open till the small hours and supply wine, vodka, liquor of all sorts, and hot meals. They even provide an orchestra and dancing. Last year such restaurants simply did not exist. In the dining-rooms of the leading hotels, where one hardly ever used to see a Russian, there are now crowds of them every evening. Gypsy choirs, banned a couple of years ago as a "dis-integrating influence, without any positive contribution to make to the Plan" are again contributing their old liveliness to Moscow life. Even the dancing hall, banished like a

The Five Years Plan

pest, has come back. There is, it is true, only one of them at the moment—in a Moscow suburb—but it is crowded every night with young people enjoying themselves, and its success has been so colossal, that everyone is confident that there will soon be others all over the country. Theatres, operas and movies are always crammed. Time and again I have been unable to get a ticket for either the Art Theatre or the Ballet. Round the corner, by my hotel, there is a picture house, and even when it is wet, one sees hundreds of people every evening waiting their turn for a chance of admission. There have never been so many concerts and literary evenings at which professionals recite selected passages from the classics or the new Russian literature, and authors read their own works, published or not. A visit to the performance of *Hamlet* at the Vachtangov Theatre, the liveliest in Moscow, would convince a foreigner that the Russian, in spite of his troubles, enjoys a little fun as much as anyone in the world. Roars of laughter greet not only Polonius's sayings, but even Hamlet's. For in this daring rendering of Shakespeare's masterpiece, the Prince of Denmark is no longer the tall, pale dreamer, but a plump, cunning little fellow who loves nothing so much as a joke, and whose only ambition is to make fools of the royal personages, and to get the crown for himself. As interpreted by the Vachtangov players indeed, *Hamlet* is no longer a tragedy, but a lively melodrama, a stupendous, almost a hilarious, spectacle.

At every turn one finds signs of improvement in the appearance of things. On a walk round after getting back, the shops, the people, the pavements, the traffic, the amount of building, everything encouraged the impression that Moscow had become a booming metropolis, and that, here at all events, the Five Years Plan was nearing its end in a blaze of triumph.

But this impression was short lived. One evening, on the way back to my hotel, I noticed a crowd on the sidewalks of a by-street. They were lined up two or three

Appearance and Reality

abreast, some of them, tired of standing, lying about in heaps asleep by their empty baskets, others still patiently waiting on their feet. A bread queue no doubt, I thought, waiting their turn for a ration—it would have been so in an American or European town. But it was no bread queue; it was a meat one, and the people were not there for charity. They all had money, and had come not to beg, but to buy. They came early, though they knew that the store would not open for hours, so as to make sure that the meat would not give out before their turn came!

This incident was in itself enough to show up the emptiness of rash Communist boasts and dismal Capitalist warnings. Both thought in their unreflecting way when the Plan was started, that Russia, at the end of the five years, would take her place among the most prosperous nations of the earth. The Russian slogan, both for production and consumption, is "Catch up with and pass the capitalist countries." Whether they will ever do so is another question, but they are certainly a long way off it to-day. In spite of the improved appearance of Moscow—which in any case is explained by the special attention it has received as the favourite city of the Soviets—of the imposing amount of constructive work all over the country, and the continuous growth of educational facilities both in town and country, the end of the Five Years Plan finds Russia face to face with a crucial food problem—the most crucial since the days of the famine. Rations of meat and other fats have never been so meagre for a whole decade, and the prospects are anything but bright. It will indeed be no mean achievement if there is enough meat, even at the end of the second Five Years Plan, to allow of the population receiving a single portion a day.

And yet, in spite of the shortage of food, the Five Years Plan, from the standpoint of national and social development, is an astounding phenomenon, especially when one considers the conditions at the time it was started. That was in 1928, a year of trouble indeed. In her international relations Russia was in a dismal plight. England had

32
V56m'N32
N33.23

69149 101

The Five Years Plan

broken off relations, America refused her recognition, France did nothing but sulk, Poland made wry faces, China broke into the Soviet embassy in Peking and the consulates in other Chinese towns, raided them and expelled the Soviet representatives. No nation showed the slightest sympathy, except possibly Germany and Turkey, and theirs was given *sub rosa* and in a niggardly fashion. There were no credits in sight save limited amounts from Germany and Italy. From other quarters there was no help forthcoming.

Internally the picture was no more cheerful; the Communist party was riven with dissensions; Trotsky driven out, and his followers banished to remote regions in hundreds, among them some of the ablest men in the country, orators, directors, writers, engineers and economists; fresh disruption constantly threatened from the Right; the peasantry seething with discontent and the nepmen* and the intellectuals recalcitrant—some intellectuals indeed, though a much smaller number than the hysterical Soviet press would have the world believe, were actually taking to sabotage. There was little skilled labour, few engineers with any experience in the construction of modern industrial plant, and few—very few—leaders with the capacity to manage such plant. The country itself was in a thoroughly backward state. It had barely recovered from its foreign and civil wars, its industrial output was reduced to one-fifth and its agricultural to three-fifths of normal. In a word, Russia was isolated, disunited, impoverished.

Such were the conditions under which the Plan was launched, and now that it is nearing its conclusion, it is important to understand its aims, and still more its significance.

II. THE MATERIAL ACHIEVEMENT

THE one thing that the Plan has not altered is the Russian passion for speech-making. The character of the speeches, however, and of their subject-matter, has undergone a change. The speaker may, true to his old

* Private business men.

The Material Achievement

form, start off with a tirade against civilisation, against Trotsky, against the Right Opposition, or the Socialists of Germany and England. But these are only preliminary fireworks. The rest of the speech will be a really sober report, the explanation of some plan and its difficulties. The speeches to-day would, indeed, be very like the sort of survey that the president of a big corporation or university might make, were they less exhaustive and their literary quality less spicy. Nowadays, too, statistics figure more prominently in them than quotations from Marx and Lenin, but the statistics are no mere tables of figures. They spurt out with a fire that excites and captivates the audience. They are to the Russian, in fact, what the latest football scores or athletic records are to the sportsman, what the stock exchange news is to the speculator, or the pulse and temperature of the patient to the nurse and the doctor, or, maybe, to the relations. They bristle with hope and triumph, but they also bring anxiety, even panic.

As I write, I have before me a collection of the latest speeches, and the following figures, taken from them, will be left to speak for themselves. The original Five Years Plan postulated the construction of 12,600 railroad cars in the fifth year. Actually there were 20,000 cars built in the third year, 1931. The Plan has also done well in tractors. Production was raised to 40,000 by the end of 1931. Then, take locomotives: only 825 were to have been completed in the fifth year, but in 1931 the factories actually turned out 812. In 1913, Russia manufactured 17 million pairs of shoes, but by 1931 the figure had reached 76·8 million pairs, exceeding the estimate for the last year by 16·7 million. In 1913 she produced 27 million pairs of rubbers. In 1931 the number had grown to 53·9 million, or 2·9 million more than the programme figure for the last year of the Plan. The statistics for agricultural machinery are particularly noteworthy, as very little of it was made in the old days. For the 1931 sowing season, in addition to the 40,000 tractors already mentioned, the following pieces were turned out from the factories:—

The Five Years Plan

Grain drills	82,000	Hay mowers	21,000
Threshing machines ..	77,000	Binders	14,700
Combines	3,500	Hay rakes	930
Cotton-picking machines	1,667	Beet diggers	3,600
Tractor carts	16,500	Potato planters ..	2,500
Corn-picking machines	196	Manure spreaders ..	336
Tractor cultivators ..	4,827	Cotton planters ..	21,000

402 elevators have also been built.

In 1913 Russia manufactured 94,000 tons of soap; in 1931 this figure had grown to 189,000 tons. And yet the demand still far outstrips the supply. The entire industrial output was supposed to reach a value of 19.6 billions in gold roubles in 1931; it actually rose to over 27 billions.

Ordzhonokidze, the Commissary of Heavy Industry, boasted that, even to-day, there were signs that Russia had beaten the capitalist nations in output. It took England, he said, from 1864 to 1899, that is 35 years, to increase her output of pig iron from 4 million to 9.5 million tons, and it took Germany ten years and America eight to do the same. But Russia, he said, expects to do as much in a single year. He naturally did not mention that the Russian miracle would have been impossible but for English, German and American inventions. Later on, the same orator notes that, although America had only 69 blast furnaces out of 307 working in October, 1931, Germany only 47 out of 145 in November of the same year, and England only 70 out of 400, in Russia, instead of blast furnaces having to close down, new ones were constantly being brought into use.

Other orators cheer up themselves and their hearers with further statistics. In the original scheme, for example, the Russians merely expected to reduce unemployment, but in the event, unemployment was completely eliminated in the first three years of the Plan. The working day has been reduced to seven hours in three-quarters of the factories; primary education has become universal, and in the large towns high-school attendance has been made compulsory. In the production of oil, Russia, by the end of 1931, had far outstripped the Plan, ranking second only to the United States. She is approaching the second place

The Material Achievement

for machinery, and the first place for agricultural implements. The most striking revolution, however—statistically, of course—has been in agriculture. Originally the Plan called for the collectivisation of only one-fifth of the peasant holdings; as a matter of fact, 60 per cent. of them have been collectivised, and these, together with the State farms, cover 80 per cent. of the total cultivated land of Russia. In other words, only 20 per cent. of the land is now farmed by individuals.

But these successes, even in terms of statistics, tell only one side of the story and they fall mainly within the first three years of the Plan—years of extraordinary effort. Since then there has been a slackening off, though construction and development have been pushed on with unabated energy. It must be remembered that the Plan laid most emphasis on the need of heavy industry as the foundation of all other industries. In heavy industry the Plan has not achieved its programme. This has happened in the case of coal, pig iron, steel and rolled steel, the four mainstays of heavy industry.

To take coal first: the original programme for 1931 was 53 million tons, raised by the revised control figures in 1932 to 83 million tons. The actual amount produced was 53 million tons. For 1932 the original plan was 75 million tons, raised by the control figures to 90 million. Actually only 47 million tons have been extracted during the first nine months of 1932, which means that the total for the year might reach 63 million tons, or about one-third less than was originally prescribed in the Plan, and about one-sixth less than the final control figure. It should, however, be remembered that only 28.9 million tons were produced in 1913.

Next, take pig iron. The original schedule was 10 million tons this year, reduced by the control figures for 1932 to 9 million tons. In all probability the actual output will not exceed 6 million tons. Again, the original schedule prescribed 8 million tons of rolled steel, reduced by the control figures to 6.7 million tons. Actually, no more than

The Five Years Plan

4,205,000 tons are expected. The original Plan called for an output this year of 10.4 million tons of steel, cut down by the control figures to 9.5 million tons. In all probability, no more than 5.5 million tons will be produced.

Since coal, iron and steel are the essential raw materials of industry, a drop in their output necessarily means a drop along a good part of the line. But the drop has been most severely felt by the automobile industry. Lack of steel is one reason, though by no means the only one, for the failure to fulfil the original programme of 130,000 cars in the last year of the Plan, or even the reduced programme of 75,000 under the last control figures. Nizhni Novgorod, the site of the new Ford factory, was supposed, this year, to turn out 30,000 cars, but only 2,400 have actually been produced in the first eight months of it. The reader must, however, bear in mind that Russia was not intended to begin constructing automobiles until the latter part of October, 1931. She made hardly any cars in 1930; she only assembled 8,550. At present the Moscow Amo and the Nizhni Novgorod plants are turning out 65 cars each a day. The Amo factory makes nothing but 1.5-ton trucks; the Nizhni Novgorod plant turns out passenger cars as well. During 1931 the output of the Amo factory was 10,757 trucks. A third factory at Yaroslavl has also begun to manufacture 5-ton trucks. Thus, although neither the original schedule nor the revised programme have been complied with, Russia, at the end of the Plan, finds herself in possession of an automobile industry with three huge factories built and equipped in the best modern style, and continuously at work.

There are various reasons for the slump in the last lap of the Plan, the principal being lack of competent labour, poor transport, bureaucratic methods, and the absence of adequate supplies. But, above everything else, there are the world crisis, and the inferior living conditions. The world crisis cut deep into Russia's income of foreign money, and this in its turn necessitated a reduction of imports and the engagement of foreign experts. Inferior living con-

The Material Achievement

ditions have interfered seriously with the efficiency of labour, in any case none too high. In the Kharkov and Stalingrad tractor factories, the turnover of labour personnel has been at least 25 per cent. Workers come, receive training, and then go, and new workers have to be trained all over again. This makes any programme difficult, if not impossible. A particularly bad case was given in the Moscow *Pravda* on October 16. In a group of metal factories in the Urals which employ 61,000 men, 206,000 workers have actually been engaged in the last three years, and of these 203,000 deserted! In the Don coal basin this come and go habit has become a chronic economic disease.

Nor can the Russians boast of the quality of their manufactures. Their tractors do not stand up as well as the American, though they answer their purpose well enough. Articles of everyday use are markedly inferior to those of European and American make. Russians have often asked me if I could spare them a toothbrush, as their own had lost their bristles. Their shoes, too, wear out more easily than they used to do, though their rubbers are among the best in the world. A friend told me at Kiev that he had gone into a shop to buy a pair of shoes, and after trying on a shoe told the clerk to pack up the pair, as it was a good fit. On reaching home he discovered, however, that one shoe was longer than the other. He took the shoes back, and found the clerk quite willing to change them, but on investigation it appeared that every one of the hundred pairs of the same size in stock had one shoe larger than the other! This incident is not typical of the whole shoe industry, but it shows faulty management somewhere; and the shoe industry is not the only one that suffers in this respect. Four cities, Kolomensk, Bryansk, Logansk, Kharkov, all make locomotives of the same model, size, shape, and weight (96.5 tons). Yet, for a locomotive the Logansk factory uses 130 tons of metal, the Kolomensk 125 tons, the Kharkov 117 tons and the Bryansk 127!

To take another example. In the *Pravda* of July 24 last there was a letter from Grozny, the booming oil town in

The Five Years Plan

the south. It cost millions of roubles to build the Palace of Labour there, yet, the writer pointed out, only a year later structural alterations were needed. The lavatories had no ventilation, and after rain the mud was so bad round the Palace that it was impossible to approach it. A workers' club in the same town had not a single lavatory, and the workers' dormitories inadequate windows. Hardly a day passes without letters on this sort of thing in the leading Russian newspapers.

And yet, in spite of every setback and failure, taking everything into consideration, the development achieved under the Five Years Plan is astounding. The tractor plants of Kharkov and Stalingrad, the Amo automobile factory in Moscow, the Ford plant at Nizhni Novgorod, the Dnieprostroy hydro-electric project, the mammoth steel plants at Magnitogorsk and Kuznetskl in Siberia, the network of machine shops and chemical plants in the Urals—which bid fair to become Russia's Ruhr—these and other industrial achievements all over the country show that, whatever the shortcomings and difficulties, Russian industry, like a well-watered plant, keeps on gaining colour, size and strength.

That is one reason why a mere statistical approach gives such a misleading idea of what the Plan is going to mean for Russia and the world. The failure of heavy industry to produce according to schedule is, in my opinion, not nearly so significant as the fact that Russia has now a heavy industry, which, however badly manned at the moment, has an equipment comparable to the best in the world. The Plan as a statistical formula is one thing, but quite another as the symbol of a new age and a guide to a new destiny.

Viewed as the symbol of a new age, first and foremost, the Plan has made Russia a predominantly industrial nation. Agriculture, of course, plays the leading part in the national economy, but the first place, in terms of value of output, already goes to industry. Henceforth, in spite of mistakes and shortcomings, the world will have to reckon with Russia

The Material Achievement

as an industrial, and not primarily as an agricultural, country.

Of even more dramatic significance is the fact that the Five Years Plan has practically wiped out individual enterprise. Industry, wholesale trade, retail trade, with the exception of the bazaars, are all now under the iron control of the State. Never before in history have such gigantic enterprises as those already enumerated, and the thousands of giant State farms, been created and run by a government. It was not easy to destroy private enterprise even in Russia. The new economic policy,* a mere concession to the private business man, like a dog held in leash, was never allowed free play. It took no little brutality to snuff the life out of it, and all that it stood for, but the *nep* has now disappeared, and there is no longer any private business. The State is undisputed master of all economic activity with the exception of the 20 per cent. of the land still in the hands of individuals, and even there State discipline is so far-reaching that the farmer constantly finds himself checked and compelled to adapt himself to the national Plan.

The recent decrees allowing the individualist peasant, the collectivised farmer and the *artels* of handicraftsmen to sell in the open market, do not seriously interfere with the basic principle of the Plan, for the middleman is barred and sales can only be made direct to the consumer, and no one else. If anyone buys to resell, the law will deal sternly with him. It is the intention of the State to remain in control of the economic life of the country. Whether a nation's development can proceed as well under such a scheme is a question which only history can answer. But for the Russian there is no going back, as long as Russia is Russia. Individualist enterprise could only return if Russia were to be conquered in war or in the event of an internal disruption, rendering it possible for her neighbours to absorb her and graft their own economy on to her. Even so, the change would only

* The new economic policy was introduced by Lenin in 1921. See THE ROUND TABLE, No. 47, June 1922, p. 544.

The Five Years Plan

be effected after frightful slaughter, for neither the workers nor the new youth would acquiesce without desperate resistance.

And because Russia has become a pre-eminently industrial nation, she could, if compelled to do so, carry on her own development with her own resources, which would have been out of the question when the Plan was first started. Foreign engineers and foreign equipment were then indispensable. But she has now reached the point when war, blockade, or international boycott, all of which she used to dread more than anything else in the world, though they might hamper it, could not stop further industrial growth. She can live to-day, if need be, off her own fat.

III. THE HUMAN SIDE

BUT even more significant than these material gains is the human change that the Five Years Plan has brought. The mere word "plan" suggests a new approach to the problem of living. Hitherto man, as an individual, has focussed his ambitions, tastes and ideals in a well-conceived personal plan, but as a nation he has been willing to follow a policy of *laissez-faire*. He has been guided by his immediate needs. His ego has been his kingdom. Everything has begun and ended with that ego.

The Plan brings all this to an end in Russia. It envisages society in a new mould. Man's ego is no longer the centre of things, but merely an organic part of the whole, or as the Russians say, of the mass. In the basic things of life the individual can no longer separate himself from the mass without courting disaster. In all calculations to-day it is the mass that counts, and everything that man, as an individual, needs—bread, shoes, books, headache powders, museums, theatres, automobiles, highways—comes to him by virtue of the Plan, itself devised for the mass. He may cherish whatever ambitions he chooses, indulge in whatever pleasures and caprices he likes, but these must in no way

The Human Side

clash with the fundamental interests of the mass. If he wants more shoes than his neighbour, or to go to the theatre more often, if he has a taste for red neckties or brown shirts, no one will stop him indulging it, provided that his earning capacity permits of the enjoyment of these things, and that the supply of goods for the nation makes them available for him.

That is why the idea of planning has loomed so large in importance in Russia. The Plan is the mainspring of everything and everybody. Whatever you do is part of it. You dig a ditch, you plant potatoes, you lift bricks, you blast rock, you study medicine—it is all part of the Plan; you buy shoes, you get pictures for a house, instal a telephone, eat canned tomatoes—it is all the result of the Plan. "Nurseries," says a poster in a village kindergarten, "should be put to the service of the Plan"; and if you read on, you find the explanation. "By keeping the children in the nurseries, mothers can make their full contribution to the fulfilment of the social programme of the Five Years Plan."

No wonder Russia is so Plan-conscious, and no wonder that the Plan has become an *idée fixe*, the purpose and the passion of the young. There is no schoolhouse, co-operative farm, or factory without a plan of its own which fits into some other plan, like a rivulet that flows into a river running to the sea; all of them in the end to take their place as part of the Plan. I have seen dances, songs, games and plays which centre round the idea of it. The Plan, indeed, has become the incentive, it takes the place of profit in an individualist society.

The Plan has also effected a real transformation in the attitude of the Russian towards machinery, a change which can be traced back to the early days of the Revolution, when the machine was already greeted as the conquering hero. But the Five Years Plan, with its vast supplies of foreign machines and the hosts that it is having constructed at home, has crystallised the idea. The old Russia scorned

The Five Years Plan

the machine. The Tzarist Government was afraid of it—the machine stirred up new wants, new ideas, new dissatisfactions. It carried with it a threat of death to autocracy. The landed gentry had nothing but contempt for it. It was a dirty vulgar thing which interfered with the ease and grace of living. The industrialists, a rising class even then, loved it, but they had neither the social standing nor the political power of the landed gentry. As though to give moral support to the contempt prevalent in good society, Tolstoi, like Gandhi to-day, denounced it as a distorter of human values, a perverter of human emotions. The machine, he declared, had made men greedy, hard and vicious, it was a weapon of torture and death.

The Revolution and the Five Years Plan have changed all that. If the welfare of the mass was the end at which the Revolution aimed, the machine is the means to that end. The whole scheme of reform for which Sovietism and the Plan stand—the reconstruction of the nation's economic life and the remaking of the human personality—depends upon the triumph of the machine. And so it has come to pass that all former objects of reverence—religion, private property, home—have lost or are losing their appeal. The machine now stands out as *the* object of veneration. It has become the great miracle, the saviour.

The discovery of the machine and contact with it, then, are changing Russian mentality. Since the beginning of the Plan ten million men and women, chiefly from the villages, have been sucked into industry; schools are springing up by the hundred all over the country with the special task of training students in the use of the machine. Books, posters, pamphlets and charts in millions are pouring out of the presses to help on the process. All the Russian public schools have been polytechnicalised. They are now known as labour schools, and in all of them manual training, locksmith, foundry and machine shop work are compulsory. The study hours are supplemented by visits to neighbouring factories, and a certain amount of

Collectivisation and Village Life

practical work in them. All this is to develop mechanical mindedness, and to prepare the reserve of skilled workers that the factories so desperately need. And in the process the Russian too is changing. He is becoming more disciplined, more sophisticated, but at the same time more restless. The peasant, man or woman, who has been with the machine will never again be what he was before.

And so whatever the statistical results of the Plan, its moral effect is of immeasurable consequence.

IV. COLLECTIVISATION AND VILLAGE LIFE

PERHAPS the greatest political triumph of the Plan has been in agriculture, the very field in which it has suffered its most disastrous setback. The original aim was to collectivise one-fifth of the peasantry; actually three-fifths of them have been collectivised, and the process is still going on. Yet, instead of putting an end to the most perplexing and delicate problem of the Revolution—the food supply—it has aggravated it to a point which, for the time being, almost amounts to a catastrophe.

One must, of course, bear in mind the immense difficulty of giving effect to such a grandiose scheme as collectivisation, under which individual farmers pool their holdings, implements, and animals, and work the fields jointly, dividing the produce according to the quantity and quality of the work done by each. There have hitherto not been enough machines to go round, or a sufficient number of competent organisers to run the new farms efficiently, or agricultural experts to supply indispensable guidance. I have seen collective farms building huge piggeries with cement floors but no tiles underneath, thereby causing high-priced sows brought all the way from England, Germany or Poland to develop pneumonia and die. I have seen them operating massive incubators and failing to obtain a single decent show of hatchings, or if they got

The Five Years Plan

one, leaving the chickens to die of bad feeding and housing. I have seen them sowing Indian corn with grain drills as they would oats or wheat, thereby making it impossible for the stalks to attain proper growth and develop cobs. Endless blunders have been made.

But these blunders are not inherent in collectivisation. In time they will be overcome, and they certainly have not contributed seriously to the existing *débâcle*. In my judgment, collectivisation, for Russia, is a good agricultural system. It eliminates a great deal of the waste inseparable from individual holdings there—waste of seed, labour, and animal energy. It brings a power to mechanise, energise and improve Russian farming which the individual landholding system never possessed. Under proper management it would sweep away worn-out methods and worn-out conceptions. It is capable of raising the fertility of the soil to an extent unattainable under ordinary Russian conditions. The Soviets have used every kind of pressure to bring the peasant into their scheme, but I believe that, in spite of that, collectivisation is economically sound, as much so as building new schools, new factories, new homes.

The fault is not in the system, but in the reckless way in which the Bolsheviks have managed it. They have not, of course, deliberately mishandled the movement, but if they had, they could not have done it more harm. In urgent need of food for the towns, and of commodities for export in exchange for indispensable foreign currency, they have made unreasonable demands on the peasantry. Their most flagrant blunder was in the Ukraine in 1931. The Ukraine that year happened to have had an unusually fine crop, but the collections, that is, the share of the grain the peasants were obliged to sell the Government, were so drastic that at the beginning of the present year both collective farms and individual peasants were often without bread for themselves or feed for their beasts. The mortality of stock was enormous. I have never seen the figures in print, but they must have been a substantial percentage of

Collectivisation and Village Life

the total peasant stock. Pigs and horses suffered especially. On one collective farm I found 50 pigs dead, on another 100, and on another 19 horses and 10 cows. Hardly a collective farm I visited—I was in the hardest hit area—had not had serious losses. Levies of vegetables, meat and milk products were also heavy, and in some villages the peasants had finished not only all the grain they were allowed to keep, but potatoes and beetroot as well. They were eating weed seeds and the waste products of the flour-mills. Sometimes they would even start off on long journeys to other parts of the country in search of bread.

The severe meat collection in 1931 further aggravated the crisis. There were peasants who had to give up their last cow to meet this call. They protested, but it was of no use. Left without a cow they had neither milk nor the chance of raising a calf. What is worse, many of them were, and still are, afraid of getting a new cow. Suppose, they reasoned, there is another meat collection, and the cow is taken away at the Government price? And when they do get a cow they are always worrying. Suppose, they say, we are not allowed enough grain to keep it in condition?

Then again the local officials, infected by one of those periodical epidemics of political fervour which now and then sweep the Russian countryside, proceeded to socialise the livestock of the members of the collective farms, who had been assured in 1930 that the stock they keep for themselves would not be socialised. The officials, however, did not trouble their heads about that, and in retaliation the peasants slaughtered their animals, just as they had done in 1930, when equally over-zealous officials put pressure on them to join the collectives. True, the higher authorities soon put a stop to compulsory socialisation, and the peasant whose stock had been socialised got it back, but in the meantime a number of precious animals had been needlessly destroyed! Shortage of fodder, drastic meat collections and compulsory socialisation have brought Russian livestock to the lowest point reached since the Plan was introduced.

The Five Years Plan

Nor were matters helped by the fact that the Soviets, in making these collections from the peasants, paid them a fixed price, from one-tenth to one-twentieth below the open market prices, and at the same time failed to supply sufficient textiles, tobacco, hardware, candy, sugar and other manufactured goods to meet their needs.

Naturally the peasants grew discouraged. Again and again there have been cases of sabotage, of peasants intentionally ploughing badly, disking badly, sowing thinly, just to prevent a good crop. The point has been reached where they actually do not want one, partly out of revenge and partly from sheer indifference. This, of course, is not universal, but it is quite a widespread attitude. "The land," said one Ukrainian peasant, "remains here in the village, but our labour they take away, so why toil?"

In recent months the Communists have made concessions. They have opened kolhoz bazaars to enable peasants both on collective farms and individual holdings to sell their surplus produce at market prices. They have lowered the taxes, except for individualists, and they have reduced grain collections by about one-fifth, though, as against this, the crop this year is not as good as it was last. They have also begun a widespread campaign to induce factories which had not been doing so to devote part of their equipment to making goods for consumption, so that the villages may be supplied in increasing quantities with what they need. What is of equal importance, they are devising new schemes to ensure higher remuneration for the better worker, and so to stimulate the peasant to greater efforts.

These concessions have eased the tension, but they are not sufficient to revive the peasant's will to work. Only actual experience will convince him that it is safe to keep a cow, pig and chickens, and that he will be allowed to retain the bread, vegetables and milk that he requires for his own use, as well as grain and fodder for his livestock. Whether he is an individual farmer or a member of a collective, he wants a guarantee that enough of his own produce will

Collectivisation and Village Life

be left him to enable him to live in some degree of comfort. There is no other way of reviving his morale, or of winning his support for collectivisation. Verbal promises are useless.

But if the Soviets have blundered badly on the economic side of village life, they have pushed ahead with the cultural side—I doubt if there is a single village in Russia without a school and library, however small. There have never been so many nurseries as to-day, and never, in the whole history of Russia, has there been such an exodus of young people to the technical schools and universities. The village has developed a prodigious appetite for learning, and it now has every chance of satisfying it. Indeed, the cultural advance under the Plan is the most cheering feature of Soviet life.

* * * *

And so the Five Years Plan ends with the cultural standard of the Russian masses higher than it has ever been before, but with the standard of living lower than it has been for a decade, and, in so far as food is concerned, appreciably lower than it was at the beginning of the Plan. Cruel indeed is the price that Russia has had to pay for the first Five Years Plan. It has been a time of incalculable privation and sacrifice. But she has laid the foundations for future development, and what is infinitely more important from her point of view, she has strengthened prodigiously her fighting capacity. She still dreads attack from outside, but not with the same hysterical intensity as she used to do before the Plan. Her main task at present is to raise the standard of living of the masses. The second Five Years Plan, which will commence at the beginning of next year, will, it is promised, treble the amount of consumption goods. Certainly the Russian masses will look forward eagerly to the realisation of this promise.

Moscow.

November, 1932.

IRELAND: THE TARIFF WAR

I. THE ECONOMIC STRUGGLE

THE most striking and unanswerable commentary on the economic war between Great Britain and the Irish Free State is supplied by the trade returns of the Irish Free State for the month of August, which was the first complete month since the war began. These returns show that, as compared with August 1931, imports have decreased by £774,022 and exports by £1,890,351. The adverse balance on the month's trading was £1,433,204 compared with £316,875 for August 1931, and for the year ended August 1932 it was £16,005,141 as compared with an adverse balance of £11,960,076 at the end of August 1931. The cattle trade alone has suffered a loss of £901,616 during the month. But what is even more serious is the fact that the prohibitive tariffs on British goods entering the Free State have created a strong bias in England against Irish agricultural products which it will be difficult to remove. Two-thirds of the market for bacon and hams has been lost, and over five-sixths of that for fresh pork. The poultry trade is reduced by four-fifths and the egg trade by a third. Exports of butter fell 52 per cent. in value. If this situation continues for a few more months the Free State farmers will have lost in trade more than the total of all the disputed payments. The returns also show that only 4·8 per cent. of all exports in August were purchased by countries outside Great Britain. Our exports to these foreign countries were in fact down by £17,468 as compared with August 1931, but our imports from them show an increase of £139,067. Even Mr. de Valera himself now admits that no alternative market for our agricultural produce is to be found outside Great Britain. Figures,

The Economic Struggle

which recently appeared in the Government's own *Trade Journal*, show that the total imports of cattle into other European countries for the year 1931 are less by at least 80,000 than the total exports of Free State cattle for the first five months of this year. Moreover, these countries have all nearer markets than the Free State to rely upon. The large European countries are also more than adequately supplied with bacon, ham, butter and eggs by the highly organised agricultural countries surrounding them, and the opportunities for Free State exporters of these commodities are virtually nil, having regard to the rate of exchange and the tariff walls to be surmounted. The "unkindest cut of all" is the German surtax of 135 reichmarks per 100 kilograms on all Irish butter imported in excess of 5,000 metric tons, and even a preferential surtax of 50 reichmarks per 100 kilograms on butter within this quota.

On the day that these depressing trade returns were published the Government imposed 10 new duties on cereals which are in effect prohibitive. They include maize, oats, barley in grain, malted barley, oatmeal, hay and straw, veterinary medicines, and practically all animal foods. These new duties, and a scheme for the compulsory admixture of grain with maize, are intended to effect a big change in the system of animal feeding, and to stimulate the market for home grain crops. The proposal to mix home-grown grain with maize was unanimously rejected by an expert commission set up by the late Government, and it is viewed with extreme disfavour by all practical farmers, who believe that it will not produce a suitable food for pigs, and that it will also be a more costly mixture. The millers are equally hostile. As the pig-rearing industry flourishes principally in Munster, and the grain is grown in the midlands, they will have some difficulty in arranging for supplies to southern mills. The Government have also imposed practically prohibitive customs duties on tinned meat, eggs, and vegetables.

The immediate effect of the English duties on agricultural

Ireland : The Tariff War

produce and cattle was practically to stop the cattle trade between the two countries, and the price of Irish cattle slumped disastrously. At the same time the Irish tariffs on iron, coal, steel and other English exports have reacted seriously on the industrial life of the country. The Ford factory at Cork has been greatly affected. The garage industry has also been heavily hit by the difficulty and cost of obtaining materials, and the virtual cessation of the purchase of cars owing to the prohibitive body tax, now reimposed, and large numbers of men have been thrown out of employment. The new tariffs in fact have created such an impossible position that the Government were compelled to make an order, obviously open to serious abuse, enabling them to issue licences to Irish manufacturers to import dutiable articles for use in their factories free of duty. Mr. Lemass, the Minister for Industry and Commerce, claims, however, that as a result of the new tariffs several new factories have been started for the manufacture of boots and clothes, and that the packet tax has resulted in the establishment of 30 new packing factories. Messrs. Fry and Cadbury are starting a joint chocolate and cocoa factory in Dublin. The railways and gas companies have been seriously inconvenienced by having to use second-rate German coal, for which they have to pay an increased price, and which is not suitable for their purpose. The Industrial Fair at Cork in the summer was a complete financial failure, and, except for the large, and artificial, influx of pilgrims to Dublin during the Eucharistic Congress, the tourist traffic has been bad.

The only redeeming feature of the situation from the farmers' point of view has been the excellent harvest. The Government's policy, to meet the situation they have created, is to make the Free State self-supporting. They propose by means of a guaranteed price to encourage the farmers to grow wheat for home consumption. Ireland once grew 641,000 acres of wheat; it now only grows 26,000 acres. Why should it not grow wheat again, they

The Economic Struggle

ask, as other European countries are doing under greater climatic disadvantages? They argue that such a scheme need not mean an increase in the price of bread or a deterioration in its quality, and that it would help, by providing additional employment, to solve the problem of rural unemployment and rural emigration. Although compulsory tillage is not proposed, Mr. Aiken, the Minister for Defence, has threatened in no obscure language that farmers who do not fall in with the Government's plans may have their lands confiscated. The weak spot in the project would seem to be the Irish farmer, who is naturally inclined to seek the more profitable, more secure, and more easily gained returns from cattle and dairy produce, and who sees his most serious rivals, the Danes, appropriating his best market and seeking to improve their trade relations with England by every possible means. Moreover, it will naturally take several years even partially to carry out these grandiose schemes for altering our agricultural economy, and meantime what is to happen to our farmers, whose sole means of existence during the interval is denied them? By the end of September the situation had in fact become so impossible, owing to the increasing difficulty of providing food and shelter for store cattle in the winter, that the Government were forced in October to pay a bounty of 12½ per cent. on all cattle and pigs exported to England, and 10 per cent. on all cattle and pigs exported to Northern Ireland; but naturally this measure, although it has stimulated export to some extent, is really only an example of the process known as robbing Peter to pay Paul.

In the final result the Irish farmer who voted for Mr. de Valera's party is now hoist with his own petard, because he has first to pay the land annuity to the Government, then to pay the English tariff, and finally, as a taxpayer, to pay his share of the bounty he receives as a farmer. He is in fact painfully beginning to realise that there is some truth in the old adage that honesty is the best policy. The virtual exclusion of foreign bacon is, however, operating

Ireland : The Tariff War

in his favour, as this has temporarily stimulated the Free State bacon factories. There is also a bounty of 10s. a cwt. on exported bacon. As regards milk and butter, the Central Dairy Board has taken over all the butter which the creameries produce and so enabled the farmer to obtain a fair price for his milk. Much of this butter was placed in cold storage, but this process could not be financed indefinitely, and the butter is now being exported to England. Here again the loss must presumably be made good by the Irish taxpayer, and in great part by the farmers themselves, as this exported butter earns a bounty of 4d. a lb. ; but, as Dr. Ryan, the Minister for Agriculture, has recently reminded us, no war was ever won without sacrifices.

II. POLITICAL REACTIONS AT HOME

THE political reactions to Mr. de Valera's policy and the economic facts have been considerable. The big farmers, under the relentless pressure of events, have at last become vocal and begun to organise. At a large and representative meeting in Dublin on September 15, resolutions were adopted condemning the "jingo policy" of the Government, and demanding that steps should be taken to recover for the farmers their position in the British market. Steps were also taken at the same time to form a Free State farmers organisation, and Mr. Frank McDermot, T.D., was unanimously elected president. This coming politician, whose lively intervention in the opening Dail debate on the Bill for the abolition of the oath will be remembered,* may well prove to be the leader of a new moderate party which will turn its back on the barren personal animosities of Fianna Fail and Cumann na nGaedheal, and embark on a programme of national reconstruction based on love of Ireland rather than hatred of England. His speeches

* See THE ROUND TABLE, No. 87, June 1932, p. 513.

Political Reactions at Home

indicate a clear constructive mind, and the low personal abuse to which he has been subjected by Mr. Sean McEntee, the Minister for Finance, proves that what one may call "the old gang" are already jealous of his success and alarmed by his honest criticism. At the meeting referred to, he pointed out that the plain man found it difficult to understand why we should claim the benefit of the Home Rule Act of 1920 as regards the land annuities but not be prepared to accept liability for our share of the national debt it also imposed. It was a long time before it occurred to Mr. de Valera to make this claim, and longer still before he made it part of his policy. As regards the national issue they could, he declared, never get rid of partition until quarrelling with England had definitely and finally stopped, and whatever was to be said in favour of leaving the British Commonwealth, there was nothing to be said in favour of staying in it whilst suffering the disadvantages of being outside. It was like prohibition in America which keeps the country only nominally "dry" while actually "wet," impoverishes the Exchequer, and glorifies illegality. We were not, like other nations, forced to concentrate on the home market because our exports were shut out of any other. From our geographical position and our importance as customers we ought to get the cream of the English market. Mr. Norton, the leader of the Labour party, had made it plain that he regarded the present situation as a heaven-sent opportunity for fastening extreme State socialism on this country and making us all slaves of a bureaucracy on the Prussian model. This was what we were heading for, if we were taken in by the current cant about the duty of good Irishmen to stand firmly behind the Government in their conflict with a foreign nation.

At a subsequent convention in Dublin on October 6 the National Farmers and Ratepayers League was duly launched. Its objects, as defined in its constitution, are to promote the interests of agriculture and to give the farmers the power to mould government policy ; to restore and

Ireland : The Tariff War

develop overseas markets while building up the home market ; to reduce public expenditure ; to maintain the rights of individual liberty and ownership ; to get rid of the bitter memories of the civil war, and to promote good feeling between all classes ; to encourage a friendly attitude towards other countries, and obtain a fair and honourable settlement of the disputes at present affecting the country's export trade ; and to abolish partition by abolishing the animosities which are the cause of it. Its membership is open to all Irish citizens who accept the principle that the Irish Free State is a sovereign and independent nation and who are in favour of the League's objects. It will be seen from these declarations that Mr. McDermot is the only Free State politician who has approached the question of partition in a rational manner and formulated a new constructive economic policy based on the real needs of the agricultural community.

Throughout the entire country large numbers of farmers have refused or neglected to pay their land annuities.

But this revolt of the farmers is not the only striking reaction to Mr. de Valera's policy. Since his Government came into office the Irish Republican Army has been definitely tolerated and encouraged. Mr. de Valera has even stated that, as long as they do not publicly parade their weapons, they will be left alone. One portion of this organisation is believed to support Mr. de Valera, but another and more extreme wing (which controls the official newspaper) definitely propound communistic doctrines. They demand that there shall be no bargaining with England, the immediate proclamation of an Irish republic, the disbandment of the whole C.I.D. force, the taking over of the banks by the Government, the forcible division of the large farms amongst landless men and the dismissal of the present heads of the civil service, whom they accuse of being pro-English. Emboldened by immunity from prosecution, their followers throughout the country embarked during the summer on a definite cam-

Political Reactions at Home

paign of petty outrages, such as attacking lonely houses, cattle driving, and a calculated interference with the right of free speech designed to intimidate anyone who wished to criticise the policy of the present Government, and eventually to prevent a free election. This campaign culminated at the end of August in the occupation of a private residence known as Donamon Castle, County Roscommon, as a training centre by a party of the I.R.A., who, however, left again after a few days, apparently under pressure from the Government or their own organisation.

There can be little doubt but that this policy would have achieved its object if allowed to go unchecked. However, this was not permitted, and early in August the Army Comrades Association (a benevolent society, composed of ex-members of the National Army) extended the scope of its operations to resist the spread of communistic principles and to protect the right of the people to free speech, a free franchise, and a free press. At the same time it opened its membership to any persons who agreed with its aims, and pledged its members to respect the law and assist the services of the State. This new development has been a complete success, and already some 30,000 members have been enrolled, or more than three times the estimated number of the I.R.A. On several occasions the members of the Association have intervened most effectively to prevent interference with free speech at meetings of Mr. Cosgrave's party, and there can be no question that some such disciplined organisation was essential unless we were prepared to face chaos and outrage during the coming winter. Its leader is Dr. T. F. O'Higgins, T.D., a brother of the late Kevin O'Higgins, who is a member of the Cosgrave party in the Dail, and was formerly head of the Free State Army Medical Service. He possesses a great deal of his brother's courage and ability, and is not likely to be deflected from his course by threats or intimidation, although he has already experienced both. The new

Ireland : The Tariff War

organisation is disciplined, but so far officially unarmed, and it contains many brave and determined men whom Mr. de Valera or the I.R.A. will not readily provoke to action. The Government, having countenanced the I.R.A., cannot logically take any steps against the Association, but their annoyance at this new development is best shown by the impotent abuse they have showered on its organisers. The I.R.A. is even more annoyed, and its newspaper, *An Poblacht*, recently published a placard which read: "Put O'Higgins in hospital," the double meaning of which was only too obvious. Some of their own followers have, however, been lately placed in that position at Kilrush, when two prominent members of the I.R.A., Messrs. George Gilmore* and T. J. Ryan were wounded in a fracas with certain members of the detective force. As a result of statements made by the wounded men, they were released from custody, the charges against them were withdrawn, and a sworn inquiry was held by a special commission into the conduct of the C.I.D. men, two of whom, owing to the findings of this Commission, were subsequently dismissed from the force.

We seem indeed to be rapidly moving towards that state of dual power which Trotsky, in his history of the Russian Revolution, rightly describes as a distinct condition of social crisis and a precursor of civil war. It is not to be wondered at that the *Poblacht* openly boasts that "Cosgrave's rule is as dead as the Tsar's, and Kerensky in power." The Labour party apparently agrees with these sentiments, because it continues to put unrelenting pressure on the Government. In a recent declaration of policy, issued on September 13, it states that it is now to be tested whether political independence is to be nullified by fiscal dictation from Britain, or whether political freedom will be fortified by a greater measure of economic self-reliance. It then proceeds to ask some embarrassing questions. What do the Government propose to do to

* See THE ROUND TABLE, No. 86, March 1932, p. 375.

Political Reactions at Home

supply the people during the autumn and winter with what they need, and to provide safeguards against the occurrence of a similar crisis in the future? To consider the problem as one involving simple and temporary readjustments of normal trade, commerce, and economic relations would, it suggests, be utterly futile. The alternative is to pursue a determined policy of rapid reconstruction of the whole economic system, based on the principles of economic socialism. It is admitted that this will involve a good deal of dislocation of the ordinary processes of trade, but individual interests must suffer when a nation determines to defend itself. Amongst the suggestions for immediate action are: Guaranteed prices for cattle and crops, loans to farmers for the payment of wages, restriction of imports to essentials, reductions in the hours of labour in industry, no reduction in civil servants' pay, the division of land among uneconomic holders, eventual nationalisation of the railways, and control of essential commodity prices.

These demands are probably inspired by Senator Thomas Johnson, a doctrinaire English socialist, who is the brain of the Labour party, and who envisages the adoption of some such policy when Mr. de Valera finally comes to grief. The Labour party, although it talks big, has, however, no real intention of taking serious action against the Government, for it has now burnt its boats and must sink or swim with Mr. de Valera. Its leaders are well aware that a party which has progressively dwindled at every election since the Free State was established, and now has only seven members in the Dail, cannot reasonably expect to survive another election in a country where Labour voters are more interested in national than social questions. They will therefore do nothing to hasten the day of judgment. That Mr. de Valera's Government also realise this is shown by their refusal to nationalise the railways and the appointment of a commission to revise and reduce the salaries of the civil service. Mr. Norton, the Labour leader (who is

Ireland : The Tariff War

an ex-postal official) will naturally hear more of this from his supporters. He has recently been more critical of the Government, who, he declares, are making the big mistake of trying to regenerate and develop industry by means of capitalism plus tariffs, but that the only thing tariffs would lead to was poverty and misery.

Whilst these developments have been taking place the Cumann na nGaedheal party has not been silent. Speaking in Dublin on August 23, Mr. Cosgrave declared that no hope lay along the line of legal argument for the retention of the land annuities. The successive Governments with which he had been associated were fully satisfied, after obtaining the most competent legal opinion available, that the annuities were in accordance with Free State law, applicable only to the discharge of interest and sinking fund on the land stock which represented the advances made to tenant purchasers. The so-called "secret agreement" of 1923 saved the Irish taxpayer the very considerable expense of a new department of State, and imposed on the British Government an annual liability of nearly £1,000,000 in respect of bonus and excess charges, which has been borne ever since by the British taxpayer. The Dail, fully aware of the provisions of that agreement, voted the necessary money to implement it, and passed Section 12 of the Land Act of 1923 to enable the agreement to be legally carried out. Throughout, his Government had acted in strict accordance with their legal obligations, and in their view the soundness of the opinions given to them remained entirely unimpaired. Even if the de Valera Government were to repudiate the agreement, they would still be bound by the existing Free State law to apply the annuities in discharge of the interest and sinking fund payments, and could not lawfully retain them as revenues of the State. Mr. de Valera's attitude was good politics but bad law, and worse morals. If, however, Great Britain could get a remission of her war debt, the liability she undertook under the agreement of December, 1925, might

Political Reactions at Home

be reduced, and a case arise for the remission of the land annuity payments.

Again in Dublin, on September 15, Mr. Cosgrave pointed out the chances that had been lost by the Government. The country as a whole, he said, wanted the economic war to cease, and delay in the matter was calculated to lead to a hardening of the attitude of both sides. The material loss and spiritual degradation in which the nation had been involved by the incompetent manner in which every item of the land annuities dispute had been handled by the Government was now apparent. If everything worked out as the signs then foretold they would find themselves in the New Year with the British markets regulated by one group of preferences very decisively in favour of the Dominions, and by a second smaller preferential tariff decidedly in favour of Denmark and the Argentine. The Free State would not be found in either of these categories. In that trade race they would be among the "also rans." The Ottawa Conference, he said, presented the chance of a nation's lifetime. For the first time a Government of the British people had been found willing to impose duties on foreign foodstuffs. To this Conference the Government decided to send an Irish delegation. They went unprepared, and returned empty handed. Not merely had they failed to influence the course of the Conference in favour of the Free State, but, worse still, they did not prevent it running definitely against their country, to its immediate harm, and prospectively to its permanent injury. Taxation was, he pointed out, never higher, the Government were separatists who won't separate and economists who won't economise. When the farmers had been beggared Fianna Fail and the Labour party would disclaim all responsibility. Farmers who had capital found it sterilised and their title to the lands they had paid for, and their forefathers fought for, was now in jeopardy. His policy, added Mr. Cosgrave, was that the land annuities were, according to law and justice, properly due to those who lent the money to the

Ireland : The Tariff War

farmers to purchase their land. They wanted goodwill and preference in the British markets to secure a ready sale for their goods. Could it be secured ? Would negotiations to that end receive favourable consideration ? They had it on the authority of British Cabinet Ministers that they were desirous of a settlement. The time was surely ripe for the great voice of the people to ring out " Let us get down to business."

This powerful and outspoken speech so enraged the Fianna Fail party that Mr. de Valera's paper, *The Irish Press*, in a leading article, accused Mr. Cosgrave of making treasonable statements, and asserted that under the terms of the Public Safety Act, which his own Government passed into law last October, he might find himself prosecuted before a military tribunal. Nobody, however, took this outburst seriously, as Mr. de Valera is not likely to be guilty of the supreme folly of making Mr. Cosgrave a political prisoner, or, worse still, failing to do so. Naturally, these threats had no effect on Mr. Cosgrave or his supporters, who have since repeated their statements. And a prosecution of this nature could not stop at Mr. Cosgrave, for even people who have nothing to do with politics have not hesitated to express the alarm to which the Government's policy has given rise. No less a person than Cardinal MacRory, the Catholic Archbishop of Armagh, speaking at Slane on August 15 in the presence of Mr. de Valera himself, declared that it was a sin and a shame that the Anglo-Irish tariff war should be allowed to go on without further attempts at settlement ; and he hoped and prayed that some means might speedily be found to end a situation which was as discreditable as it was deplorable. It is worth pointing out to the people who, twenty years ago, made the political world ring with the catch-cry " Home Rule means Rome Rule," that the Cardinal prefaced his remarks with the statement that he must be careful of everything he said, and that his advice apparently fell on deaf ears. It is an interesting and not altogether satis-

Political Developments Abroad

factory change to find that the Church has ceased to exercise any substantial influence in Irish politics, because our people are not yet politically stable enough to dispense with the generally wise and conservative guidance of their priests.

III. POLITICAL DEVELOPMENTS ABROAD

MR. COSGRAVE'S statement that the Free State delegates returned from Ottawa empty handed was not strictly accurate. An agreement with Canada secures for all Canadian manufactured goods imported into the Free State the benefit of the lowest rates of duty accorded to similar goods from any other country, and vice versa. At the opening meeting of the Conference Mr. Sean T. O'Kelly, Minister for Local Government, and the principal Irish delegate, said that the Free State realised the gravity of the present situation and entered the Conference in a spirit of co-operation and with a desire for a trade agreement, or a particular agreement, when the latter would be to the advantage of the parties. Special difficulties had arisen, he continued, affecting 85 per cent. of the external trade of the Irish Free State, which might involve substantial changes in the form and direction of their trade as well as in the internal economy of the Free State. Apart from these difficulties, the outlook of the Free State was unlike that of other countries. Their economic development had hardly begun. They were engaged in building up the elements of economic life, and it was, therefore, difficult to see the lines on which their contribution to the common endeavour must proceed. Their aim was to provide such economic conditions as would enable the largest number of their people to live in peace and comfort. They were the one country in Europe whose population had steadily decreased for a century, and they sought first the interests of their own people. Any acceptance of general

Ireland : The Tariff War

principles must be governed by the degree to which they would serve that end.

This very moderate and reasonable statement of their Government's position was the Irish delegates' principal contribution to the public debates, and, as was anticipated, in the absence of agreement with Great Britain, "the subsequent proceedings interested them no more." But if no agreement with Great Britain was arrived at, other Dominions have secured many concessions in the British markets at the Free State's expense, concessions which may well deliver a final blow to the Free State farmer. Nevertheless social intercourse during the Conference established friendly relations between the British and Irish delegates, and had Messrs. O'Kelly and Lemass been plenipotentiaries it is possible that something might have been achieved to bridge the difference between the two countries. Mr. de Valera, however, controlled the situation, and his counsel over the transatlantic telephone prevented the Irish delegates from straying from the straight and narrow way. One of them was credited with the intention of resigning if Mr. de Valera did not favourably consider the proposals for settlement which were undoubtedly informally discussed at Ottawa, but his resolution seems to have evaporated on his return to the different atmosphere of Dublin.

In the meantime Mr. de Valera's pronouncements indicated no change of mentality. On August 5 the Dail passed a government estimate for £2,000,000 without receiving any information as to where it was to be obtained, or the exact purposes to which it would be applied. Speaking in this debate, Mr. de Valera purported to define his attitude towards the question of a republic, and, as the occasion was a good example of the cloudy language in which he excels, his words are worth quoting verbatim :

It has (he said) been said that I am not a republican at all. If people want to know my own attitude, I say that I have always striven at all times to secure the right of the Irish people to determine freely for themselves what should be the constitution of their

Political Developments Abroad

government and their relations with outside States. To-day the Irish people could *freely make that choice*. I have never had a particular fetish for any form of government. I stood for the republic because in the face of armed resistance the Irish people chose a free government. Till the next election the constitutional position we find ourselves in is the one we are prepared to abide by. What the issue will be at the next election remains to be seen. One thing I am certain of is that if my own aim was to get finished with any connection with Britain I should welcome such action as the British have taken in this dispute.

It will be observed that this declaration avoids the real issue and leaves Mr. de Valera free to repudiate the republic if he so desires. Speaking at Drogheda on August 22 he made a further illuminating statement, that they hoped to unite the people so that all sections should be free, without any barriers or tests in the way, to elect their representatives, and that the national leadership for the time being should be given to those having most power ; but that the national leadership should be in the hands of those who were elected by the majority of the people's representatives !

In the meantime Sir Thomas Inskip, the British Attorney-General, in an important speech on August 4, had clearly indicated the position of his Government. The real significance, he said, of the attempt to abolish the oath lay in the fact that it was an undoubted breach of the Treaty. The very existence and status of the Free State depended on the Treaty. To abolish the oath without the consent of the British Government was to repudiate the Treaty, and no one could be blind to the consequence of that step. After outlining the British position as regards arbitration in the matter of the land annuities, he proceeded to say that Mr. de Valera was not prepared to negotiate or even to maintain some sort of direct contact until the British duties were withdrawn. Such a demand was clearly unreasonable, unless the *status quo*, which he was the first to disturb, was restored in its entirety. Failing arbitration before an Empire tribunal, the Government

Ireland : The Tariff War

were willing to negotiate either as things then were or on the footing of a complete restoration of the position as it was before Mr. de Valera impounded the annuities. Talk without some prospect of finality was futile. It was not money that stood in the way of peace. There was something bigger and deeper. Did Mr. de Valera want to be a partner in the Empire, or was he pursuing the will-o'-the-wisp of a republic? If there could be a clear and sincere declaration of the desired intention of the Free State to stand within the Empire on the basis of their constitutional position and in a spirit of loyal partnership no annuities or debts could cloud the prospect. This straightforward declaration, however, evoked no sensible response whatever from the Free State Government. Mr. de Valera and his colleagues, in a series of die-hard speeches, reiterated their refusal to arbitrate, except before an international tribunal, or to negotiate, unless there was a tariff truce.

The pressure of economic facts and their political reactions were now, however, beginning to tell, and, in the middle of September, Mr. de Valera sent a brief communication to the Dominions Office, suggesting that, pending negotiations, the annuities might be put into the custody of the Bank for International Settlements. The British Government replied that Mr. de Valera's proposal did not affect the main issue, and that the *bona fides* of the Free State Government's suspense account had never been in question. Mr. de Valera, it was pointed out, had made no suggestion as to what was to happen to the annuities eventually. The British Government were, however, always willing to consider any further proposals, provided that they held out some prospect of a speedy settlement.

On October 3 the friction between the Free State Government and Mr. James McNeill, the Governor-General,* reached a somewhat startling dénouement.

* See THE ROUND TABLE, No. 88, September 1932, p. 768 *et seq.*

Political Developments Abroad

It was officially announced that, in accordance with advice tendered to His Majesty by Mr. de Valera, the King had approved of Mr. McNeill relinquishing the office of Governor-General of the Irish Free State. The considerable period which had elapsed since Mr. McNeill published his correspondence with Mr. de Valera* was no doubt explained by the fact that Mr. de Valera must have thought twice before he moved in this matter, for it compelled him to approach the King, and confronted him with the difficulty of appointing Mr. McNeill's successor. Moreover, it is obvious that His Majesty must also have hesitated before dismissing a representative whose real offence was that he justly resented the humiliation to which he had been subjected. But, under the procedure laid down by the Imperial Conference of 1930, Mr. de Valera was entitled to approach His Majesty direct, and the latter was bound to act on the advice tendered. It was, of course, obvious since Mr. de Valera's Government came into power that the earliest possible opportunity would be taken to get rid of the Governor-General, whose position they regard as an expensive anachronism. The absurd lengths to which they were prepared to go were well illustrated during the Dublin Horse Show, when the spectacle was witnessed of an English colliery band playing the Free State National Anthem in honour of the Governor-General, because the Government would not allow the Free State army band to do so—a situation to which it would require a Gilbert to do justice. In any case Mr. McNeill's term of office would have expired in February. His summary dismissal indicates once more the real issue that lurks behind the policy of Mr. de Valera's Government, namely, the gradual severance of all constitutional links with the British Commonwealth. As the British Government are apparently aware, this, and not the land annuities, is the real question to be decided. Mr. McNeill's removal has also proved how free

* See THE ROUND TABLE, No. 88, September 1932, p. 769.

Ireland : The Tariff War

the Free State Government is to fashion its policy without outside interference. Mr. McNeill will take with him into his well-earned retirement the good wishes of every honest Irishman, for he has discharged his duty with ability, tact, correctness and dignity. The manner of his going, as a fearless gentleman, has been his greatest distinction. Whether Mr. de Valera will avoid the nomination of a successor to the office by allowing the Chief Justice to fulfil its functions on commission, as he is legally entitled to do for a reasonable time, or nominate one of his more moderate followers remains to be seen. It is not at all likely, as has been suggested, that he will nominate himself, as this would finally damn him in the eyes of the extreme Republicans, and place him in a position resembling that of Pooh Bah, for, as President of the Executive Council, he would have to advise himself as Governor-General.

On the same day as the announcement of the Governor-General's removal it became known that Mr. de Valera had asked Mr. Thomas to see him when he passed through London on his way back from Geneva, and at this meeting, which took place on October 5, it was agreed to adopt the suggestion previously made that the question of the land annuities and other disputed payments should be made the subject of negotiation between the two Governments, but that meanwhile there was to be no alteration in the *status quo* either as regards the land annuities or the duties on imports into each country. Until this conference Mr. de Valera had absolutely refused to open negotiations unless the English retaliatory duties were first removed. This change of attitude, and the fact that he had taken the initiative in suggesting negotiations, seemed to indicate that some influence had been brought to bear upon him in Geneva, or perhaps, though it was less likely, that he had at last begun to realise that, whilst he was arguing over the shadow of political independence for the Free State, the substance of its economic prosperity was disappearing.

Political Developments Abroad

It was obvious at all events that the informal conversations at Ottawa had not been fruitless. Mr. Cosgrave, on his part, pointed out that settlement by negotiation was the policy that his party had consistently advocated from the beginning of the dispute. They hoped that the negotiations would be successful and that Free State produce would obtain whatever trade preferences were extended to the other members of the Commonwealth.

Mr. Thomas, for his part, speaking at Newport on October 6, proclaimed the goodwill of the British people towards Ireland and the British Government's desire for peace, but he made it clear that it must be a lasting and honourable peace, and above all a peace which established the fundamental principle of the sanctity of agreements. Although they met to discuss the present financial differences, the British Government representatives would be bound always to keep in mind that behind these financial questions, important as they were, indeed bound up with them, were still wider issues. These were the obligations under the Treaty settlement of 1921 and the future relations of the Irish Free State with the British Commonwealth of Nations.

On the same day Mr. de Valera told a journalist in Dublin that the question of the Free State remaining within the British Commonwealth was not at issue in these negotiations. It was obvious from these two statements, and Mr. de Valera's previous utterances, that the chance of the negotiations succeeding was slender, and no surprise was felt when it was officially announced after two sittings that it had been found impossible for the conference to reach an agreement.

The Free State delegates were Mr. de Valera, Mr. Sean McEntee, Mr. James Geoghegan, K.C., and Mr. Conor Maguire, K.C. It will be noticed that neither Mr. Lemass nor Mr. O'Kelly, the Free State delegates to Ottawa, were among them, and it may legitimately be

Ireland : The Tariff War

concluded that Mr. de Valera did not desire their presence, or that they avoided what they knew would be a futile discussion. The British Government was represented by Mr. Thomas, Mr. Chamberlain, Lord Hailsham, Sir John Simon, and Sir Thomas Inskip.

On October 18 Mr. Thomas told the House of Commons that the case of the Irish Free State delegation was presented from the historical, technical and legal points of view, and directed to three main issues. First, they denied the validity of the agreements under which the payments were claimed. Second, they asserted that no ultimate financial settlement between the two countries was ever made. Third, on this basis they claimed that a new settlement should be made covering all financial issues. In this connection they put forward claims not only in respect of pre-Treaty matters, such as the alleged over-taxation of Ireland since the Act of Union in 1801, to the extent of some hundreds of millions of pounds, but also in respect of matters arising since the Treaty, including an unspecified loss said to have been sustained in consequence of England's departure from the gold standard. As Mr. de Valera would neither admit the validity of the previous agreements nor submit the issues to the arbitration of an Empire tribunal the discussions came to an end. Speaking in the Dail on the following day Mr. de Valera said that the British Government were not prepared to admit the claim of the Free State to justice. It was possible that if they had gone to them in the rôle of beggars, hats in hand, asking for consideration and charity, there might have been a disposition to make minor modifications and some mitigation, but simple justice they were not prepared to concede. The British Government took their stand on the secret documents of 1923 and 1926 and refused to budge. The Free State Government believed that these payments were neither legally nor morally due, and in that belief they proposed to defend their rights. He had never denied that the tariff war, which was evidently bound to

Political Developments Abroad

go on, was sure to impose considerable hardship on their people, but he believed that the re-ordering of their economic life, which the necessity for meeting this war would bring about, would in the long run relieve them from a position of dangerous dependence.

It is obvious from these statements that Mr. de Valera can have had no serious intention of coming to any agreement when he requested that negotiations should be reopened, and that he is still discussing the relations between the two countries as if the Treaty of 1921 had never been made and Mr. Cosgrave's Government had never existed.* It is unfortunately only too clear that further negotiations are impossible, and that things must continue to drift until either economic disaster overtakes the Free State, or Mr. de Valera's Government is removed from power by the electors or the I.R.A. The latter alternative would undoubtedly have taken place before now but for the existence of the national army, which will stand no nonsense. The concrete results of his policy will not be obvious to the agricultural labourers and small farmers, who are his chief supporters, until next spring, when hiring agreements are made, and the farmers are faced with the necessity of reducing the number of their employees.

At the moment three by-elections are pending, two of them in constituencies in which the Fianna Fail party and Labour combined had a majority at the last election, and they should throw light on what the people are really thinking, always provided that organised intimidation does not prevent them from recording their votes. It is even now certain that all but the more rabid and purblind of his supporters are beginning to realise at last the price that must be paid for Mr. de Valera's leadership. He is a good specimen of that most dangerous phenomenon—the schoolmaster in politics. He can lecture but he cannot negotiate, and his enthusiasm for abstract propositions

* See THE ROUND TABLE, No. 88, September 1932, p. 751.

Ireland : The Tariff War

prevents him from facing realities. Whoever else may be wrong he is always right. To celebrate the failure of the London negotiations his Government have imposed 33 new duties on commodities ranging from camisoles to coffin plates, and from Christmas stockings to tombstones. Even in death we must continue to pay tariffs. No doubt as a mark of good will imperial preference is still being granted, even when the duty is 100 per cent. ! As the Ottawa Agreements Bill, which is under discussion in the House of Commons, provides that free entry for Irish Free State goods will cease as from November 15, the flat rate of 10 per cent. *ad valorem* will then apply to all Irish Free State goods not included in the free list of the Import Duties Act. On November 9, by British Treasury Order the special duties on imports of live animals from the Free State were increased from 20 to 40 per cent., and on other agricultural produce from 20 to 30 per cent. The reason given for this increase was that the existing duties were not sufficient to make good the loss which British revenue had suffered owing to the failure of the Free State Government to fulfil its obligations, but, as the effect of this increase will be virtually prohibitive of Free State agricultural imports, it may be surmised that these duties which mean the ruin of Irish agriculture are really imposed as a protective measure. How the heavy financial losses which must now be faced are to be met, no one knows, but obviously the land annuity fund and the long-suffering income tax payer will both be raided in due course.

To placate the extreme element a Bill has been introduced to provide pensions for the members of the I.R.A. who fought against the Free State during the civil war of 1922-23. In fact, to conspire against the State will soon be one of the most remunerative occupations open to a citizen of the Free State.

On the same day as the duties were raised, Mr. J. H. Thomas repudiated an imputation by Mr. de Valera that England had tried this method because it suited her for

Political Developments Abroad

other reasons, and that she wanted to keep her market to herself.

I not only (said Mr. Thomas) repudiate the implication, but I repeat again that we wish nothing but the well-being of the Irish Free State. We welcome and desire them as co-equal partners in the British Commonwealth. If to-morrow Mr. de Valera and his Government were to recognise frankly and fully that there is in existence an agreement legally and morally binding, not only do I say on behalf of the Government that these duties will be removed, but I can, and do, say that we will be prepared at once to enter into trade agreements whereby the Irish Free State would enjoy, and enjoy immediately, as we want her to enjoy, all the advantages of the Ottawa Conference and all that it means.

It is difficult to reconcile the personality of Mr. de Valera as displayed in London with that which appeared at Geneva. As President of the Council of the League of Nations he opened the League Assembly on September 26, and, as a candid critic, delivered a better speech than any of his predecessors. Its importance, as Lord Cecil afterwards said, was not only that it stated the case with great force, but that it stated clearly and unmistakably in the League Assembly what all the delegates knew was being freely said outside it. Although Mr. de Valera was careful to let it be known that he would not make the orthodox speech prepared by the League Secretariat, his address is so unlike his usual turgid utterances that one would be justified in believing that some competent, clear-thinking person in the Free State Ministry for External Affairs was responsible for its composition, or certainly for its revision. His speech was inspired by a true international spirit, and he worthily reaped the harvest which Mr. Cosgrave, in spite of his former objections and criticisms, had sown. It is a tragedy that his mental blindness prevents him from applying the principles which he enunciated at Geneva nearer home.

The Irish Free State.
November 1932.

INDIA: THE REACTION TO THE COMMUNAL AWARD

OUR last article from India, which was dated July 23, related to a comparatively uneventful period.* The chief features were the continued decline in the strength of the civil disobedience movement, and the accomplishment of a good deal of useful but not very spectacular preparatory work in connection with the constitutional reforms. The period now dealt with—that is to say, the months of August, September and October—seems by contrast crowded with important and interesting developments. Civil disobedience, it is true, has been definitely in eclipse, and, except for the continuance of terrorist outrages in Bengal, nothing of much consequence has occurred in the administrative sphere proper. But the kaleidoscopic alterations in the general political situation have been intensely interesting to watch, and in retrospect have provided much food for profitable reflection on the main problem with which the minds of thoughtful observers out here are exercised—that is, whether or not it will prove possible, during the very critical years immediately before us, for the structure of Indian civilisation—an immense, complex, and nowadays highly unstable affair—to withstand without disintegration the far-reaching changes to which it will be subjected as a result of the introduction of the constitutional reforms.

I. THE RECEPTION OF THE AWARD†

OUTSTANDING among the events of the last three months has been the publication of His Majesty's Government's decision on the communal problem, and the

* See "India: A Less Tense Quarter," *THE ROUND TABLE*, No. 88, September 1932, pp. 819-838.

† A summary of the award appeared in *THE ROUND TABLE*, No. 88, September 1932.

The Reception of the Award

series of first-class political issues which this has raised. There is no need at this stage to recapitulate in detail the reasons which finally led the British Cabinet to arbitrate on what they had hitherto treated as essentially an Indian domestic issue. It will be sufficient to remind the reader that from the time when the communal problem first came prominently to notice as the chief obstacle to Indian constitutional advancement, during the 1930-31 session of the Round Table Conference, the British Government made it quite clear that in their view it was a matter which should be disposed of by the leaders of Indian political opinion themselves, since no new Indian constitution based on outside arbitration with regard to the representation and protection of the various communities would prove natural or satisfactory. Despite this, however, the problem proved completely insoluble in this country, irrespective of whether a settlement was attempted only by negotiations between representatives of the soberer schools of India thought which had been represented at the first session of the Round Table Conference, or by co-operation with the Indian National Congress. Between January, 1931, and January, 1932, Mr. Gandhi and the other leaders of the Congress were at liberty, and such attempts as they made to devise a settlement, either in this country or in London during the second session of the Round Table Conference, were entirely fruitless, and indeed appeared to render the problem even more difficult than before. After the end of the second Conference in London, the task of disposing of the communal question—without which it was by this time obvious that no further progress with the task of framing a new Indian constitution would be possible—was entrusted to the Consultative Committee of the Conference in India; but after a few desultory and inconclusive discussions on the subject this body gave up the attempt altogether, and decided to appeal direct to the British Government to provide a solution. As nothing further in the way of constitutional work could be done without some settlement, the latter reluctantly came to the conclusion that, in the circumstances, they

India : Reaction to the Communal Award

ought to undertake the responsibility of mediation, and indicated that they hoped to announce their decision some time during the course of the summer.

By the end of July, when our last article was written, speculations regarding the nature of the forthcoming announcement were already growing in volume, and in parts of the country there were signs that the continued uncertainty on the subject was causing an alarming increase in communal animosities and suspicions. During the first three weeks or so of the period covered by the present article these tendencies were further accentuated, and in the Punjab, particularly, feeling began to run so high that the authorities had reason to fear extensive outbreaks of communal disorder. Relations between the Moslems and Sikhs were especially strained, and for ten days or more reports were daily received of Sikh demonstrations and meetings held to protest against the possibility of the Moslems being granted a majority in the province, and of Moslem counter-meetings to protest against the possibility of their being deprived of one. The atmosphere was such that at any one of these gatherings some trivial incident might have led to a breach of the peace, which might well have given rise immediately to a series of communal riots throughout large parts of the province. Particularly disquieting was the endeavour of certain Sikh organisations to enrol volunteers to protest against the possible establishment of what they described as Moslem *raj* in the province. A move was actually initiated to enrol a hundred thousand men for this purpose, and the Sikh *Khalsa* announced that its members would resist to the last man any attempt to establish a Moslem majority. The Moslems, on the other hand, were equally emphatic that they would refuse to tolerate any arrangement which reduced them to a position of numerical inferiority to the other communities in the new Legislative Council. "The Sikh agitation," declared Sir Muhammad Iqbal, "encouraged as it is by the Hindus, is making the Moslems seriously apprehensive of domination by a communal majority." Captain Sher Muhammad

The Reception of the Award

Khan, of Domeli, stated that the Moslems would refuse to take lying down any further encroachment on their rights, and would stand by the minimum Moslem demands as incorporated in the Minorities Pact. Especially significant was the declaration of Malik Barkat Ali, a member of the "nationalist" Moslem school of thought, that the Sikh leaders who opposed on so-called nationalist grounds the Moslem claim for a statutory majority in the Punjab, were really at heart communalists, since by this means they were attempting to secure solely for their own community advantages out of all proportion to its position in the body politic. At Amritsar during this period, a congregation of 50,000 Moslems, after the Friday prayers in the *Idgah*, assembled to pass resolutions to the effect that the Moslems would never submit to any constitution under which they were deprived of their right to a majority in the Punjab, and that were this done, they would refuse to co-operate in the working of the reforms. So serious did the situation become in the larger towns that the District Magistrate of Lahore had, at an early stage of the agitation, to issue a notice warning editors of newspapers against publishing any article likely to provoke communal ill-feeling. On August 13 the discussions, which had been in progress for some days previously in Simla, between responsible Moslem and Sikh leaders who were anxious to devise some means for decreasing communal tension in the province, definitely broke down, and several Sikh leaders of importance publicly announced that they would rather see the project of establishing provincial autonomy under the new constitution abandoned altogether than that the Moslems should have a majority over other parties in the Legislative Council. There was also a good deal of rather wild talk in Sikh circles of their community endeavouring to secede from the Punjab altogether. The Punjab Hindus throughout strongly supported the Sikhs in the attitude they had adopted, and although it was in this particular province that the atmosphere was most electric, the situation was far from easy in many other parts of the country, since both Hindus and

India : Reaction to the Communal Award

Moslems generally were in a jumpy and excitable state, and any small local incident might easily have resulted in disorders which would have had serious repercussions throughout the rest of India.

The announcement of the terms of the British Government's decision on August 17 at least had the merit of putting an end to the general uncertainty and recrimination of the previous three weeks; though to those who are unfamiliar with the methods whereby political controversies are normally conducted in this country it might at first have seemed that the situation had, if anything, been rendered even worse than before. For days on end the vast majority of newspapers filled almost their entire news page with comments on the award, and except for a few responsible organs of European opinion there were few indeed of them which did not, for one reason or another, adopt a tone of vehement denunciation. Since the whole cause for the British Government's intervention in the matter was that the various contending parties in India had pitched their claims so high that their opponents could never accept them, it had been obvious from the outset that no settlement that could possibly be devised by an outside party could prove generally satisfactory; indeed, the more equitable and just the award was, the more might it be expected to be pleasing to none. Apart from this, it was in the circumstances inevitable that editors and politicians sympathetic with the Congress point of view should automatically condemn and misinterpret what the Government did. None the less, the volume of abuse with which the award was at first received was somewhat surprising, and clearly demonstrated how profound and passionate is the interest with which communal matters are regarded by the Indian educated classes. A casual perusal of newspaper comments on the subject, by someone unacquainted with Indian affairs and the history of this particular problem, would have given the impression that some uncalled for and abominable iniquity had been perpetrated, against which large sections of the Indian population were on the

The Reception of the Award

brink of active revolt. "Monstrous," "outrageous," "insulting," "iniquitous," and so forth were among the epithets freely used in the more extremist newspapers. The *Tribune* (Lahore), an ably conducted Hindu nationalist journal, described the award as blatantly pro-Moslem, and remarked that "the worst apprehensions of the public have been fully realised, and India is confronted with the gravest crisis in her history." Other papers of similar policy contained denunciations of the same kind, the *Liberty* (Calcutta), for example, declaring that "the decision was inspired by the single desire of holding the balance of power in the hands of the Moslem communalists in league with the Europeans." Several Moslem journals, on the other hand—there are far fewer Moslem papers than there are Hindu—expressed condemnation for precisely opposite reasons, the *Star of India* (Calcutta), for example, concluding a leading article with the following lament: "Juggle with figures how you will, haggle over percentages for ever, the bare fact remains that the Moslems of Bengal have not been given the majority representation to which they are entitled." A more careful perusal of the newspaper comments adverse to the award would in fact have demonstrated that a substantial number of them cancelled each other out.

So far as the Hindus were concerned, it was difficult at first, amid the spate of furious condemnation that filled the Press, to disentangle criticisms which were specifically Hindu, in the communal sense, from those which were inspired by more general nationalist sentiments. It was, however, soon clear that even those sections of the Hindu *intelligentsia* which are not favourably disposed towards the Congress were seriously aggrieved by the terms of the award. The Punjab Hindus would, of course, in any case have been offended by the fact that they, together with the Sikhs, were not ensured a majority against the Moslems. In addition, the Hindus of Bengal, who—as contrasted with the Bengal Moslems—are substantially the wealthier, more influential and better educated com-

India : Reaction to the Communal Award

munity, were gravely disturbed to find that while their population strength amounted to 43 per cent. of the whole province, their representation in the new Councils would only amount to 32* per cent. In other provinces also, largely owing to the special weightage granted to the Moslems and other minorities, the Hindus considered they had genuine grounds for complaint, despite the fact that their numerical predominance had been recognised by ensuring them a safe majority of the whole House. General expression of the Hindu point of view in the matter was voiced at a meeting of the Working Committee of the Hindu Mahasabha in Delhi about a week after the award was published, when resolutions were passed strongly condemning it on the following grounds among others : that it introduced an unalterable communal ascendancy in Bengal and the Punjab by granting reserved seats through separate electorates to the Moslems ; that it denied to the Hindu minority in these provinces representation in proportion to their population ; that it granted undue weightage to the Moslems in provinces other than Bengal and the Punjab ; that it created fresh separate electoral constituencies ; and that it contemplated the formation of Sind into a separate province. These views were supported by a number of statements issued by individual Hindu leaders. Dr. Moonje roundly declared that the award strengthened the position of the Moslems everywhere and was "condemnable." Mr. J. N. Basu, a former delegate to the Round Table Conference, described it as "a complete change from the policy of toleration and of equal chances on a common basis for all." Mr. B. Das, chief Whip of the Nationalist party in the Legislative Assembly, said that the outstanding fact was that the Hindus had lost in every province and the Moslems gained more than their extreme demands. Raja Narendranath, a prominent Hindu leader of the Punjab, considered the award so unfair to his community that he wrote to the

* This includes the Depressed Class seats.

The Reception of the Award

Viceroy saying that he would not serve on any further committee or conference connected with the work of framing a constitution for India ; and Sir Sivaswami Iyer described the Government's decision as a triumph for Mahomedan agitation.

Condemnation of the award by the Sikhs was, if possible, even more emphatic. Within a few days of its publication a number of influential Sikh leaders in Simla went so far as to declare in a public statement that "the decision of His Majesty's Government has shaken the faith of the Sikhs in the British Government's sense of justice and fair-play," among the signatories of the manifesto being Sir Jogendra Singh, a Minister of the Punjab Government, and Sir Sundar Singh Majithia, an eminent and sober-minded Sikh leader of wide political and administrative experience ; and at about the same date Sardars Ujjal Singh and Sampuran Singh wrote to the Viceroy resigning their membership of the Consultative Committee on the ground that the award gave the Moslems "an unalterable religious majority in the Punjab," and that "the new constitution would thus be worse than the present." It is to the credit of the responsible leaders of the Sikh community that they have done their best to discourage the militant agitation against the Moslems which certain fanatical Sikh organisations were fostering during the weeks preceding the issue of the award ; and by the end of August the likelihood of serious communal strife in the Punjab had been much reduced. But at the moment of writing, their opposition to the terms of the award appears to be as uncompromising as it was ten weeks ago, and it has proved impossible for the Government to secure the services of any Sikh leader of standing from British India to represent the community at the forthcoming final session of the Round Table Conference in London.*

There was also a good deal of adverse criticism of the award from the Moslems, though here it would appear that

* The Sikh delegate chosen comes from Patiala State.

India : Reaction to the Communal Award

there was less real justification for it, and that the denunciations were more tactical than spontaneous. At the meeting of the Working Committee of the All-India Moslem Conference in Delhi a few days after the award was announced, resolutions were passed expressing disappointment with it for the following reasons among others : that the Moslems were denied the right of a statutory majority in the Punjab and Bengal ;* that the weightage granted to the Moslem minorities in the United Provinces, Bihar and Orissa, and the Madras Presidency was reduced ; that undue weightage was given to non-Moslem minorities in the North-West Frontier Province ; that the question of the separation of Sind was left undecided ; and that British Baluchistan was not brought within the scope of the scheme. Similar resolutions were passed by a number of Moslem organisations throughout the country, among them being one agreed upon at an important meeting of Moslem leaders in Simla, under the chairmanship of Sir Zulfiqar Ali Khan, which urged the Moslems of the Punjab "to convene meetings all over the province with a view to bringing home to the Government their sense of disappointment, and to organise themselves to protect their legitimate rights." Various Moslem leaders, including Sir Abdul Qaiyum, a Minister of the North-West Frontier Province Government, issued statements criticising the award, but generally speaking the Moslems seemed to recognise that, although His Majesty's Government's decision by no means satisfied their claims in full, it was at least better than it might have been, and should not be wholeheartedly condemned.

So far as the other minority communities were concerned, the Europeans and Anglo-Indians evidently considered that their interests were tolerably well safeguarded by the award. Some protests were raised by the Indian Christians and by the women's organisations, largely on nationalist

* This may be profitably contrasted with the corresponding resolution of the Hindu Mahasabha.

The Reception of the Award

grounds. The two Depressed Class leaders, also, Dr. Ambedkar and Mr. Rajah, both issued denunciations of the award, though for different reasons ; but it is noteworthy that hardly any attention was devoted to the Depressed Class question by representatives of the other communities at this stage.

The main attack on the award, indeed, came from those who were thinking, not in terms of one particular community, but nationally. In this the Indian critics of the present British *régime* in this country have some justification for complaining that they receive less sympathy and encouragement than they might, on theoretical grounds, consider themselves entitled to expect. The average newspaper reader in Great Britain, glancing hurriedly through an article about separate electorates for the minorities in India, probably has little conception how fantastically at variance with the accepted principles of democracy this system is in practice, and would be amazed if it were suggested to him that Anglicans, Roman Catholics, Presbyterians, Quakers and Jews should be strictly segregated from one another for electoral purposes, and obliged to record their votes, probably on different days of the week, for parliamentary candidates who must always hold the same religious beliefs as themselves. The differences between Hindus and Moslems, however, are far more acute and fundamental than those between Anglicans and Roman Catholics ; and once the principle of separate electorates is established, as it has been in India since 1909, it would seem almost inevitable that with every fresh extension of democratic institutions it must be extended over a wider field, unless the main communities concerned are prepared to abandon it. But it was this extension that rendered the Communal Award so obnoxious in the eyes of the majority of Indian nationalists. Sober organs of Indian Liberal opinion such as the *Leader* of Allahabad, the *Hindu* of Madras, or the *Servant of India* of Bombay, protested almost as vehemently as the most irresponsible Congress

India : Reaction to the Communal Award

or communalist papers against the provisions of the award, on the ground that it would involve excessive and minute fragmentation and subdivision of the electorate, and thus induce a state of affairs in which national interests would be completely submerged in a welter of factional intrigue. During the second and third weeks subsequent to the issue of the award, however, the excitement it had engendered showed signs of subsiding, and a number of realistic statements issued by the more responsible political leaders had begun to bring home to the public the essential fact of the whole situation—namely, that whatever the defects of the award might be, the choice before the country was either to accept it or, alternatively, to abandon all prospect of constitutional progress until such time as the Indian communities solved the hitherto insoluble problem of devising a settlement for themselves.

II. MR. GANDHI'S FAST

ON September 13—nearly a month after the award had been published, and at a time when the agitation regarding it was definitely dying down—the extraordinary announcement was made that Mr. Gandhi a week later proposed to start starving himself to death unless an alteration was made in the provisions of the award regarding the representation of the Depressed Classes. The news took the country completely by surprise, and there were indications that supporters of the Congress, and Indian nationalists generally, were at a loss to know how to exploit or explain the Mahatma's decision to select this particular matter for so drastic and peculiar a protest. As we have seen, the most formidable attack on the award had been that based on nationalist rather than communal arguments, and the public would have found it easier to understand an act of self-mortification by the Mahatma as a protest against the principle of separate electorates generally, or against

Mr. Gandhi's Fast

some administrative matter such as the maintenance of the Ordinances, than one relating to a comparatively small and specifically Hindu issue. The ten days between the publication of the correspondence that has passed between Whitehall and Mr. Gandhi and the signing of the Poona settlement constituted one of the strangest episodes in Indian history.

The actual facts relating to what took place are too well known to require recapitulation; it will be sufficient if we confine ourselves here to describing their significance, as it appeared at any rate to observers in close touch with the movement of events. The main point that emerges is the exceptionally fortunate way in which matters worked out for the Government. On September 13 there was every indication that, irrational and absurd though Mr. Gandhi's action may have seemed in Great Britain or America, it might place the authorities here in an extremely awkward predicament. Had the possibility of an agreement between the caste Hindus and that section of the Depressed Classes led by Dr. Ambedkar been ruled out at the beginning owing to Mr. Gandhi maintaining the *non possumus* attitude with regard to a reservation of seats which he took up at the second session of the Round Table Conference, the fast would have lasted much longer than a mere four days, and as soon as the Mahatma's health was really in danger popular excitement would have run very high, and great pressure would have been brought to bear on the Government by the caste Hindus and their supporters to accept a settlement between them and the school of thought represented by Mr. Rajah as equivalent to a settlement with the Depressed Classes as a whole. Again, had Mr. Gandhi agreed to accept the conditional liberty which the authorities were prepared to grant him during his abstinence from food, agitation against the Government could have been manipulated with much greater ease, and at the conclusion of the fast, had Mr. Gandhi survived, Government would have found it difficult to revert im-

India : Reaction to the Communal Award

mediately to their former position and might, as a result, have had to face a substantial revival of civil disobedience. On the other hand, had Mr. Gandhi died, the consequences would have been at least equally difficult and embarrassing. The value, and possibly to a large extent also the cause, of Mr. Gandhi's dramatic action lay, of course, in the occasion it provided for a whirlwind publicity campaign for the revival of his own and his party's attenuated prestige. But it seems clear that on this occasion, despite the reputation he has deservedly obtained as a brilliant publicity expert, he miscalculated badly. The brevity of the whole episode; the fact that on the very day his fast began he signified his willingness to accept the principle of reservation of seats which he had uncompromisingly opposed nine months previously; the difficulty which the average Congress supporter experienced in exploiting for nationalist purposes a protest of limited scope based on grounds of "pure religion"; the announcement just before his spectacular abstinence commenced that he had acquired a new set of false teeth; and the facility with which, owing to his having so conveniently refused to leave jail, the Government managed to revert, from the administrative point of view, to the *status quo* as soon as the fast was over—all told heavily against him.

It would, of course, be easy to poke fun at the caste Hindus for the intensely emotional outpourings about the Depressed Classes with which they filled the press during the three weeks or so subsequent to Mr. Gandhi's fast, and to make out that their protests of benevolence towards these unfortunate co-religionists of theirs, and their claims that untouchability had been put an end to, were a mere political stunt and radically insincere. This, however, would be unfair. There was certainly something ridiculous in their theatrical attempts, by holding a few inter-caste dinners, and by opening to the Depressed Classes a few temples, public wells, and so forth, to convince the world that untouchability had suddenly become a thing of the

Mr. Gandhi's Fast

past. At the same time it should be recognised that probably the chief, and certainly the most satisfactory, outcome of Mr. Gandhi's action has been that it has brought about a real stirring of conscience among the caste Hindus, with regard to the social injustices to which they and their forefathers have hitherto subjected their outcaste compatriots. It is nevertheless now clear, if it was not during the first flush of enthusiasm, that the full benefits of this change of attitude are unlikely to be realised for many years. From the beginning, well-informed observers were aware of a strong under-current of opposition amongst the more orthodox and conventional Hindus to the social implications of the Poona settlement, and the reaction has now become more practical and vocal. Several public protests have already been made against the alteration in established religious practices that the settlement denotes, and in a number of places privileges, such as the right of access to temples, wells, and so forth, which were conferred by the caste Hindus on the Depressed Classes when the excitement with regard to them was at its height, have now been withdrawn. In addition, there are signs that the politically minded Hindus are now seriously perturbed by the reflection that they are committed to allotting to the Depressed Classes, from their own quota, nearly twice as many seats in the Councils as were conferred upon them under the Communal Award. It may be anticipated that this point will assume even greater importance a year or so hence. Pandit Malaviya, one of the chief initiators and exponents of the Poona settlement, has recently seen fit to qualify his original enthusiastic statements by indicating that he does not consider its provisions necessarily imply the desirability of inter-marriage, inter-dining, and similar direct personal contacts between the caste Hindus and the Depressed Classes, and this view has since been endorsed by Mr. Gandhi himself. It would, however, be a serious mistake to make this the basis for allegations that these caste Hindus' expressions of benevolence towards the Depressed

India : Reaction to the Communal Award

Classes have been no more than an empty political demonstration. Although the fact was certainly exaggerated for political purposes, there does really exist a genuine and increasing desire for reforming Hindu conduct with regard to the Depressed Classes among a considerable section of the Hindu community proper. The explanation of the reaction which is at present manifest simply is that no civilised society can possibly put an end in a month, or a year, to social habits and prejudices which have been established for centuries.*

A subsidiary consequence of the Poona settlement, which has aroused a good deal of interest during the last month, has been the revival of attempts to devise a direct communal agreement between the Hindus and the Moslems. The nationalist press has expressed the greatest enthusiasm and excitement about the move, but hitherto little has materialised from it beyond a series of infructuous confabulations and journeyings throughout the country by Pandit Malaviya on the part of the caste Hindus, and by Maulana Shaukat Ali on behalf of the Moslems. From the outset, representatives of the more orthodox school of Moslem political thought have been extremely suspicious of the motives with which the negotiations were initiated, and a number of Moslem leaders and newspapers have not hesitated to suggest that the whole affair is merely yet another attempt on the part of caste Hindus, possibly with the help of cash, to undermine the position of the Moslems and reduce them to a position of political impotence.

* Since this article left India Mr. Gandhi has threatened to undertake another fast to death "if there is a manifest breakdown of the Yeravda (Poona) pact, owing to the criminal neglect of the caste Hindus to implement its conditions," such a neglect, he considers, would mean a betrayal of Hinduism, and he finds no warrant for untouchability in the Hindu scriptures. The occasion of the threat was the failure to throw open to untouchables the Guruvayoor temple in southern India, and the fast is to begin if this is not done on or before January 1. If, declares Mr. Gandhi, "the canker of untouchability is scotched," Indians will forget the differences between caste and caste, religion and religion, and will begin to believe they are all branches of the same parent tree. (See *The Times*, November 7 last.)

Mr. Gandhi's Fast

Great jubilation was professed in nationalist circles at the outcome of the recent conference of Moslems in Lucknow, but a careful perusal of the resolutions passed there would seem to indicate that the Conference has been more successful in reconciling divergent sections of Moslem opinion with one another than in reconciling the Moslems generally with the Hindus. It is also noteworthy that a considerable body of Hindus are apprehensive of the course the negotiations may take, since it is assumed that the Moslems are scarcely likely to abandon their separate electorates without demanding from the Hindus, as a makeweight, a larger proportion of seats in the Councils than they have hitherto secured; and, as we have explained, the Hindus generally are already disconcerted to find how many seats they themselves are required to surrender under the terms of the Poona settlement. Dr. Moonje has now issued, for the guidance of the negotiators, a statement of the minimum Hindu demands as set forth by the Hindu Mahasabha, and it is difficult to see how this will provide a practicable basis for any compact with the Moslems. At the moment of writing a "unity" conference is about to be held at Allahabad at which a number of Hindu and Moslem politicians will be present; but there remains a great deal of scepticism as to its achieving any appreciable result.* Maulana Shaukat Ali still expresses optimism as to the outcome, and the fact should be borne in mind that his influence with the masses throughout India is considerable, and that a number of his critics are politicians of a more academic kind. The Maulana's enthusiasm, however, seems lately to have run away with him somewhat. His announcement at an early stage of the proceedings that he would bring about the unity of

* The Unity Conference drew up an agreement accepting Moslem majorities in the Punjab and Bengal, and the separation of Sind on condition that the Sikhs are granted 20 per cent. of the representation in the Punjab legislature and 5 per cent. in the central legislature. The agreement requires ratification by the minorities. Leading Moslems in Northern India held aloof from the Conference. (See *The Times*, November 16, 1932.)

India : Reaction to the Communal Award

India within a fortnight was scarcely calculated to impress the sceptics, and his subsequent indiscretion in addressing a letter to the Viceroy demanding the release of Mr. Gandhi—which the Moslems generally have never given any indication of desiring—and issuing this letter to the press without obtaining the Viceroy's consent or giving him an opportunity of reply, has not advanced his cause.

Since Mr. Gandhi's efforts to arrange a settlement of the communal question in the past have been so conspicuously unsuccessful, the fact that Maulana Shaukat Ali is pressing for his release in order to improve the prospects of the present Hindu-Moslem negotiations is considered somewhat strange.

It is worthy of remark that such real agitation as there has been for the release of Mr. Gandhi, on one pretext or another, since September 13 appears to have attracted more attention, and had more serious importance attributed to it, in Great Britain than in India. Most nationalist newspapers have, of course, published numerous articles urging that Mr. Gandhi should be set at liberty, either for the purpose of implementing the Poona settlement, or initiating a Hindu-Moslem *concordat*. But in this country it is fairly widely recognised that such propaganda is merely part of the customary game of endeavouring by all possible means to enhance their own and their leader's prestige. The position of the Government in the matter has been frequently and unequivocally expounded in the past, and is one which even the most unsophisticated can readily understand. The simple proposition that Government will only modify their present attitude, and undertake to co-operate afresh with Congress, if Mr. Gandhi agrees without reservation to call off the civil disobedience movement, is one which can be easily explained and defended. There have, however, been indications during the last three weeks or so that important sections of British opinion are inclined to look at the matter rather differently, and rumours of this have added to the clamour in the Congress

Terrorism in Bengal

press. The average resident in this country necessarily views the problem at close range. He has experienced only eighteen months ago a not dissimilar situation, and the consequence of the negotiations with Mr. Gandhi early in 1931, and the subsequent truce with the Congress, were not such as to make him desire a repetition of the experiment.

III. TERRORISM IN BENGAL

ALTHOUGH the authorities have good reason to congratulate themselves upon the success with which they have combated the civil disobedience movement, they certainly have no cause for pleasure when reflecting on the progress of their endeavours to eradicate the terrorist menace in Bengal. It is now nearly two and a half years since signs of a fresh and more extensive revival of the long-established murder cult in this province manifested themselves, and despite the most strenuous endeavours to prevent them, the outrages continue and indeed increase. Throughout the last three months there have been innumerable minor manifestations of terrorist activity in the form of armed robberies, smuggling of revolvers, manufacture of explosives, and so forth, accompanied by a series of peculiarly shocking and well-organised crimes. Of these, the worst have been the bombing of a party of defenceless European men and women in a dance-hall in Pahartali, near Chittagong, on September 24; the two attempts, on August 5 and September 28, to assassinate Sir Alfred Watson, the editor of the *Statesman*, in Calcutta; the murder of Mr. Ellison, an assistant Superintendent of Police, at Comilla in the last week of July; the attempted murder of Mr. Grassby, another police officer, at Dacca towards the end of August; and the murder on October 17, of an alleged police spy, one Sisupal Datta—a former Congress worker—in Khulna District. Exceptionally

India : Reaction to the Communal Award

strenuous measures have now been adopted for dealing with the terrorist menace, including the imposition of a collective fine of Rs. 80,000 on the inhabitants of Chittagong in consequence of their failure to divulge anything to the police regarding the identity and whereabouts of the perpetrators of the Pahartali outrage, and the despatch of a considerable number of troops to different stations in Bengal from other parts of India.

It must, however, frankly be stated that even in Delhi—and far more so in Calcutta—the attitude in official circles with regard to the possibility of stamping out terrorism in Bengal might at present almost be described as one of despair. It is evident that the movement is well organised by individuals who have hitherto managed successfully to conceal their identity; that owing to a combination of economic, political and racial reasons, there is a large, and apparently increasing, number of young men and women in Bengal who can be induced, for glory or money, to murder officials and Europeans; and that a substantial portion of the educated classes in the province are either in part sympathetic with the movement, or else so impressed by its strength that they have not the courage to disclose to the authorities such information regarding it as they receive. Two features of the latest crop of outrages have caused the Bengal Government particular reason for disquiet; first, the fact that the worst of them occurred near Chittagong, where ever since the notorious armoury raid in April, 1930, elaborate precautions against a renewal of terrorist crime have been taken; and secondly, that both at Chittagong and in Calcutta several of the perpetrators of the outrages had shown a willingness to commit suicide by poison rather than allow themselves to be captured by the police. It is also observed that despite the intensive investigations which have been made, no information of any kind appears hitherto to have been obtained regarding the gang of terrorists who were responsible for the Pahartali outrage.

Terrorism in Bengal

So far as the more normal administrative problems of India are concerned, such as outbreaks of rioting and disorder, there has been comparative tranquillity during the three months under review, though a number of incidents of some gravity of course have occurred. In a country containing 350 million highly diverse peoples, the vast majority of whom are illiterate and poverty-stricken, disturbances of one kind or another are frequent and inevitable. As regards communal trouble, it is of interest that the three worst outbreaks took place not in British India, but in the territories of the Indian States, which have hitherto been relatively free from disorders of this type.

This article is, however, already on the verge of exceeding its appointed length, and the last two topics we need to deal with, namely, the situation with regard to the Ottawa trade agreement, and the prospects for the forthcoming Round Table Conference in London, must be disposed of briefly. As regards the Ottawa agreement, it would be difficult in any case to make much profitable comment at this stage, since within the next ten days it will be under discussion by the Legislative Assembly,* which has been specially convened to consider it. There has so far been a surprising dearth of well-informed comment on the provisions of the agreement. In our last article the difficulties which had arisen as the result of the revised constitutional procedure announced by the Secretary of State on June 27 were fully explained, and the fact that it has proved possible, by the readjustments necessitated by the failure of the Consultative Committee to transact the business entrusted to it, to regain the co-operation of the Indian Liberals, may be taken as a hopeful augury for the future.

India. October 30, 1932.

P.S.—The Burma elections have taken place and resulted in a victory for the anti-separationists by 10 seats.—ED.

* The Government agreed on November 10 to the proposed Ottawa agreement being referred to a Committee of the House.

GREAT BRITAIN

I. THE RESIGNATION OF THE LIBERAL MINISTERS

THE most important event at home during the last quarter has been the resignation of the Liberal Ministers and Lord Snowden from the Cabinet. The first rumblings of the coming storm were heard at the end of August, when it was stated, from an obviously authoritative source, that there was no truth in the suggestion, then being freely made at Ottawa, that the Liberal Ministers were already committed to accept the findings of the Conference. The moment that the news of the general lines of the Ottawa agreements was known it became increasingly clear that the Ministers representing the official Liberal party regarded their position in the Government as untenable. On September 29 they handed in their resignations to the Prime Minister.

In the letter in which they conveyed their resignations they arraigned the whole protectionist policy of the Government.

The results so far (they wrote) have been profoundly unsatisfactory. The policy of protection by limiting imports, has cut into our exports; it has reduced by one-fourth our valuable re-export trade; it has contributed greatly to the laying up of hundreds of thousands of tons of British shipping in recent months. The numbers of the unemployed, which were beginning to diminish after we left the gold standard, have increased in the last five months by 300,000.

At the request of the Cabinet they had withdrawn their resignations which they immediately offered on the introduction of the Import Duties Bill, but the agreements at Ottawa created a fresh situation.

The letter was signed by Sir Herbert Samuel, Sir Archibald Sinclair, Mr. Isaac Foot, Lord Lothian, Sir

The Resignation of the Liberal Ministers

Robert Hamilton, Mr. Graham White, Mr. Walter Rea, Lord Allendale and Mr. Harcourt Johnstone. It was accompanied in the press by another letter signed by Lord Crewe, Lord Reading, and Lord Grey, expressing full agreement with the course adopted by the retiring Ministers. The resignations were also endorsed by all the various organisations within the Liberal party. Though the followers of Sir John Simon and Mr. Runciman immediately made it clear that, in the words of Mr. Runciman, "they were not quitters and that they intended to remain and support Mr. MacDonald," it was manifest that the resignations meant the withdrawal of support from the National Government of the main forces of Liberalism.

To that extent the National Government has been weakened. It has lost the support of its Radical element. Sir Herbert Samuel and his friends may have only 30 or 40 followers in the House of Commons, but they represent a substantial vote in the constituencies whose adhesion to the National Government at the last election won it a large number of seats that would not have been won on a Conservative appeal alone. The resignation of Lord Snowden, too, means more than the departure of the Lord Privy Seal. It is undisputed that his two appeals to the electors over the wireless in October of last year turned more votes from Labour than any other single factor at that extraordinary election. The ability of the retiring Ministers is also unquestionable. Sir Herbert Samuel is a first class administrator. He has the rare reputation of never having committed an indiscretion. He was just the man to be at the Home Office at a time of growing social discontent. Lord Lothian had won the confidence and affection of great numbers in India and his resignation is undoubtedly a loss to the India Office. Mr. Isaac Foot piloted the Mines Bill through the House of Commons in the summer with conspicuous success.

In spite of all this, however, the Government on the whole has probably been strengthened by these resignations.

Great Britain

What it has lost in Liberal support it has gained in increased solidarity. If the policy of protection is a right one it is an advantage to have men who believe in it to carry it out. Tariffs are one of the main weapons of the Government in fighting unemployment and to have in the inner circle of Government men who dislike and distrust their use is a weakening influence. The Government, in a sense far more real than before, can now present a united front.

Nor is it necessarily damaging to the Government that the Liberal resignations have strengthened the elements of opposition. What the Government has lacked most of all up to now is the stimulus of informed criticism. Mr. Lansbury does his best, but he would himself admit that he is not of the calibre of great Opposition leaders; Mr. Arthur Greenwood, returned at the Wakefield by-election, has not yet recovered the debating form he exhibited in the last Parliament. Sir Stafford Cripps, the last Solicitor-General, alone can meet the leading debaters of the National Government on something like equal terms. It is not in the national interest that any Government, even a National Government, should be as free as this Government has been from constructive criticism. Now that Sir Herbert Samuel has joined his Liberal friends below the gangway on the Government side all that is changing. A parliamentarian of thirty years standing himself, he is able to perform the important duties of an Opposition leader in making effective criticism or drawing valuable information. He and his followers have made the running on the Ottawa debates. They should play a useful part in the years still ahead of this Parliament in keeping the Government up to the collar.

There is, in fact, no reason to suppose that the resignations of the Liberal Ministers have in any way shortened the life of the Government. The annual conference of the Conservative party held at Blackpool revealed an interesting attitude of mind. Here if anywhere, among an audience of long experience as party champions in the

The Resignation of the Liberal Ministers

constituencies, on the morrow of the defection of the greater part of the Liberal party, and in the presence of issues which in the past have aroused the deepest controversy, it might have been expected that criticisms of the experiment of co-operation between them, and of the results of that co-operation, would inevitably arise. But there was no obvious movement of revolt, and Mr. Baldwin, in closing the Conference with a speech as a National Minister, interpreted the undoubted feeling of the audience that the Government should continue to be a National Government.

The only serious rumblings of revolt had relation to Indian policy. A resolution was moved on behalf of the Epping division association, which Mr. Churchill would have supported if illness had not prevented his attendance, declaring that the creation of a vast illiterate Indian electorate would be inimical to the welfare of India and Great Britain alike. This motion had the support, among others, of Lord Lloyd. Sir Samuel Hoare, the Secretary of State for India, met the criticisms by emphasising the point on which everybody agreed—that there must be important constitutional changes. He implored his audience not to make the situation more difficult than it already was. His appeal appears only to have been in part successful. The new Government of India Bill when it emerges from the Select Committee of both Houses of Parliament is likely to be exposed to severe criticism from a section of the House of Commons. It is unfortunate in this connection that the Labour party should have declined to nominate representatives to this Conference. But the presence of Lord Lothian, who, though he has resigned from the Government, has announced that he is “in complete agreement with the Government on its Indian policy,” will do much to maintain the national character of this Indian Committee.

There are signs of more trouble brewing for the Conservative leaders over the question of a tax on meat. Conservative back benchers, led by Lord Winterton, are

Great Britain

demanding the substitution of 4d. a lb. tax on meat for the present meat quota. This has been refused by the Cabinet. It remains to be seen whether these Conservatives will now transfer their opposition from the committee room to the division lobby. The present indications are that the revolt will not be of any great importance. Both in the House of Commons and the country the consensus of opinion among the responsible leaders of Conservative thought is in favour of maintaining as long as possible the national complexion of the Government. The departure of the Liberal Ministers has only confirmed their determination.

II. THE POSITION OF THE LABOUR PARTY

AFTER the Liberal resignations the second outstanding political event has been the Labour party conference at Leicester. Although a general election is a long way ahead, and in any case the prospects of a Labour majority are remote, the resolutions passed at Leicester are not just academic programme making. However absurd their strength in the House of Commons, Labour in the constituencies remains a powerful force. Its re-emergence some years hence as the largest single party in the House is by no means impossible, and the question what sort of administration will occupy the front bench after the next election will depend largely on how the Labour party now aligns its policy.

The whole proceedings of the Labour Conference indicate a definite movement to the Left. What was even more interesting was that it came from the rank and file rather than from the leaders. The agenda prepared by the Executive was itself comparatively mild. There were a series of policy reports on banking, transport, electricity, and agriculture. Many of the proposals would be welcomed by the ordinary advanced Liberal of the Summer

The Position of the Labour Party

School persuasion. Indeed they read as if they had been taken straight out of the Liberal "Yellow Book" of 1928—*Britain's Industrial Future*.

But, as the Conference proceeded, it was quite clear that the delegates were determined not to accept any watering down of the full-blooded socialist gospel. The moment the draft programme was introduced they set about the work of gingering it up. The official resolution that the Bank of England should be brought under public ownership and control, the Governor to be appointed by the Government, was not nearly strong enough for them. The Conference carried an amendment for the nationalisation of the joint stock banks as well as the Bank of England, a card vote resulting—for 1,141,000, against 984,000. Appeals to caution and electoral self-interest were brushed aside. Sir Stafford Cripps defined the issue of the amendment as being whether "they intended, immediately upon coming into power, to seize the power of finance which had been in the hands of the capitalists, or whether they proposed to temporise and only go so far as they believed would justify them in calling themselves socialists without endangering their possible popularity with the small investor." Successful here, the rebels against what they regarded as the timidity of the Executive took up the challenge on an even more vital point in future programmes and procedure. Sir Charles Trevelyan moved a resolution that the leaders of the next Labour Government and parliamentary party be instructed by the National Conference, "That on assuming office, either with or without power, definite socialist legislation must be immediately promulgated and the party shall stand or fall in the House of Commons on principles in which it has faith."

Obviously such a resolution cut away the possibility of a Labour Government coming into office without an independent majority. Twice Labour has assumed office with the co-operation of the Liberals. It could never do so again if this resolution accurately represented the

Great Britain

attitude of the party. Mr. Henderson was quick to see its full implications. He opposed it with all his power, insisting that, as the Conference had already agreed that "when the time comes to form another Government—whether minority or majority—no step will be taken until the Conference has been consulted," such a resolution would tie the hands of the Executive. "I am warning you," he continued, "that, if you carry this resolution, you will be doing something that is contradictory to that position and something which you will regret." But it was a hopeless fight. The whole Conference was against him. Mr. C. T. Cramp, the powerful trades union leader, replied that he would rather fight a losing fight on the definite straight policy of socialism, than gain oblique success. Even moderate-minded men like Major Attlee demanded that "they should tell the people that they could not get socialism without tears. . . . They must not wait until their mandate had frittered away." Finally, the resolution was carried without a dissentient voice. A few days afterwards Mr. Arthur Henderson resigned on the ground that there was no immediate likelihood of his return to the House of Commons, and Mr. Lansbury was elected leader of the Labour party. The victory for the uncompromising socialists was complete. "The inevitability of gradualness," the phrase coined during the first Labour Government by Lord Passfield to describe the pace at which the approach to the socialist State would be made, is now out of date. If resolutions mean anything, Labour will not again take office without power. It is to be socialism or nothing. For the time being, therefore, the official Opposition is not so much a potential alternative government as an instrument of propaganda for socialism.

The change in the direction of the party has immediately become evident in the House of Commons. Mr. Lansbury, in moving the vote of censure on unemployment at the end of October, declared definitely for revolutionary as

The Future of the National Government

opposed to evolutionary socialism. His actual words are worth disinterment from Hansard: "The Labour party up to a year ago," said Mr. Lansbury, "under the leadership of the Prime Minister, thought that we could work within the capitalist system and work outward towards socialism. We are convinced that the economic development of the world will prevent that being done." There in a sentence lies the gulf between the new Labour party and the old.

III. THE FUTURE OF THE NATIONAL GOVERNMENT

THE change is bound to have an effect on the future of the National Government. If the present electoral tendencies become permanent, Labour as a Socialist party is less formidable than Labour as an alternative government of the Left. There is no candidate more difficult for Conservatives to fight than a moderate Labour man. There is no candidate more easy for Conservatives to fight than a man who can be labelled an extremist. The failure of Mr. Baldwin's election slogan of 1929—"Safety First"—was that the electors as a whole did not see any danger in a MacDonald Government. The overwhelming victories of the last election emphasised the fact in a startling fashion that, when it comes to a battle between "the haves" and "the have nots," the "haves" are in the majority. The average trade unionist is not a theoretical socialist. He is far more concerned about getting the most out of the present system than any problematical gains he may achieve in the socialist State. Nor, indeed, is he at present susceptible to mass bribery. The view that the State is a bottomless purse out of which the social services can be financed up to any figure is not nearly as strong with the electors as it was once. The fear, so acute at the election, that the whole economic system might crash in ruins if the policy of shovelling out public money without

Great Britain

any enquiry or discrimination were continued, has not yet disappeared. There are indeed signs that the lessons of the last election have not been altogether lost on the Labour party. That is the only explanation of their sudden caution on the Means Test. For months they have been propagandising from Land's End to John o' Groats against any sort of means test, but, challenged by the Attorney-General on October 25 in the House of Commons to say whether they would repeal the Means Test, the back-benchers shouted "Yes" and the front-benchers made no reply, and no taunts availed to induce Mr. Lansbury to make any definite statement. There is no doubt that the advance of Labour to the Left has strengthened the forces of the Right and strengthened their prospects of being returned again at the next election.

Much depends on how far Liberalism can rally its forces. With the Conservative party committed to protection and the Labour party to socialism, there should be an opportunity for a third party. It is too early to judge whether they can seize it. The Cardigan by-election at the end of August gave a majority to the Liberal in a three-cornered fight of more than 4,000, but it is one of the few safe Liberal seats in Great Britain. An interesting feature was the decline of the Labour vote on the figures of the general election, at a time when it might be expected that the Labour vote would be increasing everywhere. But the disastrous divisions in the party continue. An invitation to Mr. Lloyd George to attend a meeting at the Queen's Hall, where the Liberal leaders were to explain the reasons for their resignations from the Government, drew from him an acid letter of refusal. In Parliament Mr. Lloyd George continues to sit with the Opposition, while Sir Herbert Samuel and his followers maintain their position among the Government supporters.

The whole future of politics really depends on the economic situation. The October returns of overseas trade are better, and there has, for some time, been a more

The Future of the National Government

cheerful feeling in the air, but it takes more than one swallow to make a summer, and at present there is no real sign of a permanent trade revival. The Prime Minister, on October 25, stated in the House of Commons that the increase in the number of unemployed since the Government came into office was 230,000. That figure was arrived at after taking into account the numbers of unemployed, probably round about 170,000, who have been struck off the register as the result of the Anomalies Bill. The figures for last month show a decline of over 100,000. After a year of the National Government the numbers of the unemployed still remain at what was regarded as the peak figure when the Labour Government went out of office.

On the success with which it brings those figures down this Government will be judged. That is why its handling of foreign affairs is being observed with such strained attention. Sir John Simon is the chief Minister of unemployment, and it was felt that his authorship of the Simon note to Germany in September and his handling of the Hoover proposals at Geneva did not help the situation, though his speech in Parliament on November 10 has done much to obliterate the earlier impression. It will depend upon what happens at the great conferences whether the Government recovers any prestige that it may have lost in foreign affairs.

At home so far as the administration of unemployment relief, now, unfortunately, an important barometer of popularity, is concerned, the Government's position has slightly improved. It has already dealt with some of the greatest hardships of the Means Test system. It is a great pity for its own sake that its intentions were not made known before the outbreak of riots in Birkenhead and Liverpool and the march of the hunger-marchers on London had been planned. It is being accused quite unfairly of giving way to force what it denied to reasoned argument. In its legislation the Government has followed almost exactly the recommendations of the Royal Com-

Great Britain

mission on Unemployment, the findings of which were made known early in November. It has exempted from the operation of the Means Test 50 per cent. of a disability pension and 50 per cent. of workmen's compensation. It has also insisted that, on the first £300 of savings, in general it should be the income and not the capital that should be taken into consideration. These reforms will go far to remove the very real grievances that have arisen out of the administration of the Means Test. It was announced in the House of Commons that this Bill was only temporary pending the production of legislation, overhauling the whole machinery of unemployment relief, following on the Report of the Unemployment Commission. The main lines of that Report concern the establishment of a fixed relation between contributions and the benefit period, so as to make the scheme conform to the essential principles of insurance, and remove from it all taint of being "a dole."

Other interesting proposals of the Government have relation to agriculture. The Government has won the consent of the chief meat exporting countries to a voluntary restriction in the flow of supplies sent to this country. But even if these drastic regulations achieve all that is hoped for, the restoration of agriculture to prosperity will be a very slow process. It regards itself as very fortunate in the possession of Mr. Walter Elliott as its champion in the House of Commons. He has a mind unusually open to new ideas, and his appointment as Minister of Agriculture was the most popular event arising out of the reconstruction of the Government. The settling, after many vicissitudes, of the cotton strike and the prevention of a hold-up by the London busmen has also saved the Government from the embarrassment of paralysing industrial disputes, though there is a cloud on the railway horizon, the companies having announced the necessity of making further reductions in wages.

So the National Government continues, shaken by successive crises but on the whole strengthened in solid-

The Future of the National Government

arity, though probably not in prestige. There have been no recent by-elections in the industrial areas, but at Twickenham, a typical dormitory constituency of London, the Government majority fell by 20,000 on the figures of the last election. The Government would certainly have difficulty in holding any industrial seat where the majority was less than 5,000.

But too much attention need not be paid to by-election landslides, however spectacular. The future of the Government, and indeed of the parties, depends on the future of the trade returns. If they become substantially worse so that the whole economic system is threatened with collapse, there may well be a big reaction to Labour. If they remain as they are and it becomes obvious that tariffs have not maintained expectations or that foreign countries, because of our tariffs, are recovering from depression at a quicker rate than ourselves, the Liberals will gain in strength. If, on the other hand, trade improves at a steady rate, so will the stock of the Government and the prospects of a second lease of power. It is far too early to-day to say which will happen.

CANADA

I. THE OTTAWA CONFERENCE

THE Ottawa Conference, in so far as Canada is concerned, met in an atmosphere of more or less sharply divided opinion. As a continuation of the London Conference of 1930, it was generally accepted that there would be proposals on the lines of Mr. Bennett's offer in 1930, and this offer had, in the intervening two years, been actively discussed in Canada both in Parliament and in the press; so that the issue had been joined between her two principal political parties before the Conference assembled. Both alike declared in favour of increasing trade within the Empire; but while the Conservative party proposed to do it by bargaining, preference for preference, the Liberal party condemned the idea of bargaining and adhered to its thirty-three-year-old policy of granting preferences without demanding any *quid pro quo*. Nor was the official political division the only evidence of want of unanimity. The farming community was itself divided in opinion as to the advantage to Canada of a preference in the United Kingdom on certain of her principal agricultural products, while the manufacturers were, in the nature of the case, apprehensive as to the extent to which their own protection would be reduced. For the rest, the general public may safely be assumed to have felt that it would welcome anything that would "work"—which in these days means "provide work."

If the opening of the Conference found Canadian opinion sharply divided, it could hardly be expected that its close would see any great harmonisation of conflicting Canadian views. Though we have his assurance that he prayed for its success, Mr. Lapointe, the ex-Minister of Justice, feels

The Ottawa Conference

compelled to admit that his prayers have not been answered and that the Conference bids fair to have all the ill effects he feared!

On the morrow of the Conference, as a matter of fact, there was undoubtedly an overwhelming weight of favourable opinion. The Conservative press was naturally enthusiastic, as was even an independent Liberal (but withal fervently imperialistic) journal like the *Toronto Globe*, and while the definitely Liberal press managed quite comfortably to "forbear to cheer," it seemed somewhat at a loss to know how to set about condemning. This was natural, of course, for while nearly all the preferences granted by the United Kingdom to Canada were made known at once, the concessions in respect of the duties on United Kingdom manufactured goods entering Canada were not announced until Parliament met on October 6. Meantime the would-be critics of the agreements had nothing before them except the advantages Canadian agricultural and other primary producers stood to gain from the preferences on Canadian products, and the eloquent declaration of Lord Hailsham, in speeches at Calgary and Toronto, that the all-important first step had been taken on what was clearly the right road if the Empire was to endure, and that as a result the Empire might well prove to have saved itself by its exertions and the world by its example.

In this interval the Liberal party bided its time until the full text of the agreements should be published on the assembling of Parliament, protesting vigorously against a partial report of the results being made an issue at a by-election in the Ontario agricultural constituency of South Huron. Whether or not it had any significance in connection with the Conference agreements, the not unexpected result (in a strong Liberal constituency) was a substantially increased Liberal majority. It at least appeared to show that the preferences secured in the United Kingdom market had not swept the Ontario agricultural community off its feet.

Canada

With this none too auspicious prelude, the full text of the agreements was brought before Parliament by Mr. Bennett on October 12. His claim for them was that,

after almost half a century of hopes and fears and vain endeavour, the countries of the British Empire have at last come together in agreement, based upon the principle of reciprocal and mutually advantageous tariff preferences, and have, moreover, by their common trust and zeal, prepared the way, not only for the practical working out of existing agreements, but for their augmentation at such times as our common interest may suggest.

He declared that "while naturally and properly each delegation did its best for its own country, all realised that no agreement could be lasting or beneficial which was one-sided," and that each delegation tried, while "advancing its own position, to be mindful of the position of other parties to the negotiations." Special emphasis was laid on the great value to Canada not merely of the preferences granted in respect of food and other natural products, but also of the right of free entry to the United Kingdom market of practically the whole range of Canadian manufactured goods. In return, he declared, it was proposed "to adjust our preferential tariffs so as to place the United Kingdom producers on that basis of fair competition with ours that has been afforded to us by continued free entry into their markets." To this end the tariff board which was to be set up was to act "as a judicial as well as a fact-finding body"; not merely would it investigate labour and other production costs and the like, but it would be its right and its duty to make recommendations to the Government with regard to the tariff adjustment required, in the light of the evidence, to give effect to the principle laid down in the agreement that the United Kingdom producers are to have "full opportunity of reasonable competition on the basis of the relative costs of economical and efficient production." While the responsibility of recommending tariff changes to Parliament must remain with the Government, Parliament and the country might

The Ottawa Conference

rest assured that the Government, which gave the solemn undertaking contained in the agreement to the United Kingdom Government, would see that it was carried out "in spirit and in letter." Finally, the hope was expressed that the Opposition, recognising that "the agreements were for the good of Canada and the good of the Empire," and "constituted the completion of the task which was attempted by Sir Wilfred Laurier at the Colonial Conference of 1902" (when he advocated the principle of reciprocal imperial preferences), would "with one voice" approve them.

It was, of course, a vain hope. From the outset the Opposition, as was certain from their attitude ever since the 1930 Conference, took strong objection to practically every feature of the United Kingdom agreement, except those terms which proposed the reduction of existing duties, and those which tended to increase the possibilities of a greater demand for Canadian products. In particular the formal amendment moved by the Opposition condemned all the provisions for increases "in an already unreasonably high tariff," as well as the alleged "effect of the agreement whereby the present Government has precluded Canada from exercising the right which is vital to the prosperity of the Dominion of making trade agreements for the marketing of her products abroad." The greatest concern was also expressed that "no definite assurance was given that regulation by order-in-council imposing arbitrary and wholly unwarranted restrictions on trade" would be abandoned. The amendment concluded with a reaffirmation of the British preference policy of the Liberal party since 1897, in accordance with which the Liberal budget of 1930, the last of the former administration, had been framed. The carrying out of its provisions, it was declared, would have secured for Canadian products advantages in British markets "immeasurably greater than any they can hope to obtain under the proposed agreement." The value of the preferences accorded under

Canada

the latter was seriously questioned. Was not the preference on wheat, copper, zinc or lead rendered largely valueless by the provision contained in Article 4 to the effect that the duties may be removed if at any time Empire producers of these commodities are "unable or unwilling to offer them on first sale in the United Kingdom at prices not exceeding the world prices and in quantities sufficient to supply the requirements of the United Kingdom consumers"? Then again, as regards the free entry into the United Kingdom market of eggs, poultry, butter, cheese and other milk products, notice was contained in Schedule A that this was likely to be cancelled in three years' time. Further, it was declared that by agreeing to maintain the existing spread of preference in favour of United Kingdom products, Canada had tied her hands so far as negotiating trade treaties with other countries was concerned.

As regards the so-called concessions granted by Canada, it was pointed out that 139 out of 223 tariff changes* were increases, and increases in a tariff already much higher than the Liberal party believed to be sound. Nothing, it was declared, could be more unwise at a time when by common consent the crying need was lower tariffs and greater freedom of trade throughout the world, as Mr. Baldwin recognised when he advocated, in his opening statement, the increasing of Empire trade by lowering tariffs within the Empire, rather than by raising tariffs against other countries. The latter course, in so far as it had been taken at the Conference, must result in retaliatory tariffs and consequent restriction of trade.

But not merely was the bargain attacked as a bargain, and for its effect on the general world trade situation. The whole principle of the making of bargains between the different Empire countries was attacked as alien and inimical to the spirit of the Empire. It involved inter-

*The 139 increases include 49 cases in which there was a reduction in the British preferential rate as well as the increase in the general and/or immediate rate. (See Mr. Bennett's speech, Canadian Hansard, October 12, 1932, p. 126.)

The Royal Commission's Report

ference, direct or indirect, by one Empire country with the domestic fiscal arrangements of other Empire countries, a derogation from the complete fiscal autonomy of each which was unsound and even dangerous. The fact is that the Liberal party sees in the Conference agreements an attempt by those who failed to realise their dream of a consolidated political Empire to create in its stead "a unified economic Empire *contra mundum*." The words are those of *The Manitoba Free Press*, the most influential journal in western Canada. Colour is given to this idea by language used by Lord Hailsham and Mr. Chamberlain to the effect that, with the Conference of 1926 and the Statute of Westminster, most of the old ties had gone by the board and that it was imperative to replace them by economic ties. Mr. Bennett, in a speech made shortly after the Conference, spoke of nations outside the Empire being "asked to pay some tribute for the privilege of trading within the Empire." This whole way of thinking, the desire for a species of imperial *Zollverein*, is, in Liberal eyes, misguided and inimical to the unity of the Empire.

Enough has been said to show that the conflict of opinion between the parties on the whole principle of the agreement is fundamental. The press throughout the country has taken its cue from the party leaders and the Conference agreements seem certain to be made an issue at the next election, second only in importance to the question of unemployment. Meantime the agreements will undoubtedly be approved by Parliament, and so far as the public is concerned, judgment will be reserved until it is seen what measure of relief they bring from the increasingly heavy burden of unemployment.

II. THE RAILWAYS: THE ROYAL COMMISSION'S REPORT

THE report of the Royal Commission appointed to inquire into railways and transportation in Canada, which had been awaited with much interest, was tabled in Parliament on October 6. The report is unanimous. It

Canada

makes a volume of 115 pages, and includes diagrams, tables and maps.

The origin and nature of the railway problem have already been discussed in these pages.* Canada is a country which has special need of extensive facilities for transportation; yet a small population, scattered over a large area, has entailed a proportionately heavy investment. Other causes have also contributed to make the cost of transportation agencies—and more particularly the railways—a matter of the gravest concern.

Given wide terms of reference, the Commissioners have made a careful study of the causes and nature of the present situation. The railways, as offering by far the most serious problem, have received the greatest attention; but road, air, and water transportation—both in themselves and in relation to the railways—are also discussed. At this time of world-wide economic depression, railways in all countries have suffered from heavy declines in profits—if indeed any of them have achieved profits at all. Canada is no exception, as the present report shows all too clearly. In 1928, the peak year, the Canadian Pacific Railway had a net income, after charges for hire of equipment, joint agreements, etc., had been met, of \$61,864,295, and the Canadian National Railways a net income of \$44,449,780. In 1931 this had dropped in the case of the former to \$30,267,126, and in the case of the latter railway to a deficit of \$5,282,650. The weakened financial position of both railways gives cause for worry; but in the case of the Canadian National—due in large part to causes beyond the control of its officers—there is a direct drain on the Treasury. At the end of their report the Commissioners

feel compelled, as a matter of public duty, to strike a serious note of warning to the people of Canada. Unless the country is prepared to adopt the plan we have proposed, or some other equally effective

* THE ROUND TABLE, No. 86, March 1932, p. 384.

The Royal Commission's Report

measures to secure the efficient and economical working of both railway systems, and thereby not only reduce the burden on the Federal Treasury but improve the financial position of the privately owned railway, then the only courses that would be left would be either to effect savings in national expenditure in other directions, or to add still further to the burdens under which the industries of the country are suffering, by the imposition of yet further taxation. Failing the adoption of one or other of these courses, and there are obvious limits to their application, the very stability of the nation's finances and the financial credit of the Canadian Pacific Railway will be threatened, with serious consequences to the people of Canada and to those who have invested their savings in that railway.

The Commission point to extravagance and unwise competition between the railways; both companies, for example, are held to have constructed too many branch lines. In hotels, too, both have been more optimistic than wise. The Canadian National is said to have been particularly extravagant, owing in part to its peculiar relation to the public. Throughout the report unrestricted competition and the waste that results from it are stressed; and it is the lesson drawn from this that has largely determined the recommendations.

While the two railways may have been in part responsible for their own troubles, there are also other important contributory causes, as appears from the following summary given in the report:—

1. The over-development of railways beyond the immediate needs of the country.
2. Aggressive and uncontrolled competition between two nationwide railway enterprises, a competition the more disastrous in that one of the competitors was publicly owned and supported by the full resources of the Dominion.
3. The reactions of the world trade depression which began in 1929 and has progressively increased in its severity with each succeeding year.
4. Competition from other forms of transport, notably road transport.
5. Inelasticity of freight rates and railway practice generally, which prevents prompt action in the meeting of falling revenues and dealing effectively with competition from other forms of transport.

Canada

6. Contractual arrangements with labour organisations which set up a rigid wage scale and inflexible labour practices generally.

7. The special disabilities of the Canadian National Railways due to (a) assumption, through Government action, of liabilities of insolvent railway systems for reasons of national credit ; (b) large capital expenditures for improvement of the physical condition of absorbed systems ; (c) political and community pressure on the management arising out of direct Government control.

The chapter entitled "Proposals and Remedies" is, of course, the one which will be of the greatest interest. The Commission dismiss the suggestion for the amalgamation of the two railways on the ground that a monopoly is in this case undesirable ; and for the same reason they reject the suggestion that the Canadian Pacific should lease the Canadian National either in perpetuity or for a term of years.

In the framing of their recommendations the following governing considerations have been borne in mind :—

- (i) The identity of the two railway systems should be maintained.
- (ii) The management of the Canadian National Railways should be emancipated from political interference and community pressure.
- (iii) Machinery should be provided for co-operation between the two systems for the elimination of duplicate services and facilities and the avoidance of extravagance.
- (iv) The attainment of a scale of economies which will bring the burdens of the National system within reasonable dimensions and effectively check extravagant and costly operation.
- (v) Reasonable protection for the privately owned undertaking against arbitrary action by the publicly owned undertaking which might unfairly prejudice the interests of the privately owned undertaking.

The main recommendations concern (a) the management of the Canadian National Railways, and (b) co-operation between the two railways.

In place of the existing Board of Directors of the Canadian National, the Commissioners advise three trustees, to be appointed by the Governor in Council, and to have all the powers of the old Board. The chief operating officer

The Royal Commission's Report

should be the president, appointed by, and responsible to, the trustees. The trustees would make an annual report to Parliament. They would control the annual budget and apply to Parliament, through the Treasury Board, for any money required.

In order to enforce co-operation between the railways, the Commission advise placing a statutory obligation upon the railways to confer at regular intervals to arrange for the removal of wasteful competition or practices. For this purpose the Board of Trustees of the Canadian National and three directors of the Canadian Pacific should confer. In case of failure to agree, the case might be submitted to a new body to be called the Arbitral Tribunal, composed of the Chief Commissioner of the Board of Railway Commissioners and one representative from each of the two railways. The scope of the Arbitral Tribunal is sketched : it may act either as a court of appeal from the conference of railway boards, or be invoked by either railway or the federal or provincial Governments.

It is understood that legislation to carry the above proposals into effect will be introduced into Parliament, and it may be assumed that it will pass both houses. As to the wisdom of the proposed machinery it is not easy to give an opinion. Given the right trustees (and the Commissioners plead for them) and the right president, the internal management of the Canadian National might prove able to overcome some of the great difficulties it would of necessity have to face. But with such a small board much must depend on the choice of personnel. No one can well deny the need of co-operation, but the machinery suggested for this purpose is new and can only be proved in practice.

On the whole the report has been well received. It is perhaps a good sign that some newspapers cry that the Canadian Pacific, and others that the Canadian National, is in danger. Some unfortunate, and apparently unnecessary, phrases have upset the more zealous champions of public

Canada

ownership; but for the most part the Commission have steered well away from the dangerous ground of dispute over public and private ownership. That perennial controversy may have to be settled one way or the other in the future, but for the present there seems no alternative to the continuance of the two systems side by side.

III. THE ST. LAWRENCE WATERWAY TREATY*

ON July 18 last, the St. Lawrence waterway treaty was signed at Washington on behalf of their respective countries by Major Herridge, Canadian Minister to the United States, and Mr. Stimson, the American Secretary of State. The agreement clears the way for the joint construction of a 27-foot channel for navigation from Montreal through the River St. Lawrence and the Great Lakes, and for the development of some five million horsepower of electrical energy in the river between Montreal and Lake Ontario, four million of which will be controlled by the provinces of Ontario and Quebec, and one million by the State of New York. If the treaty is ratified by the Senate of the United States (to which by common consent it is to be first submitted) and by the Canadian Parliament, there will be brought to a close a process of discussion, investigation and negotiation in both countries extending over a period of some thirteen years, and involving political and engineering problems of the most complex character. The treaty is worthy of study, if for no other reason, as an example of the possibilities of international co-operation in the handling of a work of great magnitude for the common benefit of both parties. From the constitutional point of view it has an interest as the negotiation was carried on directly between the two Governments, and especially through the agency of the Canadian Minister in Washington

* See THE ROUND TABLE, No. 72, September, 1928, p. 832; No. 81, December, 1930, p. 172; and No. 85, December 1931, p. 159.

The St. Lawrence Waterway Treaty

and the American Minister in Ottawa. This is the first treaty to be negotiated in this way.

No information regarding the terms had reached the public, and it may safely be said that Canadian advocates of the waterway were agreeably surprised, since ample concession seems to have been made on every point that could be raised by even the most zealous guardian of Canadian rights. The apportionment of the cost of construction, the complete guarantee of Canadian sovereignty in Canadian territory, the recognition of Canada's ownership and control over electrical power produced within the Canadian boundary, and the settlement of the vexed question of Chicago's diversion of water from Lake Michigan through the Chicago drainage canal, were probably the vital points at issue, and on each of these Canadian interests have been fully protected.

The treaty has specific reference only to the international section of the River St. Lawrence, *i.e.*, the stretch of 115 miles, between Lake Ontario and the town of Cornwall, which is traversed by the international boundary line. Construction here is to be carried on in closest co-operation, and in part as a joint enterprise. The remaining portions of the 2,000-mile waterway are to be completed by the two countries independently: Canada is completing a 35-foot channel from Montreal to the gulf, and she declares her intention in the treaty of completing, by the time the work in the international section is done, the canals in the Lachine and Soulanges areas which lie immediately above Montreal, and the new Welland Canal. The Beauharnois Canal in the Soulanges section is under way and has been declared by order-in-council an integral part of the project, and the Welland Canal was formally opened on August 5 last. Similarly, the United States undertakes to complete works which are necessary for the improvement of the channel throughout the Great Lakes system. The American Government has for years been engaged in this work, some of it on the Canadian side of the boundary. The

Canada

cost of works necessary for navigation and those necessary for both power and navigation is to be divided equally between the two countries, each receiving credit for expenditure already made. Expenditure on works necessary for power alone is to be provided for by the State or provincial Government controlling the water power in question. For work already done, the Dominion Government receives credit to the extent of \$128,000,000, the most important item being the new Welland Canal. By an agreement with the province of Ontario, completed when the treaty was in its final stage, the Dominion Government is also to receive a sum of \$67,202,500 as the share attributable to power in the works necessary for both power and navigation on the Canadian side of the boundary. The total result of such adjustments is that the Dominion Government is obligated to an expenditure of only \$38,071,500 out of a total estimated expenditure of \$543,000,000.

The treaty has been framed with the greatest care to provide for co-operation in the construction of works in the international section, while at the same time retaining guarantees of the sovereign rights of each country within its own territory. Following the plan originally favoured by the Canadian consulting engineers, two dams are to be built in the international section, one at Crysler Island, giving a head of 25 feet of water, the other at Barnhart Island, giving a head of 60 feet. The side canal for navigation at Crysler Island is to be on the Canadian side and is to be built, owned and operated by the Canadian Government; that at Barnhart Island is to be on the American side, built, owned and operated by the United States. The dams are to be built by the United States, but Article V contains a specific statement that construction of such works by one country in the territory of the other shall not confer proprietary rights or any claim to jurisdiction, and that such works shall constitute a part of the territory of the country in which they are situated. Alter-

The St. Lawrence Waterway Treaty

native canals may in future be built by either country on its own side of the boundary. Furthermore, it is specified that neither country can use more than half the water available for power in the international section, so that Canada's right to her full share of power is amply protected.

There can be little doubt that the treaty would have been unacceptable to Canadians in general had it not settled the question of Chicago's diversion of water from Lake Michigan. It provides that, by the end of 1938, the diversion through the Drainage Canal must be reduced in accordance with the decision of the Supreme Court of the United States of April 21, 1930, to an annual average of 1,500 cubic feet per second, instead of the present average of over 8,000 c.f.s. Incidentally, 1,500 c.f.s. will be sufficient for the projected 9-foot channel from Lake Michigan to the Mississippi. It is provided that future proposals for diversion from the Great Lakes System or the international section of the river must be submitted to the International Joint Commission. It is worthy of note, also, that Lake Michigan, which lies wholly within the United States, is included specifically by the treaty as part of the Great Lakes System. This is in contrast to the Boundary Waters Treaty of 1909, under which Lake Michigan was left outside the scope of the International Joint Commission.

The treaty has aroused, so far, more of favourable than of adverse comment in both countries. This is, however, no guarantee of its ratification, and it will no doubt meet with powerful opposition both at Washington and Ottawa. In the United States it has been almost wholly out of politics during the presidential campaign. The platform of each party expressed formal approval of the waterway. Mr. Roosevelt, as Governor of New York, strongly advocated the development by New York of its share of power in the international section, which can only be brought about through the present, or some other, agreement with Canada. He has also made the judicious statement that

Canada

he believes that both the St. Lawrence route and its chief rival, the proposed ship channel through New York, from Lake Ontario to the Hudson River, will be needed in time. Mr. Hoover has been a consistent advocate of the St. Lawrence project, but it is unlikely that this will either make or lose many votes for him. Active preparations both to support and to oppose the treaty before the Senate are, however, already being made by interested parties. By some sections, which see in it no benefit to themselves, it will be opposed probably on the ground that it will cost too much, especially at such a time as the present, that it has conceded too much to Canada, and that the commercial advantages to be expected from it are of little value. Powerful opposition may be expected from those interested in the Chicago diversion and in the route to the Hudson River. The president of the Buffalo Corn Exchange expressed the opinion, for example, that the eventual effect of the St. Lawrence waterway would be "to make Buffalo a side port to the water commerce of the Great Lakes." While the prospect seems to be in favour of ratification, it cannot be denied that the necessity of obtaining a two-thirds vote makes the outcome uncertain.

The prospect of ratification is less uncertain in Canada than in the United States, although here, too, there is both indifference and open opposition. For the most part the Maritime Provinces, the Prairie Provinces, and British Columbia have displayed a lack of enthusiasm for the project in spite of some exceptions to the general rule, such as the consistent support of the *Manitoba Free Press*. Premier Taschereau and his Government in Quebec have been unremitting in their declarations of opposition. Mr. Taschereau has repeatedly denounced the project and a possibility of a treaty with the United States as a menace to the commerce of Montreal, as an infringement of the constitutional rights of Quebec, as a threat to Canadian sovereignty, and as an unwise concession to American industrialists and power magnates who otherwise would be

The St. Lawrence Waterway Treaty

forced to come to Quebec for cheap electricity. The Conservative *Montreal Gazette* has most persistently upheld the same view, while the Montreal Harbour Commission has, on the other hand, strongly advocated the scheme as one that would greatly benefit the commerce of Canada's leading port.

In the light of such contradictory views the following expression of opinion by Premier Bennett with regard to the opposition to the treaty is of more than usual interest. It is quoted from his public statement to the press which accompanied the announcement of the terms of the treaty :

In respect to such opposition, the Government has come reluctantly but inescapably to the conclusion that it was inspired solely by the fear that certain monopolistic and class privileges would thereby be injuriously affected. . . . The waterway is for the people of Canada. The water power incidentally developed is for the people of the provinces of Ontario and Quebec. And this Government will not tolerate interference by big interests and their allies with our sworn duty to the country as a whole. . . . Those who prefer their own welfare to their country's may expect just that measure of consideration which their actions merit. Under our confederation no province can demand that the natural rights of another province shall be denied it. The province of Ontario is entitled to hydro-electric power at the lowest price at which it can be developed. The duty of the province of Quebec is not to deny this right to Ontario, but to see that its own people enjoy the same rights.

This is a forthright statement, and there is no doubt, especially in view of Mr. Bennett's support from Quebec in the House of Commons, that he has shown both courage and astuteness in the handling of the treaty and its attendant problems. He committed himself in the election of 1930 to the completion of the waterway, and he has several times declared positively that the possibility that the New York ship canal might be built as an alternative made the deepening of the St. Lawrence a vital necessity for Canada. In the framing of the treaty the objections that Canada's interests would be sacrificed have been avoided with great skill. An agreement satisfactory to both Ontario

Canada

and the Dominion Government with regard to the division of costs and control of power in the international section has been concluded, while at the same time the treaty does not touch directly on Quebec's rights, and the way is thus left clear for a settlement later on with that province alone. Mr. Bennett has committed himself without qualification to support the treaty as essential to Canada's development, as valuable to the Empire at large, and as an enduring proof of the friendship between the Dominion and her neighbour.

The treaty is one of the most important ever made with respect to Canadian interests, and its direct negotiation by the Dominion is an illustration of the enlargement of Canada's powers in respect of her external affairs. If and when the agreement comes before Parliament, Mr. Bennett's determined support will, without doubt, be a powerful factor in its consideration, and its ratification no less than its negotiation will be a tribute to his influence.

Canada.

October 27, 1932.

AUSTRALIA

I. THE OTTAWA AGREEMENTS AND AUSTRALIAN TRADE

OF the three principal problems dealt with at the Ottawa Conference, namely, preferential trade arrangements, currency policy and imperial economic co-operation, the first has attracted by far the greatest attention in Australia. When the Prime Minister made his official statement on the Conference in the House of Representatives on August 31, he dealt exclusively with the trade agreement entered into by the United Kingdom and Australia. The general attitude towards this agreement is perhaps well expressed in the Prime Minister's words, when referring to the trade agreements as a whole: "The basis of the agreements is so wide and so well conceived that upon them the Empire can be developed as an economic unit, while, at the same time, no part of it need sacrifice legitimate aspirations for the maintenance and the development, within its own borders, of all local industries for which there are sound economic prospects." It is already apparent that opinion in Australia is by no means unanimous in support of this view, and as time affords an opportunity for a closer examination of the agreement, there is a school of thought which holds that the policy of protection has been to some extent modified by the Australian delegates at the Conference. Thus the Leader of the Opposition expressed himself in Parliament as "feeling concerned that an agreement should have been entered into which would limit the freedom of this Parliament to legislate on tariff matters." This view is being vigorously pressed by protectionist papers, and has been strengthened by the action of the Government in revoking the proclamation prohibiting the imports of the remaining 24 lines of goods out of the 78 prohibited by the Scullin Government.

Australia

Further, the Government, acting in accordance with reports of the Tariff Board, has recently reduced duties in respect of 23 classes of goods. Though these reductions in the tariff are made in the national interest, they are opposed by manufacturing and labour interests. The difficulties of making reciprocal trade arrangements involving some reductions in the Australian tariff are thus already demonstrated, and will be but little modified by the fact that the Ottawa agreements give Australia greater preferences than were anticipated by the Australian delegation.

The trade agreement with the British Government grants preferences on three classes of goods. In the first place it provides that the 10 per cent. preference in the British market shall be continued in respect of all Australian goods to which preference was extended under the British Import Duties Act, 1932. This applies to 53 items and the only modifications are in respect of eggs, poultry, butter and cheese, in which the margin of preference is increased. The right of free entry for all these items is guaranteed for three years. At the end of this period Great Britain may impose a duty, but undertakes to maintain the margin of preference. In the second place, additional preferences are given to fruit and wine, which, with sugar, have long enjoyed a tariff preference. The principal Australian exports included in these two classes are butter, cheese, sugar, fruits, eggs, condensed milk and wine. There is a third class, comprising wheat, copper, lead and zinc, to which similar preferences are extended, conditional upon these commodities being offered for sale in the United Kingdom at prices not exceeding the world price. A special arrangement concerning meat is included in the agreement. According to the Prime Minister this is designed to raise the prices of all classes of meat "to a level that will be payable to efficient producers in both the United Kingdom and the Dominions." The method to be adopted is the restriction according to a formula of the

Ottawa Agreements and Australian Trade

imports of meat from foreign countries for a period of five years.* In this way it is hoped to give Australia, in common with other Dominions, an increasing proportion of the British import trade in meat and to raise the price at the same time—rather a double-headed economic penny.

For the years 1926-27 to 1928-29 the commodities covered by this agreement amounted to approximately 25 per cent. of Australia's total exports. Owing to the expansion of the volume of wheat, sugar and butter exports, and the fall in the price of wool, the proportion for the last two years has been greater, being respectively 30 per cent. and 36 per cent. It is difficult, however, to measure the direct benefit of the agreement to Australia. A crude measurement might be based upon a 10 per cent. improvement in the prices of the commodities so affected, and this would give a benefit of over £3 million to Australia. Such a measure, however, is quite misleading. In the first place, wheat, copper, lead and zinc, which are to be sold in the United Kingdom at world prices, account for more than half the exports to which preferences are extended. For these commodities the Prime Minister claims that this arrangement "secures to Empire producers the advantage of an assured market for a large proportion of their output." But all these commodities are exported from Empire countries in quantities in excess of the import demands of the United Kingdom. In these circumstances there cannot be an assured market for the whole supply, though metal producers confidently anticipate benefit from the shelter afforded them in the British market. Moreover, in the case of wheat it may be doubted whether the existing distribution of Australian exports could be profitably altered. Only one-third of our wheat went to the United Kingdom in 1931-32. Australia has been building up an extensive market in the East. Last year Japan, India and China took no less than 43 per cent. of our total exports. With regard to the remaining commodities, it is true that

* The arrangement is described in more detail on page 56.

Australia

the preference will result in a higher return for Dominion producers than for foreign producers. The exports of most of these commodities from Empire countries are in quantities too small to meet the import demands of the United Kingdom; hence the tariff will tend to raise the price. If this rise in price amounts to the maximum of 10 per cent. allowed by the preferences, the benefit to Australia at present will amount to about £1,250,000 per annum in Australian currency. Some critics are beginning to realise that it will be obtained at the expense of British consumers, whose purchases of all imports of these commodities, whether from Empire or from foreign sources, will be made at a price approximately 10 per cent. above world parity. This imposes costs upon Great Britain, and these costs will in part be passed on to industry in the form of higher wages. Thus export industries from the United Kingdom will experience added costs of production and their development will to some extent be hampered by the arrangement.

The meat proposal is in a class by itself. It involves a restriction of imports from foreign countries on a principle not hitherto attempted by Great Britain or any of the Dominions. It is indeed a marketing control system which, strangely enough, would not be favoured by Australia, or probably by any of the present Dominion Governments, if applied to commodities under her own control. Until the actual plan of restriction is disclosed it is not possible to make detailed comment upon the scheme. The arrangement may be regarded as the only practical method of raising meat prices for both United Kingdom and Dominion producers, but it cannot be effective at present without damage to the economic life of competing foreign producers and to their capacity to purchase British goods and pay their sterling debts. If the policy of restriction is successful it will throw upon these competing countries the main burden of losses caused by the over-supply of meat products. Under the proposal less efficient industries in

Ottawa Agreements and Australian Trade

Australia may subsist while more efficient industries in foreign countries are disorganised. That this is an insecure foundation upon which to raise the prices of Empire meat products has been amply demonstrated by the experience of market controls in recent years.

Australia for her part undertakes to maintain the existing margin of preference to Great Britain and to increase the margin on those preferences which "fall short of an agreed formula." She further undertakes not to extend tariff protection to industries unless they can "reasonably be assured of sound opportunities for success." According to Article 10 of the agreement, the duties are not to reach a level that will prevent reasonable competition from the United Kingdom on the basis of the relative cost of economic and efficient production. A proviso to this condition, however, affords special consideration to industries not fully established. Of more importance is Article 11, which provides for a review of existing duties by the Tariff Board according to the principles enunciated in Article 10. Article 11 concludes as follows: "After receipt of the report and recommendation of the Tariff Board, the Commonwealth Parliament shall be invited to vary, wherever necessary, the tariff on goods of United Kingdom origin in such manner as to give effect to such principles." The Government undertakes that no new protective duties will be imposed, or existing duties increased on United Kingdom goods to an amount in excess of the recommendations of the Tariff Board. This gives the Tariff Board a more important place in tariff making than it has hitherto enjoyed, but the arrangement is consistent with the election promises and subsequent tariff policy of the present Government. Further, Australia undertakes to repeal as soon as practicable the prohibitions which have been imposed during the last two years, to abolish surcharges, and, when the financial position is favourable, to reduce or actually remove the primage duty. All the prohibitions have now been lifted and the primage duty on all commodities required in primary production has been removed.

Australia

In so far as the agreement helps to reduce the Australian tariff, it will undoubtedly have a beneficial economic effect. Hitherto, the margin of preference to Great Britain has been increased usually as a result of increased tariff duties against both Great Britain and foreign countries. If the principles of the agreement are strictly adhered to, some duties against Great Britain should be reduced, and the Government will not have unlimited power to add to existing duties, or to impose new duties without investigation by the Tariff Board. This clearly imposes a limitation upon Parliament's power to deal with the tariff. That there are objections to giving such important powers to the Tariff Board is clearly discernible in current protests from protectionist quarters against the present tariff policy. Thus the Associated Chambers of Manufactures of Australia recently issued a statement criticising the Government for its latest tariff reductions. Included in the statement was the following reference to the Tariff Board: "To offer as justification for these and further threatened tariff reductions the explanation that they are in accordance with the Tariff Board's recommendations is inadequate and unconvincing. There are considerations before Australia to-day which overshadow the routine value of itemised examinations undertaken by an advisory body to guide Governments in times of normal prosperity." Clearly the path of a Government which attempts to tamper with the so-called national policy of protection is thorny, and the Ottawa agreement will have to run the gauntlet of severe and organised propaganda both within Parliament and without. It is, however, in the spirit of the agreement that duties should be lowered.

The benefits to be derived from the preferences in the British market cannot yet be fully ascertained, but there is little doubt that they will be much less than is currently supposed. In the past two years there has been a remarkable expansion of the volume of Australian exports, which were 25 per cent. more in 1931-32 than the average of the

Government Finance and Banking Policy

three years 1926-27 to 1928-29. Good seasons are partly responsible for this increase, which has been noticeable in some of the commodities included in the preferential arrangements. But solid effort on the part of the producers, lower costs and the rapid increase in the areas devoted to certain industries, notably wheat in Western Australia, sugar in Queensland and meat and dairying in Victoria and New South Wales, have all contributed substantially to expand exports. Thus the volume of wheat exports increased by 83 per cent., butter by 116 per cent., mutton and lamb by 120 per cent., sugar by 105 per cent., and fresh fruits by 78 per cent. With the exception of wheat, a very high proportion of the exports of these goods goes to the United Kingdom. Preference will no doubt assist in maintaining the high volume of exports, but in all these Australian exports there is active competition from efficient foreign producers who will be stimulated to cut their costs in order to overcome the competitive advantage of Australian producers. The net effect will be to reduce the advantage to these producers partly on account of the lower costs of foreign producers, and partly on account of higher costs of British exports purchased by Dominion producers. On close analysis the benefits of the preferences obtained at Ottawa are seen as a diminishing quantity. Their ultimate effects upon Empire and world trade may prove to be very different from what their sponsors are now claiming for them.

II. GOVERNMENT FINANCE AND BANKING POLICY

THE complexion of the Premiers' Conference, which met in Canberra on June 28 to review the progress made under the Premiers' Plan of a year ago, reflected the change effected by the four elections which have occurred since that date. The Federal Labour Government and the State Labour Governments of Victoria and New South Wales had made way respectively for the United Australia party Governments of Mr. Lyons, Sir Stanley

Australia

Argyle and Mr. Stevens, while the United Australia party Government of Mr. Moore in Queensland had yielded place to the Labour Government of Mr. Forgan Smith. The primary object of the Premiers' Plan was that government deficits should be progressively reduced so as to reach a real balance between revenue and expenditure by the end of the financial year 1933-34. The maximum deficit allowed under the Plan was £16 million for 1931-32, reduced after the Hoover moratorium to £12,660,000. Figures of the estimated deficits, which showed that this part of the Plan was not being observed, had been submitted by some of the States* to the previous conference in January, 1932, and the later figures in June confirmed this. The estimates of the budget deficits for 1931-32 were as follows :—

	Before adjustment		After	
	June, 1931.		adjustment.	June, 1932.
	£		£	£
New South Wales ..	11,510,000	5,910,000	10,750,000	
Victoria	3,060,000	1,610,000	1,700,000	
Queensland	1,630,000	760,000	2,050,000	
South Australia ..	2,400,000	1,500,000	1,300,000	
Western Australia ..	1,860,000	1,560,000	1,560,000	
Tasmania	220,000	170,000	250,000	
	20,680,000	11,510,000	17,610,000	
Commonwealth	20,400,000	1,150,000	†1,220,000	
Aggregates	41,080,000	12,660,000	16,390,000	
	† Surplus.			

It will be seen from the figures that the chief offenders were New South Wales and Queensland ; South Australia's performance was better than her promise. The Commonwealth Government had managed, mainly by the aid of abnormal collections of income tax, to convert its estimated deficit of £1,150,000 into a surplus of £1,220,000.

In putting these figures before the Conference the Prime

Government Finance and Banking Policy

Minister emphasised the necessity for further efforts to achieve their object of balanced budgets. For 1932-33 the Premiers' Plan contemplated a maximum deficit of some £7 million for the States and the Commonwealth together, but the estimates presented by the Treasury officers forecast a total deficit of £20,338,000, made up as follows :—

	£		£
Commonwealth ..	3,500,000	South Australia ..	1,770,000
New South Wales ..	9,548,000	Western Australia ..	1,360,000
Victoria	1,950,000	Tasmania	160,000
Queensland	2,050,000*		

* Estimated for 1931-32. No estimate for 1932-33 is available.

The immediate problems before the Conference were, first, to bring the deficits into conformity with the Premiers' Plan, and next to finance them. The Commonwealth Government at once gave a lead to the States by proposing to balance its budget in 1932-33 without any further encroachment on the field of taxation or any assistance from the Commonwealth Bank. This self-denying ordinance contemplated using the surplus from 1931-32, and further savings "involving the most drastic economies in administration," for this purpose. The problem of financing the deficit was bound up with that of providing loan monies for public works for the relief of unemployment. Mr. Lyons communicated to the Conference a letter from the chairman of the Commonwealth Bank which indicated that the Bank was anxious to limit its provision towards the cost of meeting deficits to a sum of not more than £7 million. This would not even meet the deficit of £20 million, and the Bank was ominously silent on the question of further loan funds for dealing with unemployment.

The discussion at the Conference indicated the willingness of all the Premiers to revise their estimated deficits and to adhere to the principle of progressively balancing budgets, but it was clear that they considered it impossible

* See THE ROUND TABLE, No. 87, June 1932, pp. 633-34.

Australia

to keep within a limit of £7 million for 1932-33. Moreover, it was strongly urged by Mr. Stevens and Mr. Forgan Smith that the budgetary problem should be treated as only one aspect of the larger question of restoring employment, even if it meant widening the scope of the original Plan. It was decided to adjourn the Conference for a few days to allow the Premiers time to revise their estimates and to prepare for a discussion on the general problem of the relief of unemployment. Before the Conference adjourned, however, the following resolution was unanimously agreed to :—

That this Conference affirms its adherence to the principles of the Premiers' Plan of 1931, and undertakes to meet interest obligations, to continue progressively to reduce budget deficits and to conduct public policy with a view to reviving industry so as to restore normal employment to those of our citizens who have neither work nor wages.

When the Conference met again at Sydney on July 4 its deliberations were for the most part conducted in secret, and a great deal of time was occupied in negotiating with the Commonwealth Bank Board. The general discussion on industrial reconstruction was held over for a later conference and the Premiers applied their entire energies to considering how deficits and unemployment relief were to be financed. After consultation with the Commonwealth Bank the Premiers agreed to scale down the total deficits from £20 million to £9 million, but asked the Board to provide not merely the latter sum but an additional £8 million for unemployment relief works and other purposes. The Bank Board agreed to advance about £11 million in new money for deficits, trusts and special accounts, and to allow unexpended balances from 1931-32, amounting to approximately £6 million, to be used, but they refused to grant any accommodation for loan works. The Premiers then agreed to a plan for unemployment relief involving an expenditure of £15 million over a period of three years, beginning with a loan of £7 million in 1932-33. It was proposed that these loans should carry

Government Finance and Banking Policy

special sinking funds and that the proceeds of special taxation for unemployment should be applied to their service. It was not possible to provide funds at once for this programme, and the method by which they were to be found was left undetermined.

These financial arrangements mean that far from restricting the Australian Governments to a modest figure of £7 million, the Commonwealth Bank is prepared to supply a total of £11 million in new money for the year 1932-33, and £6 million in unexpended balances. This is not the first time in the last two or three years that the Commonwealth Bank has issued an ultimatum setting limits to the accommodation it is prepared to give to the Governments, and then has relented. The Bank, no doubt, is still carefully feeling its way in the exercise of its powers as a central bank, ever mindful of its obligations as custodian of the currency and guardian of the portals of sound finance. The Bank has become possessed of large powers as controller of the note issue, sole arbiter of the exchange rate and manager of the Australian price level in the absence of the restrictions of the gold standard, before it has had time to acquire the confidence born of practical experience and knowledge of technique. How far its handling of the financial position in co-operation with the trading banks in the last two or three years has been due to consciously directed policy, it is difficult to say, but that the results have saved Australia from disaster is not open to question. Moreover, the Commonwealth Bank Board's warnings that there are limits to the process by which a central bank can finance deficits and loans for such purposes as unemployment relief have undoubtedly been one of the chief means of bringing home to Australian Governments the danger of unbalanced budgets.

The Australian banking system has indeed shown exceptional powers of resistance to the disturbing elements of the present depression. The contrast with the state of things during the crisis in the 'nineties is nowhere

Australia

more strikingly manifest than in this respect. Whereas at that time most of the banks failed and the few survivors were severely shaken, it is noteworthy to-day that the Australian banks, with only two exceptions, have in the present crisis continued to carry on business with open doors. One recently established bank of comparatively little importance, judged either by the test of capital or of business, had to close its doors, and is at present in liquidation. The other exception is the Government Savings Bank of New South Wales, which was forced temporarily, through political as well as financial causes, to suspend payment. In that case, however, arrangements were made for the bank to reopen, and it was later absorbed by the Savings Bank Department of the Commonwealth Bank.

It is no mean achievement that the banks have successfully mobilised their resources to meet overseas obligations, financed government deficits and loan expenditure in such a way as to sustain the local price level and mitigate the severity of the depression, and maintained financial stability and confidence in the currency in the face of great difficulties, thereby producing the conditions necessary to enable the country to take advantage of any improvement in world conditions. The Commonwealth Bank has provided a solid basis for the banking system of Australia, and the trading banks have, on the whole, worked with it harmoniously and in such a way as to strengthen the whole structure and guard us against the worst evils of progressive deflation.

When export prices fell heavily and overseas long-term borrowing ceased, the problem arose of how to provide funds abroad to meet public interest and other obligations amounting annually to about £26 million sterling. In the end the problem was solved by an unprecedented change in Australia's balance of trade. Measured in gold prices, exports fell in 1931-32 from a yearly average before the depression of £147 million to £64 million, but imports

Government Finance and Banking Policy

were still more drastically reduced, falling from £150 million to £36 million. This remarkable adjustment enabled Australia as a debtor country to honour her overseas obligations, but the method adopted illustrates the dilemma which falling prices forces upon a debtor country, particularly on one which is largely dependent for its prosperity upon exports. A curtailment of imports into Australia is necessary to supply funds for the payment of overseas interest; but at the same time it reduces the power of Australia's overseas customers to buy Australian exports. While, however, this change was taking place, the Australian banking system provided the necessary funds to meet interest payments. The gold standard was abandoned in 1929, the gold reserve was mobilised, and the export of gold from Australia between 1929 and 1931 amounted to nearly £40 million. In addition to this, the Commonwealth Government found it necessary to raise short-term loans in London to the amount of £37,575,000. About £20 million of this was raised from British banks and the British public, but in the last two years all but £4,500,000 has been absorbed by the Commonwealth Bank and the Australian trading banks, with the result that, while Australia has met all her external obligations in full, the Commonwealth Bank has provided Australian Governments with £30 million in London.

When, as early as 1929-30, the budget deficits amounted to serious proportions, and the increasing army of unemployed was straining the ordinary government resources, the Australian banks, headed by the Commonwealth Bank, came to the rescue and provided funds by way of loan for both purposes. The method used was the issue of 4 per cent. Treasury bills discountable at the Commonwealth Bank. The extent to which advantage was taken of this device may be seen from the fact that the total of Treasury bills rose from £3 million in December, 1929, to £45 million last June. These funds have come mainly from the repayment to trading banks of advances to private

Australia

borrowers, but in part also from the expansion of central bank credit by the Commonwealth Bank. The cash holdings of the trading banks since the mobilisation of the gold reserve no longer include much coin and bullion, but are mainly represented by Australian notes. Through the method of Treasury Bill finance, however, the balances due to trading banks by the Commonwealth Bank have largely increased. Moreover, the note issue grew larger by some 20 per cent. in the years 1929-31, and since then has remained fairly steady. In these circumstances the trading banks have been able to maintain their advances at a higher level than would otherwise have been the case.

The exchange policy pursued by the Commonwealth Bank has also been an important factor in the situation. The departure of Australia from gold was followed by a depreciation of the Australian pound in terms of sterling of some $8\frac{1}{2}$ per cent. In the early part of 1931 this depreciation increased to 30 per cent., and the rate was maintained steadily at that figure until December 1931, when it was reduced to 25 per cent., where it has stayed ever since. This depreciation served to arrest the deterioration in the position of the export industries, because the price of Australian exports in terms of Australian pounds rose, while the cost expressed in the same money felt the effect much more slowly. Exchange policy, therefore, has helped to sustain production for export and given a breathing space for the necessary adjustment of costs to a falling price level. In general, it has prevented Australian price levels from being dragged down with every fall in gold prices. At present, the question as to whether the exchange rate should be manipulated in such a way as to give still further relief to our export industries has become the subject of acute political controversy, but there is no doubt that the alteration in the rate to 30 per cent. depreciation saved those industries from destruction.

Banking policy in Australia during the depression has been distinguished by a liberal spirit in the matter of

Government Finance and Banking Policy

credit expansion, yet the banking position, as shown in the table appended to this article, has remained strong.

Current deposits in the trading banks naturally fell as business declined, but the total of deposits has shown no serious falling off. This is due to the movement in fixed deposits, which increased from 1928 to 1929, maintained their level during 1930 and 1931, and increased again in the first quarter of 1932. The proportion of cash to total deposits, which averaged about 19 per cent. in the years 1926-28, steadily fell during 1929 and 1930, reaching its lowest point of 13.6 per cent. in the third quarter of 1930, and then recovering to its present figure of 18 per cent. Advances to private customers have fallen rapidly since December, 1929, but their place has been largely taken by advances to Governments. The result is that advances increased between 1928 and 1929, began to fall during the latter part of 1930, and by the first quarter of 1932 were back to about the figure of 1928. Under the Premiers' Plan, it was contemplated that the banks should voluntarily reduce by 1 per cent. the interest rates both on deposits and advances. Naturally the process took time, because the banks were not willing to vary existing contracts in such cases as fixed deposits, and reductions of interest on deposits conditioned reductions of interest on advances. No exact figures are available, but it appears that the reduction on new deposits is greater than 1 per cent., while in the case of advances the banks publicly stated that they had effected an average reduction of 1 per cent. as from October 1931, and current indications are that there are further reductions in prospect. The level of interest has been brought into accord with the return on government securities. This return fell as these securities gradually moved back towards par, for example, the 4 per cent. (1938) converted stock, which was quoted immediately after the conversion last year at £83, is to-day quoted at about £100. This fall in interest provides one of the necessary conditions for recovery.

Australia

Methods of finance of this kind, the aim of which is to expand credit and sustain the price level, are inflationary in nature, and there is an obvious danger, especially if there is no reasonable prospect of balancing budgets, that they may lead to a rapid and uncontrolled rise in prices. So far, however, the process has been kept well under control, and no doubt the financial accommodation recently granted by the Commonwealth Bank to the Australian Governments will be similarly safeguarded. The Australian wholesale price-level of the past two years has been more stable than that of either England or the United States. Australian financial policy has not raised the price level, but it has impeded its fall; the necessary adjustment of costs to falling prices in Australia may be described as deflation offset by inflation.

Australia,
September 29, 1932.

APPENDIX.

AUSTRALIAN TRADING BANKS.

March Quarter.	Gold, Notes and Cash at the Common- wealth Bank. £m.	Current Deposits. £m.	Fixed Deposits. £m.	Pro- portion of Fixed to total. £m.	Pro- portion of Cash to Total Deposits. Per cent.	Advances. £m.	Government Securities. £m.	Pro- portion of Advances of Deposits. Per cent.
1928 ..	55.75	112.84	164.38	59.30	20.11	224.29	23.32	80.91
1929 ..	53.40	113.13	175.88	60.86	19.17	240.38	23.11	83.24
1930 ..	42.45	96.81	177.61	64.72	15.47	250.28	21.12	91.20
1931 ..	48.87	83.81	179.20	68.14	18.58	247.07	21.87	93.94
1932 ..	53.17	92.25	191.25	67.46	18.74	228.21	40.0	80.49

SOUTHERN AFRICA

I. SOUTH WEST AFRICA

THE Mandated Territory of South West Africa has been severely hit by current economic conditions. It is a large pastoral country in which there is a certain amount of mining. The main activities, however, diamonds and copper, have closed down; the other mines, producing vanadium and tin, operate on a relatively small scale, and consequently the territory is forced to depend solely on its pastoral industry, which, of course, is suffering from the universal fall in prices. Consequently the Administration has had to cut its coat according to its cloth, and the cloth is such that the coat has become a strait jacket to the intense irritation of the people who have to wear it. The normal course of blaming the government for all troubles cannot lead to a change of government, as the Territory has not been entrusted with responsible government. A number of public meetings have, however, passed votes of no confidence in the Administrator and in the Legislative Assembly. There are also various movements to bring about constitutional reforms.

It cannot be denied that ill-considered expenditure in times of prosperity and too extravagant a framework of government have put the Territory into a desperate financial position, and at the same time bound it to the Union by a heavy burden of debt. Until 1930 the ordinary revenue always exceeded the ordinary expenditure. The surpluses were devoted to capital expenditure, for the most part in aid of land settlement, which was of a remunerative nature. This excellent scheme was not maintained. In 1927 the first loan for capital expenditure was made by the Union Government, and since then loans have become an annual

Southern Africa

affair. In 1930, when the expenditure failed to balance the revenue for the first time, the deficit was met by another loan from the Union, at the same time the loan on capital account was doubled. In 1931 there were similar loans, but in the current year, although the estimates again show a big deficit, capital expenditure has been drastically curtailed to what is needed for the relief of distress. As a result of this policy of loans the Territory will at the end of the year be indebted to the Union in an amount of over £2 million, much of which represents wholly unremunerative administrative deficits. The cost of interest and redemption on this debt amounts to £138,000, or well over a quarter of the estimated revenue. A large proportion of the debt is nominally remunerative, as it has been expended in advances to settlers, repayable over a term of years, and to the Land Bank for loans on mortgage; the Land Bank accounts for 1931, however, show that the arrears of interest due amounted to eight times as much as the interest received.

In one respect the Territory is fortunate. Under the German régime nearly all the revenue was obtained from mining taxation. Warned, however, by the post-war slump, the Administration tried to put the revenue on a more stable basis, most of the taxes levied in the Union were introduced and customs and excise became the main prop of the revenue. A persistent policy of land settlement has substantially increased the white population, and with it the revenue from sources independent of mining. But for this change in policy the present slump would have left the Territory with practically no revenue. As it is, it has declined by more than 40 per cent. since 1930, a decline which has been met by a drastic cutting down of establishment charges and civil servants' pay, and were it not for the burden of loan charges, which are considerably in excess of the estimated deficit, these economies would have sufficed to balance the budget.

As regards the constitutional position, the Union

South West Africa

Government has always taken up the attitude that it expects the Mandated Territory eventually to be incorporated in the Union as a fifth province, and this is the general view in the Union. It is, of course, recognised that such an incorporation cannot take place without the consent of the people of the Territory, and in order to give a voice to the people and make the change easier, the South West Africa Constitution Act has set up a system of government which approximates very closely to the provincial system of the Union. Theoretically the legislature has wide powers, but in fact these powers may not be used in nearly all matters affecting government and administration without the consent of the Union. The chief executive officer, the Administrator, is appointed by the Union Government and independent of the local legislature. Loans may be obtained only from the Union and not in the open market.

Local sentiment in the Territory, however, instead of tending to welcome assimilation, tends to go the opposite way. Criticism of government, natural in times of depression, means criticism of the Union Government, and the opposition to incorporation is strong. The Constitution Act provides for the grant of extended powers to the local legislature in respect of control over the police, education, aviation, the Land Bank, and sales of public lands. These extended powers may be granted on a request based on a two-thirds vote by the legislature. Last session such a request was duly voted and a deputation interviewed the Prime Minister of the Union, who said that he saw no objection to the grant of these powers. He further promised to amend the Constitution Act by making German a third official language, and by facilitating the naturalisation of German settlers. He also agreed to appoint a joint commission to investigate the differences of opinion over administration matters, customs duties, and railway tariffs. None of these things have yet been done.

Southern Africa

One of the chief grievances arises in connection with customs and railway tariffs. The Territory is in the South African customs union, the tariff for which is fixed by the Union Parliament for the encouragement of Union manufacturers. The railway tariff is similarly arranged, South African products being carried at cheaper rates than imported goods. The inhabitants of South West Africa, who are all primary producers, resent these tariffs. They say that they are obliged to pay exorbitant prices for Union products and get nothing in return. As an example, it is asserted that at Swakopmund Natal sugar must be bought at approximately 25s. per cwt., although sugar could be imported from overseas at 9s. 6d. Similarly wheat imported from the Union costs 22s. 6d. a bag plus railway rates, while Australian wheat passes to all West African ports on its way to England at a price of less than 10s. a bag. It is contended that if the Territory were outside the customs union it could by a moderate duty raise all the revenue necessary to balance its budget, and at the same time reduce the cost of living in the Territory. Such a course would, of course, close South African markets to the produce of the Territory, but it is said that existing prices and railway rates in any case practically preclude the export of slaughter stock to Union markets, and that the Territory could more profitably develop the existing overseas export of chilled meat.

It is difficult to judge of the merits of this contention on the official trade figures, as if the Territory were to leave the customs union a general dislocation of trade would ensue; but *prima facie* a community of primary producers does not require the same tariff for revenue purposes as a country of incipient manufacturers, especially when all prices are necessarily increased by a long railway haul.

Those who advocate separation from the Union are in favour of an understanding with the Bechuanaland Protectorate and Southern Rhodesia. A railway across the Kalahari to link up the Territory with the Rhodesian

The Situation in Southern Rhodesia

system has already been roughly surveyed, and is estimated to cost £2 million. To Rhodesia such a railway would give an alternative port, and to Bechuanaland a much needed means of internal communication. It is, however, extremely doubtful whether such a railway would at first even pay its running expenses, though it would open up large stretches of Bechuanaland to ranching, and introduce an element of competition into railway rates in Rhodesia, besides improving the strategic position of that landlocked country.

II. THE SITUATION IN SOUTHERN RHODESIA.

The Country and Its People

TWO months ago Southern Rhodesia had, for reasons which will be referred to later, settled down into a condition of despondency unparalleled in the forty odd years of slumps and booms since her inclusion in the Empire. Even now there are parts of the country—particularly those in which no tobacco is grown—to which no ray of light seems yet to have penetrated. Nevertheless, in the rest of the Colony, a cautious optimism quite unlike the usual cheerful, happy-go-lucky reaction of the Rhodesian to good news, has set in. Though this has not resulted in a great deal of spending, except in the drapery stores, and though sundowner parties are still sadly on the decline, the brighter outlook is a factor on the right side. Others are the result of the Ottawa Conference and the probability that the restrictions (due to a recent outbreak of foot-and-mouth disease) on the export of cattle will shortly be lifted. As to the former, Lord Snowden's warnings may yet prove to be right; as to the latter, there is no certainty. Other causes of the depression, moreover, still exist to counteract the increased profit that is being made from the sale of gold from the mines since Great Britain left the gold standard, for example, the loss of the

Southern Africa

chrome and asbestos markets. There is therefore no justification for any very boisterous optimism. No one seems certain that any of the signs of better times are reliable.

At the 1931 census Southern Rhodesia's European population was 49,910—an increase as compared with the 1926 figure of 27,41 per cent. The native population, which is not accurately enumerated, was about 1,000,000 in 1931—an increase of 17 per cent. since 1926. This increase is partly accounted for by the growing influx of African labourers from Northern Rhodesia, Nyasaland and Portuguese East Africa. During the period 1926-31 20,106 Europeans came into the country and 12,685 emigrated; the natural increase was 3,315. The birth-rate per thousand of the European population in 1930 was 24.2, which is only surpassed among the important countries of the Empire by that of the Union of South Africa with a figure of 26.2. It is much higher than that of England and Wales, which is 16.3. In 1929 the death-rate per thousand children under one year was 56, or the fifth lowest infantile mortality rate in the world—New Zealand's was 34, while for England and Wales the rate was 74, and for the Union of South Africa, 64. In 1926 there were 526 unemployed Europeans enumerated; at the beginning of 1932 this figure had been multiplied by five.

These statistics supply a starting point for a study of the country's present position. Nearly all the Europeans are settled on the high plateaux which cover more than half the country, and the low infantile mortality rate is a fair indication that the soil is suitable for a European colony in the modern sense of the word. This at once differentiates Southern Rhodesia from Northern Rhodesia and the rest of British tropical Africa in the north, the larger part of which has a climate adverse to the permanent settlement of Europeans. On the other hand, there are large tracts of hot, low-lying country in Southern Rhodesia which are suitable only for native occupation,

The Situation in Southern Rhodesia

and distinguish the Colony from the Union of South Africa, which is practically all either subtropical or temperate, while another important difference is the high proportion of natives to Europeans in the population—roughly 20 to 1, as compared with 3 to 1 in the Union. These facts, combined with others, put Southern Rhodesia in a position unique in Africa and witness to problems peculiar to herself in the all-important region of native policy and its concomitant economic development.

The increase in unemployment and the small proportion of immigrants absorbed in recent years have led to a search for causes, apart from world-wide economic disturbance. Some pessimistic observers have arrived at the view that the Colony has reached, or nearly reached, its limit as regards the absorption of immigrants, and the "natural increase" in its population. A more cheerful attitude is adopted by those who recognise other factors in the situation and entertain hopes that it may be possible for the country to support a million Europeans in the not too distant future. Certainly, if a country like Cuba could actually take advantage of the world depression to improve its trade balance, by developing its production of commodities for internal consumption, there does not appear, on the face of it, to be any reason why Southern Rhodesia, with her greater variety of products and less enervating climate, should not have used her still undeveloped potential wealth in a similar self-discipline any way instead of continuing to import scores of commodities which can be locally produced. For example, eggs produced locally are at the present time so plentiful that the farmer gets only 9d. a dozen for them, at which price egg-selling is not a business proposition; yet last year we imported, from the Union alone, eggs to the value of £10,249, and at the same time exported some of our own surplus eggs, chiefly to Northern Rhodesia.

Southern Africa

The Native Question

It is a far cry from eggs to fully fledged natives, yet there is no escape from the colour problem. Any attempt to describe present conditions without taking it into consideration would be futile, though its intricacies have frightened many a writer from adding another line to the mass of literature which already exists on the subject. In Southern Rhodesia, however, there is, at least, one encouraging fact. Local native policy is probably the best in Africa. Even Lord Olivier, that ardent champion of the ideal of Africa for the Africans, seems to admit that the natives are not so badly misruled here as in other parts of the continent. The policy of the B.S.A.* Company, which set aside native reserves, was followed up and improved upon by the present Government, which took over from the Company in 1923. Large native reserves "vested in the High Commissioner" are scattered throughout the Colony. In them the basic fabric of native life persists as it was before the coming of the white man. In addition to the reserves, areas have been set aside for native purchase, and the wealthier natives are losing no time in learning the pleasure of land-ownership, after the primitive communal tenure of the reserve. Socialist feeling in the country is not strong enough to have raised seriously the question of whether or not this is a retrograde step. Other areas have been set aside for non-native occupation and for afforestation. There is also a huge "Unassigned Area" and a comparatively small "Undetermined Area." The former is sufficiently described by its name. In the latter natives or others may acquire land, but acquisition by a native automatically places his land for all time in the Native Area, and a European cannot thereafter acquire it.

The above is the result, in the main, of the Land Apportionment Act, which came into force on October 3,

* British South Africa Company.

The Situation in Southern Rhodesia

1930, and was based upon the report of the Morris-Carter Commission. It was stoutly opposed by the Labour party, a very small body, chiefly on the ground that it did not go far enough towards that rather mysterious goal, segregation. The Rhodesian party deserves the credit for the appointment of the Commission and the passing of the Act referred to, and also for keeping native affairs out of party controversy as far as possible.

The areas of the various classes of land referred to amount to a total of 96½ million acres, made up as follows:—

	<i>Acres.</i>		<i>Acres.</i>
Native Reserves	21,594,957	European Area ..	48,694,697
Native Purchase		Undetermined Area	88,540
Area	7,464,566	Forest Area ..	590,500
Unassigned Area	17,793,300		

Native Reserves, plus the Native Purchase Area, plus the Unassigned Area, plus half the Undetermined Area give only about 40 per cent. of the total area as the maximum that is likely to be put aside for the natives, who form 95 per cent. of the population. Since, however, the total area is roughly three times that of England and Wales and, judged by European standards, is moderately rich from an agricultural point of view, and highly mineralised in some parts, the density of the population is still very low. Moreover, the native can come into the white area to work, while the whites are debarred from entering the reserves without special permission from the authorities. This permission is rarely granted, and then only when it is clear that entry would be for the advantage of the natives. Local urban authorities also are empowered to set aside areas for native locations from which whites are excluded. The net result is that the natives are well catered for in the matter of land. The good work that is being done under the guidance of the missionaries and the Native Development Department is manifest in better hygiene and better agricultural methods, so that land occupied by natives is

Southern Africa

increasing in productive value, while that set aside for future native occupation can be expected to prove more than sufficient for a very long time to come. That there is nothing to cause an overflow at the present time is proved by the fact that no happier peasantry in the world can be found than that of Southern Rhodesia, and that every year about 60,000 natives from adjoining territories find employment here without causing any economic discomfort to the local natives.

While, however, these enlightened principles of land allocation have made the position of the native ever so much better than that of his neighbour in the Union of South Africa, who, in most parts, was neglected too long, and probably also better than that of his neighbour in the north, who comes into contact with more rudimentary examples of European social organisation, it would be foolish to imagine that the whole colour problem is solved, or that it can be left to solve itself. One new development is that certain very real economic dangers to the white inhabitants are following in the train of the laudable anxiety to improve the social condition of the natives displayed during the last few years.

It must first be explained that the whites are not here as administrators only, as in the West African Colonies. They are colonists who are here for good, and must maintain without much outside support their own high standards of native rule. They cannot be periodically replaced from overseas by the Colonial Office, as are the white officials in British West Africa. The natives have been lifted only a little way out of barbarism—which is a very sordid and unhappy condition, particularly for the womenfolk. The worst thing that could happen, from their point of view, would be for the white inhabitants to leave the country or to sink in the social scale so as to be incapable of wisely guiding them till they can guide themselves.

Two examples only of how the white man's position is being jeopardised by the present policy of *laissez-faire*

The Situation in Southern Rhodesia

will be given here. Nearly all the white man's manual labour is performed for him by the black man. I need not follow up the general implication of this statement with examples from the later Roman Empire. Take one result alone. In the secondary industries, which are struggling into being in the European towns, there is no room for the white apprentice. Without apprenticeship there can be no skill in a country too small to afford vocational schools. This is one of the causes of white unemployment. There is no black unemployment problem. The other interesting example is provided by the steady decline in recent years of the numbers of cattle owned by Europeans, concurrently with an enormous increase in native owned stock.

From the economic standpoint it is all a question of relative standards of living. The pace of native development cannot be set too fast, else it will defeat its object by ejecting the white settler, who has now become an integral part of the economic structure, and always takes the lead in every department of production and marketing.

Yet it should be possible without hardship to anyone to guide the activities of the native, so that unfair competition resulting from different standards of living would not occur. The first object is, of course, to improve native standards of living. A great deal is being done already in this direction, but there are many features of the present system that require correction. For example, it is not done by giving the native more money to spend. Again, however clean and well-run the town native location to which natives employed in town are relegated, no civic sense can be developed in it. Though they live in greater comfort there than in their kraals, they can play no part in the organisation. For reasons of public health alone, it would be dangerous for European municipalities to allow the natives to organise their own locations, which are in close proximity to the European quarter. At the same time, from mission and government

Southern Africa

schools throughout the country, native tradesmen are coming into European towns, there to compete with the white tradesmen for at least part of every year. For the rest of the year they can retire to their country homes in the reserves. This is all taking place before the natives have risen to anything approaching the stage of civilisation of the white tradesmen.

The time has come when the native should be guided towards building up native towns in the native areas. The Native Affairs Act now in existence is a beginning in the matter of self-government. It provides for Native Councils in the reserves and recognises chieftainship and other native institutions there. While it is good in so far as it seeks to build on native foundations, it is bad in that it is equivalent to hoping for good results in government in Great Britain, after condemning the people to take no part in public life except in the case of rural district councils. The cultural value of the town is entirely neglected, and not enough is made of the fact that the native to-day is not the native of forty years ago. At the same time, native names appear on the same voters roll as European names. This is out of keeping with the principle of gradual education in government. It is a survival from the traditions of the Cape Colony, where the common roll was instituted at the time when public worship of the franchise was at its height. Great numbers of Rhodesians believe that the franchise does very little for the poor and ignorant, and that the native vote in the Cape is a playground for unscrupulous politicians. They hold, therefore, that there is no excuse for not confining the native vote in Southern Rhodesia to the native institutions which the native can understand, gradually widening his "sphere of influence" as he progresses.

The Reform party, which will oppose the Rhodesian party at the general election next year, is not anxious to make party politics of the native question, but it holds that the present Government has made a mistake in resting

The Situation in Southern Rhodesia

on its laurels after its accomplishment of the Land Apportionment Act. The party is anxious to take steps towards what Lord Lugard has laid down as the aim: "in matters social and racial a separate path, each pursuing his own inherited traditions, preserving his own race purity and race pride; equality in things spiritual, agreed divergence in the physical and material." In Professor Henry Clay's Report on Industrial Relations in Southern Rhodesia occurs the following sentence, which seems to present the Rhodesian party's view—the italics are the writer's: "The relation of advanced and backward labour is much more complementary than competitive. The increased employment of natives increases the number—and possible remuneration—of supervisory, responsible and specially skilled posts *which white men must always fill.*"

Every social and economic problem in the Colony is interpenetrated by the native problem, but, lest the reader should tire of looking at the country from that angle, let us adopt another viewpoint.

Before passing on, however, it should be mentioned that there is another local cause of unemployment besides the one described on a previous page. It is the loss of the chrome and asbestos markets and the outbreak of foot-and-mouth disease already referred to. The usual palliative methods of providing work on roads and public works have been adopted by the Government, but, except for equipping a few prospectors and paying them, none of the large sum voted for the relief of unemployment is being devoted to the development of the Colony's resources in a direct way, and the road programme actually adopted is neither essential nor within the Colony's financial means. This brings up the question of the financial situation.

The Financial and Economic Position

In order to give some general idea of the country's financial position, a summary statement, showing the

Southern Africa

estimated balance of international payments of Southern Rhodesia for the year 1931 is appended. It was elicited from the Government by Captain Downes, an Opposition member during the last session of the Legislative Assembly. The figures were given subject to slight amendment. A glance at this statement will make it clear that the Colony's profit and loss account for 1931 shows a loss of £3,067,000, and its cash account shows that, to meet that loss, it received £187,000 of invested capital and added £2,880,000 to its floating indebtedness.

The premium on gold production has given a fillip to the gold-mining industry, and in an effort to balance the budget a tax has been placed on that premium. Civil servants' salaries were also reduced in November last year.

In 1930 the four largest exports were as follows :—

Gold	£2,224,028	Chrome ore ..	£441,350
Asbestos	620,400	Cattle for slaughter	340,645

Last year foot-and-mouth disease broke out here and there, and the export of cattle to the Union, above all, entirely ceased. Since 1930, too, asbestos and chrome exports have rapidly dwindled away, due, it is said, to foreign competition. Judging from a recent speech by Major Hudson, the acting Premier, the Rhodesian party are resigned to the total loss of the chrome ore export owing to the Colony's distance from a port and from world markets. The Reform party believe that a reduction of 4s. a ton on railage of chrome ore to Beira would have saved the situation, and do not despair of recapturing both the chrome ore and the asbestos markets.

The main industry of Northern Rhodesia until recently was copper mining. The closing down of many of the copper mines owing to the present state of the copper market has had its effects upon Southern Rhodesia, since Northern Rhodesia is Southern Rhodesia's best customer for agricultural products, for locally manufactured articles

The Situation in Southern Rhodesia

such as soap and oils, and for many articles imported for the purpose of re-export.

The fact that the Union of South Africa is "on the gold standard," while Southern Rhodesia is linked to sterling, is fast killing trade with that Dominion, while the customs agreement between the two territories, which was made before the foot-and-mouth disease broke out here, now operates very adversely to Rhodesian interests. There is a growing demand that the agreement should be revised or abrogated altogether. Southern Rhodesia has, of course, no seaboard, and its natural port is Beira in the Mozambique Company's territory, but the Portuguese administration of that port is such that many exasperating delays occur.

The cessation of the export of chrome and asbestos suggests to the superficial observer—at all events the opinion is fairly widespread—that the interests of the Colony possibly conflict with those of powerful corporations which have a controlling interest, and which may not be ready at the moment to develop these minerals further.

This brings us to the mineral rights question, which has been a battle ground for politicians for many years. Mineral rights are the outcome of British policy. When the scramble for Africa was taking place, the Imperial Government recognised as valid treaties with native chiefs, and the British South Africa Company's agents secured concessions from the Matabele chief Lobengula. A charter was granted to the Company, recognising the rights that it claimed to have acquired from Lobengula, and other executive Acts of the British Government, including the Letters Patent conferring a Constitution on the Colony in 1923, reiterate this recognition by implication. The Rhodesian party has, until this year, held to the view that the Company has an indisputable title. At the last session of the Assembly, however, the Premier, Mr. Moffatt, under strong pressure, took the line that, though the Government was convinced that the minerals belonged

Southern Africa

to the Company, and that even a legal decision affirming this would not check the grumbling that went on in the country because a commercial company owned the minerals, he thought that the matter should be decided by a competent tribunal. The Company was asked if it would go to arbitration. It refused, and made a counter request that the Government should give an unequivocal recognition of its rights to the minerals. This the Government refused to do. In his *Dual Mandate in British Tropical Africa* Lord Lugard has pointed out the folly of vesting the land or minerals of an African State in a commercial company. Be that as it may, there are many who think the original vesting of mineral rights in the Chartered Company was sufficiently vague in its terms to admit of legal controversy as to its validity. The result of any action which may be taken will, therefore, make interesting reading. No provision was, however, made in the estimates for 1932-33 for taking the case to the Privy Council.

Rhodesia, being land-locked, is absolutely dependent on its railway system. This is controlled by the B.S.A. Company, which, in turn, claims the ownership of the minerals, not only in Southern but in Northern Rhodesia as well, and has also the citrus fruit export trade in its hands, besides large interests in almost every field of production. The scene is certainly laid for a conflict of interests between the Colony and the Company, and it would be futile to ignore that fact. The peculiarity of the Rhodesian economic field is that it contains practically only one capitalist—the powerful financial group which comprises the B.S.A. Company and its subsidiary companies. Possibly the high cost of living and the high scale of wages which have obtained in the Colony ever since the white man came, in 1890, would have been brought down, if either Rhodes had been spared to guide the affairs of the Company, or if the State could have taken over the railways when responsible government was granted. The giant, Mono-

The Situation in Southern Rhodesia

poly, however, has now been with the people so long that it is only in hard times like the present that they begin to stir uneasily under his rule and to wonder how far he will go. Even a slight trade revival before the next general election will probably have a soporific effect. The Reform party's view is that holders of monopolies can be obliged to work them beneficially, that greater control over the transport system must be obtained by the Government, and that business men abroad are wrong to believe, as they seem to believe, that the Colony is the special preserve of the B.S.A. Company. It proposes a publicity campaign to advertise Rhodesia's enormous mineral resources, and hopes thus to attract capital for development purposes.

Future Prospects

A few of the major difficulties of the country have now been presented. The people might have gained more confidence in the Government if the appended summary of international payments had been discussed at the last sessions of the Assembly and a frank statement made by the Government in regard thereto. The Government, however, decided to shelve the matter, and produced a budget which showed a deficit for the first time in its long term of office. It pinned its faith to the Ottawa Conference, where it was represented by Mr. Moffat, and the Treasurer, Mr. Fynn. At the Conference the most striking preferences gained for Rhodesian exports were on copper, citrus fruits, dairy produce and maize, though it remains to be seen whether maize can be produced at a profit for export even with the aid of the preference. The existing preference on tobacco was retained, which is a matter for rejoicing, since tobacco is the one crop which can be grown over almost the whole Colony on the sand veld that forms 80 per cent. of its surface. It is likely to be a fairly stable export commodity as long as people smoke. The dairy industry is being developed, and, the Reform party believes, can be developed still faster. It

Southern Africa

has already been stated that the export of copper and citrus fruits lies in the hands of the B.S.A. Company. The Company, therefore, may well feel pleased with the results of the Conference.

The Labour party is not strong enough to gain a majority at the next elections in a Legislative Assembly of thirty members, but it is quite probable that it will hold the balance of power. Its policy is a less thoughtful and less complete edition of the Reform party's, and has little resemblance to the policy of any European socialist party. This is to be expected in a country where there is really only one thing to be done, and that is to develop natural resources. Natural resources cannot be developed without capital, and capital has a way of bringing with it the ideas of the capitalist. Both the Reform and the Labour parties are socialist in tone in so far as they hope for greater activity from government, and in seeing that Capital with a big C does not take the bit between its teeth.

The Reform party has been struggling to produce a sound policy for many years, but has been handicapped by changes in its leadership and numerical weakness in the House. At the beginning of the year, however, it added three Independents to its ranks and thus brought its numbers up to seven. Two of these Independents formerly belonged to the Rhodesian party. One of them was Mr. G. M. Huggins, F.R.C.S., probably the most popular figure in public life in the Colony, who was elected leader of the Reformers at their Congress last July. The party thereafter began to attract new members, particularly from among the younger men, and, though some of the lesser lights have a good deal of leeway to make up before they gain public confidence to the extent that their leader has it, it can fairly be said that the chances are even in the coming contest. The Reformers have begun their campaign early. The Rhodesian party is holding its hand, so that it cannot be said what new features there will be in its policy. Two straws which may indicate the way the

The Situation in Southern Rhodesia

wind is blowing are that, whereas about a year ago the Premier received a vote of no confidence from a meeting of his constituents, Mr. R. A. Fletcher, who was dismissed from his office of Minister of Agriculture and Lands by the Government at the beginning of this year, was assured by his constituents that they would support him, whatever party he stood for.

The Reform party has long been working for that amalgamation of the two Rhodesias which the Chartered Company long ago suggested. Latterly, the Rhodesian party leaders have begun to toy with the idea. The vast tract of hot infertility that is Northern Rhodesia is a big responsibility, but time and the copper market may justify the step, especially if Nyasaland will join in. A British central African federation of States sounds attractive, though it will always have to be remembered that climate and native policy will make for different principles of administration in the north, where the White Paper policy is accepted. If local politicians of all parties are to be believed, Rhodes's dream of unity from the Cape to the Zambesi seems to have been nothing but a dream.

An outlet to the west, either to Walvis Bay in the Mandated Territory of South-West Africa or to Tiger Bay in the Portuguese colony of Angola, is the ambition of the Reform party. If a railway is built, it should be State-owned. It would be a kindly act on the part of Great Britain to render assistance. About £2 million would be required to connect the Colony with Walvis Bay, though Rhodesians realise that this route might raise difficult problems in relation to the Imperial Bechuanaland Protectorate and the Mandated Territory. Probably the route to Tiger Bay would be preferable along a railway corridor bought either from the Union or acquired from Portugal, which might possibly find the cession a convenient method of liquidating part of her debt to Great Britain.

Southern Africa.

October, 1932.

P

New Zealand

and the further opening of the United Kingdom market by the regulation of the importation of foreign products into that country." "It is a matter of general agreement," he continued, "that tariff barriers, rising higher as they have since the war, are a cause of trade dislocation and depression. We welcome any promise of a lessening of restrictions, so as to permit of a freer exchange of goods in the normal course of trade."

From this casual reference no one would have guessed the important part that the idea of regulating imports into Great Britain was destined to play in the debates at Ottawa. It was, however, challenged at the time by a far-seeing representative of the farming interest. Mr. H. D. Acland, their president, warned the Sheepowners and Farmers Federation that "the principle of the quota in any form was a dangerous one. . . . Once that was applied to foreign produce," he pointed out, "it was only a step to apply it to Dominion meat and butter. Where would the balance of New Zealand lamb, butter, etc., be marketed, if Great Britain did not take it?" There were, he remarked, really two British Empires, a political and an economic one, and the British elector was not likely to forget that the Argentine was a member of the economic Empire.

The Conference had already made some progress before it was possible for us, at this distance, to guess the dominant issues. It appeared, however, that Mr. Coates's anxiety to secure a full market for New Zealand lamb had placed him firmly by the side of Mr. Bruce, who, for his part, was trying to get an assured market for Australian beef; but how this had come about was by no means obvious. Nor did a full report of Mr. Coates's opening speech, which reached New Zealand on August 16, make the position any clearer. The following passage gives the gist of the speech:

It is, we think, necessary (said Mr. Coates) that, in the present emergency they [tariff preferences] should be aided by some more direct means. For this reason we support . . . the judicious application with respect to selected commodities of the principle of the quota

The Ottawa Conference

to govern the importation of non-Empire products into Empire markets. In no case do we think the quota . . . should apply to products of the Empire; but the end can be best achieved by taking power to restrict the volume of foreign imports. This is an unusual course, but prevailing conditions are so highly abnormal that we are forced to regard it as necessary. . . . At the appropriate time we shall be prepared to discuss the application of the principle of the quota to selected articles of import into New Zealand. New Zealand is concerned at the threatened flooding of the markets on which we rely; and in respect to dairy produce, meat and fruit we think that a quota on imports from foreign sources into the United Kingdom is urgently necessary.

In the absence of any trustworthy account of the debates, or of any official statement, there was a distinct tendency to criticise Mr. Coates's attitude as being rather too insistent, too ready to ask, and too apt to lose sight of the reciprocal aspect of the negotiations. Even newspapers which had consistently supported him joined in this chorus. No doubt, one of them suggested, the Australian press correspondents, in their desire to make a graphic story out of insufficient material, had exaggerated the Dominions' demands and the way in which they were put forward, an impression that was strengthened by Mr. Baldwin's statements, which read like dignified reproofs of the importunities of the overseas delegates.

We do not believe (said the *Dominion* on July 30) that Britain would have stated the hard facts if the Dominions had not asked so much and apparently been so oblivious of what they were already receiving. There seems no limit to their pretensions. . . . For the past week the Dominions' representatives seem to have been wholly occupied with agreeing on what they shall ask of Britain. It is high time they remembered the mutual principle and returned to reciprocity in spirit and in deed.

Another strong Reform paper, *The Press*, of Christchurch, wrote as follows:

The meat scheme is only one example of proposals which involve for Great Britain the consideration of a wide range of issues. She is still the leading commercial nation in the world and it is far more important to the Empire that she should maintain this supremacy than that the Dominions should enlarge their share of her trade.

New Zealand

It was not surprising, in view of the tone of the cablegrams, that this critical feeling persisted here throughout the Conference. As late as August 15 the *Otago Daily Times* insisted that the Dominions must make sufficient concessions to justify their requests for assistance. The *Dominion* felt that, if the reports of the Conference were correct, Mr. Bruce and Mr. Coates were "displaying almost an excess of zeal." The *New Zealand Herald* asked its readers to appreciate the difficulties of Great Britain in meeting such demands. These are all Reform papers; the Independent *Evening Post* also on August 16 stigmatised the negotiations as "inglorious warfare."

It is only fair to say that this criticism of Mr. Coates was to some extent prompted by resentment at the propaganda which had flooded the country from the moment the Conference was first mooted until the departure of the delegation. It was also partly due to that feeling of almost passionate attachment to Great Britain which is always a factor in New Zealand public opinion. The average New Zealander, with no personal interest at stake, was rather shocked to find New Zealand apparently aligned with Australia and South Africa in opposition to Great Britain. But the prominence given by the press to the demand for the quota is now seen to have been exaggerated—it took the public by surprise. They were, no doubt, themselves to blame for this, for the quota proposal had been definitely before the country ever since the Government invited suggestions for the Conference. The *New Zealand Gazette*, for instance, asked people on March 31 to consider the question whether "any action by way of quota schemes, bulk purchase schemes, or otherwise, should be adopted in any part of the Empire to restrict, limit or control the quantity of goods which may be imported or exported from any part of the Empire." But with the information they had, how could the uninitiated public of New Zealand possibly have known that the British delegates had, from the outset, refused to entertain any idea of a tariff

The Ottawa Conference

on foreign meat, but were themselves insisting on a limitation of imports. It is obvious that Imperial Conferences thus reported run a risk of being wrecked on the rocks of a misinformed public opinion.

When the cabled précis of the twelve agreements between the various units of the Empire appeared in our press on August 22, there was a general chorus of satisfaction. Perhaps it was the reaction from the suspense which, according to the cablegrams, marked the last days of the Conference that banished the disposition to be critical. Mr. Forbes generously acknowledged that success "was rendered possible only by the broad Empire view taken by the British delegates, and adopted by the Conference as a whole. In the absence of such a spirit the interests of the British Commonwealth might well have suffered a grave injury." He welcomed the agreements, which New Zealand would of course carry out both in the letter and in the spirit, reminding the public at the same time that "the advantages thereby accruing would no doubt entail some sacrifice by the community. This," he felt confident, "would be cheerfully accepted by the people of New Zealand, regarding the matter from the broadest possible viewpoint and not with any narrow spirit or sectional interest."

The fears of the meat producers that a limit was to be imposed on New Zealand exports were allayed by Mr. Coates making public his letter of August 19 to Mr. Baldwin, in which he undertook that the Dominion, in order "to assist in the orderly marketing of supplies," would give a reliable estimate as early as possible in each export season of the mutton and lamb to be shipped in it—the shipments are likely to be the same next season as last, *i.e.*, 200,000 tons, and to increase 5 per cent. in each of the two following years. In view of this undertaking, no restrictions will be placed by the British Government upon the importation of any meat from New Zealand until June 30, 1934.

New Zealand

If I may say so (said Mr. Coates) we may describe the agreement as a "gentlemen's agreement." You may be able to drive a coach and four through the agreement, but this might be said of most agreements.

Examples of press opinions on August 22 and the following day are appended. They contain references to the quota, and there are some interesting second thoughts on the position of New Zealand industries under the new agreement. Mr. Coates's comments on the latter question a month later were as follows :

There were (he said) only a few tariff items in which New Zealand was to lower her tariff rates. None of the rates agreed upon would expose local industries to unreasonable competition. All were keen to build up industries in New Zealand, but there must be some basis of competition. We can't have it both ways.

He added that the manufacturers of the United Kingdom would have the right they had always enjoyed of presenting their views on any tariff changes. The Prime Minister, on the same day, reminded the country that :

If arrangements had been made whereby preferences were granted to Dominion products, the people of the Dominion should remember to respond by buying Great Britain's products. That was a fair, indeed necessary, policy, and one which should not be forgotten.

Mr. Stewart's Visit to London

The decision of the Government that Mr. Downie Stewart, the Minister of Finance and the Secretary of the Treasury, should visit London after the Conference was no surprise. It had been freely suggested before he left New Zealand that Mr. Stewart might do good service by getting into personal contact with the City, and the public, clutching at any straw, had a vague idea that by some magic touch he might be able to lighten New Zealand's load of debt. The successful conversion of Great Britain's war loan encouraged hopes that New Zealand's interest bill might be scaled down in the proportion of 5 to 3½. The *Auckland Star*, for instance, thought that "there was no

Domestic Problems

reason why inter-Empire debts should not be discussed without delay, and asked to what length Britain could go to give the Dominions assistance"; and the *New Zealand Herald* rejoiced that in Mr. Stewart the Dominion had a skilled representative "possessing those qualities of character and mind which will safeguard the country's honour in any request for concessions." *The Press*, however, also a Reform organ, warned its public that "it would be quite unreasonable to ask for sweeping conversion of the oversea debt before dealing as sweepingly with the internal." A statement appended to the last budget showed that between 1932 and 1938 (both years inclusive) debts amounting to £55,051,787 would mature, and of this sum only £50,100 was in London, £2,342,950 being held in Australia and £52,658,737 in New Zealand. To the London amount there must, however, now be added the £5,000,000 loan recently raised at 5 per cent. which matures in 1934.

It had been expected that the export licence orders-in-council of December 22, 1931, under which the Government had a first call upon New Zealand exchange credits in London, would have to be kept in operation until the end of the year. The raising of the £5 million loan in London in April has, however, relieved the position, and the pool was abolished as from July 1. Since then the exchange has been subject to ordinary market influences. There was no marked movement in the rate when the market became free, and business has since been done at about 10½ as compared with 10 per cent. under the control.

II. DOMESTIC PROBLEMS

The Land Question

THERE is general agreement that an essential condition of our recovery is a rise in the price of our produce. The question naturally arises—and so far it has had no clear answer—what increase would be acceptable? It has been suggested that the prices ruling three years ago would

New Zealand

suffice, but an increase that would satisfy the dairy farmers would not satisfy the wool growers, who during the season just closed received an average price of 5·26d. per lb. as compared with 14·99d. in 1928-29.

Unfortunately, New Zealand land, like that of so many other new countries, has not yet passed out of the speculation stage into the more stable, if less showy, conditions which make for expert farming. A large number of farmers are staggering under mortgages which bear too high a ratio to the capital value of their holdings. Just what the weight of this "monkey" on their back amounts to it is impossible to estimate. Suffice it to say that, for years past, the farmer's friends, frankly confessing his dependence on the rentier, have put the interest charge at the head of the sheet in their estimates of the cost of production. With this heavy charge to meet before he can hope to reap any profit, it is little wonder that the farmer has turned from one expedient to another in search of relief. The sheep returns show that the flocks have been reduced since 1929 by 2,235,068 head, or 8 per cent.; last season 1,500,000 more sheep and lambs were slaughtered than in the previous one, a result partly due to the financial straits of the farmers. Yet, on the other hand, there has, in the last two seasons, been an increase of 280,000 in the total number of dairy cows, and though, according to the annual report of the Dairy Produce Board, the yield of butter fat per cow shrank from 218 lb. to 185 lb. between 1929 and 1932, the total output of the industry has increased. The depression has now lasted for at least three years, and many farmers, by reason of their inability to pay interest, have been reduced to the position of caretakers.

It might then reasonably be supposed that the price of land would have dropped substantially, and that prospective small farmers would be able to obtain farms on reasonable terms. This does not, however, seem to be the case. Though "walking off" is a *cliché* at the moment, there are in reality few vacant or derelict farms available for

Domestic Problems

new men. A number of mortgages have been made less onerous, and Parliament has reduced the general rate of interest on mortgages by 20 per cent. Large sums have also been voted to subsidise the supply of fertilisers, and many have reaped some benefit from the swing of the exchange. Yet it is obvious that a considerable number of farmers are trying to carry on at valuations which bear no relation to the present earning capacity of the land.

The public lending departments—the Public Trust and the State Advances—are of course in the same position as other mortgagees, and Mr. Ransom, the Minister of Lands, talking things over with the New Zealand Farmers Union, told them that

the present is not the time for revaluation of either Crown or private lands. I am not sure where it might lead to if we attempted to revalue. It has been suggested that the valuation should be put back to the 1927 level, but I do not think we could reach any general level of treatment or general revaluation basis as at any particular year. . . . Our objective is to try to retain all our farmers on their farms.

The arrears of rent owing by crown tenants on March 31 amounted to £1,289,117, and postponements to £298,388, a total of more than £1½ million. Mr. Ransom suggested that it would be a very serious responsibility to wipe off this large amount. The fact is that at present there are no quotable prices for land, for there is no real volume of business in a free market upon which such prices can be based.

The uncertain position prompted the Governor-General to utter a timely warning against a renewal of speculation. Speaking at the Royal Empire Society in Christchurch on August 12, His Excellency said :

Land as a source of wealth ceases to function if it is the object of violent speculation, and practicable measures for avoiding a repetition of this anti-social process are worthy of the serious consideration of economists and legislators alike. The stable country is one in which husbandry is a profitable occupation, and

New Zealand

in which there is no violent fluctuation of land values as a result of the operations of those whose main object is not to win a living from the land but a temporary profit at its expense. Before prosperity returns this problem will have to be resolutely attacked.

That there is a demand for land in cases where capital is not required was made clear early in August by the Minister, who stated that during the past three years 2,080 crown sections had been taken up, aggregating 738,000 acres.

The Price of Wheat

In face of the partial failure of the wheat crop last summer, the outcry against the high duty on imported wheat shows no sign of abating. For the past decade the price has been regulated by a Statute passed primarily to protect the New Zealand growers who are mainly in the South Island province of Canterbury.* This year the Government had themselves to go into the market to make good the shortage, and last June they purchased 850,000 bushels in Australia, fixing the rates at which it should be sold in New Zealand so as "not to disturb internal price levels." This led to a renewal of public protest. The Auckland Chamber of Commerce was especially incensed at the application of a discriminating duty to equalise prices between North Island and South Island centres.

Although the justification of a tariff has (it said) always been the protection of the local grain industry, the Government is now imposing a purely revenue duty on wheat, and this at a time when poverty stalks in the land. No more inopportune time than the present could have been chosen for this.

The press on both sides of politics joined in the protest. The *Dominion*, for instance, when the legislation was first passed, remarked :

Hardly a day passes without some public body pointing out the handicaps suffered by New Zealand as a whole through the monopoly enjoyed by the Canterbury wheat growers. This monopoly pre-

* THE ROUND TABLE, No. 60, September 1925, p. 850, and No. 63, June 1926, p. 666.

Domestic Problems

judices producers, traders and consumers at so many points that it is no exaggeration to call it a national incubus. . . . At a time of unequalled distress our daily bread is dearer than it need be. In this hard winter, moreover, the State is collecting a punishing tax on the raw material of human life. Wheat under milling grade costs twice as much as milling wheat in other countries. The Canterbury wheat growers are penalising . . . all the other producers. The wheat duties are truly a national handicap.

At this juncture the Wheat Board issued a bulletin explaining that the failure of the crop was entirely due to the exceptional season, and that New Zealand can produce suitable wheat for bread of good quality. Further, the Wheat Agency Company, at the end of September, circularised members of Parliament, denying that the duties had much influence either on the cost of living or on the pork and poultry industries.

The Labour Position

Looking back over the quarter it can be said to-day that the labour position—as distinguished from the unemployment question—everything considered, gives distinct reason for satisfaction. It will be remembered that, during the last session of Parliament, the Industrial Conciliation and Arbitration Act was amended, in spite of the determined opposition of the Labour party, by substituting compulsory conciliation for voluntary conciliation and compulsory arbitration.* In the past, practically every dispute considered by the Conciliation Boards had remained unsettled and been automatically passed on to the Arbitration Court. The hearing of the Conciliation Boards had indeed become a superfluous and expensive formality. Under the new Act, if a settlement is not reached before the Conciliation Councils, the existing awards automatically expire after the lapse of a month unless a majority of the assessors recommend a reference to the Arbitration Court. It is thus incumbent on both parties to try to reach a settlement in the first instance if possible.

* THE ROUND TABLE, No. 88, September 1932, p. 913.

New Zealand

After the passing of this Act the labour unions prepared for a strenuous fight in defence of their rates of pay and standards, and, with the approach of the new exporting season, it was feared that there would be a concerted effort to force the hands of the employers by threats of a strike. For a few weeks the outlook was gloomy in the extreme; nor did it improve when the first cases came up for hearing. The first one of any importance was from the coal-mining industry in Auckland province. Failure to reach a settlement under the new conditions (which involved a reduction of wages) had led to a suspension of work in the mines and to several abortive conferences. At this stage, however, the Governor-General made a strong appeal to both parties at Helensville.

I earnestly exhort both parties to this ill-timed dispute (said Lord Bledisloe) to get round a table as soon as they possibly can in a friendly spirit, and with a readiness to give credit to each other for fairness of intentions and honesty of purpose; and resolutely to seek at least a temporary agreement until the nation's present acute distresses are overpast.

Later in the day the Government invited delegates from both sides to meet in Wellington under the chairmanship of the Minister of Labour, and an agreement was reached the following evening, the miners resuming work on July 12 after five weeks idleness.

Close on the heels of this trouble, came the dispute of the waterside workers—the terms of the Auckland ship-owners (also involving a reduction in wages) had been unanimously rejected at a ballot of the workers and the ports of the Dominion were unsettled for weeks. Awards also expired affecting important branches of industry, such as meat-freezing, saw-milling and timber workers, shop assistants, tailoresses, and others. Though many cases remained unsettled, it was, however, already apparent at the end of July that the unions were not disposed to go to the length of a general strike, and the disputes were gradually settled one after another. At the

Domestic Problems

same time neither employers nor workers seemed ready for the atmosphere of real conciliation which the amended Act calls for. They have been accustomed for decades to fight at every ditch, and it took all the influence of the press and others to bring home the new duty of really trying to arrive at a settlement by friendly negotiation. The first noteworthy triumph of the new spirit was at Christchurch on August 12 when the parties to the coal, timber and saw-mills dispute came to an agreement without any necessity for the filing of counter-claims by the employers. Five days later came the first settlement by a Conciliation Council of a Dominion-wide dispute, that of the shop assistants; later the miners in the South Island accepted the owners' terms, and although the new terms generally involved a reduction of wages, there was one case at least, that of the Wellington tailoresses, in which an increase of pay was granted by the employers, coupled with a reduction of weekly hours, in return for a promise by the employees to adopt a "team" system of working. In the case of the shearers, the dairy factory hands and the waterside workers, however, the old awards still remain as they were, and the possibility of the export trade being interfered with is not quite eliminated.

These inevitable reductions in wages have been received by the Labour leaders with a feeling akin to despair, and the *New Zealand Worker* appealed to the workers to unite and adopt "a common policy to defeat the wage-slashers."

Unemployment

Meanwhile unemployment continues. In a statement to the House of Representatives, the Acting Minister showed that, for the week ending September 3, there were 49,380 in receipt of relief under scheme V, 7,076 standing down, and 16,785 men and youths in employment provided through the Unemployment Fund—a total of 73,241 males wholly or partially unemployed. The revenue from the fund, which is mainly derived from the 1s. in the £

New Zealand

tax on wages, salaries, etc., would, Mr. Hamilton estimated, probably yield £3,850,000 in the current financial year. He hoped that, after that month, there would be an appreciable improvement, and a surplus of £100,000 on March 31. As regards the cost of administration of the fund:

It is questionable (said the Minister) if in any other part of the world the financial arrangements of the Government for handling the unemployed problem are as sound as in New Zealand. The whole of this money, amounting to between 3½ and 4 million, is being raised by taxation and not from capital expenditure. The payments given to relief workers continue to be paid in return for work done. Most of this work is useful and is building up valuable assets for New Zealand without adding to the national debt.

The duty of finding work for registered unemployed classed as fit falls on the local bodies. The Unemployment Board has hitherto been paying to the local authorities up to 90 per cent. of the statutory sustenance allowance for men for whom they cannot find work. Feeling, not unreasonably, that some of the local bodies were taking advantage of this to shirk their duty of finding work, the Board decided early in September to reduce its contribution from 90 to 50 per cent. In announcing this decision, Mr. Hamilton repeated the sturdy reply Mr. Forbes gave early in 1931, "the Government's policy all along has been no work, no pay."

Hopeful Signs

Though by no means a pessimist, Mr. Forbes has acquired a distinct reputation, since he became head of the Government, for facing facts and calling a spade a spade. His blunt frankness in putting the financial position before the country indeed, without any attempt to minimise its seriousness, commended him to the public as the type of man the occasion called for. Throughout the long months of depression he has been extremely guarded in his utterances so as to avoid exciting the dangerous delusion that the worst is past and the country on the high road to recovery. When, therefore, he did feel justified, a few months ago,

Domestic Problems

in indulging in a mild expression of satisfaction at the state of the public accounts, it was at once taken as a sign that things had touched bottom, even if the hoped for rise was not yet in sight.

At the end of June the accounts for the financial year ended March 31 showed a deficit of £2,140,819, or £400,000 less than the estimate made on the strength of the figures for eleven months of the year. "Such a shortage," said Mr. Forbes, "cannot be accepted with equanimity, but . . . we can at least derive some satisfaction from the fact that it is not as large as we had feared it would be. For the most part this deficiency is caused by the extraordinary expenditure on exchange (£374,000), and the subsidy to the unemployment fund (£1,120,000)."

A week or two later the Prime Minister commented at Christchurch on the upward trend of the markets, especially for wool, and expressed his confidence that from now on there would be a steady improvement in general conditions; there were many signs of returning confidence, and this in itself was an important step towards recovery. A week later a prominent business man, Mr. Shirtcliffe (chairman of the Royal Commission on National Expenditure), remarked, "there are, I think, distinct indications that the lowest point of the slump has been passed."

The revenue figures for the first three months of the financial year, and the monthly returns of revenue and expenditure for the railway and post office departments, also indicated a slight upward movement, while the customs statistics showed every month a healthy, if in some ways a regrettable, surplus of exports over imports. Though the prices of both wool and meat were still low, the new export season thus opened under distinctly favourable conditions. The benefits to be expected from Ottawa have lost nothing in the telling, and the feeling that something good would come of the Conference helped to infuse the germ of hope into the public mind.

New Zealand

On September 2 Mr. Forbes went a step further and suggested that there might even be a reduction of the relief tax. "Things are," he said, "moving along very smoothly with the country's finances. An improvement has taken place in the general trading position, and the national revenue is feeling the reflex of returning confidence."

During the winter the favourable visible trade balance, on the basis of value, has been well maintained. According to the Customs Department exports for the production year (which ends on July 31) were valued at £35,125,236, and imports at £23,036,562, showing a favourable balance of £12,088,674, the largest for the last ten years. The exports for the production year just ended were practically the same as for the preceding year, but £20,000,000 less than in 1928 and 1929. Imports, on the other hand, were valued at less than half of their average value for the whole of the period from 1923 to 1930.

The Government Statistician reports that the dairy season just over was a record for output, though the average level of prices for the whole year was slightly lower than for the previous year, and considerably lower for butter. New Zealand stood second last year in the list of butter and also of cheese-exporting countries. So, on the whole, the customs figures amply support the cautious optimism of the Prime Minister.

New Zealand.

October 1, 1932.

New Zealand

APPENDIX

SOME PRESS OPINIONS ON THE OTTAWA AGREEMENT.

"There may be some who will be disappointed. . . . Nor should it be forgotten that the Dominions themselves were determined to continue the protection of their secondary industries against British competition. The drive to secure restriction on British imports of Argentine chilled beef has succeeded. . . . How far this is going to help the mutton and lamb market in which New Zealand is chiefly interested remains to be seen. . . . It also appears as if some limits are to be placed on Australian and New Zealand exports of mutton and lamb to Britain. This agreement cannot at present be regarded with equanimity. . . . Altogether the Conference has proved a first-class success. Looked at in comparison with its predecessors, it outtops them all. Regarded in the light of what had been possible a year ago it gives cause to marvel."—*The Dominion* (Reform).

"Most dairy farmers will be glad that the proposal to apply quotas to dairy produce was abandoned in favour of a quantitative preference. . . . By themselves these preference agreements cannot substantially increase the value of Dominion exports. For both Australia and New Zealand there can be no return to prosperity without a rise in commodity prices."—*The Press* (Reform).

"The goal of reciprocal preference has been brought appreciably nearer. As an effort to raise and stabilise price the quota may have practical merit. It is a virtual invitation to South American countries to select for export to Britain only the highest quality and thus to intensify, on a qualitative basis, foreign competition with the Dominions. It is well that the quota arrangements are subject to early review, with the expectation that the more stable effect of preference may be advantageously substituted."—*The New Zealand Herald* (Reform).

"The British Empire will not be made more lasting than Imperial Rome merely because its Dominions have been given tariff advantages over their rivals; it will not be able to fulfil its tremendous obligations to the rest of the world by little family arrangements. Its prestige can be maintained, its advance assured, only by a universal realisation of their true responsibilities by the statesmen controlling every unit."—*The Sun* (Independent).

"If there is a catch in any of these agreements it has not been deliberately inserted, and the miracle is that within a month such unanimous agreements should have been arrived at. . . . Ottawa is a beginning, and the possibilities are limitless."—*The Star*, Christchurch (Liberal).

"The development is not merely an event; it is a revolution. We gave preference to the goods of the Mother Country because it was manifestly to our interest to assist the country that constitutes the main market for our own exports. . . . The character of the British Empire has been changed overnight, and that, surely, is a fact of tremendous historical importance."—*The Times*, Christchurch (Liberal).

"The question which secondary industries must soon face is whether

New Zealand

they will rely on efficiency or on tariff protection for their continuance.”
—*The Evening Star* (Dunedin).

The *Auckland Star*, another strong Liberal organ, suggested that the reconciling of a lowered tariff with the policy of fostering secondary industries “will present as delicate a task as any New Zealand Government has undertaken.”

The *Otago Daily Times* said that “the agreement would not bring any gratification to industries in this country which are more or less dependent upon the protection they receive for their ability to carry on. Generally the prospect of a reduced tariff may be regarded as a challenge to the New Zealand manufacturer to strengthen his position, to organise his enterprise in a manner that will secure a maximum of efficiency.”

The *Christchurch Press* believed that “the Tariff Commission will have an unpopular and extremely difficult task. There will have to be much arduous negotiation, in which the Governments of the Empire will be called on to show the same patience and generosity as they showed at Ottawa.”

The *Christchurch Sun* believed that “all but the strongest New Zealand manufacturing industries may be driven to the wall. There is a possibility that more has been given than may in the end prove to be economically expedient. The strongest industries are the ones that deserve to stand, but there are certain industries which deserve to be encouraged because of their potentialities. . . . The Government will be a poor servant of the people if it is so enthusiastic in its loyalty to Great Britain as to be negligent of its obligations to the manufacturers of this country and the people who rely upon prosperous factories for their welfare. It will be a bad day for this country if the manufacturing industries are butchered for the purpose of gaining new concessions for meat and butter.”

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
War Debts and World Recovery	245
I. <i>The American Environment.</i> II. <i>The British Case.</i> III. <i>British Policy for Washington.</i>	
The Opportunity at Washington	270
I. <i>Introductory.</i> II. <i>The Political Issues.</i> III. <i>Economic Issues.</i> IV. <i>The Immediate Alternatives.</i> Appendix: <i>Summary of the General Programme for the World Economic Conference.</i>	
The Victory of Mr. de Valera	286
I. <i>Cumulative Difficulties.</i> II. <i>The Surprise Election.</i> III. <i>The Result of the Election.</i>	
Japan and the League	307
I. <i>The Reaction to the Lytton Report.</i> II. <i>The Reasons for the Japanese Attitude.</i> III. <i>The Prospects of a Change.</i>	
The Future Government of India	322
I. <i>The First Two Round Table Conferences.</i> II. <i>The Task of the Third Conference.</i>	
The United States : The New Deal.	335
I. <i>Reflections during a Lull.</i> II. <i>Congress Doings.</i> III. <i>Technocracy.</i> IV. <i>The Economic Issue.</i>	

(Continued on next page.)

Nº 90. Price 5/-. MARCH MCMXXXIII

London: MACMILLAN & CO., LTD.

Entered as second class matter March 15th, 1929, at the Post Office at Boston, Mass., under the Act of March 3rd, 1879 (Sec. 397. P.L. and R).

CONTENTS (*continued*)

	PAGE
A Glance at Trade and Industry	348
I. <i>The Position To-day.</i> II. <i>Competition and Imperial Politics.</i> III. <i>The Railway Problem.</i>	
Foreign Law in the British Empire	362
I. <i>British and Continental Colonial Policy.</i> II. <i>French Law in the British System.</i> III. <i>Roman-Dutch Law.</i> IV. <i>Spanish Law, Oriental Systems of Law, and Local Codes and Customs.</i> V. <i>Conclusion.</i>	
Great Britain	383
I. <i>The Social Policy of the Government.</i> II. <i>The Attitude of the Country.</i>	
Canada	401
I. <i>Politics and Parties.</i> II. <i>Canadian-American Relations.</i>	
Australia	420
I. <i>The Federal Chronicle.</i> II. <i>The Political Parties To-day.</i>	
South Africa	43
I. <i>The Political Situation.</i> II. <i>The Ottawa Agreements.</i> III. <i>The Departure from the Gold Standard.</i>	
New Zealand	45
I. <i>The Ottawa Agreement.</i> II. <i>The Budget.</i> III. <i>The National Expenditure Commission.</i>	

CONTENTS OF Nos. 88 and 89

No. 88. SEPTEMBER 1932	PAGE
Towards the World Conference together with an Appendix containing a Speech by Mr. Stimson to the Council on Foreign Relations in America on August 8	693
The Future of India	705
Ottawa: Interim Reflections	721
The Tragedy of Japan	726
Ireland	747
The Crisis in Central Europe	770
The United States before the Election	794
Manchukuo	808
India: A Less Tense Quarter	819
Great Britain: <i>The Position of the Government—Coal, Cotton and Railways</i>	839
Canada: <i>Personalities at the Imperial Conference—The Broad- casting Problem</i>	853
Australia: <i>The Economists' Report—The Fall of Mr. Lang and the State Elections</i>	871
South Africa: <i>The Session and After—The Native Economic Commission, 1930-1932</i>	891
New Zealand: <i>The Government's Plan—The Reaction— Imperial Matters</i>	909
East India (Constitutional Reforms) Summary of Communal Decision	933

No. 89. DECEMBER 1932

The Foundation for Disarmament	I
The Task of the World Economic Conference	21
Ottawa and the Trade Agreements	44
The Lytton Report	64
The President Elect	90
Russia and the Five Years Plan	99
Ireland: The Tariff War	118
India: The Reaction to the Communal Award	142
Great Britain: <i>The Resignation of the Liberal Ministers—The Position of the Labour Party—The Future of the National Government</i>	162
Canada: <i>The Ottawa Conference—The Railways: The Royal Commission's Report—The St. Lawrence Waterway Treaty</i>	174
Australia: <i>The Ottawa Agreements and Australian Trade— Government Finance and Banking Policy</i>	191
Southern Africa: <i>South West Africa—The Situation in Southern Rhodesia</i>	207
New Zealand: <i>The Ottawa Conference—Domestic Problems</i>	227

NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of THE ROUND TABLE in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way THE ROUND TABLE will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

THE ROUND TABLE can be obtained through any bookseller or any of the following:

GREAT BRITAIN AND IRELAND: Messrs. Macmillan & Co., Ltd., St. Martin's Street, London, W.C.2.

CANADA: The Macmillan Co. of Canada, Ltd., 70 Bond Street, Toronto.

AUSTRALIA: Messrs. Macmillan & Co., Ltd., 32 Flinders Street, Melbourne.

SOUTH AFRICA: J. Tyndall, Esq., 126 Corporation Buildings, Johannesburg.

NEW ZEALAND: The Secretary, THE ROUND TABLE, c/o Messrs. McKay and Little, A.M.P. Building, Wellington.

INDIA: Messrs. Macmillan & Co., Ltd., Bombay, Calcutta and Madras.

EGYPT: The Express Book and Stationery Store, near Shephard's Hotel, Cairo.

CHINA AND STRAITS SETTLEMENTS: Messrs. Kelly & Walsh, Shanghai, Hong-Kong and Singapore.

JAPAN: The Maruzen Company, Ltd., 14-16 Nihonbashi Tori Sancho-me, Tokyo.

UNITED STATES: The Macmillan Co., 60 Fifth Avenue, New York.

Should information be required or difficulty experienced in obtaining a copy of THE ROUND TABLE, application should be made to THE ROUND TABLE, 2 Paper Buildings, Temple, London, E.C.4, or to the above mentioned, or in Australia to Professor T. Laby, F.R.S., The University, Melbourne.

The price of THE ROUND TABLE is 5s. or \$1.00 per copy, and the annual subscription (including postage) 20s., in U.S.A. and Canada \$4, or in India Rs. 15.

Covers for binding volumes, 3s. 6d. each, and back numbers, price 5s., (except three or four out of print) can also be obtained from Messrs. Macmillan & Co., Ltd., London.

WAR DEBTS AND WORLD RECOVERY

EARLY in March representatives of the British Government will reach Washington at the invitation of the new President in order to discuss with his Administration the British debt to America. There will be other subjects of conversation, for in seeking to extend the scope of the conference Mr. Roosevelt is merely giving expression to the view of the great majority of his countrymen that the time has come to talk, if at all, of many things. But the first and most significant fact about this meeting is that it is the response of the United States authorities to the formal request made in November last by the British Government for a discussion of the British war debt.

The moment is opportune for an examination in the ROUND TABLE of certain aspects of the debt problem. Exhaustive treatment is impossible in anything less than a volume, and on that scale the work has already been done admirably.* Nor is it necessary to traverse again the whole ground covered by the British Note of December 1 last.† The historical origin of the debt and the long record of the negotiations, formal and informal, which preceded the funding agreement of 1923, were there rightly given full prominence. But they are not now the factors of most

* See, e.g., *War Debts and World Prosperity*, by Moulton and Pasvolksy, published in September 1932 by the Brookings Institution. Both for the completeness of its record of the facts and for the lucidity and cogency of its economic argument, this book by two American economists is a model of what such work should be.

† Published as a White Paper. Cmd. 4210.

War Debts and World Recovery

immediate importance. The Washington conference is not a gathering of academicians, searching for truth, but a meeting of two Governments for the purpose of negotiations on an urgent practical problem. As in every such transaction, there are limits set to the freedom of the negotiators, not merely by the facts themselves with which they have to deal, but by the public opinion to which they are responsible and to which in the end any agreement must be acceptable. What is the atmosphere in which the British representatives will find themselves? What are the political, financial and economic considerations likely to influence the President of the United States and his advisers in their approach to the negotiations? What, on the other hand, are the broad lines of the policy which carries the support of British opinion and on what reasoning does that policy rest? Is there, or is there not, on the one side or the other, room for compromise or at least for some accommodation? These are the practical questions of the moment, and it is to these that we propose to devote ourselves.

I. THE AMERICAN ENVIRONMENT

THE difficulty at the root of all Anglo-American discussion of the debt problem is not that British and American opinion take opposite standpoints. It is rather this, that an American opinion on the subject does not exist in the sense in which there is in Great Britain a quite clear and definite opinion commanding general acceptance. War debts plunge the disputant at once into international politics and the economics of international trade, into two realms of thought, that is, still infinitely remote from the general mind of America. The immense size of the United States, the wide variety of climate and natural environment, the lack of newspapers circulating beyond the immediate locality, the diversity of races still not fully assimilated—all these factors contribute to the

The American Environment

essential isolation of a self-centred people. Europe is a memory, personal or hereditary, rather than a living part of present reality, a memory which takes many shapes, few of them perhaps attractive.

It would be natural at any time that a people living against this background should approach international problems with greater caution and with more mental reservations than the peoples of Europe, who for centuries have been nurtured on such problems. That tendency is even more noticeable at the present time, when the life of the American people is shaken to its foundations by the economic and financial crisis. In their magnitude and variety, in the simultaneous power of their onslaught on a nation unprepared by temperament or by organisation to meet them, the domestic troubles of the United States are more formidable than those of any other country in the world. Unemployment has been estimated by Mr. Roosevelt at 12 millions, and there is no barrier except public and private charity between the workless and starvation. The national income is said to have diminished in three years by \$40,000 million, or over 50 per cent. The Federal budget shows an accumulated deficit of \$5,300 million in the two and a half years since July 1930, and this deficit is being increased at the present time at the rate of \$120 million a month. Great cities like Chicago and Philadelphia are bankrupt, others like New York are kept afloat by their bankers with loans at 6 per cent. The national crisis has exposed the local banking system in all its weakness. Real estate indebtedness reaches fantastic figures, and behind and overshadowing every other problem is the hopeless insolvency of agriculture, saddled with farm mortgages of \$12,500 million, which the fall in prices has turned into a burden equivalent to \$30,000 million.*

These troubles of his own must, sooner or later, force the ordinary American citizen to review his economic relations

* Senator Borah in the Senate, January 4.

War Debts and World Recovery

with the rest of the world. So far the effect of the crisis has been much the same in America as elsewhere. It has driven the American citizen back upon himself, and has made him more suspicious, more rigid in his Americanism than before—and this at a time when it is of far more consequence to the whole world than at any other period that the United States as a great creditor nation should not retire into its shell.

Amongst this people battered by adversity three main currents of opinion on the subject of war debts can be traced. The leading bankers and economists accept the broad lines of the European case for cancellation or drastic revision. They are immunised by their science or the daily experience of their business against the popular fallacies of the age. But they form a numerically negligible minority and their political influence is slight. A connection with Wall Street is all but an insuperable obstacle to high office. It contaminates the political aspirant like the breath of some private scandal in the England of the 'eighties. The real significance to the European of the discovery that bankers, such as Mr. A. H. Wiggin or Mr. T. W. Lamont, and economists, like Professor Kemmerer or Professor Irving Fisher, think and speak about war debts in the same language as himself lies less in any power of theirs to influence their compatriots than in their value as independent witnesses to the truth of his own convictions.

The second type of opinion is more widely held and probably carries much greater influence in the United States. It is found in important sections of the press and it has its representatives in political life. Beneath many shades of emphasis, its identifying marks are the recognition that in the world of to-day the debt settlements of ten years ago cannot stand, and the insistence that their revision must be "traded" for concessions by the debtors in other fields. In the quest for a counterpart to revision, some favour disarmament, others facilities for American trade, others again the stabilisation of the pound sterling in terms

The American Environment

of gold. President Hoover is the most eminent representative of this whole school of thought, and his more recent recorded views admirably illustrate both the strength and the weakness which are characteristic of it. He knows and admits that it is beyond the power of the debtor countries to carry out the present debt agreements. But his appreciation of the reasons why it is beyond their power is less keen than his sense of moral indignation that American prosperity should have collapsed, or that the world should refuse to disarm. The President's Message delivered to Congress on December 19 is a good example of what we have called this second type of opinion.

Price levels (he said) have been seriously affected by the abandonment of the gold standard by many countries and the consequent instability and depreciation of foreign currencies. I concur in the conclusions of many thoughtful persons that one of the first and most fundamental points of attack is to re-establish the stability of currencies and foreign exchange. . . . It must be realised, however, that many countries have been forced to permit their currencies to depreciate. It has not been a matter of choice. . . . While the gold standard has worked badly since the war, due to the huge economic dislocations of the war, yet it is still the only practical basis for international settlements and monetary stability so far as the more advanced industrial nations are concerned.

We read on, expecting to find the conclusion that payments on account of war debts must be remitted in the interests of exchange stability, but after a digression on disarmament the Message continues :

My views (on debts) are well known. I will not entertain the thought of cancellation. I believe that whatever further sacrifices the American people might make in the way of the adjustment of cash payments must be compensated by definite benefits in the markets otherwise.

The defeated party has no monopoly of these views. On November 28 Senator Pat Harrison, who will be chairman of the Senate Finance Committee in the next Congress, delivered a wireless address, which was generally thought

War Debts and World Recovery

to represent the views of Mr. Bernard Baruch as well as those of the speaker himself. Impressed by the duty of the American Government "to see that our incoming youth shall not be slaves in the economic galley," the Senator suggested that alternative methods of payment should be considered. England might supply, "against some future war need," tin or rubber, jute or silver. Payment might be made in bonds or in industrial securities of the debtor nation. At the worst there was always gold. "It will be hard to convince our people that we would not be better off with payments in gold than with no payments at all."

But neither the view of the bankers and economists nor that of the advocates of adjustment in return for compensations reproduces the authentic voice of the plain American citizen. He, at least, has no illusions. He refuses to see in the request for revision anything more than a cunning attempt by the nations of Europe to transfer their own burdens to his shoulders. His attitude has been recently described in these words by an American writer* :

Many Americans, fearful of being handed a gold-brick, stoutly maintain that Europe can pay. We have become largely an urban people, but so recently that we still have an uneasy recollection of how the rustic is continually cheated by the slick town trader. Europe is slick, a townsman, and we are not going to be taken in. That is the popular feeling, and a worldly-wise scepticism is the popular defensive pose.

For those who hold these views—and there is little doubt that they are still the overwhelming mass of the American people—the difficulty of transfer over the exchange means nothing; the only effect on the United States of receiving payments is that a contribution is made to the service of the internal debt, the only result of remitting them is that an equivalent additional sum has to be provided towards that service by the American taxpayer.

* *Motives Behind America's Stand on War Debts*, by S. Palmer Harman, in *Scribner's Magazine* for January.

The American Environment

There is little in the pronouncements of his immediate political leaders to suggest to the American man in the street that this view of the debt payments is incorrect or inadequate; and it is less astonishing that such opinions should be widespread than that they should be held on the whole with good temper, at a time when the harassing influences of impecuniosity have become familiar throughout the country.

From this electorate are derived the American Legislature and President, and to this electorate they are responsible. On March 4 the United States will welcome to office a new President, a new House of Representatives, and a Senate of which one-third of the members will be new men. They will function under a constitution not at all apt for the easy settlement of questions involving international relations. The theory of checks and balances on which the constitution of the United States was built has been admired and imitated, and there is no reason to doubt that in domestic affairs it has in the main fulfilled the purposes of its authors and facilitated the immense and rapid development of the country and its resources. But as an instrument of government in times of international crisis, in an age when the political, financial and economic destinies of America are inseparably linked with those of the outside world, the constitution in its present form is an anachronism. Instead of action and decision it induces paralysis. The President can govern only if he can impose his will on the Legislature. In that task his Cabinet can give little effective help. They are his secretaries, not his colleagues sharing a joint responsibility, and they are debarred from advocating his policy before either House. The Senate and House of Representatives derive their inspiration not from a Government of their own members, which enjoys their confidence so long as in the free play of debate that confidence is felt to be deserved, but from the distant constituencies and the party bosses. Without a clear majority of his own party in both Houses and wide support for his policy

War Debts and World Recovery

in the country, no President can govern effectively except by the strength of an altogether exceptional personality.

Even in his own country the President-Elect is a dark horse. He was elected by a revulsion of feeling against his rival rather than by any fierce surge of enthusiasm for himself. But he is known as a man of absolute integrity and great personal charm. He has many friends and few enemies, and nothing but exceptional courage, patience and persistence could have carried him through grave physical incapacity to the Presidency of the United States. By foreign observers he is praised rather as a political tactician than as a natural leader ; and only time can show whether the personal qualities which have won general respect will assert themselves in office as effectually as the boisterous vigour of a Theodore Roosevelt or the intellectual and moral force of a Wilson. On the debt question the views of the President-Elect are unknown and it is probable that they are still fluid. He will take office with the certainty that for two years, at least, Executive and Legislature must be Democratically homogeneous. He will know that in the early part of his administration neither the House nor the Senate will wish to humiliate him by factious opposition to any proposal which he presses with the full weight of his authority. But he must know, too, that the Legislature and its Committees, owing to the completeness of the Democratic victory, will be more than usually inexperienced. On the debt question he is aware that almost to a man Senators and Representatives are "on record" against general revision, even perhaps determined never to vote for it unless they can point to the perfidy of the debtors as proof that any alternative would be still more disastrous. He will appreciate, and probably share, the general feeling of sympathy with Great Britain ; he cannot ignore the almost universal ill-will felt in the United States towards France, the bitterness and the lack of understanding which pervade all American comment on French policy.

The British Case

This, sketched in outline, is the environment in which the Washington discussions will be opened in the limelight of American publicity. In such surroundings the prospects of reaching a satisfactory agreement, and of ensuring its ratification before the maturity on June 15 of the next instalment on account of the debt must remain in doubt. That doubt is intensified by the decision to pursue simultaneous negotiations on tariffs, monetary policy and the whole gamut of problems which await the World Economic Conference.

II. THE BRITISH CASE

IN essence the Washington conference cannot be distinguished from any other negotiations in which a debtor approaches a creditor with a view to the revision of the contract between them. It is the universal experience that such negotiations are most likely to lead with reasonable expedition to the conclusion of a new agreement when the debtor makes up his mind, and tells his creditor, what he can pay and in what form he can pay it. In this instance there are the strongest possible reasons for adhering to the traditional practice. Even a brief survey, such as we have essayed, of the currents of American opinion can leave no doubt that it is futile at the moment to look to the United States for any helpful concrete proposal of debt revision. Political tactics, domestic embarrassment and a failure to grasp the real issue all combine to prevent it. The debtor, on the other hand, is convinced that he has an unanswerable case : he knows that the creditor—that is to say, the American people as a whole—does not understand that case. He feels that his duty is plain, to develop his policy from his convictions and to take it to Washington.

The British case has been stated, officially and privately, many times, with the emphasis now on this aspect of it, now on that. Reduced to its essentials, the argument rests not on any abstruse economic theory, but on the

War Debts and World Recovery

plain facts and figures of everyday economic experience. This very simplicity has perhaps contributed to the tendency to embroider the argument with irrelevant detail: it is characteristic of our sophisticated age to believe that what seems simple is probably spurious, and that truth cannot exist without subtlety. To the historian of our times a hundred years hence the emotions of the war years will have their legitimate part in the record, and the generous impulse which then moved the leaders of the American people to regard the advances to the Allies as a contribution to the common cause will be given its proper significance. But the present problem of the debts is a practical business problem, and even if the flickering sentiments of 1917 could again be fanned into flame for the America of to-day, they would not add strength to a good case for revision or conviction to a bad one. Again, the suggestion is often made, both by American and English writers, that given the right approach the United States will renew her traditional generosity. But Great Britain is no suppliant for generosity: she asks not that her creditor should be kind or liberal or forgiving but that he should be reasonable, from regard both for his own interests and for those of the whole world. It is unfortunately true that few individuals and few nations find it so easy to be reasonable as to be generous.

Rejecting everything that is not essential, and eliminating all appeals to passion or sentiment, let us briefly examine the British case for thinking that the debt funding agreement of 1923 cannot be carried out unless substantially modified. That case is built upon the premise that a debt of any magnitude owed by one nation to another can in the long run only be paid if the creditor nation lays itself out to receive payment. To be paid involves much more than passive acquiescence, it requires deliberate and positive action by the creditor. In his international balance of payments the sums which come to him under debt agreements will appear on one side of the account along with

The British Case

his other receipts, such as the value of his exports or the income from his foreign investments or the money spent in his country by tourists from abroad. In order to balance the account, he must spend an equivalent sum abroad, either in the purchase of goods, or in payment for services such as shipping freights or insurance premiums or banking commissions, or in expenditure by his own nationals travelling as tourists in foreign parts, or in making investments abroad whether by loans to other Governments or to industrial enterprises or by acquiring property or securities. The creditor nation need not buy its goods or services from the country which is making payments to it on account of a debt. The channels of trade are intricate and the ultimate effect is the same if the goods and services are bought from a third country or from several other countries, which are thus put in funds to buy goods or services from the debtor nation. But although such triangular trade is the normal condition, there are circumstances which prevent it just as effectually as they prevent direct trade. If country A has a general tariff so high as to be prohibitive, it will exclude imports from C and D no less certainly than from B.

The history of British trade during the last two or three generations is the simplest illustration of the working of those processes just described. We received a great and increasing tribute from abroad in the form of income from our foreign investments and of freights and commissions. We made it possible for us to receive these payments by throwing open our markets to the traders of the world and by constant foreign lending. In other words, we so planned our trade and financial policy as to enable us to be and to remain a great creditor nation.

Now it is notorious that since the war the United States has, in her economic relations with the rest of the world, followed the opposite policy. She has laid herself out, in the free exercise of her sovereign rights, not to receive payments, but to impede them. By progressive stages

War Debts and World Recovery

she has raised her general tariff to the highest level of protection. The Emergency Act of 1921, the Fordney-McCumber Act of 1922 and the Hawley-Smoot tariff of June 1930 were designed to preserve the domestic market for American industry, and their success in attaining that object has been complete and unqualified. Simultaneously, all the resources of the Government were put at the service of the American manufacturer in order to expand the export of American products to all parts of the world. By organized propaganda, by the work of the expensive foreign branch of the Department of Commerce, through the facilities offered to foreign students to obtain technical training in the United States, the legend was assiduously cultivated that American industry was destined to supplant the effete nations of Europe as the universal provider. The United States Government was not content merely to foster exports and to exclude imports. It resolved to build and to subsidize at the expense of the taxpayer an American mercantile marine and so to deprive the debtor countries of an important indirect method of meeting their obligations. At the recent meeting of the Orient Line, Sir Alan Anderson showed from the official reports of the United States Shipping Board that between 1920 and 1932 the American taxpayer provided, to cover losses incurred in building ships and operating them, £600,000,000 at par—a sum which, as he pointed out, is equal to twice the value of the British merchant ships engaged in foreign trade and ten times the value of the goods bought by the United States from Great Britain in a normal year, and exceeds by £50,000,000 at par the total payments for War Debts made to the United States by all her debtors up to 1931.

In two ways only has America helped her debtors to pay their debts. So long as prosperity lasted at home, American citizens spent money freely in Canada, in Europe, in the West Indies or in any other part of the world to which the call of business or pleasure took them.

The British Case

But with hard times American tourist expenditure has dwindled rapidly and for years to come it would be unsafe to count on its resumption on the old scale. Of far greater importance was the spate of American foreign lending during the four or five years ending with 1929. That lending was often indiscriminate, even unbridled, and, in the absence of a firm tradition of genuine foreign investment, there was always the danger that it would end as precipitately as it had begun. In the light of the figures it is now amply clear that the fantastic structure of international non-commercial indebtedness would have toppled down some years earlier if American lending had not intervened to transfer the burden of reparations and war debts from the debtors to the private investor. According to the calculations of the United States Department of Commerce, during the nine years 1922–1930 the United States had an aggregate credit balance opposite the rest of the world of \$5,000 million. That balance was covered as to \$700 million by the shipment of gold to America—with damaging consequences both to the debtor countries from which it was taken and to the United States herself—and as to the remaining \$4,300 million, by the net private investment of American citizens abroad. During the same period the total payments to America on account of War Debts were under \$2,000 million. In other words there has been no reduction, but an increase in the world's indebtedness to America. So long as America was willing, directly or indirectly, to lend Germany the money with which to meet her reparation payments, those payments were maintained, and the creditors of Germany handed on to their own creditor, the United States, a part or the whole of their receipts. But when once American lending ceased, the bubble was pricked. If there had been no collapse of the New York stock market in 1929 and no headlong fall of world prices, the appetite of the American investor for foreign loans must soon have been satiated. For the debtor countries of the post-

War Debts and World Recovery

war world, with their artificial frontiers and vexatious restrictions on trade, their political uncertainties and innumerable other legacies of the war, could not have maintained the pace set for them in the remunerative absorption of foreign capital. By 1929 many of them were already overborrowed, even for the price levels of those days. From whatever angle it is regarded the artificiality and impermanence of the situation during the years before the crisis is now evident.

In the light of these facts it must surely be apparent that any further attempt by Great Britain to carry out the present agreement can end only in failure. The contract is valid and the obligation unconditional, but in the world as it is performance of the contract is impossible. Great Britain has not been driven to that conclusion without strenuous and protracted efforts to meet her liability. The British share of the advances made by the United States during and after the war was \$4,277 million, or 41 per cent. of the whole. Under the agreement of 1923 she undertook to pay in principal and interest \$11,105 million, or just over 50 per cent. of the aggregate payments to be made by all the debtors under their funding agreements. Up to date she has in fact paid, before and since the debts were funded, more than \$1,900 million, which is 73 per cent. of all the payments received by the United States on account of War Debts. These figures are adduced not in order to bolster up a plea for leniency—for leniency, we must repeat, is not at all what Great Britain is seeking—but as *prima facie* evidence that if this country to-day declares that it can no longer execute the agreement, that declaration springs not from “slickness,” or even from mere weariness in well-doing, but from honest conviction. The 1933 annuity amounts to \$184 million, which is increased to \$203 million by the addition of the first agreed instalment in respect of the Hoover moratorium year. Since the debt was funded, wholesale prices have fallen 35 per cent. in terms of gold: thus the effective value of the annuity,

The British Case

that is its real burden in terms of commodities, is not \$203 million but \$312 million. At the same time, owing to the depreciation of sterling, the cost to Great Britain of providing \$203 million is no longer £42 million but £60 million. That sum is payable, moreover, at a time of unprecedented shrinkage in world trade, when the combined exports of Europe to all countries in the world have fallen in four years from an average of \$1,200 million a month to half that amount.

Not only has Great Britain made resolute efforts, through a period of increasing stringency, to meet her liabilities to America, but she has been prepared, in advocating cancellation or substantial reduction, to accept sacrifices no less important relatively to national wealth than those which she was suggesting to America. In 1920 in round figures the United States was a creditor for \$10,000 million (including \$4,000 million owed by Great Britain) and Great Britain was a creditor for \$7,000 million gross or \$3,000 million net. It cannot be said that cancellation at that time would have involved a contribution by the United States seriously disproportionate to that which we were willing to make ourselves. When the debts were funded the present value, at the date of funding, of the aggregate annuities from all the debtors due to the United States (the rate of discount being 4½ per cent.) represented 60 per cent. of the total debts funded. The similar percentage under the agreements made by Great Britain with her debtors was 30 per cent. Moreover, during the years between 1919 and 1931 the relative position of Great Britain on her debt account deteriorated. She received total payments, including those for German reparations, of less than \$950 million, and as against this receipt paid to the United States almost \$1,600 million. During the same period the United States received from all her debtors \$2,200 million. In other words, the United States has had in interest or principal an amount equal to 22 per cent. of the \$10,000 million for which she was a creditor in 1920,

War Debts and World Recovery

whereas Great Britain has had from all sources substantially less than nothing in respect of her 1920 net claim of \$3,000 million.

These figures are important and they are not as widely known either in England or in America as might be wished. For that reason we quote them. But they are not, after all, the essence of the British case. That, as we have tried to show, is simply that in present conditions nothing less than a revolutionary change in the whole trade or financial policy of the United States would be necessary if payments on account of these debts were to be made to any substantial amount in future. But can we at this time look for any such revolutionary change? Is it reasonable to expect 12 million unemployed to see work for themselves and prosperity for American industry by way of freedom of competition for the foreigner? Apart altogether from War Debts, America will no doubt sooner or later have to revise her present incompatible aims of low imports, high exports and no foreign lending. In the three years 1929-31 American exports to Europe exceeded American imports from Europe by \$2,483 million, and in the first ten months of 1932 the excess was still as much as \$391 million. But the inevitable changes in American trade policy can come only gradually; it is beyond the power of anyone outside America to accelerate them, and there is no reason to think that any responsible leader of American opinion would advise the debtor nations to take account of possible significant alterations in American trade policy when estimating the means open to them of making their payments.

If, then, Great Britain were to pay the instalments of the 1933 annuity maturing in June and December, in what form could the payment be made? Certainly not out of a credit balance of international payments. There can be little doubt that in 1932 Great Britain still had an adverse balance of payments (excluding capital movements) of not less than £50 million. A substantial reduction in imports failed, in other words, by that amount to compen-

The British Case

sate for the fall in exports and the loss of income from foreign investments, shipping freights and banking and other commissions, which was caused directly or indirectly by the contraction of world trade and the widespread defaults to which it has given rise. We cannot improvise a favourable balance overnight, least of all when the United States and others of our best customers refuse to buy our goods or to make use of our services. But if the surplus is not there, we can pay only from capital or by borrowing. We could, for instance, ship our remaining gold until it was exhausted. In the process we should force down sterling prices and give an uncontrollable impetus to further deflation throughout the world. Or we could go out into the market and invite the holders everywhere of dollar balances to sell us those balances for sterling credits in London. In other words, we could borrow short to meet the service of a long-term debt, actively soliciting the renewal of short-term foreign deposits in the London market. It was the withdrawal of such funds in a moment of panic which drove the pound off gold eighteen months ago, and with none of our seeking the return of such funds in recent months, whether from motives of speculation or safety, has raised problems which must gravely preoccupy all who are concerned for the stability of sterling. But whether we shipped gold or bought dollars in the market against sterling credits, we should rapidly exhaust our resources, and the end, whether it came after one or two or even three further instalments, could only be default, absolute and final. We should be left only with the satisfaction of knowing that we had not defaulted until we had made certain of a further serious fall, probably a catastrophic fall, in the value of the pound sterling. British opinion shrinks, and is bound to shrink, from that responsibility and prefers, if no agreement can be reached and default within twelve months is thus made inevitable, to default now.

In seeking to protect the pound any British Government

War Debts and World Recovery

would be conscious of protecting far wider interests than those of its own country. Even though divorced from gold and depreciated to its present level, sterling and its relative stability are vital to the trade of the whole world. No one knows better than the American or the German manufacturer that the continued adhesion of his own currency to gold can do nothing to protect him against violent fluctuations of the pound, with their incalculable repercussions on his own power to compete abroad. But there is another aspect of the debt problem in which Great Britain regards herself as a trustee for the interests of Europe and indeed of the world. After years of consistent effort in the same cause, British Ministers played a leading part at Lausanne in destroying the whole conception of reparations. The Lausanne Agreement removed what the world now recognises to have been one of the most insidious causes of international ill will, and at the same time a powerful factor in the development of the economic crisis. Insistence on the preservation of the war debt agreements means the tearing up of Lausanne, and even if there were not a dozen other valid reasons for a revision of War Debts, Great Britain would hesitate to destroy the settlement of Lausanne in order to maintain the debts intact. To the American ear this may sound like a European front, but it is nothing of the kind. The pressure of the facts, and not a conspiracy of other nations, brought France at last to abandon reparations. Equally, it is not Europe which has combined against America, but the harsh realities of economic life.

Such, in outline, is the British case for urging the American people to face a radical revision of the debt agreements. It is a cause espoused, not by a small minority, such as the American economists and bankers, shut out from political influence, but by the whole body of thoughtful Englishmen, irrespective of class or profession. Their views, which we have endeavoured to present, are held all the more tenaciously because they are felt to be the fruits

British Policy for Washington

of a long and honourable experience by Great Britain of world trade and of international finance, an experience far longer and far more varied than that of America. This does not mean that these views are held arrogantly. British opinion frankly acknowledges and freely condemns the many sins against common sense and against the lessons of the past into which this country, like all others, has fallen in the economic and financial confusion of the post-war years. If it feels that the American people have kept their illusions about the debt settlements when Great Britain has long since discarded her own, it is neither incompetent nor unwilling to seek the explanation of that difference in the historical and economic background of the two nations.

III. BRITISH POLICY FOR WASHINGTON

ANY policy propounded at Washington by the British representatives will rest on a case indistinguishable from that which we have outlined. It remains, therefore, to consider the general lines of the policy to which the British case leads naturally and inevitably.

It points, first, to the necessity for an early and a final settlement. There may appear, at first sight, to be a certain plausibility in the suggestion that the time is not ripe for a final agreement. American opinion is moving, however slowly, towards the recognition that the problem of payment is primarily a transfer problem. Given time, America may go further towards meeting the debtors than if the debtors attempt now to sweep her off her feet. Moreover, it may be suggested, a settlement made when the world is in the depths may be no less unfair to America than the settlement of 1923 has proved to be to Great Britain. The true burden of any given payment cannot be apparent until prices find some more permanent level than our hopes are willing to concede to the prices of to-day. Why not, then, make some provisional arrangement and

War Debts and World Recovery

agree to examine the position again in four or five years? The answer is inherent in the whole British case, and it is that neither we nor the rest of the world, nor even America herself, can afford to wait. Debts are not an isolated problem which can be segregated from the rest and kept under observation in some compartment of its own: debts cannot be treated by the Governments of the world as a bacteriologist would treat his cultures. Until they are finally settled uncertainty will reign in the world. Uncertainty is perhaps the most formidable remaining hindrance to recovery, and if it is not now exorcized, all international and national efforts towards recovery must be frustrated. By painful stages, disastrous in their effects on world trade, the problem of reparations advanced to a tardy solution. In its present state of prostration the world cannot support for a second time the folly of temporising with a radical evil. For this reason Great Britain is bound to press for a definitive settlement within the next few months.

The second guiding mark of British policy is that the settlement must reduce the liability of Great Britain to an amount which it is beyond all reasonable question within our power to pay without endangering the stability of sterling. British debt policy has been governed since 1922 by the principle of the Balfour Note:—

In no circumstances do we propose to ask more from our debtors than is necessary to pay our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less.

That declaration permanently debars Great Britain from making a profit on balance out of her debt agreements, but it can offer no guarantee to Great Britain against a loss on balance. In the Washington negotiations the British representatives will have no means of knowing whether any further payments, and if so what further payments, will be made to Great Britain by her own debtors. They are bound, therefore, to assume that any payments which they undertake to make in future in respect of our debt to

British Policy for Washington

America will be a net liability, unrelieved by any credits on the other side of the account. If we ask what is the maximum sum that this country can pay without disturbing the future stability of the pound, we can expect no general agreement as to the answer, since there is no scientific basis for the calculation. No phrase such as "capacity to pay" can offer a sure guide. For it does not prescribe whether payment is to be made out of income or out of capital or partly out of each: it does not tell us whether what is meant is capacity to pay for a few years at the expense of the rest of the world, or permanently without strain, or conditionally on the United States relending her surplus to the world. It means one thing if payment is to arise out of the normal working of the national trade policy, and something altogether different if that policy is to be radically changed by the wholesale restriction of imports, with the corollary abroad of a further diminution of the volume of international trade and at home of intense deflation and a lower standard of life, in order that the working effort of the nation may be devoted primarily to the provision of the annuities on the American debt. American opinion is no more likely to arrogate to itself any such right of governing our destinies as a nation than it is to admit our right to dictate American economic policy. Therefore in deciding what maximum payment it can offer, the British Government must assume a normal development of national policy, and in a world so bedevilled with obscurities is bound to err rather on the side of caution than of rashness.

Finally, everything points to the wisdom of a settlement for a capital sum rather than for an annual payment. The obligation will then cease to be an obligation from one Government to another, and will become an obligation from a Government to the private investor. Not until the debt is removed from the category of political into that of commercial problems can the world have any security that the shadow of this controversy will not fall

War Debts and World Recovery

across the path of international relations, darkening counsel with monotonous perversity. By a final capital payment, Great Britain will recognise once more the contractual validity of her present obligation, and by accepting such a settlement the United States will save the world from the consequences, no less unpleasant to herself than to the debtor, of the only alternative, default.

It is probable that proposals on these lines involve something much more nearly approaching cancellation than American opinion is at present willing to accept. Fair warning has been given that any suggestion of revision will be countered by a claim for concessions in other spheres—a drastic reduction in armaments, facilities for American exports or the return of Great Britain to the gold standard. It is a reasonable inference that the greater the reduction that we seek in our liability the higher the price that we shall be asked to pay in other directions. In the words of an American journalist, the stage is set at Washington for “one of the greatest give-and-take swapping contests ever started.” Now if the British view is a sound view, as we are convinced it is, there can seldom have been a negotiation which offered less scope for such a contest. Disarmament is no more relevant than prohibition: we are as powerless to procure the one as the Federal Government is to enforce the other. If it lay in the power of the United States and the British Empire by bilateral agreement to secure the practical disarmament of the world, then the world would long since have been disarmed. The problem is notoriously less simple than that, and at the root it is not a financial but a political problem. Great Britain and the United States can at any time by full and free co-operation wield great influence in the cause of political appeasement and world peace. That co-operation can be had for the asking: it cannot be bought as the price of a debt settlement. But the penalty of failure to reach an agreed settlement may well be an atmosphere in which frank co-operation is precluded for a decade.

British Policy for Washington

Is there any greater possibility of commercial or financial concessions? As a “trade” against a debt settlement, we believe not; as part of a programme of general economic revival to follow a debt settlement, yes, indubitably. With all other conditions unchanged, guarantees of American exports can only be additional guarantees of British default. So long as the British liability for debt payments is uncertain or fixed at an amount which there is any doubt as to our ability to meet, no British Government could return to the gold standard for fear of being forced to abandon it again. But to clear debts out of the way, after disentangling the problem from all others rather than entangling it with them still further, is to open the door wide to a constructive and concerted effort in the World Economic Conference for the restoration of world prosperity. In that Conference the United States and Great Britain can give a decisive lead. No one who reads the draft Annotated Agenda,* which is the unanimous work of the Preparatory Commission of 25 experts, drawn from 17 countries (including the United States), can doubt either the magnitude of the task or the scope which it offers for reciprocal concessions over a wide field. The Commission has drawn up a programme of work, which must be attacked as a whole if any progress is to be made. The four main aims are the restoration of an effective international monetary standard, steps to counteract the unprecedented fall of commodity prices, the abolition of exchange restrictions and, finally, greater freedom of international trade. As an essential preliminary to this programme, the Commission places the settlement, or the definite prospect of a settlement, of the problem of inter-governmental indebtedness, without which, in the words of the Commission, “these debts will remain an insuperable barrier to economic and financial reconstruction.”

In such a programme rather than in the debt discussions, the preoccupations of the United States in regard to her

* Published by the League of Nations, January, 1933.

War Debts and World Recovery

own exports or the stabilization of the pound fall into their proper place. Any successful attempt to attain greater freedom of international trade must lead to the moderation and stabilizing of tariff policies everywhere and to the profitable extension of American trade with the rest of the world. As to the gold standard, serious opinion in Great Britain has a thousand reasons for desiring a stable pound and none for wishing sterling to float loose. But a return to gold involves reasonable security that the standard will work, and no mere agreement to define the gold content of the pound will give that security. The gold standard can only be maintained if it is not asked to support the strain of large movements of gold in one direction. In other words, countries such as the United States and France must be prepared either to have a very small credit surplus, and therefore small gold imports, or to lend their surplus abroad. If the United States agreed to co-operate with Great Britain and France for the restoration of an effective monetary standard, knowing and accepting all the implications of such an agreement, there need be no fear, once debts were out of the way, that any hankering for the independence of the pound would deter Great Britain from undertaking, with all proper precautions, *de facto* stabilization and in due course returning to the gold standard at some new parity with gold.

It is no part of our task to consider what for lack of a better term may be called the tactics of the Washington negotiations—who are the most suitable representatives for this country, whether we should send a large or a small delegation, in what order they should approach the subjects for discussion at the Conference, and so on. We assume that the British Government will wish to do everything in its power to ease the position of the new President and to meet his wishes in such matters of procedure so far as it can do so consistently with its duty to its own public. But if we turn from tactics to essentials, we shall have failed in the main purpose of this article if we have

British Policy for Washington

not made it clear that in our view it is not Great Britain but the United States which is faced with a choice of policies at Washington. Neither British opinion nor the facts which have moulded it leave the British Government any alternative but to stand out for a final settlement of the debt for a relatively small capital payment, at the same time proffering the fullest and most helpful collaboration in the work of the World Economic Conference for the economic and financial recovery of the world. The Government and people of the United States must choose between accepting that offer and forcing their debtor to default. Acceptance means an apparent immediate sacrifice, with the opportunity, perhaps the last in this generation, to recoup it many times over in a revival of general prosperity. The alternative of a forced default by the debtor adds to the immediate sacrifice the prospect of embitterment and isolation in a world drifting into decay. We believe that when the American nation understands the significance of its choice, it will again throw in its lot with the world.

THE OPPORTUNITY AT WASHINGTON

THE Conference which President Roosevelt has proposed should take place in Washington early in March between himself and representatives of the British Government—if possible Mr. Ramsay MacDonald in person—will be fraught with exceptional significance. If Mr. MacDonald goes to Washington, either in March or a little later, the discussions will clearly be concerned with much more than the war debts. For the world is probably in a more disorganised and dangerous condition to-day than it has been since the religious wars, and it is this situation, of which war debts are only a part, which makes a journey by the Prime Minister worth while. The real necessity of the hour is that the firmly established National Government in Great Britain and the new Administration in the United States should, as a preliminary to the World Economic Conference which is to meet later in the year, try to reach a common mind as to the way out of the morass in which we are all plunged to-day. For not the least of the difficulties before that Conference is that the United States has remained aloof from the rest of the world so long, that some bridge has to be built between her present view and the views of Europe with regard to the remedy for the depression.

There are still considerable difficulties in the way of agreement. President Roosevelt, it is true, comes into office with a strong party majority in Congress behind him, untrammelled by the commitments and pledges of his predecessors, clearly convinced that, to a large extent, the solution of the domestic problems of the United States lies in international action of some kind, and with a mandate to take whatever action may be necessary to end the

The Opportunity at Washington

depression. But public opinion in the United States is only gradually awakening to the extent to which its own problems are now inseparable from those of the rest of the world and only soluble by some degree of international action. Its natural tendency is to link all the problems together and to seek a comprehensive settlement in which concessions on debts can be set against concessions in other spheres by the debtors; and the public discussion of war debts, initiated by Mr. Neville Chamberlain on the eve of the Washington negotiations, created resentment in the United States by making it clear that Great Britain did not consider that any bargain was possible, and expected not a "generous" revision, but a virtual cancellation, as necessary in the light of the economic facts of the time. The United States is anxious to secure an early return to an international gold standard, in order to stop fluctuating exchanges, but the revision of national economic policies, without which any such step can only be a step in the dark, is not, either from the political or the narrower economic point of view, an easy task. The Ottawa agreements have caused a good deal of resentment in the United States, as well as elsewhere, and will certainly figure in the forthcoming discussions. There is, too, at present no consensus of opinion on both sides of the Atlantic as to what it is either practicable or desirable to do to dispel the depression, though the January report of the experts of the Preparatory Commission for the World Economic Conference seems to offer a reasonable agenda for discussion. Nor is there, as yet, any common ground on political issues, notably in the matter of the future relations between the United States and Europe and the League of Nations, and the attitude of all three to the Far East.

As all these matters ought to figure in the Washington discussions, if the Conference is to be a real success, it may be useful to set forth some ideas with regard to them in the following pages. For, whether we like it or not, and whether it succeed or fails, the Conference is bound to

The Opportunity at Washington

have a profound effect on the way in which world civilisation, now shaken to its foundations, is to develop in the next few years.

II. THE POLITICAL ISSUES

THE world war gave a rude shock to the complacency of pre-war civilisation. To thinking men and women in all countries the central lesson of that destructive struggle was that war will remain endemic among men so long as national States claim unlimited sovereignty, and to be a law unto themselves, while its horrors and destructiveness will progressively increase with the progress of man's mastery over nature. The recognition that lasting peace means some form of world law binding all nations, both to submit their disputes to pacific settlement by reason and justice and to take collective police action against nations which break the law and resort to violence, bore fruit in the Covenant of the League of Nations. But the hopes of those who founded the League have been disappointed for two main reasons. The first is because the United States, having through her President, played a leading part in making the principle of self-determination the basis of post-war Europe, and in drawing up the Covenant, withdrew from Europe and from the League, thereby imposing upon Europe alone the burden of maintaining the treaty settlement, with results on the policy of France and the armament situation which were discussed in our last issue.* The authority of the League, moreover, was thereby weakened and Article 16, the so-called sanctions clause, rendered nugatory to the extent to which that clause depended for its power upon the use of naval blockade against an aggressor. In the second place, the League itself, partly because of the withdrawal of the United States and partly from the obligations placed upon it by the treaties of peace, became mainly concerned with the

* THE ROUND TABLE, No. 89, December 1932, pp 5-9.

Economic Issues

internal problems of Europe, rather than with those of the world.

It is now quite clear that if there is to be any real progress towards lasting world peace, Europe must, through some agreed revision of the treaties, in so far as they relate to eastern Europe, attain to some kind of stable political equilibrium within its own boundaries, without guarantees from outside, and that the League—or some new world association based upon the Kellogg Pact—must secure the active co-operation of the United States in dealing with world problems, notably the prevention of war and the pacific settlement of international disputes, and in providing that measure of collective security against a law breaker which is the condition of an all-round disarmament agreement. The attainment of these ends will take time. What form they may take it is impossible to foresee. But an increasing number of thinking people in the United States are coming to recognise that world peace means world organisation, or world government in some form, and that real progress to this end is impossible without the assumption by the United States of genuine responsibility for steering the world, only they insist that world politics must be disentangled from the day to day politics of Europe. Until the British Commonwealth and the United States begin to base their thinking on these foundations we shall continue to encounter the disillusionments which have disappointed us since 1918. The broad issue of how the world is to be politically stabilised is perhaps the first question for the Conference at Washington to discuss.

III. ECONOMIC ISSUES

ECONOMIC issues, however, are even more urgent than political. On the economic side the same central lesson that self-centred nationalism is as incompatible with prosperity as it is with peace—a lesson almost com-

The Opportunity at Washington

pletely ignored at the Paris Peace Conference—is also beginning to be recognised. What is not yet so clearly recognised is that it is also incompatible with the individualist or capitalist system. In order to grasp the present situation, let us look for a moment at the economic development of the modern world in perspective.

The so-called capitalist system, that is to say, the system of leaving the use of the discoveries of natural science, in their application to industry and agriculture, to private enterprise and private capital, has proved, despite serious drawbacks, much the most effective system for raising the economic standard of living of mankind that the world has known. Broadly speaking, during the nineteenth century, it enabled the transportation of between 30 and 40 millions of Europeans across the Atlantic, and gave them the highest standard of living ever attained. In the present century before the war the United States was still capable of absorbing 1,000,000 new immigrants a year,* without creating unemployment. In Great Britain the population quadrupled and there was a corresponding rise in the standard of living. In Europe the population rose from 180,000,000 to 450,000,000, most of whom were also on a rising standard of living. South Africa and Australia were growing at a great pace, and development was in progress at varying rates of speed in South America and Asia and in Africa generally. It is impossible to say that a system which produced these results, and at the same time immensely increased the facilities for education, recreation, travel, transport, culture and amusement for ever-widening circles of humanity was a failure or intrinsically bad.

In the latter part of the century, however, two other movements came into play. On the one hand, nationalism invaded not only the political, but also the economic field. It introduced the tariff, not merely as a convenient source of revenue, but also as a means of artificially forcing

* The immigrants for each of the years 1905, 1906, 1907 and 1910 were just over one million.

Economic Issues

the growth of industrial development in particular countries taken by themselves at a rate that would probably have been impossible under free trade. The nationalist system of protection gradually became more pronounced as vested interests grew up behind the tariffs, and long before the war it was commencing to upset that almost automatic adjustment of supply and demand which was the strength of the free trade system. It began to keep alive uneconomic production, to over-develop certain forms of production, and to disturb the balance between the production of food, raw materials and manufactured goods, without any consideration for the effect on the world balance of supply and demand. Up to 1914, however, the effect of this kind of political interference with the free play of the market, both in the sphere of production and of exchange, was relatively unimportant, for the export of capital for development purposes and the rapid growth of trade in the rest of the world disguised it. It is, however, easy now to see that it was all the time inevitably tending to prevent that continuous adjustment of supply and demand to which we have already referred, and which is essential for universal employment, healthy finances, and the solvency of debtors, both domestic and international.

On the other hand, there was a growing discontent with the evils of unrestricted capitalism, which showed itself in two main directions. The radical and liberal part of the world carried through, in varying degrees, programmes of factory legislation, social insurance against old age, sickness and unemployment, education and, in later years, graduated taxation designed to lessen inequalities in wealth. By 1914, programmes of social reform had gone far in the direction of mitigating the evils of the excessive competition which attended the early stages of the industrial revolution—even in such backward parts of the world as Africa—though they too had the effect of interfering to some extent with the free play of the market

The Opportunity at Washington

in the adjustment of the balance of supply and demand. A left wing movement, however, not content with mere social reform, regarded the whole individualist system, which established profit-making as the motive for all economic development, as fundamentally anti-social, because it treated labour as a commodity to be bought and sold in the market. This movement strove to set up a new order in which the means of production, distribution and exchange would be nationalised and managed exclusively in the general interest, with the object of ensuring a more or less equal standard of living for all citizens, and of putting an end to the system of "living by owning" capital.

The world war, which intensified both the processes just described, had the effect of still further dislocating the old economic order. On the one hand, Russia became an isolated economic area, and China lapsed into chaos. On the other, the war over-developed certain industries, necessary for war purposes, at the expense of others. It converted the United States from a debtor into a creditor nation; it greatly increased the barriers which impeded world trade by creating new national (tariff) boundaries in Europe, and the old tariffs were heightened all over the world; it set up the ideal of self-sufficiency, with the result that the nations subsidised at great cost the production at home of commodities which could be better and more cheaply obtained from abroad, with disastrous effects upon the agriculture and industries of the other countries which previously had supplied these things; and finally, by creating vast international obligations in respect of reparations and war debts, the war imposed a strain on the exchanges, which could only have been sustained if universal free trade had made possible payment in goods and services and rapidly restored the old expanding world market. Indeed, the system left by the war was only enabled to remain in existence as long as it did by the artificial and temporary process whereby the creditors, between the

Economic Issues

years 1924 and 1929, lent (mostly to Germany) sums equal to, or more than, the amounts they were due to receive for reparations and debts.

Hence the great crash of 1929, when the process of foreign lending, which, for four or five years had disguised the hopeless disturbance of the balance of supply and demand throughout the world and created a premature confidence in recovery—and in the possibility of bolstering up the gold standard—was brought to an end by the American stock market boom. But the crash, while it revealed the realities of the situation, only intensified the strain upon the exchanges. Restrictions on imports, and drastic exchange restrictions and embargoes, all designed to protect national credit and currencies, helped to create a state of panic, which in the end was largely responsible for driving Great Britain and other countries off the gold standard, with the result of fluctuating exchanges and fresh embargoes and restrictions. Action of this kind taken by any country produced profound reactions in all others, and immense areas of economic devastation, especially in agriculture, but also in industry, came into existence. This in turn led to irresistible pressure on parliaments everywhere to interfere drastically with internal trade, by the adoption of marketing and quota schemes, or the purchase of surplus supplies, while at the same time ever-growing budgetary charges were incurred for subsidies to collapsing industries, or the relief of unemployment.

The net result is that to-day world trade is still falling and unemployment is still increasing in most of the capitalist countries of the world, while their governments intervene more and more ruthlessly in economic affairs, with increasingly disastrous effects on their budgets. The world is, in fact, at this moment, also moving steadily towards national socialism, a form of socialism which is, however, put into effect by nationalist right wing parties and not by the socialist or revolutionary left wing.

The Opportunity at Washington

IV. THE IMMEDIATE ALTERNATIVES

IT may be that the world is permanently heading for national socialism. Democracies, when in economic trouble, demand not that their governments should keep their hands off business, but that they should interfere more and more—a tendency which becomes intensified in proportion as unemployment increases. Nor does there seem to be any doubt that, for a long time to come, the national State will become an economic no less than a political unit. The old ideal of combining a more or less cosmopolitan free trade world order with complete national sovereignty in the political sphere seems to-day to lie far outside the field of practical politics.

In point of fact, there is no inherent reason why the capitalist system, given free play, should not raise the standard of living of the whole world in the twentieth century, just as it raised the standard of living in Great Britain and the United States during the nineteenth century, with the aid of the protective devices against the abuse of free competition which democratic governments were learning to apply before the war. Capitalism, as a system, has not failed. It is being prevented from working by political interference, partly based on nationalist and partly on socialist ideals. It can only function if it is once more set free from a large number of the present-day restrictions, and if the free play of the market is allowed once more to be the governing factor in its evolution. It simply cannot function if it is “cribbed, abused and confined,” both nationally and internationally, as it is to-day.

But even if it is true that the present drift is towards national socialism, no country in the world has yet thought out the lines on which national socialism is to be applied in actual practice. The Western world has clearly rejected communism, with its nationalisation of everybody and everything through the dictatorship of the proletariat, the

The Immediate Alternatives

abolition of private property, except in the form of bank savings and personal effects, and the enrolment of all citizens in an economic army directed by a communist party directorate. Socialism, in the West, is much more likely to concern itself with trying to define the dividing line between public and private ownership, saving, and enterprise inside the national State, and with formulating a programme for the regulated exchange of foodstuffs, raw materials and commodities between the national units. It will also have to make up its mind as to how far the parliamentary system of democracy, as it has been hitherto known, is fitted to assume the new burdens which will be placed upon government under such a system. All the evidence to-day goes to show that, while parliamentary institutions are suitable for the performance of the political functions they were created to discharge, they are quite unsuitable as an agency for planning or directing the economic life of a country. All this thinking will however take time, and it may be that when public opinion sees what the cost of national socialism is going to be, it will prefer a reformed type of capitalism.

But at this moment the issue is not between a return to universal free trade and a conscious advance towards national socialism; it is whether the nations of the West are to drift helplessly towards bankruptcy, inflation, the cessation of all international trade, increased unemployment and social discord, or whether they can contrive to restore some common-sense way of working the *de facto* economic order, and so gain time in which to plan consciously and intelligently the future form of their economic life.

What does this mean in practice? The following is a summary of the Introduction to the Draft Annotated Agenda* for the World Economic Conference, issued in January of this year:

The number of workers unemployed has been estimated by the

* See *The Times*, January 20.

The Opportunity at Washington

International Labour Office at no fewer than 30,000,000; wholesale prices have declined since October, 1929, by about one-third; world stocks of agricultural products and other raw materials continue to accumulate; industrial production has been drastically curtailed; the total value of the world trade in the third quarter of 1932 was only about one-third of that of the corresponding quarter of 1929.

Only a handful of countries retain free and uncontrolled gold currency systems; currency disorganisation, price declines and curtailment of trade have thrown into sharp relief the difficult problems of indebtedness.

The Commission considers that further losses of ground cannot be contemplated without the gravest forebodings. Happily, in some quarters there have recently been certain auguries of improvement. Thus security markets in almost every country have for several months past shown a decided improvement. Nevertheless, economic recovery will be halting and restricted, if unaccompanied by broad measures of reconstruction.

In essence the necessary programme is one of economic disarmament. In the movement towards economic reconciliation the Armistice was signed at Lausanne; the London Conference must draw the Treaty of Peace.

Failure in this critical undertaking threatens a world-wide adoption of ideals of national self-sufficiency which cut unmistakably athwart the lines of economic development. Such a choice would shake the whole system of international finance to its foundations; standards of living would be lowered, and the social system, as we know it, could hardly survive. These developments, if they occur, will be the result not of any inevitable natural law, but of the failure of human will and intelligence to devise the necessary guarantees of political and economic international order.

The primary object of any world economic conference must be to arrange whatever international steps may be possible to get these 30,000,000 men and women back to work, making useful things and rendering useful service to one another. For the root trouble of the modern economic world is not overproduction or underconsumption, as is often said, but the fact that, for the various reasons given in the preceding section, people are no longer making things and rendering services which are exchangeable against one another. Thanks to tariffs, embargoes, debts, subsidies, and government interference of every kind, they

The Immediate Alternatives

are deliberately being compelled to make too many of certain things, and are thus deflected from making new things which the world needs, or from creating world markets for the old things. Hitherto it has been the free play of the market which has adjusted supply and demand by the relentless but largely effective process of putting out of business those who could not provide goods or services as cheaply or as well as their neighbours, and of giving profits to those who could find new and better ways of meeting human needs at home or abroad, that has been the governing factor in supply and demand. Left to its own free play, the old system, as we have seen, was astonishingly successful in raising the standard of living of mankind, and though subject to brief trade cycles of depression, in adding continually to the sources of employment through the division of labour. If we are to get out of the depression that process must in some effective degree be restored. Even under a national socialist system the problem of the distribution of production among the nations, and of arranging for the interchange of their products would still have to be solved.

The immediate problem, therefore, is to remove as quickly as possible the worst of the present impediments to the adjustment of supply and demand through the free play of the market, which spring from the excessive economic nationalism of the post-war years, and the quickest way of doing this is for the nations to learn to look at the world as an economic whole, and not at their own individual case only. Once that is done, it will become obvious to all of them what the effect of war debts and reparations, high tariffs, embargoes and fluctuating exchanges when seen in their proper perspective, really is on their own fortunes, and a start can then be made on a course of action which will enable them to turn the corner of the depression. And the Report of the Preparatory Commission to which we have already referred suggests a general programme and a detailed agenda, summarised below, which the World

The Opportunity at Washington

Conference will have to discuss, if that corner is to be passed.

It is the urgency of the issues, political and economic, that have been discussed in the foregoing pages, which gives special significance to the meetings which are to take place in Washington. It is significant, partly because it is the United States which, more than any other country, has it in her power, as it is in her own interest as well as in that of the rest of the world, to promote those steps, political and economic, which are necessary to get international trade going again, and partly because Great Britain is the best intermediary between the United States and Europe. The only way forward is honestly to face the whole problem of world recovery.

APPENDIX*

SUMMARY OF THE GENERAL PROGRAMME FOR THE WORLD ECONOMIC CONFERENCE

The Commission's programme of reconstruction does not include the problem of inter-governmental indebtedness, because this problem lies outside its terms of reference; but "until there is such a settlement, or the definite prospect of such a settlement, these debts will remain an insuperable barrier to economic and financial reconstruction."

The Commission refers to the close inter-connexion between the elements of the problem. "A policy of 'nibbling' will not solve this crisis. We believe that the Governments of the world must make up their minds to achieve a broad solution by concerted action along the whole front."

(1) In the field of monetary and credit policy the objective must be the restoration of an effective international monetary standard to which the countries which have abandoned the gold standard can adhere. Each Government must remain free to decide when and under what conditions it could accept such a standard after most careful preparation and every safeguard against such a restoration of the gold standard leading to a fresh breakdown. In this respect the Commission considers it would be useful to see whether measures can be taken with the co-operation of the central banks on the lines of the recommendations in the Report of the Gold Delegation of the League to ensure a greater stability of price levels in the future.

* Taken from *The Times*, January 20, and *Essential News*, January 28.

Appendix

(2) The Commission notes that the unprecedented fall of commodity prices has caused a growing disequilibrium between costs and prices, has immensely increased the real burden of all debts and fixed charges, has made business more and more unprofitable, and has resulted in a continuous and disastrous increase of unemployment. . . . It considers that one of the measures that should be envisaged is a general policy of easy money designed to promote a healthy expansion of business. It also thinks that the question requires to be considered whether in the case of certain primary commodities where large stocks are overhanging the markets a better level of prices could not be obtained by the regulation of exports or production. Such an arrangement could be of special importance in the case of wheat. The Commission adds that any rise in prices which might be obtained by such means could naturally in the long run only be maintained by a general improvement of trade such as would follow from the abolition of present-day restrictions and the restoration of financial confidence.

(3) The abolition of measures of exchange control is, in the Commission's opinion, an essential condition of world recovery, but such an abolition is only possible if there is a lasting balance in the budgetary system, and to secure such stability the Governments concerned must make an effort to adapt their budgetary and economic systems. In some cases, however, these efforts will not be sufficient so long as there is a mass of short-term foreign debts, which may at any moment be withdrawn. The Commission also notes that the service of long-term foreign debts might entail great difficulties, which must be examined with much care. The main objective must be to restore the confidence of the foreign lending markets, and this depends largely on the future level of prices.

The Commission considers that if appropriate action is taken on these points the markets of the creditor countries may soon be in a position to resume lending operations, but, fearing that the return of international confidence may be a slow process, it says that Governments should consider whether they cannot expedite the restoration of free exchanges by methods likely to put into active circulation resources at present immobilised, and thereby provide, under proper conditions, stabilisation credits for the countries which require such assistance.

(4) The Commission considers that there must be greater freedom of international trade, and recalls that one of the most significant features of the present crisis is the fall which has taken place in the value and physical volume of world trade. To a certain extent this fall has been caused, and has certainly been intensified, by the growing network of restrictions which have been imposed on trade during recent years. Every country seeks to defend its economy by imposing

The Opportunity at Washington

restrictions on imports, which in the end involve a contraction in its exports. Such a policy leads to an increasing paralysis of international trade. Governments should set themselves to re-establish the normal interchange of commodities.

The Commission says that every effort should be made to secure a general agreement for the progressive relaxation, and the complete abrogation at the earliest possible date, of the emergency measures—prohibitions, quotas—imposed on trade as a result of the crisis. In addition, it will be necessary for the Governments to pay attention to the question of excessive tariffs and to arrive at agreements for the moderation and stabilisation of tariff policies in the future.

The Commission concludes this part of its Report with the statement that any action in the direction of a return to freedom of trade has an intimate bearing upon the stabilisation of currencies, as it is impossible to maintain the international monetary system except on the basis of an international economic system. "The great creditor nations have a special responsibility in this respect."

CONCLUSION.—In formulating this programme we have been dominated by the desire to find effective and enduring remedies for the present depression and for the unemployment which weighs so heavily on the whole world. We believe that partial remedies in this field will not be successful. What is needed is a comprehensive programme of world reconstruction, and this should be carried through as rapidly as possible so as to strengthen the forces which are now working towards recovery.

CONTENTS OF THE SECOND PART OF THE REPORT.—The second part of the report consists of "annotations to the agenda." This contains the Committee's observations on the problems raised by the main questions in the agenda. The table of contents of this part of the report, which enumerates the problems, runs as follows:

I. MONETARY AND CREDIT POLICY

1. Conditions under which a restoration of a free international gold standard would be possible.
2. Currency policy to be followed prior to such restoration.
3. Functioning of the gold standard.
 - (a) Relation between political authorities and central banks.
 - (b) Monetary reserves: (1) Lowering of cover ratios; (2) gold exchange standard; (3) other methods of economising gold; (4) distribution of monetary reserves.
 - (c) Co-operation of central banks in credit policies.
4. Silver.

II. PRICES

1. Disequilibrium between prices and costs.
2. Measures for restoring equilibrium.

Appendix

III. RESUMPTION OF THE MOVEMENT OF CAPITAL

1. Abolition of foreign exchange restrictions.
2. Existing indebtedness: (1) Foreign short-term debts; (2) foreign long-term debts.
3. Movements of capital.

IV. RESTRICTIONS ON INTERNATIONAL TRADE

1. Economic causes and effects.
2. Exchange control clearing agreements, etc.
3. Indirect Protectionism.
4. Possibility of abolition restrictions.

V. TARIFF AND TREATY POLICY

- A 1. Cessation of tariff increases.
2. Reduction of tariffs.
3. Special aspects of the tariff problem.
4. Method of procedure.
- B. Most-favoured-nation clause.
 - (a) Permanent exceptions.
 - (b) Temporary exceptions.

VI. ORGANISATION OF PRODUCTION AND TRADE

1. Economic agreements.
2. Wheat.
3. Other products.
4. Transport.

THE VICTORY OF MR. DE VALERA

I. CUMULATIVE DIFFICULTIES

ON January 2 the Governor-General of the Irish Free State, acting on the advice of the Executive Council, dissolved the Dail. This decision, although sudden and unexpected, was in reality the almost inevitable result of the preceding events. The White Paper, published at the end of October, which contained the papers relating to the October conference between the British and Free State Governments, only emphasised, what was already apparent, that Mr. de Valera's Government refused to accept the Financial Agreements of 1923 and 1926, made by their predecessors, as binding, on the ground that they had not been specifically ratified by the Dail, although they were not expressly stated to be subject to such ratification. They also traversed the assertion of the British representatives that the Land Purchase annuities were debts due by the tenants to the Land Purchase Fund held by the British National Debt Commissioners, and maintained that the liability of the Irish tenant purchaser was a liability to the State which was completely discharged when he paid his annuity to the Irish Land Commission. But this did not prevent them from accepting the Financial Agreement of 1925, which was undoubtedly ratified, and which absolved the Free State from any liability for the National Debt, although this agreement was, of course, based on the assumption that land annuities, local loans, and police pensions would continue to be paid into the

Cumulative Difficulties

British funds as heretofore. Had this not been the obvious basis of the arrangement the British Parliament would, of course, never have ratified that agreement. The fantastic claims of the Irish Government, based on alleged over-taxation going back to the Act of Union, proved that Mr. de Valera was bent on reopening every possible subject of controversy between the two countries, and that he wanted to eat his cake and have it. The differences disclosed by the White Paper were indeed so fundamental that it is difficult to understand how any agreement could have been contemplated by the negotiators.

The complete failure of the negotiations, the increase of the British duties on our agricultural produce under the Special Duties Act, and the further British duties that came into force under the Import Duties Act on November 15, 1932, created a situation that could only end in the complete paralysis of our economic life.* The Free State Government announced on November 1 that they had decided to make arrangements to pay, out of the special emergency fund of £2,000,000 voted by the Dail, to exporters of certain manufactured goods the amount of the duty paid by them on such goods entering the United Kingdom. This decision, which was described as temporary, coupled with the bounties already being paid on agricultural exports to Great Britain, meant of course that the unfortunate Free State taxpayer was, in effect, paying the British duties. The deadlock between the two Governments was now complete, and, speaking at the Ard Fheis, or annual convention, of the Fianna Fail party in Dublin on November 7, Mr. de Valera declared that so far as his Government was concerned the land annuities would never be paid. But he also proclaimed that they stood for free speech and democratic rights, and were not going to permit any section of the people to take upon themselves duties that interfered with the functions of the Government. Anyone found in

* See THE ROUND TABLE, No. 89, December, 1932, p. 140.

The Victory of Mr. de Valera

possession of arms would be proceeded against with the full rigour of the law.

On November 15 the combined effect of the British Special Duties and Import Duties Acts imposed on all agricultural produce entering Great Britain from the Free State duties of 40 per cent. *ad valorem*, except in the case of bacon and pork, on which the duties were 30 per cent. To meet the losses arising from these duties the Free State Government announced temporary export bounties on eggs and dead poultry. Up to December 3 the revenue received on these imports into the United Kingdom from the Free State amounted to £1,238,000, but the British Parliament had to vote a supplementary estimate of £3,410,955 in substitution of payments due from the Government of the Free State. The Free State trade returns for the four months August to November, during which a condition of "economic war" has existed between the Free State and the United Kingdom, complete the story. As compared with the same period in 1931 our imports have decreased by £4,900,958 and our exports by £5,863,252. In short, for every £100 of goods we purchased in that period during 1931 we purchased £71 in 1932, and for every £100 of goods we sold in that period during 1931 we sold £59 in 1932. Our exports have therefore fallen much more rapidly than our imports. If the same rates of decrease continue for a full year our adverse trade balance will be increased by, approximately, £7,000,000. In other words, after giving full credit for the £5,000,000 which is being withheld from the British Treasury, we should have still lost on balance £2,000,000. No wonder Mr. Lemass, the Minister for Industry and Commerce, stated in the Dail last November that it might be necessary, no matter what losses might be involved, to export cattle, pigs, bacon, butter, or something else, as the Russians were doing, not because they could get an economic price but because something must be exported to pay for the purchase of machinery

Cumulative Difficulties

and other goods which could not be produced in the Free State. At the same time he announced a fresh list of 26 tariffs of 50 per cent., with a one-third imperial preference, on various articles made of wood. It is notorious that the bounties being paid on cattle exported to the United Kingdom pass into the pockets of the cattle dealers and never reach the unfortunate farmers.

The situation had now become so serious that it fully justified the motion of censure moved by Mr. Cosgrave, the Leader of the Opposition, in the Dail on November 15, in which Mr. de Valera's Government was condemned for their continued failure satisfactorily to adjust their differences with the British Government, and for pursuing a policy which has caused grievous injury to the agricultural industry, serious damage to the export trade of the country, heavy losses to the community, and gravely increased unemployment. No Government, he said, ever had such opportunities as that of Mr. de Valera. None had ever made such a hash of their chances by their neglect of the ordinary canons of international decency and their obstinate insistence on unilateral interference with the Treaty. By breaking the pledged word of the Irish people they had brought discredit on the honour and reputation of the State, and made it impossible for advantage to be taken of the unique and timely opportunities of the Ottawa Conference. They had precipitated a dispute with Great Britain fraught with disastrous consequences to all sections of the people. By their blundering incompetence in the handling of that dispute they had not only involved the country in a terrible economic war of attrition with a rich and powerful nation but had precluded themselves from making an honourable settlement. It was a wholly unnecessary and wretched struggle which, in order to mislead the people, they dignified with the name of a war, while they were without a staff, without a plan, and without an adequate supply of war material. The Free State was facing political and economic disaster,

The Victory of Mr. de Valera

and it was the duty of every member of the Dail, unless he was utterly oblivious of the people's sufferings, to insist that such a tragic state of affairs should be ended, and that the country should be saved from irreparable damage and disaster.

Mr. de Valera, replying, said that arbitration before an Empire tribunal had not been accepted as a matter of principle at the Imperial Conference, and the British had no right to insist on its being so treated now. As regards the negotiations, the Free State Government had done nothing to make them impossible, but the whole aim of the British seemed to be to squeeze Ireland into giving up the Government the people chose, and putting in one which would be more accommodating. He asked why the Cosgrave Government had never opened up the annuities question with England. To this query Mr. Cosgrave answered, in closing the debate, that his Government did not approach England on the annuities question because England was then facing an economic crisis, and the Free State was relatively in a stronger financial position. With the fall in live stock prices the situation had changed entirely, and if the Government approached England on the basis of being unable to pay they would be met sympathetically. On being put to a division, the motion was lost by 70 votes to 75, Labour voting with the Government. This was the lowest point to which Mr. de Valera's majority had fallen, and showed a complete union of all the other parties, except Labour, against his policy.

On the following day, November 16, Mr. Cosgrave moved that the collection of the land annuities should be suspended during the operation of the British tariffs, on the ground that these tariffs imposed on the farmers a burden at least equivalent to the annuities. During the debate Mr. de Valera announced that the Government had decided to give the annuitants some relief. Where desired, the current year's arrears would be funded at 4½ per cent. over a period

Cumulative Difficulties

not less than that over which the annuities as a whole were due to run, with the result that the farmer who was unable to meet his liabilities would be freed from pressure. He also promised early legislation which would give a permanent remission of a substantial portion of the existing annuities. No doubt he would have preferred to promise complete remission, but this is impossible, because more than a third of the Irish agricultural land has been purchased under the Land Acts passed by the Irish legislature since the Treaty, and the interest on the Land Bonds issued in payment of the purchase money, although guaranteed in part by the British Treasury, is a direct charge on Irish revenue, which even Mr. de Valera could not repudiate without completely destroying our credit. Neither could he treat the farmers who have purchased since the Treaty differently from those who had purchased before; so he would be forced to spread any relief obtained from retaining the annuities due to the Land Purchase Fund over the entire land purchase operation.

The appointment of the new Governor-General, which was announced on November 25, was an excellent example of political tight-rope walking. Amongst the many notables and nonentities suggested by rumour for the appointment, the name of Mr. Donal Buckley, an elderly country shopkeeper, was never mentioned. But it is clear that in making this appointment Mr. de Valera was seeking to placate the extremist element, for Mr. Buckley led his local commando from his native town, Maynooth, to take part in the rebellion of 1916, and is a strong supporter of the Irish language movement. He also sat in the Dail as a practically silent member of the Fianna Fail party until the 1932 election. In short, he fulfils all Mr. de Valera's requirements and reduces the position of Governor-General to that of a Gaelic rubber stamp for affixing to Acts of the Oireachtas. He has been installed in an unpretentious suburban villa with Irish-speaking civic guards in attendance; the Viceregal Lodge is closed, and it is

The Victory of Mr. de Valera

understood that he will only draw a small part of the statutory salary.

But all these manœuvres failed to soften the Republican heart, and their paper *An Poblacht* declared that, to disguise the office and its functions by calling the King's deputy a "Seanascal" and by associating the Irish language with his functions, was only adding insult to injury. The fact that a veteran of three wars for an Irish republic, an Irishman and an Irish speaker, now deputises for the British King was not an alleviation, but an aggravation of the national shame. It is interesting to note that Mr. de Valera, who would not attend any social function with Mr. McNeill for fear of compromising his principles, openly consorted on such occasions with Mr. Buckley. The relations between Mr. de Valera and the extremists were indeed becoming much more difficult. They denounced his leadership as cowardly, and complained that he permitted the forces of the State to be used to guarantee freedom of speech to traitors to spread defeatist and pro-British propaganda. He so far yielded to their demands as to send on compulsory leave Colonel David Neligan, the chief of the detective force, whose activities were displeasing to them. The "Boycott British" League, which is another disguise for the I.R.A., had meantime embarked on an active campaign against British beer, and raids were made on the premises of Messrs. Bass and Co. in Dublin and Cork, where some beer was destroyed. Subsequently lorries of Bass's ale were, at the request of the publicans' association, escorted through the streets of Dublin by members of the Army Comrades Association* and no further molestation occurred. Although this attack on British goods was ostensibly condemned by Mr. McEntee, the Minister for Finance, speaking in the Dail, he was careful to add that traders must bear in mind the consequences of flouting public opinion, and the Minister for Justice refused to receive a deputation of publicans, who sought protection from intimidation.

* See THE ROUND TABLE, No. 89, December, 1932, p. 125.

Cumulative Difficulties

But this does not end the tale of Mr. de Valera's troubles. The tariff situation had now become so complicated that virtually no one but the responsible officials knew from day to day what articles were liable to duty. For instance, the tariff imposed on the chassis parts of motor-cars, which was designed to compel car manufacturers to manufacture these parts in the Free State, proved a complete failure and has had to be abandoned. Its only effect was almost to end the importation of motor-cars. As the duty of 50 per cent. on complete bodies is still in force not much improvement is likely in this business. So confused had the tariff situation become that the Government had to reappoint the advisory Tariff Commission, which they had discontinued on taking office.

Speaking in the Senate during December, Mr. Lemass, the Minister for Industry and Commerce, said that the only justification for the continuance of the association with the British Commonwealth was that substantial benefits were conferred upon the people of the Free State, and if, as at present, no such benefits were experienced, then the necessity for the maintenance of the association was removed. They had not decided to take action to remove it. That was not a matter for decision by the Government or the Dail or the Senate. It depended upon the people. He was sure that the people, if they could not see in the future a prospect of substantial economic advantages from the association, would decide that the sooner they terminated it the better. By surrendering all their rights they could get an amelioration of their position, but they did not propose to do that. On which statement it may be permitted to comment that it is only the action of Mr. de Valera's Government that has deprived us of the substantial economic advantages we enjoyed and could have increased in the British markets.

Whilst all these difficulties were accumulating Mr. de Valera's relations with the Labour party became gradually more strained. In November the Free State railway

The Victory of Mr. de Valera

workers revolted against the majority decision of the Railway Wages Board which reduced their wages by 10 per cent., and a general strike was only averted by the Government undertaking to pay the amount of the cut until April 30, 1933, and to introduce immediate legislation to deal drastically with the transport situation. Owing to the tariff war the railway companies—already in a serious condition*—were within sight of complete financial collapse. The proposed reduction would still leave the men's wages 131 per cent. over pre-war rates, although the cost of living increase at the present time is only 53 per cent. Labour costs form 70 per cent. of the total railway expenditure. At the end of December a more serious situation arose owing to the Government's decision to enforce the reduction of one-thirteenth in the cost of living bonus of all civil servants at the beginning of the new year. This reduction would naturally affect most the lower paid grades of the Civil Service, such as the Post Office Workers Union, to which Mr. Norton, the Labour leader, belongs, and it soon became obvious that, whatever might be his personal inclination, the pressure from the rank and file of the civil servants would make it impossible for him to prevent an open breach with the Government. On December 30 the Government decided, under Labour duress, to enforce only half of the proposed reduction in the case of the lower grades of the Civil Service, but this concession was apparently fruitless, as the Labour leaders announced that they would now seriously consider whether they could continue to give parliamentary support to the Government.

Almost at the same time events occurred which clearly indicated that a movement was taking shape to unite the Cumann na nGaedheal party with Mr. MacDermot's Farmers League and other independent forces into a new constructive national party having for its immediate aim the re-establishment of friendly relations with England on a just basis. First suggested in a letter to the Irish press

* See THE ROUND TABLE, No. 86, March, 1932, p. 382.

The Surprise Election

from an Independent member of the Senate, Senator Arthur Vincent—who recently was associated with his father-in-law, Mr. Bourn of San Francisco, in the gift to the nation of the beautiful Muckross estate at Killarney—which appeared on December 28, it was further developed on December 29 at a private meeting in Dublin of representative professional men summoned by the Lord Mayor, which passed a resolution calling on all believers in peace by direct negotiation to combine their immediate political efforts in one great national movement which would end the disastrous economic war, ensure the complete maintenance of the Treaty, subject to its alteration or development by proper methods, and conclude trade agreements with Great Britain which would secure and improve the position of our farmers in the British markets and make possible the fullest industrial development in the Free State. These events constituted portents which Mr. de Valera could no longer ignore.

II. THE SURPRISE ELECTION

IF the surprise of his opponents at an inconvenient moment was Mr. de Valera's aim, then he was wise to force the dissolution of the Dail on January 2. The movement for the consolidation of the forces opposed to him was barely launched: his principal supporters, the labourers and small farmers, had not yet experienced the full brunt of his policy; the Labour party were afraid to face the chance of political extinction; and the taxpayer had not yet felt the shock of the next budget. Moreover, he was faced with four by-elections early in February, some of which he would most probably lose. But it may be surmised from his own statements that the really decisive factor was his increasing irritation at the precarious political situation in which he found himself. Pressed by Labour on the left, sniped at by the I.R.A. in the rear,

The Victory of Mr. de Valera

and harried by the more conservative element amongst his own followers on the right, his position had become intolerable to a man of his autocratic mentality. The decision, at all events, was entirely personal, for neither his Labour allies nor the rank and file of his own party had any idea that an election was imminent. Only some members of the Executive Council were consulted, and it is probable that growing differences in that body hastened his decision. In a statement to the press made at the same time as the announcement of the dissolution, he denied that the friction with Labour over the Civil Service bonus was responsible, and indicated that it was due to the precarious position of his Government, which prevented the British Government from coming to a settlement and deterred Irish industrialists from availing themselves of the advantages that his policy of unlimited protection afforded them. The national attitude of Labour had, he said, been satisfactory, and they hoped to co-operate in future.

Mr. de Valera's programme, as revealed in his opening campaign speech at Dublin on January 5, was principally remarkable for its omissions. It contained no mention whatever of any intention to declare a republic, but it reiterated his already familiar policy of high protection coupled with greatly increased tillage, internal political peace based on the abolition of the oath of allegiance, and the permanent retention of the land annuities as well as their reduction by one half. The general election was being held, he said, in order to secure a feeling of certainty, because his programme required a strong government to carry it out. In conclusion he appealed strongly for public order and freedom of speech during the election. Towards the end of the election campaign he issued a manifesto in which he promised, if returned to power, to abolish the Senate, as it at present exists, and to reduce the number of members in the Dail. This manifesto contained no reference whatever to a republic, but stated

The Surprise Election

that he desired the friendliest relations with Great Britain, and would continue to strive to get British statesmen to realise that lasting peace between the two peoples could only be secured on one basis, namely, that the people of Ireland should be at liberty to determine for themselves what their governmental institutions were to be and the extent of their co-operation with Great Britain on matters of agreed common concern.

The promise to remit half the land annuities was of course a bid for the farmer's vote. Mr. Cosgrave, however, promptly went one better, for he promised that if returned to power he would end the economic war with England in three days, secure for the Free State its proper place in the English markets, reduce the land annuities by one half and entirely suspend payment of the annuities for two years. A cynical humorist pointed out that the only further inducement possible would be an offer to pay annuities *to* the farmers. Mr. Cosgrave also agreed to make no drastic changes in the existing tariffs without proper investigation, and to disturb no legitimate vested interest. He also promised to reduce taxation and to put the railways on a sound footing. He intended, he said, to provide markets instead of bounties, work instead of doles, fair play instead of writs for the farmers, courage and hope instead of suffering and sacrifice.

Mr. Frank MacDermot, the leader of the new National Centre party, which represents the large farmers and stands for a prompt and satisfactory settlement with England, and refuses to identify itself with the acrimonious performances of the two big parties, announced, in reply to the demand for a national coalition against Mr. de Valera, that he did not think that the sacrifice of his party's identity and independence would be a good thing for the country, and, on the other hand, undue egotism would be out of place in such a crisis. The Government, he said, were seeking a snap election to get returned to power before they had been fully found out. Their excuse was quite

The Victory of Mr. de Valera

ridiculous, as a favourable settlement of the economic difficulties with England would be easy at any time if they would recognise the country's honourable agreements, and was impossible otherwise. Mr. James Dillon, a son of the late Nationalist leader, and an Independent member of the Dail, joined Mr. MacDermot, and brought to the new party not only considerable ability but, what in Ireland is more important, an historic name. Unfortunately Mr. Cosgrave and Mr. MacDermot were unable to arrive at a *modus vivendi* before the election, although an arrangement was made in a few constituencies as regards some minor points of electoral strategy.

The extreme Republicans were divided in their attitude. Miss MacSwiney's Sinn Fein party, which may be described as the Old Guard of the movement, proved the more intractable, and refused to compromise their integrity by taking any part in an election to "the British Dominion Assembly of Southern Ireland," whilst the Irish Republican Army, the younger and military wing, after a careful examination of conscience at a specially summoned convention, decided that Mr. de Valera was the lesser of two evils, released their followers from the restriction that prevented them from taking part in elections to the Dail, and recommended them to work and vote against the Cosgrave candidates and "their so-called independent allies." They were careful, however, to emphasise their dissatisfaction with Mr. de Valera's Government, and accused it of weakness, inability or unwillingness to achieve republican aims, and of claiming for itself a legitimacy it denied the Cosgrave Government. They demanded the scrapping of the Treaty, the abolition of partition, and complete severance from the British Empire, stating that they were only supporting Fianna Fail because it was a way of driving out of public life a party which had sold itself to the British Empire and would, if returned to power, lead to civil war. Finally, they called on the people to see that the youth of the country were left free to arm and drill.

The Surprise Election

Mr. de Valera's reactions to these overtures were not satisfactory from the Republican point of view. He stated early in the election that he had no intention of seeking a republic for the Free State area, and that his aim was a republic for all Ireland—an ambition which anyone outside a lunatic asylum must realise postpones the establishment of an Irish republic under present conditions in Ireland to Tibb's Eve. Whether this statement reflects the honest policy of an impossible idealist or the device of an astute politician to side-track the issue, it definitely removes an Irish republic from the sphere of practical politics. He was also careful to state that if he were returned to power no section of the community would be allowed to arm, and that all arms would be completely at the disposal of the majority of the freely elected representatives of the people. Needless to state, the I.R.A. at once challenged his right to make such a statement. It may indeed be surmised that in some respects the support of the I.R.A. was a considerable embarrassment to Mr. de Valera, for the serious disorder which took place at a public meeting of Mr. Cosgrave's supporters in Dublin on January 8 was obviously organised by them and injured Fianna Fail. Mr. de Valera's newspaper protested vehemently against this organised rowdyism, and his Government took every precaution to prevent its recurrence. No serious disturbance took place during the rest of the election. There is little doubt, however, that if the Army Comrades Association had not been organised to meet this threat, free speech and a free election would have been alike impossible. Both are now definitely established.

The position of the parties at the dissolution was as follows:—Government group: Fianna Fail, 70; Labour, 7; total, 77. Opposition parties: Cumann na nGaedheal, 54; Independents, 11; Farmers, 4; Independent Labour, 2; total, 71. These, with the four vacant seats and the Speaker, Mr. F. Fahy (a Fianna Fail deputy), made up the full Dail of 153. The nominations for the new Dail on

The Victory of Mr. de Valera

January 12 were as follows: Government: Fianna Fail, 102; Labour, 19; total, 121. Opposition: Cumann na nGaedheal, 85; National Centre party, 26; Independents, 10; Independent Labour, 3; total, 125. Apart from Mr. Cosgrave's promise to remit the land annuities for two years, the election produced no new or striking declaration of policy. Even Mr. Cosgrave's promise had been previously indicated by his motion in the Dail to suspend payment of the annuities during the economic war with Great Britain. Numerous attempts were made by Mr. de Valera and his followers to embroil Mr. Thomas in the election, but, fortunately, except for one rather unnecessary reference by him to allegations concerning the Ottawa conversations, these efforts to draw the red herring of English interference over their own blunders completely failed. Early in the election some excitement was caused in the south by the defection from Mr. de Valera's party of Mr. W. Kent, who had been already selected as their candidate for the by-election then pending in East Cork. Mr. Kent, three of whose brothers were killed during the Anglo-Irish hostilities, was a Republican of undoubted standing, and in joining the new National Centre party he declared he could no longer be responsible for the ruin of the country by Mr. de Valera's policy.

As the struggle progressed it became obvious that Mr. de Valera's party realised that the cry of "perfidious Albion" was not sufficient to win the election, and they appealed more directly to the pockets of the manufacturers, labourers and small farmers, by promising increased tariffs, more relief schemes, and increased bounties. His paper* openly boasted that they were the only party which had considered the poor. Very little was heard of the oath of allegiance and the republic, which had given place to questions of bread and butter. Some Fianna Fail manufacturers who had profited by the increased tariffs let it be known that their factories would be closed if Mr. Cosgrave was victori-

* *The Irish Press.*

The Result of the Election

ous. All the forces of economic discontent and extreme nationalism were directed to turn the election into a class war. In the end it became clear that the issue for decision was, in short, whether the irresponsible or responsible elements should control the economic life and policy of the Free State. On the one question that really mattered, namely, how and when he proposed to end the struggle with England, Mr. de Valera, save for the one vague reference in his final manifesto already noted, preserved a careful and complete silence.

The election revealed no change in political technique. Both leaders made whirlwind tours of the country by motor-car, speaking in practically every constituency. There was the usual spate of electoral oratory, with full-page and somewhat hysterical advertisements in the daily papers. Having regard to the serious issues at stake, it is a matter for national congratulation that the election passed off without serious disturbance. Both the Government and the Opposition parties did their share in bringing about this most desirable state of affairs.

III. THE RESULT OF THE ELECTION

THE result of the election fully justified Mr. de Valera's Napoleonic political strategy. Having surprised his opponents, he then defeated them before they could consolidate their forces. The final figures were as follows:—Government group: Fianna Fail, 77; Labour, 8; total, 85. Opposition group: Cumann na nGaedheal, 48; Centre party, 11; Independents, 9; total, 68. These figures give Mr. de Valera a bare majority (counting the Speaker) of one over all other parties, but with Labour a majority of 17. He is therefore for all practical purposes still dependent on Labour, as before the election, save in so far as he can claim to have increased the numbers of his own party. On the whole it is to be regretted that he is not

The Victory of Mr. de Valera

entirely independent of Labour, which will naturally continue to demand class legislation as the price of its support. But for the operation of proportional representation, which preserves a proportionate representation for minorities, there can be no doubt that Mr. de Valera would have secured a far more decisive victory. The polling day passed off quietly, and, save for some small disturbances in a few remote rural districts, was without incident. The poll itself was the most exhaustive which has taken place since the Free State was established. There is little doubt that extensive personation was practised in many parts of the country.

The reasons for Mr. Cosgrave's defeat are obvious. His political organisation was far inferior to that of his opponents. The Fianna Fail party had a network of effective branches all over the country. Whilst the Cosgrave Government was in office they neglected their political machinery, and have not had time to recondition it properly since they went into opposition. Mr. de Valera had the immense advantage of being able to represent himself as the innocent victim of English aggression. His battle-cry was the old and popular one: "Are you for or against Ireland?" The full effect of his economic policy is not yet apparent to the great majority of the people, but they have benefited by increased old age pensions, free milk for children, cleverly distributed grants for unemployment, and cheaper food, owing to the embargo on agricultural exports. He definitely appealed to the masses as against the classes. This is the first Free State election which was mainly decided on such issues. He also made good use of the fact (which he disclosed during the election) that Mr. Cosgrave was refused a moratorium by the British Government in 1931 in respect of a payment of £250,000, an instalment of the annual payments due under the financial settlement of 1925. The new Centre party, by dividing the farmer's vote, injured Mr. Cosgrave's party more than that of Mr. de Valera, and must definitely weaken his position in the new

The Result of the Election

Dail. Mr. Cosgrave has also lost two of his principal lieutenants, Mr. Blythe, his former Minister for Finance, and Professor Hayes, the former Speaker of the Dail. The Labour party disappointed all the political prophets by gaining a seat on balance, and this result is also due to proportional representation.

As for the future, most of Mr. de Valera's difficulties still exist. He can now abolish the oath of allegiance within sixty days, in spite of the Senate. But there remains the question of his relations with Labour and the I.R.A., the railway crisis, and the vital necessity for arriving at a settlement with Great Britain. There are no indications of an easy or prompt solution of any of these problems. In an announcement made after the election he stated that the national policy had now been definitely determined, and he appealed to all citizens of good will to co-operate in restoring the country to its former greatness and making it a happy and worthy home for all its people. It remains to be seen how these high-sounding platitudes will be applied in practice.

The reactions of the other parties to the result of the election were what might be expected. Mr. Cosgrave's party, which must be seriously disappointed at the inaccuracy of their over-confident forecasts, stated that the immediate task of their organisation was to prepare with all diligence for the next contest so as to ensure that then it would be possible to put the country once more on the path of sure and steady progress. The last month was for the politicians; the future was for statesmanship. The policy of the main Opposition in the new Dail would be, they claimed, progress on a sound economic basis of construction and courage in shaping the country's political destiny. The Lord Mayor of Dublin, Alderman Alfred Byrne, T.D., is understood to be still pursuing his plans for the creation of a National Centre party, to combine all the Opposition parties against Mr. de Valera, but the published statements of Mr. Frank MacDermot, the leader of the new

The Victory of Mr. de Valera

Centre party, do not indicate much inclination to travel in that direction. The Labour party will, apparently, maintain their previous position as independent supporters of Mr. de Valera. In an official statement they announce that they will give full support to measures which are in accordance with the national and economic policy as laid down in their programme, and on all matters the party's aim will be to ensure that the legislative enactments passed by the Oireachtas shall be progressive and beneficial in character. On the question of the dispute with Great Britain they declare that their policy is already well known, and will be pursued. They conclude by stating that the Labour party neither desires, nor will seek, a coalition with any other party.

The I.R.A., intoxicated with victory, which they naturally ascribe to their activities, demand the removal of General Eoin O'Duffy, the Chief Commissioner of the Civic Guard, on the grounds that the force under his control was guilty of provocative conduct during the election; in other words, that they insisted on maintaining the right to free speech, and dealt effectively with organised intimidation. In so acting General O'Duffy and his men were carrying out the definite orders of the Government, which Mr. de Valera cannot, and indeed will not, repudiate. The Adjutant-General of the I.R.A., in an anonymous manifesto, declares that the urgent and essential duty is to deprive the pro-British sections of their privilege and power by cutting away from them their resources. That power had as its basis landlordism and domination over the commercial and industrial life of the people. He complains that neither the destruction of these imperialist interests, nor the achievement of national independence, was made the issue by any party in the election. Their aim would not be realised until the system which had arisen out of the conquest, and exists in alliance with British Imperialism, was destroyed at its roots, and until those who defend it are decisively routed.

Mr. de Valera's speech at Ennis on February 5 indicates

The Result of the Election

that he at least has a better comprehension of the problems before us. He asked for forbearance from capital and labour, and for co-operation from all sections. He appealed to former Unionists, in the words of Wolfe Tone, to abolish the memories of old dissensions. If they loved their country, its interests should come first with them, and they should help in the forward march. It is impossible to understand Mr. de Valera, unless one remembers that he believes himself to be a man with a definite mission. He seeks self-determination for Ireland as a whole. If Ireland thus freely decides to remain within the British Commonwealth, then he would apparently accept that verdict. But it must be a free verdict. The Treaty of 1921, which, in his opinion was imposed by force, must be definitely cancelled. He considers that the Irish people, by reason of their belief in intellectual and spiritual rather than in material values, are specially fitted for the vital task of helping to save Western civilisation. Ireland, in his view, must recall men to forgotten truths and place before them the ideals of justice, of order, of freedom rightly used, and of Christian brotherhood. Ireland to-day has, he claims, no dearer hope than humbly to serve the truth, and to help by truth to serve the world. The result of the election does not, as he sees it, indicate hostility to Great Britain, but simply a desire for independence. His economic aims, if vague in detail, are clear in outline. He wants to ruralise and decentralise industry. He has no use for mass production. He envisages a frugal Christian Ireland where no man is rich and no man is hungry. He belongs to that category of mankind with whom one cannot argue but must only agree. He is not in the least like the ordinary politician, who proceeds by negotiation to compromise.

Is there, one may ask, any key to such a door? To which one must answer: only by abolition of partition can it be opened. The unity of Ireland is an ideal for which Mr. de Valera would undoubtedly sacrifice much. But it must be unity from within, unity based on the free choice of the

The Victory of Mr. de Valera

whole Irish people. It need not sacrifice the domestic freedom of Northern Ireland if it concede the essential unity of all Ireland. Such a solution would not only give us a united Ireland, but also a British Commonwealth, united in a common policy of national development and international peace. Have the leaders of Northern Ireland sufficient imagination and courage to face and decide this momentous issue, so pregnant with national fate, or are the differences in mentality, religion and political outlook—which now, unfortunately, divide us from our Northern fellow-countrymen—impossible to surmount?

The Irish Free State.
February, 1933.

JAPAN AND THE LEAGUE

I. THE REACTION TO THE LYTTON REPORT

FOR some time before September 30 last, when the Lytton Report was officially communicated to the Japanese Government, it was easy enough to predict the way in which it would be received in Japan. This was not because its contents were known or conjectured—though it seems that there was some leakage—but because the Government had already taken steps to “discount” the findings of the League of Nations Commission of Enquiry, first by recognising Manchukuo, and next by mobilising public opinion in advance against the Report. The *mot d'ordre* was that, unless the Report was favourable to Japan, it was a bad report and should be treated as of no importance.

On October 1, the War Ministry issued a statement to the effect that they would study the historical section of the Report with care, and point out vigorously any mistakes they found. As for the Commission's views on the settlement of the Manchurian problem, these need not be regarded as of any significance. General Araki, the War Minister, had already publicly announced that, if the League of Nations found itself unable to take the Japanese point of view, Japan was quite ready to leave the League. The General, whose utterances are not without an attractive simplicity, had some days before stated to an interviewer that Japan had no wish to ruin the League by seceding, but, if it refused to take the Japanese point of view, then Japan could co-operate with it no longer. The

Japan and the League

Ministry of Foreign Affairs were rather more discreet, but, allowing for correct professional restraint in language, they said very much the same thing.

It was not surprising, therefore, that when the Report was published, it should meet with a chorus of disapproval. There were no dissentient voices, or if there were, they were only inaudible murmurs. The Ministry of Foreign Affairs were reported to have described the document as "prejudiced" and "improper." Admiral Okada, the Minister of Marine, said it was "worthless." General Araki, true to form, vehemently denounced it as a "mere book of travels" which anyone could have written after a week's journey in Manchuria. If the League thought that the adoption of the Report could lead to an amicable settlement, the League was vastly mistaken. The League had shown itself incapable of solving European problems. How then could it be expected to settle those of the Far East?

With such a lead, it was to be expected that denunciation of the Report in Japan would be both widespread and intense. And so it was. Distinguished generals expressed deep indignation. The Ex-Soldiers' Associations commenced activities which were "to stir up public opinion at this momentous juncture." They held meetings throughout the country and passed resolutions of which the following may be regarded as typical.

Should the League of Nations and the Powers blindly believe in the Lytton Report, which is based on biassed views and fallacies justice will be trampled under foot, and world peace disturbed. On the eve of the League Council's meeting, which is fraught with dangerous possibilities, we have come together in the process of spiritual mobilisation, and hereby declare to the world that we have completed the preparations for putting down iniquity and vindicating justice.

Less dithyrambic, but equally vigorous, protests came from other bodies, such as chambers of commerce, a group of university professors, and numerous patriotic societies,

The Reaction to the Lytton Report

some of which were newly formed for the purpose. The newspapers gave prominence to the Report, to its faults, to the incompetence of the League, for several days, and nationalist feeling seemed for a time to run very high. It was, perhaps, no more than a coincidence that at this period there was an outbreak of spy mania. The most innocent movements of foreigners were in several places watched or hampered by the police or by self-appointed detectives, thus giving rise to "incidents" which were, perhaps, too comic to be regrettable. Also, at this time, there was a dispute between certain military enthusiasts and the students of Roman Catholic schools who, because on religious grounds they had abstained from observances in honour of soldiers killed in war, were charged with want of patriotism.

A person not familiar with Japan might well have concluded, on a superficial view, that the whole country was aflame with indignation and seething with xenophobia. Yet this would not have been true, for most foreigners going about their usual business continued to meet with kindness and courtesy, while Manchuria and the League seemed to enter very little into ordinary conversation. But certainly support of the official policy was universal.

It is interesting to examine the reasons for this unanimity, not only because it is an historical phenomenon almost without parallel in modern times, but also because to understand it may help to throw some light on future movements of opinion. In the first place, the Japanese have a strong tradition of obedience to authority, a truly remarkable solidarity. Their history has not been such as to encourage disagreement with their rulers, and with them non-conformity is not, as with us, accounted virtuous. In the second place, the Japanese are extremely sensitive to criticism. One of the things which strikes an observer of their social life is a strong reluctance to administer or to accept reproof. Suggestions that a view is mistaken or an action reprehensible must be conveyed discreetly, and if

Japan and the League

possible by indirect methods. Feelings are delicate and must not be wounded. It was to be expected, therefore, that open censure of Japan's conduct would provoke an angry reaction; and some indeed think that there was a moment at the end of 1931 when the whole nation, its pride injured by universal condemnation, might easily have been led to take arms against the world. This can never be proved, but certainly the mood was ugly when there was talk of applying sanctions to Japan; and though excitement had subsided by the time the Lytton Report was published, it is probable that it could easily be fanned into flame again.

There is a third reason why the Japanese public were quite genuinely taken aback when they found that the Report was not entirely favourable to them, and contained some admonitory passages. They have, as a people, a curious habit of assuming that ordinary rules do not apply to them. How often one hears one's friends exclaim, "Ah! but in Japan it is different." They are not alone in this kind of delusion, which, in the West, often takes the form of supposing that the Almighty confers special immunity upon a given racial or political group; but, perhaps because Japan has only lately entered the modern world, cynicism has not fully developed within her frontiers, and the delusion seems to be more common. Their best friends are bound to admit that the Japanese sometimes allow themselves to think that they occupy a "special position," which nobody but a Japanese can understand, not only in Manchuria, but in the universe. This characteristic was once satirised by a humorous foreigner who observed, on learning of the arrival of Professor Einstein in Japan, that the Japanese would give him a noble welcome, would overwhelm him with praise and kindness, but would be careful to point out that the theory of relativity did not necessarily apply to the Far East. One should not exaggerate of course; but one can detect something of this attitude in the reactions of Japan to the Lytton Report. It seemed wrong that the Commission should judge

The Reaction to the Lytton Report

Japanese actions by Western standards. In Europe and America, may be, unpleasant results followed from hazardous policies, but that was not necessarily true in the Far East. This peculiarity of mind seems to have been detected by the writers of the Report, who, in one passage, remark that "even in Japan appropriate means must be found for the attainment of every end."

Given the characteristics just outlined, and a spontaneous patriotism like that of the Japanese, which, even without assiduous cultivation, closes up the ranks, and forms a united front against what is deemed interference from without, one can scarcely be surprised that opinion at this juncture seemed as firm as it was unanimous. Nor is there at the time of writing any indication that it has weakened. In their determination to adhere to their declared attitude, the Japanese Government have still as strong a backing as any Government could desire. Yet it is difficult to believe that such unanimity of expression corresponds to an equal unanimity of thought. There was no such complete agreement a year or so ago, and mortal men are not given to such unison. Somewhere, surely, there is the beginning of a rift? One must confess that it is hard to find. But there are some small indications. The Lytton Report, for all the abuse that was heaped upon it, has now been carefully read, not only by those whose business it was to refute it, but by the general public. After its appearance other books on the Manchurian question went out of favour, and translations of the Report were bought in fair numbers. When the first violence of the press attack died down, careful criticisms began to appear, and many readers became more willing to admit that, though not without faults, it was a unique document, a serious attempt to present an honest judgment on a complex political issue. Thoughtful Japanese of the educated classes, though they might take objection to many passages, conceded that it was a valuable historical study. More than this one cannot say, but it is enough to allow one to hope that with the lapse of time,

Japan and the League

something of the spirit of the Report will find acceptance in Japan.

II. THE REASONS FOR THE JAPANESE ATTITUDE

IT must be admitted that this is not very encouraging. It does not hold out much prospect of an early change of mind, even assuming the Report to be faultless and the League above reproach. Unhappily there is a good deal to be said if not in justification, at least in excuse, of the Japanese attitude. The Japanese have said it often enough, it is true, but they have said it as a rule rather unskillfully. They have defended their actions with arguments of such doubtful validity that they have succeeded in giving the impression that they have no case at all. It may, therefore, be worth while to examine some of their contentions afresh.

Taking first their objections to the Report as a diplomatic document, objections which can for the most part be summarily dismissed, we find that the points that gave most offence were the assertions that the military measures taken in September 1931 exceeded the legitimate needs of self-defence and the assertion that Manchukuo was, in fact, a puppet State formed by the Japanese themselves and not by the people of Manchuria. These assertions, whatever dialectic may be used in their rebuttal, contain truth enough to make them highly unpalatable to the Japanese who, having chosen to base their case upon a fiction, are—such is human weakness—indignant in inverse proportion to their innocence. But they have other and more legitimate criticisms to level at the Report. They contend that it displays throughout a bias in favour of China. It is difficult to prove this contention by citing from the text. Indeed, the Report shows traces of an effort, almost a strain, on the part of the writers, to be fair and sympathetic to both sides. But even an unprejudiced non-Japanese reader feels an underlying note of disapproval of Japan, a preference for China. Perhaps this discrimination is due to some funda-

The Reasons for the Japanese Attitude

mental harmony of temperament between Chinese and Europeans; perhaps it arose from irritation caused by silly spying and restraints from which the Commission suffered at the hands of Japanese in Manchuria; or, again, it may be that the Chinese made a better impression because even in their mendacity they are more frank and open than the Japanese. But anyhow the difference is there. Another objection to the Report, raised by thoughtful Japanese who are in a position to judge, is that its economic sections, and in particular its study of the boycott, are inadequate. This criticism can probably be sustained. The parts in question do not come up to the standard of the remainder, and they contain some judgments which it would be difficult to support.

But the true reasons for the hostile reception of the Report lie deeper than the surface of its pages. They are to be found in a disharmony between current sentiment in Japan and the principles for which the League stands. The difference can perhaps be most conveniently expressed by putting into the mouth of an imaginary Japanese of average culture and information an explanation of his country's policy. He would say something of this kind:

The League was formed after the European war by fatigued nations wishing for peace. Having parcelled out so much of the world as was at their disposal, they desired to preserve their strength and their property. Their ideal was the maintenance of the *status quo*, the strong Powers to remain strong, the weak to remain weak. We believe that fear and exhaustion dictated this policy as much as genuine desire for world peace, and we cannot accept the doctrine that a young and vigorous nation like ourselves must remain content with what it possesses, in a state of arrested growth. The League professes that, if we will bring our troubles to it, they will be solved. We do not believe that they have either the knowledge or the power to settle our problems. We have seen little or nothing in recent years to encourage us to put our trust in the League, a body which has not been able to solve any of the major political or economic problems of Europe, and yet attempts to teach us how to conduct our affairs in the Orient. We dislike this assumption of superior knowledge, this moral arrogance of Western peoples. We dislike in particular the credulity with which the League listens to the hypo-

Japan and the League

critical professions of the Chinese, who flatter them by subscribing in words to their ideals, but not in deeds. We dislike being preached at by the League, by Mr. Stimson, by Ministers of small States, by professors of obscure universities, by illiterate journalists, by amateur diplomats, not because we think we are faultless, but because we simply do not believe that the West has reformed. We cannot believe in such a rapid change of heart. We cannot believe in the pacific spirit of a Europe which does not disarm in spite of its promises under treaty, or in the idealism of an America where corruption and crime are rampant and where, we think, under the cloak of sentiment warlike intentions are concealed. We cannot be expected to prize the friendship of nations which, when we strive to join their society, exclude our people and our goods.

It would be easy to take the edge off such arguments, and it must be granted that our imaginary Japanese, having brandished these heavy weapons, would be hard put to it to defend the charge that his own Government has, to say the least of it, adopted an extremely convenient interpretation of the Nine Power Treaty and the Kellogg Pact. But in these matters sentiment counts as much as logic, and it is the unpleasant truth that the League of Nations, while demonstrating with convincing clearness the danger to peace involved in the Manchurian dispute, has done little to promote peaceful feelings between the parties. Perhaps this was inevitable. Still, though it is the purpose of this article to discuss, not the methods of the League, but Japan's reactions to Geneva, it may be permissible to observe that its intervention in the Sino-Japanese dispute does raise some doubts as to the adequacy of what is called peace machinery. There seems to be some danger that this machinery, once set in motion, may at times function in a way neither contemplated nor desired by those who press the button. There was a hint of this danger when the League set a date for the withdrawal of Japanese troops in November, 1931. The word "machinery" has some unfortunate implications. Peace-making is a delicate operation, rather hard to conduct on mechanical lines. It would be a tragedy if, through the rigidity of its parts, the appara-

The Reasons for the Japanese Attitude

tus should be found suitable only to one kind of process, and incapable of adaptation.

But, if the League was set a most difficult task, if the two disputants presented the most refractory material possible, and if the League's methods are open to some criticism, it remains true that the League stands for peace, for conciliation, for collective responsibility. And these are things which, though they may approve them, are not vital issues to the Japanese Government of to-day. Neither the Government nor the people, it is to be feared, have travelled far on the road to internationalism, nor have they any strong distaste for war. It is reported that Lord Lytton, in an appeal to the Japanese Minister of Foreign Affairs, pointed out that, if the Japanese felt strongly about Manchuria because it had cost them much blood and treasure, European peoples felt even more strongly about the League, which was all they had gained from the Great War in which they had lost millions of lives and untold gold. Alas! This argument was not likely to appeal to Japan, for she has not had the bitter experiences of Europe, and warfare still seems to her people an adventure and not a tragedy. The fact is that international concepts, which are new even in the West, have not yet penetrated the national understanding in Japan. As a people the Japanese have in these matters reached a stage of development analogous to that of England in 1900, and there are very strong resemblances between their attitude to-day and the temper of the English people at the outbreak of the South African war. There is the same heedlessness of the world's disapproval, the same patriotic fervour, and even the same kind of military problem to face in the revolt of mobile forces scattered wide over a difficult country. The difference, an important one, is that in Japan at present there is no influential body of liberal, critical opinion. There is liberal thought, there is even subversive thought of many colours, but it is inert, it rarely gets translated into open speech, much less into action. This absence of overt criticism is, of course, due in part to

Japan and the League

the fear of terrorist activities which, though they are for the moment in suspense, might easily break out again ; but in part also to the genuine solidarity which has been referred to above.

III. THE PROSPECTS OF A CHANGE

OPINION will change ; but it is doubtful whether it will change soon enough to satisfy those who hope that internal dissension in Japan will in the near future lead to the triumph of new ideas and the reversal of present policies. It has been suggested that, as enthusiasm for overseas adventure wanes and as domestic problems become more urgent, the Japanese Government will grow less intractable in foreign policy, and that this process will be accelerated as it becomes clear that the Manchurian enterprise is not justified by results. There is a good deal to be said for this point of view, but it is not quite certain that things will turn out so badly as it supposes, or if they do that adversity will have the anticipated sequels.

Taking first the economic position of Japan, it is true that she is in difficulties, but it may be argued that she is no worse off than other countries for the time being. In some ways indeed she is better off, for in the second half of 1932 she enjoyed a remarkable revival in foreign trade. Her exporters gained a great advantage from the depreciation of the yen in foreign exchange, which at the same time stimulated domestic manufacturers. The immediate outlook was fairly bright, and it is possible that an optimistic mood thus created contributed to stiffening the attitude of Japan towards the League. Budget prospects revealed later in the year were not very cheering. What with expenditure upon Manchuria, the demands of the army and navy for "replenishment," the cost of agrarian relief and other considerable items, the Government were obliged to ask for authority to meet budget deficits by borrowing up to 1,700 million yen between September,

The Prospects of a Change

1932, and March, 1934. Still, other countries had even greater deficits, and anyhow it was arguable that the inflation caused by large bond issues would in some ways be beneficial ; so that, since foreign trade continued to boom, agrarian distress had moderated and unemployment was not of serious dimensions, there seemed to be no special cause for anxiety. It would not be exact to say that there were no misgivings. The yen exchange was with difficulty maintained at two-fifths of its par value. Foreign countries threatened with an influx of Japanese goods at low prices began to consider protective measures. Wholesale and retail prices rose while wages kept stationary. And some financial authorities expressed doubts as to the healthiness of the trade boom and the wisdom of the Government's finance. But the situation was not thought critical, and though it is difficult in these days to see more than a year or so ahead, one may say that Japan's economic position is uncomfortable but not insecure. If there is any kind of world recovery she will be among the first to profit. If not, she can rub along pretty well for a time. Those who think that she could be quickly brought to her knees by economic pressure are surely mistaken.

In domestic politics there is great confusion and even the most experienced observers hesitate to predict what will come out of it. But it would be wrong to regard this confusion as a sign of weakness. It is rather a symptom of vitality, of the same abundance of energy as has produced the vigorous if rash enterprises in foreign policy of the last year. There are some signs pointing to a restoration of party government, perhaps after another experiment in coalition and without any extreme movement to right or left. But this is mere conjecture. For the moment the military are still dominant. They are not all-powerful, and they are a little more openly criticised than they were six months ago ; but it does not follow that, if they fail to produce results in Manchuria, they will at once fall in public esteem. For one thing, their popularity does not

Japan and the League

depend entirely upon their success in soldiering, but derives in part from their advocacy of certain doctrines, somewhat ill-defined but very palatable to those who are aggrieved by the corruption of party politics and the abuses of capitalism. Further, there is a possibility that, should progress in Manchuria be disappointing, the military leaders may go further afield and tempt fortune in Jehol and North China. Even as these lines are being penned there comes news of a clash between Chinese and Japanese troops at Shanhaikwan. Though this incident may have arisen from excitement caused by New Year feasts and not from policy, there is always a danger that the Japanese commanders may consider themselves obliged to extend their operations. In such circumstances they would almost certainly carry public opinion with them, at least for some time. Their eventual loss of political power, however, seems assured, and it is on the cards that it may follow a split among themselves.

If it is difficult to predict the course of events in Japan, still more is it difficult to foresee what will happen in Manchuria. There has been a slight improvement in the chaotic conditions of six months ago. Certain regions have been cleared of "professional" bandits, and trains are now running between Harbin and Manchuli. The Japanese military do not expect to suppress the "professional" bandits for many years, but they think that they will be able to dispose of the bandits who are in reality insurgent Chinese troops within a year or two. The cost of these and kindred operations in Manchuria is about 20 million yen a month. It is heavy but not crippling. As for the administration of "Manchukuo," though nothing remarkable has been achieved it must be credited with some improvements. Some of the rather recalcitrant and undesirable Japanese personnel, advisers and officials of various kinds, have been replaced by men of a better type, and the appointment of General Muto as Commander-in-Chief of Japanese forces in Manchuria, Governor-General

The Prospects of a Change

of Kwantung and Ambassador to Manchukuo puts the task of co-ordinating Japanese activities into the hands of a high-minded and experienced officer of the old school. The finances of Manchukuo, though they cannot but be shaky, have been taken in hand, and it is a good sign that about one-third of the notes of former governments have been redeemed and replaced by new notes issued by the central bank.

As to the economic advantage which Japan hoped to obtain from Manchuria, it shows little sign of materialising at present, but it is perhaps unfair to expect much at this early stage. An economic bloc consisting of the Japanese Empire and Manchukuo is freely suggested, but there are serious obstacles to its formation. Proposals to establish mills and factories in Manchuria have evoked opposition from industrialists in Japan. The prospect of supplies of cheap coal and iron from Fushun and Anshan, far from creating enthusiasm, has upset the Japanese coal-owners and iron-masters. The attractive theory that Manchuria would supply Japan with foodstuffs in return for manufactured goods does not seem to work in practice, for the purchasing power of Manchuria is limited and Japan has no particular need of foodstuffs. In fact at present it is Japan which is sending wheat flour to Manchuria.

Thus the prospect of economic benefit seems rather distant. But it is not impossible, and there are respectable authorities who take an optimistic view. Thus, in a recent issue of a monthly review of international affairs called *Gaiko Jiho*, a prominent business man, whose firm has long experience of trade in Manchuria and whose views command respect, states that in his belief the industrial progress of the country will be "prodigious," and that it will open a safe and valuable market rescued from "the ravages of China's internal disorders." Altogether, therefore, the result of the Manchurian enterprise is uncertain; and it seems probable that it will continue for some time without any marked development, neither a conspicuous

Japan and the League

success nor a conspicuous failure. If this is correct, then the disappointment predicted for Japan may not be so acute as to cause strong popular opposition to the present policy of the Government on the Asiatic mainland, especially as that policy is based not only on economic but also on strategic grounds.

It seems, then, that the League of Nations will not be able to persuade the Japanese that their continental policy is doomed to failure. In their present frame of mind they are not open to such arguments. Few of them would deny that such problems are of appalling difficulty, few of them but think that there are serious dangers ahead. But most of them feel that they have now gone too far to turn back. It has been freely suggested abroad that the Japanese Government are attempting to bluff the League, and dare not in reality face the hostility of the whole world. But this is far from certain. They have incurred that hostility already; and to call the bluff without carefully counting the cost would be, to say the least of it, to incur a grave responsibility. Japan to-day is in a desperate mood, inclined to gamble for large stakes. Her army and navy are very strong, her geographical position extremely favourable for defence, and though she very clearly does not want war, she is prepared for it. It is just as well not to blink this disagreeable fact.

Assuming that Japan is at present deaf to the warnings of the League and of statesmen who see in her policy a danger to world peace, what are the prospects of a change in that policy? From what has been written above it does not seem likely that there will be an early revulsion of feeling among the Japanese people. The outlook is not very cheerful. If they are now inclined to celebrate their warlike prowess, to talk bombastically of their mission in Asia, to claim that they have released from tyranny oppressed millions in Manchuria, it is not consoling, but perhaps it is salutary to reflect that not so very long ago public opinion in England was nourished on watch-words

The Prospects of a Change

like the "white man's burden," "splendid isolation," "roll them in mud and blood," "business as usual," and other formulæ, some of which to modern ears sound like echoes from a barbarous antiquity. To an Englishman who was adult in the early years of this century there is something uncomfortably familiar in the popular sentiment of Japan to-day.

Yet the Japanese are not, any more than we were then, a predatory, pugnacious race. They are a gentle, kindly people, rather given to dramatising themselves, but essentially devoted to the arts of peace. If, for our bitter experience, we are wiser and better than we were then and the Japanese are now, it is example rather than precept which will encourage the growth among them of the liberal principles in which we put our trust.

Japan.

January 4, 1933.

NOTE.—FOR THE ROUND TABLE view of policy, see THE ROUND TABLE, No. 89, December 1932, p. 64.—ED.

THE FUTURE GOVERNMENT OF INDIA

I. THE FIRST TWO ROUND TABLE CONFERENCES

NEWSPAPER comment on the third session of the Indian Round Table Conference, which ended on Christmas Eve, gives clear proof of the extreme state of bewilderment into which its proceedings have thrown observers, even shrewd and knowledgeable observers. The course of events at both the first and second sessions was reasonably simple and intelligible. At the first, the early and unanimous decision of the Indian delegates—both from the Indian States and from British India—in favour of an all-India federation so altered the whole character and basis of the discussions, that the British Liberal delegates and those of the other British political parties were able to advance beyond the Simon Report to a position in which they could agree to a large measure of responsibility vesting in the central government—with minimum safeguards in certain vital matters—when once the all-India federation should have become a reality. This decision evoked an immediate, and, on the whole, a distinctly satisfactory response from all the British Indian delegates who, in their turn, now found themselves able to view with much greater sympathy than formerly their British colleagues' arguments in favour of temporary safeguards in certain matters. The establishment of safeguards was agreed upon in principle and the details were left to be worked out later. Thus the first session ended with the Indian delegates committed to the further discussion of a political constitution for their country based

The First Two Round Table Conferences

on an all-India federation exercising responsible powers with certain limitations in the directions already indicated.

The second session of the Conference was meant to fill in the details in the great picture outlined above. Amongst these "details" were the exact terms on which the Princes were to enter the federation, the electoral system, the distribution of seats in the central and provincial legislatures, and the whole vast question of "safeguards" together with many other matters of lesser importance. But, by the time the second session met in London, the communal question, and particularly of course the Hindu-Moslem question, had come to overshadow the whole scene. Then, too, the representation of Congress, in the person of Mr. Gandhi, brought into the Conference a more extreme element than any that had been present at the first session, and was thus not calculated to lead to dispatch or harmony in the conduct of the general business, or, indeed, in the negotiations between Hindus and Moslems. Lastly, our own domestic difficulties at the time will also be remembered.

It was not then surprising that the second session of the Conference proved almost barren of result. In any case, what was happening was clear. The differences between Hindus and Moslems on the one hand, and between the representatives of the Indian States and of British India on the other, had clearly set up for the time being an insuperable barrier in the way of the achievement of agreement between the delegates on any point of major importance. Thus, the most that the Prime Minister could do, when he prorogued the Conference in December 1931, was to reaffirm the statement he made at the end of the first session, that the view of His Majesty's Government was that responsibility for the government of India should be placed upon legislatures, central and provincial, with such temporary provisions as might be necessary to guarantee the observance of certain obligations and the rights of minorities. Thus, the outlook for the all-India

The Future Government of India

federation had not improved as a result of the second session of the Conference.

Nevertheless, in spite of this undoubted set-back, neither the British Government nor the majority of the Indian delegates gave up either hope or work. Some of the leading Indians were invited to become members of a consultative committee to work with the Viceroy during the interval between the second and the third sessions of the Conference, while the Lothian, Davidson and Percy Committees went out to India to enquire into, and report on, the future franchise and certain matters connected with the future federal finances. Unfortunately, the Consultative Committee failed to accomplish any very important results, again owing, in the main, to the continuance of the impasse in the matter of inter-communal claims and safeguards. Further, the statement made last June in Parliament by Sir Samuel Hoare, that there would be no further meeting of the Round Table Conference, considerably depressed moderate opinion in India. The most striking and important developments of this period, between the second and third sessions of the Conference, were the decision of His Majesty's Government with regard to the allocation of seats in the provincial legislatures among the various communities, and the subsequent modification of this decision, so far as it affected the caste Hindus and the Depressed Classes, as a result of the agreement between Mr. Gandhi and certain Hindu leaders and the leader of the Depressed Classes, Dr. Ambedkar.

Thus, the record of these months, in so far as it is concerned with the working out of the Round Table Conference policy, is a chequered one. It is even more chequered so far as political developments in India during the same period are concerned; but their story has already been told in the ROUND TABLE and need not be repeated here. We are faced once more with the very serious position that Congress and certain allied sections of organised political opinion remain uncompromisingly

The Task of the Third Conference

hostile to the Round Table Conference, and the policy for which it stands. The British Labour party, moreover, was not represented at the third session and is thus not committed to any of its decisions.

II. THE TASK OF THE THIRD CONFERENCE

IT will be clear from what has already been said that the concluding session of the Round Table Conference opened in circumstances far from encouraging, whether one considered the general political situation in India or the scope and character of the tasks confronting the Conference. What were these tasks?

Omitting the more or less secondary or peripheral subjects, they, broadly speaking, consisted of two main problems; that of safeguards—both of British responsibilities and interests and of the interests of the minority communities—and the question of the conditions on which the Princes were to enter the federation. Both these questions are really groups of questions, and all of them present formidable difficulties. The safeguards necessary to ensure the fulfilment of British responsibilities, for example, are at least five-fold. They relate to defence, foreign relations, finance, commercial legislation and discrimination, and the reserve powers to be vested in the Governor-General and the provincial Governors. The minority safeguards, as now defined by one or other of the parties to the dispute, include such thorny subjects as the division of seats in the central legislature, and the location of residuary powers—the latter expression is of course only a euphemistic way of stating the question of whether the fundamental provisions of the constitutions of the provinces are to be as the Moslems or as the Hindus wish. The Hindus naturally want residuary powers to vest in the centre; the Moslems would place them in the provinces, because the majority in the central legislature

The Future Government of India

will always be Hindu, or ought to be if the seats are allocated on a population basis. The reason for this last qualification we shall see later.

As between the Princes and British India, the most formidable of the problems still remained unsolved. It had been decided at the first session of the Conference that certain administrative subjects should be federal "for legislation and policy." But, obviously, immense importance attaches to the exact scope and meaning of this phrase, and it was already apparent that British Indian opinion tended to give it a much wider application than did the Princes. Then, too, in spite of the valuable work of Lord Peel's subcommittee during the second session of the Conference, and of the Davidson Committee afterwards, it could not be said that more than the fringe of the immense subject of federal finance had been touched.

The difficulties confronting the delegates when the session opened last November, then, are obvious. Virtually, the really decisive work so far as these fundamental particulars are concerned had still to be done. We now pass to the proceedings of the Conference.

What we have called the secondary or peripheral subjects, namely, the franchise, the supreme court, and Anglo-Indian education, were quickly disposed of without any very marked differences of opinion. The Lothian Committee's main recommendations were accepted, subject to such modifications of detail as might prove necessary. A particularly interesting feature of the Conference's decisions on the franchise question was their agreement that women who satisfied the property qualifications prescribed for men should have a vote. The discussions about the supreme court evoked virtually as many opinions as there were Indian delegates and, in the upshot, the decision on this matter, as on so many others, has been left to His Majesty's Government.

A survey of the achievements of the Conference in connection with the really fundamental questions reveals

The Task of the Third Conference

again a mixed record, favourable in some ways, colourless or unfavourable in others. Fortunately, inter-communal matters came up for discussion only incidentally, and there were, therefore, none of the deadlocks which held up work at the previous session. The subcommittee on the distribution of legislative powers, for example, had to discuss the vexed question of the location of residuary powers, but was unable to come to any agreement. This matter will accordingly have also to be left to His Majesty's Government.

But, of course, the failure to deal with these knotty causes of inter-communal strife, which gave rise to so much trouble at the previous session, simply means that they too are now left to the British Government to settle, and some indication of the scope and difficulty of the most important of them may be given. Consider, for instance, the composition of the new legislatures and the distribution of seats between the different communities. The agreement between Mr. Gandhi and Dr. Ambedkar has left the problem of the future provincial legislatures in what looks like a hopeless position. In two of the most important provinces of India, namely, the Punjab and Bengal, the caste Hindus are now left with only one seat in five—apart from an odd seat or two they may win in special constituencies. In other provinces they are not so badly off, but even there the new allocation, if it ever comes into operation, will provide sources of intolerable discontent for the caste Hindu. In the case of the federal legislature the matter is even more serious from his point of view. Let us examine the prospects in the popular chamber of the central legislature. We may take it as an axiom that the Moslems will stick to their demand for $33\frac{1}{3}$ per cent. of the seats, and even that they will get them. They will certainly not compromise on this point. In that case, under Mr. Gandhi's Depressed Classes agreement, 18 per cent. of the seats will go to these classes. The Princes too have claimed 40 per cent. of the seats though they

The Future Government of India

are unlikely to get so large a percentage—British Indian opinion is united on that point. But, even assuming that they take the very lowest percentage within the bounds of practical politics, namely, 25 per cent.—we shall have already allocated $76\frac{1}{3}$ per cent. of the total. Yet, so far, we have not considered the representation of Europeans, Sikhs and Anglo-Indians, labour, and one or two other interests. Again let us assume the lowest possible figure, say 6 per cent. of the total for all these interests. Once more, the great Hindu majority community is left with one seat in five. The Hindus cannot, of course, agree to this figure, any more than they will agree to let the Gandhi agreement for the provinces be brought into operation. Already there is a storm of opposition from their side blowing up, and it will reach gale force before long. Here, then, we have a mighty practical problem left over for settlement.

The Safeguards

Let us now examine the highly contentious subjects that were discussed at the Conference, beginning with those issues which primarily concern Great Britain and British India. We refer, of course, to the subjects compendiously described as “safeguards.” We have already enumerated the five groups into which they fall. In the matter of defence and foreign relations the field of dispute was nothing like as wide as the ground covered by the subjects under discussion. The most important cause of dissension between British and Indian representatives arose out of the question of the Indianisation of the commissioned ranks of the Indian army. A general desire was expressed by the Indian delegates to have a comprehensive plan of Indianisation laid down; but His Majesty’s Government adhered to the view that the pace of Indianisation must continue to be regulated by stages, and it was pointed out that there is a programme of Indianisation already in existence which is much more extensive than any previous programme, and capable of still greater development in future. It was agreed that army expenditure should not

The Task of the Third Conference

be at the mercy of a vote of the legislature. The position of the Defence Member under the new constitution led to a good deal of discussion. Some of the Indian delegates suggested that this Member should be chosen from the members of the legislature, and that although he would not be “responsible” to the legislature, he should be treated as a member of the federal Cabinet, and, presumably, accept the implications of joint responsibility. His Majesty’s Government, however, maintained their previous opinion that the Defence Member should be chosen by the Governor-General at his unfettered discretion, though they agreed that joint discussion between him and the leading federal Ministers should become a regular practice in working the new constitution. It is clear, therefore, that even in this matter, there are points of difference, by no means unimportant, between British and Indian opinion, which have not yet been resolved.

Important questions too, in which the latent germs of somewhat serious disagreement between the British delegates and even moderate opinion in British India had already been detected, were raised by the discussion of the safeguards contained in the special powers and responsibilities which are to be vested in the Governor-General and the Governors. The Conference approached this matter on two assumptions, (1) that executive power in India (as in the United Kingdom and the Dominions) will rest with the Crown, represented at the centre by the Governor-General, and in the provinces by the Governors. (2) That, except where otherwise provided, the Governor-General and Governors will be guided by the advice of their respective Ministers, and that the executive will depend, so far as legislative enactments and supply are concerned, upon the consent of the legislature. The crux of the group of problems raised in the course of this discussion is, of course, contained in the words “except when otherwise provided,” which appear in the second of the two assumptions just mentioned, for these words raise in the most direct way possible the question of the nature

The Future Government of India

and extent of the responsibilities which are to be conferred upon the Governor-General and the Governors, and of the special powers which those officers must necessarily possess to enable them to discharge these responsibilities. As regards the Governor-General, it was decided that the ecclesiastical department should be added to the two "reserved" departments previously agreed upon, namely, defence and external affairs. For the administration of these departments, the responsibility should be the Governor-General's, and his alone, although the Conference regarded it as desirable that he and his personal advisers in these departments should take the fullest opportunities possible of consultation with the federal Cabinet Ministers.

This agreement was reached comparatively easily, although some of the Indian delegates would have liked a precise definition of all the matters that are to be treated as coming within the scope of the "reserved" departments, so that certain activities, which these departments would otherwise control, might be left to responsible Ministers. But a still more difficult problem presented itself when the Conference considered the question of the Governor-General's relations with Ministers in charge of departments for whose administration they would be responsible to the legislature. In what circumstances should the Governor-General be empowered to act against the advice of these Ministers? The answer to this question will be found in the unanimous agreement of the Conference that the Governor-General should have a "special responsibility" for certain clearly indicated general purposes, to secure which he is to exercise the statutory powers conferred upon him, in accordance with the directions contained in his Instrument of Instructions. The latter will direct him to follow his Ministers' advice unless to do so would be inconsistent with any of his "special responsibilities." It was further agreed that the Governor-General should have a special responsibility with regard to the following matters in the federal sphere,

- (1) The prevention of grave menace to the peace or tranquillity

The Task of the Third Conference

of India or any part thereof. (2) The protection of minorities. (3) The rights of the public services. (4) The administration of the "reserved" departments. (5) The rights of the Indian States. (6) The prevention of commercial discrimination.

Further, since the Governor-General's activities in the reserved departments, or in the discharge of his special responsibilities might bring him into conflict with the legislature, he will be vested with powers to override any hostile action on its part in respect of these activities. Lastly, to meet temporary emergencies, he will be vested with powers analogous to the present power of making ordinances. In the provinces, corresponding powers are to be conferred on the Governors. The latter's sphere of operation will naturally be their own provinces, and there will, of course, be no reserved departments in the provincial Administrations.

Now, anybody, who has followed the trend of Indian political aspirations during the past few years, will realise immediately how far-reaching these particular safeguards will appear to many important sections of Indian opinion. Weighty opposition to some of them was, in fact, forthcoming at the Conference. Opposition to the safeguards with regard to financial and commercial discrimination was still more sustained and determined. Indeed, in some quarters, there were fears, happily unfounded, that they might even lead to a deadlock. The reason for the insistence of His Majesty's Government on the financial safeguards is clear. Recent years have shown how sensitive a thing is India's credit in the world money market, and in the present world economic upheaval, the sudden and complete disappearance of British control over the public finances of India would certainly dry up the springs of credit for India and lead to a catastrophic fall in the value of Indian securities. Some of the delegates had an interview on this subject with the Governor of the Bank of England, and, although no account of it has been made public, it is believed that he stressed the above view. Certainly most of the delegates were powerfully

The Future Government of India

influenced by what the Governor said, and although a section of Indian opinion at the Conference wanted the federal government to be given effective control over Indian finance, a demand which was pressed to the end, the view, nevertheless, prevailed that the Governor-General should be vested with "a special responsibility for safeguarding the financial stability and credit of the federation." This would enable him in case of need to act contrary to the advice of his Finance Minister. The Conference further recommended the creation at the earliest possible date of a Reserve Bank, free from political influence, to be entrusted with the management of currency and exchange. The equally important subject of commercial discrimination led to an equally stubborn conflict of opinion between a section of the Indian delegates and the rest of the Conference. It was generally agreed that discrimination by legislative action should be prevented by specific provisions in the constitution, but there was considerable discussion about the question of discrimination by administrative action, the dissenting section of the Indian delegates maintaining that it was undesirable to try to provide against this as it would undoubtedly fetter the hands of the responsible Minister or Ministers for the purpose of important action that it might be advisable for them to take. Yet, to have no provision against administrative discrimination would render the other safeguard largely nugatory, and so to the already ponderous list of the Governor-General's "special responsibilities" there has now been added one to cover the subject of commercial discrimination. A further attempt was made at one stage to limit the Governor-General's protective power to companies registered in India, but this was abandoned after the practical and legal difficulties had been explained. It was, however, agreed that there should be reciprocity in the matter of commercial discrimination, and that Indians should have the same rights in the United Kingdom as British nationals will have in India. Separate agreements will, no doubt, be negotiated with the other Dominions.

The Task of the Third Conference

The Attitude of the Princes

Such, in brief outline, was the work accomplished at the Conference with regard to the "safeguards" which His Majesty's Government claim to be the minimum necessary for the proper discharge of their varied obligations to the people of India. It remains to consider what progress was made in the negotiations between the Princes and British India. These were mainly concerned with the two great groups of questions arising out of the conditions on which the Princes are to enter the federation. The form of the States' Instruments of Accession gave no great trouble. It was agreed by their representatives that an agreement should be made by each State individually with the Crown, and that these agreements could not be concluded until after the federal constitution had been approved by Parliament. The provisions of the Act with regard to federation would not take effect immediately but only after a specified period, if and when so many States have acceded. Lastly, the States would transfer to the Crown only the necessary powers and jurisdiction required by the express provisions of the Act, and they insisted that the agreements, or Instruments of Accession, should expressly exclude from the purview of the federation all powers and jurisdiction touching the federal subjects, in whole or in part, which individual States would not agree to transfer to the federation. In this connection, the report of the sub-committee on the distribution of legislative powers should be studied. For at its meetings the States' representatives made it quite clear that in respect of some, at any rate, of the subjects that are classified as "federal for policy and legislation," the States did not mean to give a free hand to the federal legislature in the matter of legislation affecting the internal affairs of the States. On the contrary, they meant to surrender no jot or tittle of authority beyond what was laid down in black and white in the Act, and the following example will show how strictly the bounds are likely to be

The Future Government of India

drawn in this direction. Railways have been declared federal for the purpose of legislation and policy, but the States suggest that, as far as they are concerned, these words should be taken as meaning that the federal legislature should have jurisdiction only over such things as rates, safety devices, and interchangeability of traffic.

Discussion of the thorny problem of federal finance took up a great deal of time throughout the session, yet at the end, it was difficult to say that anything final had been settled in respect of the contributions of the States to the federal finances. Certainly they will submit to no direct taxation, and the whole question of their contributions, together with the allied question of the privileges that certain States possess in respect, for instance, of customs, or of immunities from existing contributions, will have to be still further considered, presumably by another special committee.

On the States' side of the problem, too, then it is clear that many matters of literally fundamental importance have been left undecided.

Much has had to be omitted from this survey, but it is clear that, until an agreement has been come to with the Princes—and hitherto their peculiar difficulties have prevented one—no date can possibly be set for the inauguration of the all-India federation. Yet, until it is inaugurated, it is difficult to see how the measure of responsibility at the centre, which has been promised on condition that federation is agreed upon, can be granted. It is known, however, that only a few sections of Indian opinion will accept a constitution which does not immediately bestow a large measure of responsibility at the centre. In the light of this situation, the appearance of the White Paper will be awaited with the utmost interest.

Matters at any rate will soon be brought to a head, for the British Government has made known its intention of submitting a draft constitution to a joint committee of Lords and Commons in the coming spring.

THE UNITED STATES : THE NEW DEAL

I

1933—the Year of the New Deal. We enter it from an even lower level than upon 1932. The business index at the end of 1931 stood at -36.2 per cent. At the end of 1932 it stood at -45.5 per cent. Industrial stocks started 1932 at \$74.62. They begin 1933 at \$59.93. Rails are \$25.80, as against \$33.11 a year ago. All commodities are off sharply, many at new historical "lows." The bond average did not fare so badly, \$77.74 on December 31, 1932, as against \$77.78 a year before. It nearly held its own. But this does not mean that many millions of dollars in individual issues have not gone into default, thus further decreasing purchasing power and giving another whirl to the vicious circle.

So we start tearing the leaves from the new calendar. And before the first week is torn, Calvin Coolidge goes back to the tiny hamlet of Plymouth, Vermont, to a grave by six generations of his kindred on a hail-swept hillside. Mrs. Coolidge said he had been worrying about the depression. The doctors said the presidency had imposed on him a strain beyond all human endurance. Anyway, another link with the golden age has been severed. Who can evoke now the emotions of that remote antiquity before 1929? It is about as real as the empire of the Romanoffs. The holders of its favorite securities go about like grand dukes, only less romantic. The market for their memoirs is not so good. Now that we are so far and so helplessly advanced in the new era, we want to forget about the New Era. Perhaps it is a good sign.

The United States : The New Deal

It is now possible to characterize unemotionally these last four years and their next few successors as the period of post-war rectification of the price structure. Under that cold terminology, young men in colleges will read about these disastrous years and yawn and crave excitement and novelty. Commodity prices are very dull—until they upset the whole social mechanism.

Some of us remember 1914. The war ended at the Marne in September. There would be doubtless more movements of troops and fleets, but the boys would be home at Christmas. The depression has been like that. It ended when we swung into 1930 with the Dow-Jones industrial averages at 248 and prosperity right around the corner. It ended again early in 1931 when that venerable and taciturn sage, the late Mr. George F. Baker, said that it was no time to sell short. But now we recognize the war of attrition. The fifty-one and a half months that saw us out of the trenches will certainly not be enough (reckoning from September 1929) to get us back to even moderate prosperity. We shall not be back at the factories by next Christmas. And so far as this country is concerned the ravages of the Depression will be far greater than those of the war.

To be sure, the last six months have given us a respite from our precipitate descent. In some ways we have gained a little ground. Whatever the permanence of the gains, we have caught enough breath to survey the landscape. The forces in whose grip we have been caught seem, if no less dreadful, perhaps a little less mysterious. And while the direst consequences have not been escaped or shown to be avoidable, it is generally agreed that we must endeavor to reorganize society on something like the present price structure rather than to expect any speedy return to the old. This means definitely that 1933 will be a rough year for creditors. Bankruptcies, defaults, extensions, readjustments—only by these arduous and painful processes can we restore purchasing power and employment. The difficulty with price recessions is that they never do themselves

The United States : The New Deal

evenly. Raw materials fall faster than finished products. Wages lag on the higher plane. So do state and municipal budgets. Perhaps the saddest plight is the farmer's. He is getting only half 1913 prices for his products and he has to buy a lot of goods at twice 1913 prices. No wonder that Farm Relief is an insistent political problem. No wonder that insurance companies are worried about the defaults in their farm mortgages. No wonder that four hundred farmers in Iowa held up a sheriff's sale which was about to establish a deficiency judgment against an unhappy farm mortgagor. But we shall come back to the farmer. When we talk politics or economics we always come back to him.

II

LET us look in now upon the Capitol at Washington, where the Lame Ducks are endeavoring to emulate the Capitoline Geese. From now until the inauguration of Mr. Roosevelt on March 4, the old Congress (the 72nd) is holding over, working under and often against Mr. Hoover. Mr. Will Rogers, our professional humorist, has commented rather aptly upon our political scene with "a President that's in and has no authority ; a President that's out but has no authority ; a Senate that's in but has no leader ; a House that's in but has been voted out ; a budget that both sides are afraid to try to balance ; debts that are owed us that will never be paid, and debts that we owe which we keep adding to."

It is not very reassuring—this period of interregnum. It is gratifying to realize that the recent amendment to the federal constitution has abolished our lame duck session and that Mr. Roosevelt's successor will be inaugurated on the twentieth of January, 1937, and not on the fourth of March. Six weeks of futile waiting will be done away with. Under the constitution as originally drawn, and until the ratification of the amendment on January 23, 1933, a

The United States : The New Deal

successful candidate for Congress in November of one year (of a presidential election) was not called upon to attend any regular session of Congress until a year from the following month or thirteen months after his election. Even the best of mandates may grow stale in thirteen months. And never was there a better example than the present of the futility of the holdovers who, under a derisive epithet, occupy themselves with legislative projects more likely to be derided than to be passed.

As to the present negative period, Mr. Hoover has made some attempt to reach understandings with his successor. There was a meeting about the foreign debts just before Christmas. Another and more fruitful meeting has occurred latterly between Mr. Roosevelt and Mr. Stimson, the Secretary of State, and still another between Mr. Roosevelt and the President. Mr. Roosevelt has signified his accord with our present policy on Far Eastern questions. With respect to the war debts there will be a meeting in the early spring. Perhaps before the year ends we shall be able to get something done. That would be the greatest step yet.

Meantime the most formidable internal problem is the balancing of the federal budget. And progress toward that goal has been negligible since the election. Everyone agrees there should be economies. Nearly everyone agrees there must be new taxes. A general sales tax appeared to be on the cards until Mr. Roosevelt said he was shocked at being represented as an advocate of such a tax. So it is thought that money must be sought elsewhere. It is unfortunate that our fiscal tradition since 1913 has grown up so strongly about the income tax. Admirably adapted for revenue purposes in the periods of great prosperity which so largely blessed us in the years 1913-1929, it breaks down disastrously in years when incomes are cut, employment is reduced, and capital losses are heavy. It would have been far better if capital gains had never been treated as taxable income or capital losses as deductible. Our

The United States : The New Deal

income tax law, in addition to its shortcomings as a revenue measure, has fostered the evils of extreme inflation and extreme deflation.

In 1929 our national income was calculated at eighty-five billion dollars and government costs of all sorts—federal, state, municipal, school districts, etc.—were fourteen billion, or a little over 16 per cent. In 1932 the tide of income had ebbed to fifty billion, and government costs stood still at fourteen billion, or 28 per cent. Cost of government in 1932 will come to \$116 per caput, and we are still going backward at the rate of four billion a year. And these budget figures include in income three hundred and twenty-nine million dollars of war debt payments which no one seriously expects will be made.

While the realities of budget balancing and debt adjusting are being shirked, Congressmen are agitating all sorts of inflation projects which will certainly come to nothing but keep business and investment in a state of nervous uncertainty. A much more constructive measure, anti-deflationary in character, and strongly advocated by President Hoover, will probably pass. This is an amendment of the bankruptcy law, looking not primarily to the discharge of the debtor from his obligations as under the conventional Bankruptcy Act, but to relief to be given by the bankruptcy courts to compel the adjustment of debts even against the obstructive tactics of refractory creditors. Under the Act as drawn the debtor may file a petition stating that he is insolvent or unable to meet his debts as they mature, and that he desires to effect a composition or an extension of time to pay his debts. The Court must confirm the debtor's proposal if it is made in good faith and in the interests of all the debtors, and if it includes an equitable and feasible method of liquidation for secured creditors. It is thought that, under such a statute, railroads and other temporarily embarrassed corporations may effect reorganizations which will afford solutions of their difficulties without necessitating enormous volumes of distress liquidation of

The United States : The New Deal

merchandise or securities. Individuals encumbered by bank loans or real estate mortgages may gain time under this statute for an adjustment of their affairs. Banks and insurance companies, which are our leading creditors, favor the plan.

We come now to farm relief. The newest form is the so-called allotment plan which is understood to have the approval of the President-elect. It is designed to correct the cruel collapse in the price of farm products, which, as has been said, has been out of all proportion to the collapse in prices of what the farmer buys, so that under existing conditions our great farm population is robbed of its purchasing power. The difficulties of the farmer, it will doubtless be remembered, antedate the depression. In fact, farm relief has been a live political issue ever since the war.* The Federal Farm Board was one of the unhappiest expedients of the Hoover administration. The new Allotment Bill provides that "adjustment certificates" shall be issued to farmers willing to reduce by 20 per cent. their 1933 acreage of wheat, cotton or tobacco, or their 1933 tonnage of hogs. Certificates will then be issued which will entitle their holders to receive, on that percentage of the total crop consumed in the United States, cash payments sufficient to bring prices up to the 1909-1914 average. The funds for the payment of these certificates will be raised through a tax imposed on millers, packers and other processors of the products specified. These processors will of course pass as much of the tax as possible on to the consumer. The Act is frankly experimental and is to be effective for one year only, subject to a further extension of a year by presidential proclamation. It is estimated that it will give to farmers 180 million dollars more than market prices would yield on wheat, 115 million more on cotton, 35 million more on tobacco, 300 million more on hogs.

It will readily be seen that the Bill is in reality a sales tax on farm products imposed on their domestic consumers for

* See *THE ROUND TABLE*, vol. xvii, pp. 520-527.

The United States : The New Deal

the benefit of their producers, who are thereupon presumed to agree to limit production to such an extent as to raise prices. It is class legislation, but all farm relief legislation must be class legislation. It can be justified, if at all, only by the size of the class, the magnitude of its misfortune and the relation of this misfortune to the general disaster. It is not difficult to criticize the legislation either from the standpoint of economic theory or of political consequences. It is obvious that such concessions to one group will embolden other groups to demand similar concessions and to extort them if possible by political pressure. The American war veteran has already set an example of sturdy unpatriotism in this respect, which is being remarked by his brethren who only serve by standing and paying taxes.

The fate of the allotment measure is uncertain. It will probably not be passed at the present session. Attempts have already been made to amend the Bill to provide assistance to raisers of rice, pea-nuts and butterfat. There is some doubt as to whether Mr. Roosevelt will accept the Bill in its present form. Speaking in Topeka, Kansas, last September, he advocated six "essential specifications" of a "workable plan": first, "a tariff benefit over world prices which is equivalent to the benefit given by the tariff to industrial products"; second, self-financing provisions; third, abstention "from any mechanism which could cause our European customers to retaliate on the ground of dumping"; fourth, reliance upon "existing agencies" only; fifth, operation on a cooperative basis; and sixth, operation of the plan to depend upon "the support of a reasonable proportion of the producers of the exportable commodity to which it is to apply." None of the six points is observed in the present Bill. But the six points may fare no better than the fourteen which were advanced by one of Mr. Roosevelt's predecessors.

The United States : The New Deal

III

IN such times as these the critics of our social and economic structure obtain a ready ear. There are plenty of critics and there is, of course, plenty to criticize. But the most plausible and the most discussed group consists of some two hundred engineers or technicians working under a certain Mr. Howard Scott, who expound the downfall of the present system and its supersession by a "technocracy" of engineers and technologists who, in an incredibly brief space, will give us not only the new Jerusalem, but also the new Pittsburgh and the new Detroit. Technocracy claims for its forbears men like the late Thorstein Veblen, the economist, the late Charles Steinmiz, the famous electrical engineer, and others of high repute. Its thesis is that machinery has displaced men to such an extent that the old "price system" must be regarded as obsolete. The steel output in 1929 was 9.3 times the steel output in 1887. In pig iron production, a man now accomplishes in one hour what it required 650 hours to accomplish in 1882. One man today can produce nine thousand times as many incandescent lamps as in 1914. A new machine has a production of 2,600 cigarettes a minute, against a previous maximum of 600. A New Jersey rayon factory is nearing completion which will work twenty-four hours a day with only robots on the pay-roll—no humans. We could build an automobile to run 300,000 miles without overhauling, a pair of shoes that would last two and a half years, a cheap razor-blade to shave a man from adolescence to the grave without needing to be sharpened, a road-making machine to be run by three shifts of two men each twenty-four hours a day which can tear up in a single day an old roadway sixty feet wide and eight miles long and build a new one, foundation and pavement.

So say the technocrats. It follows, according to Mr. Scott, that we must have a society based, not upon price, but

The United States : The New Deal

upon energy. "Technocracy," he says, "makes one basic postulate: that the phenomena involved in the functional operation of a social mechanism are metrical." From this admirably lucid postulate, technocracy further assumes "that there already exist fundamental and arbitrary units which, in conjunction with derived units, can be extended to form a new and basic method for the quantitative analysis and determination of the next most probable state of the social mechanism."

Technocracy further states that, as all organic and inorganic mechanisms involved in the operation of the social microcosm are energy consuming devices, therefore the basic metrical relationships are: the factor of energy conversion, or efficiency; and the rate of conversion of available energy of the mechanism as a functional whole in a given area per time unit. Technocracy accordingly establishes a new technique of social mensuration—that is to say, a process of determining the rates of growth of all energy consuming devices within the limits of the next most probable energy state.

This might not be so cogent from ordinary men, but from a group of research technologists who have been working in Columbia University with a series of charts it cannot be gainsaid. The "price system" is doomed. Down with dollars. Up with the erg, the therm, the calory, the kilowatt, the joule. The slavery of man to constantly fluctuating values will be at an end. A dollar may mean two bushels of wheat or half a bushel. A pound sterling may mean \$4.86 or \$3.20, but an erg's an erg for a' that.

So everybody lately has been talking technocracy, and for a while it looked as if it might be the very latest thing at the coming Easter season; but several of our economic milliners have unkindly said that it was already out of date and would not be worn in 1933. One writer says the displacement of men by machines is a bogey like Malthus's bogey of man's outliving his food supply. Another writer had pointed out, for example, the mitigations of the evil of throwing a lot of clerks and scriveners and monkish copyists and incunabulists and illuminators out of work just for the sake of newspapers and books and other products of the

The United States : The New Deal

printing press and linotype. A third finds that the highest merit of technocracy is to rhyme with democracy. Still others have said with acidity, and slightly *ad hominem*, that the technocrats are really no brighter than bankers.

The technocrats themselves have not told us how they are going to bring their new energy society into existence. There are still some charts to be prepared.

Still, it does not pay to be too contemptuous either of our present social and economic systems, or of the remedies and alternatives devised therefor. The only contemptible people are the cocksure. No one who has lived through the last twenty years can fail to have been impressed by the almost incessant strain imposed upon society by fluctuations of the price structure—first, the upward trend of prices in the war period, which so disastrously affected creditors and salaried employees, and now the downward trend which theoretically hurts debtors for the benefit of creditors, but actually draws everyone to ruin. The depression has disclosed the defects of our society as the low spring tides disclose the perils of a rocky coast.

And certainly, whatever the causes of unemployment, whether technological or merely temporary, due to the rectification of the price structure or deflation or what not, it creates a situation which may not be ignored. Its treatment has enlisted, and certainly must enlist, our "best minds."

If there is to be anything like systematic unemployment insurance in this country, it must presumably be embodied in legislation to be passed by the several states. In time we may have forty-eight working (or failing) systems of unemployment insurance. Owing to the peculiarities of our federal system, short of some drastic constitutional amendment, we could not have a federal plan which would be applicable to more than a limited class of employees, *e.g.*, those employed on inter-state railways, and, of course, those immediately in the employ of the Federal Government.

The United States : The New Deal

At present we have no unemployment insurance plan in operation and public sentiment is wary of doles. The trend is still all in the direction of "relief" on an emergency basis.

However, industrial leaders have proposed projects of which the most discussed is probably the share-the-work plan advocated by Mr. Walter C. Teagle, of the Standard Oil Company of New Jersey. This great industrial concern adopted in 1930 the policy of spreading the diminishing quantity of work, instead of laying off employees. In some instances where the labor element is not too large an item in the cost of doing business, employers have shortened the week without reducing wages. Another plan (the so-called New Hampshire plan) exacts a financial contribution on a sliding scale from those in the higher wage or salary classification, and money thus released is used to pay workers in lower brackets. In another variation, work-sharing has been accomplished by uniform reductions of pay down to an agreed minimum wage. But the sponsors of the share-the-work movement admit that it is an emergency movement. Permanent solutions of unemployment have certainly not been reached on this side of the Atlantic. We have gone scarcely further than to agree tacitly that the future will see a shorter working week and a shorter working day. The American Federation of Labor is insistent on this. And probably public opinion will support it. Thus the next new era will find us preoccupied, if not with unemployment, with periods of unprecedented leisure.

IV

ON the great economic issues the battle continues to rage. On the one side we find certain economists and banking fundamentalists who insist that liquidation must run its course, that a balance will finally be reached on the new lower level, that relations will be adjusted on

The United States : The New Deal

that basis, and prosperity will then go forward. On the other side we find the inflationists of varying degrees who insist that commodity prices must be raised, or else bankruptcy and debt default will destroy all our national wealth. Letting liquidation run its course is like letting pestilence run its course. They point out that all the resources of our prosperous years are unimpaired—the intelligence and industry of our people, our great natural wealth, our matchless industrial plants. Let America declare war tomorrow and the depression would end in a day. The Government would borrow billions. “Patriotism” would come to a white heat. Industrial plants would start up. The railroads would groan under the carloadings. Teeming activity would replace rotting stagnation. Banks would bulge with new deposits. If it was right, they say, to spend twenty-five billion or more to kill men in Europe in 1917-19, is it wrong to spend four or five billion to save the lives of Americans to-day? We do not wish to go to war. William James sought its moral equivalent which should inspire men to valor and self-sacrifice. Now we seek its economic equivalent to provide the desideratum sought by Mr. Maynard Keynes—something which everybody will agree that it is proper to spend money for. But this would mean inflation. Will inflation be our salvation or our destruction? Like many lesser controversies, this one is fed by using the same words in different senses. If inflation means currency inflation either from printing new money or grossly debasing the old, then all our sane thinkers oppose it, and both our political parties are pledged against it. On the other hand, if inflation means the expansion of credit, an increase in purchasing power and in employment, with an elevation of commodity prices, then it is the only sign in which we may hope to conquer. If deflation has meant disaster, then inflation means hope. And the inflation which we have already had through the Reconstruction Finance Corporation, the Glass-Steagall Act, and the open market purchase of government bonds—all inflationary measures—has pro-

The United States : The New Deal

bably been largely responsible for our advance from the “lows” of last summer. To measures of controlled inflation it is believed that the new administration leans.

* * * * *

There is a stir of hope in the air. There has been a financial betterment. Banks are investing. “High grade” bonds are moving to new “highs.” Deposits in the New York banks are increasing, sentiment is improved. The new administration typifies new achievements. But with the New Deal before us, we are still practically at the industrial nadir, with our business and our political machinery standing idle. These are dark hours for our Republic.

The United States of America.
January 31, 1933.

A GLANCE AT TRADE AND INDUSTRY

I. THE POSITION TO-DAY

THE unemployment returns for January came as a sharp corrective to the rather dangerous complacency that political speeches during the recess had been displaying. Registered unemployment reached 2,900,000 on January 23, the highest figure yet touched. It was 91,000 more than in September, 1931, when we left gold, and before the purge of the registers by the operation of the Anomalies Act and the means test. In January the number of the registered unemployed was 175,000 more and the number of persons in employment (on the Ministry of Labour's estimate) 76,000 less than twelve months before. The seasonal setback was no greater than in the three preceding years, but that is all the less encouraging to those who have been arguing as though if we waited long enough our difficulties would end of themselves. The detailed returns are not available at the time of writing, but it appears that the January regression was common to most manufacturing industries, as well as to the more markedly seasonal trades. This impression of relative stagnation, if not actual further decline, is confirmed by most other indications.

It is not, however, a stagnation without hope. The sense of imminent catastrophe that overhung Europe twelve months ago has lost its oppression, but at the same time the unreasoning hopes that were put forward in political and economic conferences have become restrained. Although a pathetic faith in the World Economic Conference colours every business forecast and speech, it is

The Position To-day

becoming tinged with cynicism. The statesmen move so slowly. Yet it is only fair to admit that British industry in the early months of 1933 has some lighter patches to relieve the gloom. As Sir Josiah Stamp has put it, "there are more factors adjusted for recovery at the present time than there were twelve months ago." Our international trade remains at a deplorably low level, but the visible adverse balance of trade has continued to decline. Allowing for the fall in value, the volume of imports was last year 12 per cent. less than in 1931, and nearly 10 per cent. less than in 1930. Exports, on the same basis, were 0.4 per cent. greater than in 1931, although 23.2 per cent. less than in 1930. The January trade figures show no serious worsening. We may congratulate ourselves, therefore, on having reached some degree of stability, even if it be that of "dragging along the bottom," and on there being, so far as the internal signs go, few obvious grounds to fear a bad relapse. The tone is reasonably cheerful, and that may mean a good deal. The roughest survey of the position of the principal industries serves, however, to remind us that natural recuperative forces will be insufficient to restore them to full activity.

The coal industry, for example, displays considerable vitality, although the output in 1932 was the lowest (barring the strike years of 1921 and 1926) since 1898, and exports were smaller than in any year (the war years and 1926 excepted) since 1899. It is something perhaps that in other coal-producing countries the pace of decline has in recent months been sharper; their slump came later than ours. But what revival the British industry has been experiencing is due largely to currency depreciation and to the urgent need of retaining a hold on our contracting market for their exports that our foreign customers feel. The immediate stimulus to coal exports given by devaluation was soon watered down by the adoption of counter measures abroad. The countries on gold met it by protective devices—bounties, embargoes, quotas and taxes; the countries off

A Glance at Trade and Industry

gold by exchange restrictions. The restrictions were particularly marked in Germany, France, Holland, Belgium and Spain, and the losses in our coal exports to them account for more than the total reduction in British exports as compared with the 1931 figure. On the other hand there have been gains, which continue, in Scandinavia and the Baltic (at the expense of Germany and Poland) and in Canada and South America (at the expense of the United States). The northern European markets may be consolidated and increased as a result of the present discussions about bi-lateral agreements, though whether at the expense of further restrictions on the trade of other countries is not clear; the worst excesses of the German, French and Belgian quotas may soon be trimmed (concessions are now under discussion). But it is none the less clear that the industry's future depends on the achievement of a broad international settlement, for any general recovery in foreign demand, or in the home market, the falling off in which was last year mainly responsible for the decline in output.

Internally the British coal industry can look forward to relative freedom from labour disputes—under the conciliation agreement in South Wales present wages have just been continued for another twelve months—and to a disposition to co-operate on the part of the men which has not been so marked since before the war. The Secretary for Mines was able to arrange in December for a joint meeting between the national bodies which represent the owners and miners respectively, although the latter have not been able to gain their cherished wish for the settlement of wages on a national basis. It is unfortunate that the conflicting interests of the owners in the various districts have not yet been reconciled to the point of bringing about the much needed improvement in the schemes for regulating production and sale. These have long been promised, but extremely slow progress is being made. While the sporadic revival of attacks on the whole machinery of the Act of 1930 do not indicate a widespread and cohesive movement

The Position To-day

for its repeal, they do indicate that the industry still lacks the decisive, unified voice that would be so useful in international discussions when trade begins to revive, and an effort must be made to avoid a cut-throat European scramble.

An incidental point of some interest in recent months has been the diversion of trade with London and the south from the midland coalfields to those of the north-east coast and Scotland. This increase in coastwise shipments is the reflection of the disparity between water and railway carriage charges. The former are below the pre-war level; the latter 60 per cent. above it. It was stated in evidence before the Railway Wages Board that the London and North Eastern Company had lost 2,000,000 tons of traffic in this way. This is a remarkable reversion to the great coasting trade on which the old north-eastern coalfields were built up. It would hardly be supposed that economic history could turn so sharply in its tracks. The disequilibrium may not persist, although it seems inevitable that with a shrunken foreign trade the export districts will try to sell more at home.

One lesson the coal industry has learned from the depression is that it must study the arts of salesmanship. A Coal Utilisation Council has been formed to conduct propaganda, to encourage research, and to combat the all-conquering march of oil. It has a strong "Buy British" side, and is not above making such home thrusts as the shocking revelation that the Bank of England and the Federation of British Industries have their offices heated by a foreign fuel! It leads also to local evangelical movements like the campaign of the Lancashire owners and miners to persuade their countrymen to refrain from using the coal of the foreigners of Yorkshire and the Midlands.

Efforts at improvement from outside have not been so warmly received. The Coal Mines Reorganisation Commission, after a long course of persuasive admonition, has taken the first steps towards using its compulsory powers.

A Glance at Trade and Industry

It intimated in January that it would employ them to bring about the amalgamation of the mines in the county of Fife and in Cannock Chase. It has also taken preliminary action in south Derbyshire and in Leicestershire; and voluntary valuations are being made of the mines in the three areas of the Lothians, the Forest of Dean, and the St. Helens district of Lancashire. The Commission has not acted hastily; it has adopted a piecemeal policy instead of its original counsel of perfection of mergers of whole coalfields; but, none the less, it is likely to meet with stiff resistance from many individual owners.

The coal industry puts its trust in the lowering of foreign tariffs and impediments to trade. The iron and steel industry now puts its trust in the maintenance of the British tariff and the removal of the trade impediments of other countries. Some signs of improvement are pointed to; as in the case of coal, British iron and steel makers have recently lost less ground than their competitors, but, in spite of the two years' protection now assured, the depreciation in sterling, and the concessions made in the Ottawa agreements, revival is almost entirely contingent on a general trade recovery, and a renewed demand for capital goods. The industry has set up a framework of committees to prepare a reorganisation scheme, but to judge from a speech by Sir George May, the chairman of the Import Duties Advisory Committee, on January 24, progress has not been rapid. Sir George felt it necessary to say that if the industry does not reorganise itself "someone else is going to do it for you."

An important development was announced on November 29. Messrs. Stewarts and Lloyds, with the financial backing of the Bankers' Industrial Development Company, are to establish at Corby, in the Northamptonshire iron ore field, works for the production of Bessemer basic steel, which is not now produced in Great Britain at all. The works will include the whole chain of manufacture from the extraction of the iron ore to the making of the finished steel tube.

The Position To-day

During the last quarter shipbuilding has shown signs of movement, but it is movement from an exceptionally low level. Last year was the worst in its modern history. The output of British yards was little more than a third of what it was in 1931, and much less than a third of the output in any other bad year for half a century. In the December quarter, the merchant tonnage commenced was no more than 39,403 tons. For the greater part of the year work was on hand in only five per cent. of the yards of the country. The Clyde output was the lowest since 1860; only one of the dozen yards on the Wear had any work, and that only on a couple of small colliers. Belfast's output was one small vessel of 5,869 tons, and at the end of the year there was no new ship under construction there. The unemployment percentage in December was 63.5 (in Northern Ireland 82.5). Since November there has been some revival of orders for mercantile shipbuilding, and it is likely that the amount of new tonnage begun in British shipyards in the current quarter will exceed the amount in the whole of 1932. Shipowners, as Mr. Runciman has pointed out, are beginning cautiously to look ahead.

In face of the immense quantity of idle tonnage which fills all the British harbours—1,971,000 net tons on December 31—as well as the harbours of all other countries, any sign of returning confidence among shipowners is encouraging. There has been renewed discussion of the possibility of international action for the laying-up or scrapping of surplus ships, but the subsidy system seems to be an irremovable obstacle. Attention is drawn in another article* to the enormous sum found by the United States taxpayer (there are signs at last that he himself is beginning to turn against it) to cover losses incurred on building or operating ships, and almost equally unedifying morals—for the domestic taxpayer, and for the prosperity of the British shipping industry—might be drawn from the policy of Germany, Italy and Japan. The committee of shipowners,

* See page 256.

A Glance at Trade and Industry

called together in Paris by the International Chamber of Commerce at the end of November, put the position well when, in prefacing its demand for the abandonment of "uneconomic subsidies," it declared :

Failure to respect the principle of the world market has halved the volume of international trade, and discrimination and uneconomic subsidies in shipping are rapidly destroying the basis of international ocean transportation, which is equality of treatment of the vessels of all flags in all parts of the world. Free access to an open freight market is essential to the prosperity of international commerce, but there can be no such market in any country, which is discriminating in favour of ships under its own flag.

The Chamber of Shipping and other representative bodies have been strongly urging that the World Economic Conference should take up the question of shipping subsidies, as being a most dangerous and harmful form of trade restriction.

The cotton industry has felt the advantages of sterling depreciation longer than most other industries. Last year showed a distinct recovery in production, employment and trade compared with 1931, but (as we noted six months ago) the pace began to slacken in the second half of the year, and the last few weeks have seen a further serious falling off of demand. There has been no sustained improvement among Lancashire's European and American competitors, and the world export trade assumes more and more the picture of a fierce contest between Japan and Lancashire. For three short months at the end of 1931 Japanese competition was held off by the Chinese boycott and by her attachment to gold. But since Japan abandoned gold and let her currency slide, the pressure of her competition has steadily increased. Lancashire shippers throw up their hands in face of a yen that has depreciated since December, 1931, from 36d. to 14½d. in terms of sterling, a reckless sales policy, and an organisation of production that is much more efficient for the purposes of bulk trade in cheap goods than Lancashire's. A few sentences from the

Competition and Imperial Politics

latest survey of the world trade in cotton piece goods made by the Cotton Trade Statistical Bureau will illustrate the situation :

In India the imposition of the additional tariff on non-British piece goods was followed by a drop in imports, but British trade has fallen much more seriously than Japanese trade. . . Japanese trade with the Straits Settlements has reached record figures. . . Imports into the Middle East reveal a further extension of Japanese competition. A substantial rise in total imports into Egypt in the third quarter of 1932 was entirely due to increased imports from Japan, which in September had reached the record figure of 9·6 million yards or nearly half the total imports. . . In East Africa, Japan has firm control of the market, and although Great Britain did a larger trade in 1932 than before the departure from the gold standard, this did not prevent a further expansion of Japanese trade. . . In British West Africa the bulk of the trade is still held by Great Britain. . . In comparison the extent of Japanese competition in this market is very small, but there are signs that it is increasing. [Japan exported to Nigeria, the Gold Coast and Sierra Leone 1·4 million square yards in the first nine months of 1932, against 133,100 square yards in 1931 and 20,500 square yards in 1930.]

The extension of Japanese competition in South America, particularly Argentina, bears no relation to the depressed state of these markets. Although exports to Argentina from Great Britain, the United States and Italy have been falling since August, Japanese exports, after a drop in September, continued to increase throughout the second half of 1932. . . Japan is maintaining a steady trade with South Africa and Australia.

II. COMPETITION AND IMPERIAL POLITICS

THE internal reactions of this competition are worth noticing. Early in December a group of Manchester merchants and producers began an agitation for the grant of stiff preferences for Lancashire goods in India, the Crown Colonies, Dependencies and mandated territories, and, if necessary, the use of compulsion to that end. The Manchester Chamber of Commerce took up the case, and on December 12 passed a resolution which may have a certain historic importance. It declared that

in countries to which Great Britain grants favourable terms for the entry of their products into the British market it is unreasonable

A Glance at Trade and Industry

and intolerable that Britain's premier export trade—that of cotton goods—should be left without any safeguards against the competition of countries with lower standards of living and depreciated exchanges, and that the continuance of such favourable terms of entry into the British market should be dependent upon full reciprocal treatment from the Empire and foreign countries concerned.

The meeting therefore calls for the imposition of adequate preferences on British cotton and artificial silk goods in all parts of the Empire where the British Government are free to act, and for steps to secure freedom of action in other parts of the Empire at the earliest possible date.

In cases where adequate preferences are not granted preferences in the British market should be withdrawn.

Deputations have waited on Ministers, and in its annual report the Chamber has threatened to use "the political weapon" and to mobilise parliamentary opposition to an Indian settlement if Lancashire's interest in India are not safeguarded, and "the alliance of the Indian millowners with the Congress party" is not disregarded.

This attitude towards the Indian settlement may appear rather out of key with British Government policy, and the whole basis of the agitation may seem to ignore the obvious considerations that India will not surrender her fiscal autonomy at the bidding of a manufacturing rival, that the creation of a closed colonial Empire would involve the denunciation of numerous treaties, and that when all has been done only a relatively small portion of Lancashire's world market would be preserved to her; Japan's competition in all other markets would be enormously intensified. But it has to be remembered that the cotton trade did badly out of Ottawa; the bickerings with the Canadian textile interests left a sense of resentment; and with the zeal of the new convert a good many people in the cotton trade are inclined to believe that if we do live in a protectionist age there must be cash returns, whatever the political consequences.

It may be doubted whether the intransigent attitude towards an Indian settlement based on fiscal independence

Competition and Imperial Politics

will persist. There is behind it an element of window-dressing and a hope to influence the new Indian budget. The more reasonable line of approach, to which Lancashire will probably soon return, is that of friendly co-operation with India. The discussions during the Ottawa Conference were helpful, and if Lancashire can show an earnest of goodwill by using more of India's cotton for which Japan is a good customer, and can persuade the Indian politician and millowner that an economic agreement, free from any suspicion of the "big stick" and fiscal domination, can be negotiated, a common policy useful to both Indian and British manufacturers might be worked out.

The dispute between the Ceylon State Council and the British Government over the introduction of imperial preference is a further illustration of the political reactions of the competition in textiles. Cotton piece goods have figured largely in the Council's debates. The fact that Japan has captured four-fifths of the trade by her cheap goods adds point to the demand for a moderate 10 per cent. preference in return for the preference Great Britain gives to Ceylon's chief export, tea. But, to quote an illuminating letter from a Manchester merchant in Ceylon:

The great cry among the State Councillors is that the poor man here cannot afford to be taxed, that he should be allowed to buy his cloth at the cheapest possible price. They forget that it is the poor man in England who drinks tea with every meal, who is paying the preference on tea, not the rich man who probably has a cup of tea in the afternoon only.

The economics of colonial imperialism call for the striking of a fine balance.

One further point must be made. It is important to realise that any return to an international monetary standard to which Japan was not a party would leave British trade in the East extremely vulnerable to attack.

A Glance at Trade and Industry

III. THE RAILWAY PROBLEM

THE only serious labour dispute on the horizon is that on railway wages. During the last three months there has been a settlement of outstanding labour troubles in the cotton industry, notably the conclusion of an agreement on the system of working more looms to a weaver, the earlier disputes on which have been described in previous issues,* and new conciliation machinery has been set up by which, for the first time, an independent chairman and independent members are introduced to guide the disputants to a peaceful issue. The principle was adopted from the conciliation machinery of the railways. A few weeks afterwards, however, the railway machinery itself produced something like a deadlock. The report on the hearing of the companies' claim for an increase of the temporary reduction on earnings to 10 per cent. (subject to a minimum of 38s.) was issued on January 13. There were actually six reports: the companies' representatives held to their full demand and had the backing of the members nominated by the Federation of British Industries and the Associated Chambers of Commerce; the union representatives opposed any further cut and were supported by the nominees of the Trades Union Congress and the Co-operative Union; the chairman, Sir Harold Morris, was the only member to offer a middle course. He suggested a small addition to the present temporary reductions, the effect of which would be to save the companies less than £1,000,000 a year, instead of the £4,600,000 which they had estimated their demand would amount to. The result was certainly inconclusive. Could it be urged that the report of a single member (the chairman) was a valid finding of a board of 17? Or was it, as the unions argue, of no more account than the other

* THE ROUND TABLE, No. 85, December, 1931, p. 132; No. 86, March, 1932, p. 364; No. 88, September, 1932, p. 848.

The Railway Problem

reports which cancelled each other out? The companies, desirous above all things of maintaining the conciliation machinery in effective use, decided to accept the chairman's finding and threw the onus of refusal on the unions. The unions have refused to accept it, but the companies, except for announcing that they have "in their judgment fulfilled the obligations placed on them under the Act which constituted the National Wages Board" (the Railways Act, 1921), have not disclosed what their next step is to be; they must now, they wrote on February 2, "proceed to consider afresh the situation thus created."

The situation is not at all clear. The Government has promised to introduce a Bill based on the Salter report before Easter, but the extent to which it is prepared to go in giving railways relief from the competition of their road competitors is not known. The unions have placed themselves in a position of antagonism to any wage cuts from which it will be difficult for them to recede. The campaign against reductions was conducted with some violence of language before the Board began its hearing, and the spirit of no-compromise has been fanned since. The result of the Irish strike may have a close bearing on their policy.

The Irish Railway Wages Board in November decided by a majority (the chairman, companies' and employers' representatives on one side; the unions' and Labour representatives on the other) in favour of increasing the present temporary reduction in earnings from 4 $\frac{3}{8}$ per cent. to 10 per cent. (the companies had claimed 15 per cent.). The companies threatened to put the increased reduction into operation on December 26, and the unions threatened to strike. Mr. de Valera bought a truce for the Free State by offering a subsidy to the companies until the end of April and a new Transport Bill. The companies in Northern Ireland gave a month's grace but refused to negotiate any substantial concession. The railways of Northern Ireland, with their connections in the Free State,

A Glance at Trade and Industry

stopped on January 30, and at the moment of writing there is no settlement. The Irish transport problem has the same features as Great Britain's, and calls for the same kind of remedies—the co-ordination of road and rail under national regulation, regardless of any arbitrary political boundary.

* * * * *

This rather desultory glance at some of the current movements in British industry has been mainly taken up with the exporting industries and their problems. A study of the home market and some of the minor and newer industries would help to present a more heartening picture. Less has been heard in recent months, perhaps, of the new trades and new factories that foreigners are hastening to plant behind the tariff wall, but the migration has continued. It has not yet, however, affected our industrial balance, and it may produce incidental drawbacks. One such was alluded to by Mr. Kenneth Lee in a recent speech—the danger that the new factories may be used merely as branch producing units, and that all the scientific research work will be done by the parent company at home. A closer analysis might also have added, on the credit side of British industry, the gathering of opinion about the value of scientific research. All the chairmen of the Big Five banks used the theme in their annual addresses, and it may be inferred from Mr. J. Beaumont Pease's speech, research is now to receive special financial consideration from the banks.

But essentially the problem of recovery remains international. Such a measure of stability as we have reached, and such a measure of relative advantage as the favourable movement of our trade in recent months and the strengthening of our financial structure gives us over those of other great industrial nations, is not enough on which to base a confident faith that the "upswing" of the cycle is plainly before us. National forces may be working for recovery but they will not be sufficient of themselves. The difficult

The Railway Problem

negotiations with the United States and the wider discussions of the World Economic Conference (now unfortunately being pushed ever further forward into the year) are the next stages. Unless they end in a rational adjustment of international debts, in an arrest of the decline in prices, in the lowering of trade barriers of all kinds, and in the rebuilding of a smoothly working mechanism of exchange, the major conditions of world recovery will still be wanting.

FOREIGN LAW IN THE BRITISH EMPIRE

I. BRITISH AND CONTINENTAL COLONIAL POLICY

ON October 31, 1807, Napoleon wrote to his brother Louis, King of Holland :

Je désirerais que vous ordonnassiez qu'à partir du 1^{er} janvier prochain le Code Civil sera la loi de vos peuples ⁽¹⁾

Louis' reply has not been preserved, or at any rate published. But it is evident from the rejoinder it elicited that he had ventured to suggest that the immediate incorporation of the Code Civil *en bloc* into the law of Holland was open to objection.

Napoleon's retort was characteristic :

Si vous faites retoucher au Code Civil, ce ne sera plus le Code Civil. Je ne vois quel temps il vous faut, ni quels changements il y a à faire, ni le tort que cela fera aux fortunes particulières. . . . Une nation de 1,800,000 âmes ne peut pas avoir une législation à part. Les Romains donnaient leurs lois à leurs alliés, pourquoi la France ne ferait-elle pas adopter les siennes en Hollande. . . . Cela resserre les liens des nations d'avoir les mêmes lois civiles.⁽²⁾

Napoleon's reference to the practice of the Romans was historically incomplete, if not incorrect, for the *prætor peregrinus* elaborated for the stranger within the gates of Rome a system of jurisprudence which was quite distinct from the old *jus civile*, and in many of the countries subject to

⁽¹⁾ *Correspondance*, Vol. 16, p. 131. ⁽²⁾ *Ibid.* p. 161, November 13, 1807.

British and Continental Colonial Policy

her sway, Rome was not altogether indisposed to leave the field of local customs and usages alone. But Louis had no qualification for the rôle of critic of his brother's legal history, and the passage above cited is undoubtedly, in the main, an accurate statement not only of Napoleon's own habitual procedure⁽³⁾ but of French and, indeed, of continental colonial policy. The mandate system, inaugurated in 1920 under the auspices of the League of Nations, has now secured, for local customs and usages, permanent recognition in the new dispensation of international administration.

At all stages in her history, France tended to impose her own law for the time being on her colonies and dependencies. The policy of Holland is expressed in the first article of the Instructions issued in 1623 by the Council of the United East India Company for the guidance of colonial governors and other officials :

As well generally as in special cases (whether civil or criminal), at Batavia and all other places under the dominion of the Company, justice shall be done in accordance with the instructions and customs which are as a rule observed in the United Provinces of the Netherlands . . . until such time as other special instructions be made.⁽⁴⁾

Neither France nor Holland attempted to introduce into their colonial system the whole volume of French or Dutch legislation and jurisprudence. An eclectic policy, as we shall see hereafter, was pursued by both. But neither of them stayed to inquire too curiously whether a new colony had any common law that was worth preserving. Spain followed the same course. Germany's entrance into the field of colonial expansion is of recent date, but even those who might challenge President Wilson's *dictum* that she acted, in

⁽³⁾ Thus, on May 15, 1808, in a letter to Junot (*Correspondance*, Vol. 17, p. 134), he says : "Y aurait-il de l'inconvénient à faire publier le Code Napoléon en Portugal" ; and on May 19, 1808 (*ibid.* p. 166), he directs Joachim to sound the Council of Castille as to its introduction into Spain.

⁽⁴⁾ Burge, *Colonial and Foreign Law*, 2nd Edition, Vol. 1, p. 99. Holland, of course, recognised native customs and habits.

Foreign Law in the British Empire

dealing with her overseas dominions, as if her interests were coincident not with the progress of her native subjects but with their extermination, will not affirm that she displayed any undue tenderness to indigenous common law.

From the fetters of continental colonial policy, England was saved by a well established principle of her constitutional law, that whereas in colonies founded by settlement the settler takes with him the law of England, or such portions of it at least as are applicable to his new surroundings, in those acquired by conquest or cession, the existing law remains in force, *mutatis mutandis*, unless and until it has been abrogated by the new governing power.⁽⁶⁾ The authority of this rule, and the innate genius, of which it was the expression, of the English race for colonial administration, predisposed our ancestors to lend a willing ear to the appeal of peoples of whose destinies, by the fortune of war or the vicissitudes of diplomacy, they were about to assume control, that the maintenance of the subsisting law should be guaranteed in treaties of capitulation or cession, and even, in the absence of conventional stipulations, to acquiesce in its continuance.

II. FRENCH LAW IN THE BRITISH SYSTEM

IT may be of interest to attempt a rapid survey of the different systems of foreign law that find, or at one time or another have found, lodgment within the limits of the British Empire under the ægis of this policy, and to note in very general terms the extent to which they have severally been abrogated or retained. The foremost place must be assigned to the law of France.⁽⁶⁾ It had passed

⁽⁶⁾ *Campbell v. Hall* (1774), 20 St. Tri. 323; *Ruding v. Smith* (1821), 2 Hagg. C.R. at p. 382; 1 St. Tri. N.S. 1062.

⁽⁶⁾ *Journal Comparative Legis.* N.S., Vol. 10, p. 93 (lectures delivered by Sir Alexander Wood Renton, G.C.M.G., K.C., at University College, London, in May 1909, on "French Law within the British Empire"), and *Bulletin de la Société Française de Législation Comparée*, 1932, p. 88. "Le Droit Français dans l'Empire Britannique," paper read before the Hague Academy of Comparative Law on August 7, 1931.

French Law in the British System

through several stages of development. First came the period when the whole country was divided, for juridical purposes, into two great tracts of territory—the *pays du droit coutumier* in the north, where various, and to some extent conflicting, bodies of customary law—the most important of which were the Customs of Normandy, Paris and Orleans—prevailed: and the *pays du droit écrit* in the south, where the civil law, modified by so-called "barbarian" usages was in force. Voltaire has told us that the confusion and the uncertainty resulting from these different systems of jurisprudence were such that the traveller in France changed laws as often as he changed post horses. Probably the situation was not so bewildering as Voltaire made it out to be. In the *pays du droit coutumier*, the civil law was resorted to where custom was silent. The influence of custom made itself increasingly felt in the *pays du droit écrit*, and a large body of law, including obligations, appears to have been the same for the entire kingdom. In any event, a second stage of development was entered upon when, from the time of Charles VII onwards, the customs were reduced into writing. Then the royal power of legislation by ordinances was utilised, as in the ordinances of Colbert and D'Aguesseau, in the practical codification of whole branches of the law. Every corner in the field of French jurisprudence was covered by the immortal commentaries of Pothier. Finally, the dæmonic genius and energy of Napoleon⁽⁷⁾ took charge of the situation. The codes were completed, and the aspiration of Louis XI that there should be one law for the realm of France was fulfilled.

The Channel Islands

The earliest point of contact between French law and the British Empire is to be found in the Channel Islands, which, forming part originally of the Duchy of Normandy,

⁽⁷⁾ He presided at 74 out of 160 sittings of the Conseil d'État that considered the draft of the Code Civil, and his speeches are recorded in Locré.

Foreign Law in the British Empire

descended, with the Duchy, to William the Conqueror, passed on his death to his elder son, Robert, while William Rufus succeeded to the Crown of England, and were reunited with Normandy to England by Henry I.⁽⁸⁾ Since the time of John, they have, in the language of Hale,⁽⁹⁾ been

enjoyed by the Crown of England, although they are still governed by their ancient Norman laws.

Those Isles (said Coke in *Calvin's* case in 1608) are no parcel of the realm of England, but several dominions enjoyed by several titles and governed by several laws.⁽¹⁰⁾

The States of Jersey,⁽¹¹⁾ making use of a power analogous to that of the old French *Parlements*, have claimed the right to arrest the operation of Orders in Council to which they take exception by denying to them the seal of registration which, as such measures, in their application to Jersey, rest on the royal prerogative, is essential to their validity.⁽¹²⁾ But, under the Interpretation Act, 1889,⁽¹³⁾ the expression "British Islands" includes the "Channel Islands" for the purposes of that Act, and of every Act passed after its commencement, "unless the contrary intention appears," and the Imperial Parliament has made free use of the power conferred by that enactment.

The common law of Jersey is still based on the Custom of Normandy, embodied in *Le Grand Coustumier du pays et Duché de Normandie*—a statement of the law as it existed in the time of John, and on the commentaries of Terrien, who wrote long after the⁽¹⁴⁾ separation of the Duchy from

⁽⁸⁾ Forsyth, *Cases and Opinions on Constitutional Law*, p. 391.

⁽⁹⁾ *History of Common Law of England*.

⁽¹⁰⁾ 7 Co. Rep. 21 r.

⁽¹¹⁾ A similar claim has been made good by Guernsey, although no precedent on the point is to be found in the reports of the decisions of the Judicial Committee.

⁽¹²⁾ Report of Jersey Commissioners 1860-61, p. V: *In re the States of Jersey* (1853), 9 Moo. P.C. 185; *In re Daniel* (1891), 8 St. Tri. N.S. 314.

⁽¹³⁾ 52 and 53 Victoria c. 63, S. 18 (1).

⁽¹⁴⁾ *La Cloche v. La Cloche* (1870), L.R. 3 P.C. 136.

French Law in the British System

England. The Customs of Orleans and Paris are not in force in Jersey, but may be referred to as *ratio scripta*.⁽¹⁵⁾

In Guernsey, the *Grand Coustumier* has never been so fully received as law as in Jersey, and the principal authorities on the customary law are the *Approbation des Loix*, a commentary on Terrien, confirmed by an Order in Council of October 27, 1581, and the *Précepte d'Assise*, a statement, probably framed by the Royal Court, of what the inhabitants considered at an early period to be their rights and privileges.⁽¹⁶⁾ The Channel Islanders have clung with singular tenacity to their ancient laws, which regulate still, with modern statutory modifications,⁽¹⁷⁾ the tenure of real property and testamentary and intestate succession. The proceedings and oral pleading in the Courts are, in principle, in French, although witnesses may give evidence in English. It is mainly in the region of the criminal law that English ideas have asserted themselves. But the old *Clameur de Haro*, a form of appeal to justice by which encroachments on property are promptly brought before the Courts, still survives.

Scotland

Considerations of space preclude anything more than a passing reference to the influence of France upon the law of Scotland. In its earliest structure, Scots law approximated closely to the Statute Law of England. During the existence, however, of the "Ancient League," into which France and Scotland were driven by mutual hostility to England, a change took place. The law of Scotland became assimilated to that of Rome. Holland, at a later stage,

⁽¹⁵⁾ *La Cloche v. La Cloche*, *ubi. sup.* at p. 138: *Falle v. Godfray* (1888), 14 A.C. et p. 76.

⁽¹⁶⁾ *Jo. Comp. Leg.* N.S., Vol. 10, p. 96.

⁽¹⁷⁾ See, *e.g.*, Law of July 13, 1928, confirmed by Order in Council, and registered on September 8, 1928, which provides that a woman, on marriage, shall retain, notwithstanding marriage, all her rights as a *feme sole*. This law, which is founded on the English Married Women's Property Acts, was drafted in English, in order to enable the local Courts to avail themselves of English decisions in construing it.

Foreign Law in the British Empire

contributed to this transition. But that France played an important part in it is clear. The terminology of Scots law contains numerous traces of French influence. A bankrupt is a "dyvour" (*devoir*): advocate (*avocat*) and procurator (*procureur*) are equivalents of barrister and solicitor: a successful defendant is "assoilzied" (Old French, *absoillé*): to "compryse" (*comprendre*) is to attach for debt: the right to decline trial by a particular judge is "declinature" (*déclinatoire*): a man's property or means is his "valiant" (*vaillant*): to bribe is to "creish" (*graisser la palme*). Moreover, in its constitution, in its powers, in the privileges of its members, and in its original procedure, the Court of Session, established by James V, in whose reign the "Ancient League" was at its zenith, was a reproduction of the French *Parlement* in miniature. As regards the Scots Bar, the most distinctive French feature is that its head is the popularly-elected Dean (or doyen), whose badge of office, an ebony baton, assimilates him to the *bâtonnier* of the French Bar. The Act of Union between England and Scotland, which in 1707 created one legislature for the two countries, maintained their existing separate laws and courts, except so far as these were affected by the Act itself or by subsequent legislation,

with this difference betwixt the laws concerning public right, policy and civil government and those which concern private right, that the former might be made the same throughout the whole United Kingdom, but that no alteration be made in laws which concern private right except for the evident benefit of the subjects within Scotland.⁽¹⁸⁾

The maritime law of the two countries has now been declared to be the same,⁽¹⁹⁾ but Scotland still retains her own private law, and at least on one important point—legitimation *per subsequens matrimonium*—England has recently adopted it.⁽²⁰⁾

⁽¹⁸⁾ 6 Anne, c. 11., Art. 18.

⁽¹⁹⁾ *Currie v. McKnight* (1897), A.C. 97.

⁽²⁰⁾ Legitimacy Act, 1926 (16 and 17 George V), V.c. 60.

French Law in the British System

Canada

It was, however, in Canada, St. Lucia, Mauritius and Seychelles, that French law found its real field of operation. The province of Quebec, in which the first French settlement had been established by Champlain in 1608 after a century and a half of vicissitudes, was ceded to England by the Treaty of Paris in February 1763. The law then in force consisted of (i) the Custom of Paris, and the ordinances prevailing within the jurisdiction of the *Parlement de Paris*, except such as were clearly not intended to take effect outside France; (ii) the *arrêts* of the *Conseil du Roi*, set up in Quebec by an edict of Louis XIV in April 1663, and the ordinances published between 1663 and 1763 and, in both cases, duly registered by the Council⁽²¹⁾; (iii) the ordinances of the administrative authorities, particularly those of the Intendants, who presided at the Council and were invested with powers of legislation; (iv) the judgments of the Courts.

For a time, the fate of French law in Quebec was uncertain. The Treaty of Paris had been silent on the subject, and a Royal Proclamation of September 17, 1764, clearly envisaged the establishment of Courts of Justice, framed after English models, and indeed the introduction into the colony of English law itself. It was only in cases between natives, where the cause of action arose before October 1, 1764, that "the French laws and customs were to be allowed and admitted." Moreover, the French Canadians themselves appear at first to have failed to realise the danger that threatened their ancient law, and even at times to have taken advantage of either French or British jurisprudence as best suited their immediate purpose.⁽²²⁾ A curious illustration of this phenomenon is furnished by a case in which,

⁽²¹⁾ See *Hutchinson v. Gillespie* (1844), 4 Moo. P.C. 378: *Les Soeurs Dames Hospitalières de St. Joseph de l'Hôtel-dieu de Montreal v. Middlemiss* (1878), 3 A.C. 1102, 1119: *Symes v. Cuwillier* (1880), 5 A.C. 138.

⁽²²⁾ For details, see *Plan of a Code of Laws for the Province of Quebec*, reported by the then Advocate-General (Marriott) in 1774.

Foreign Law in the British Empire

in a dispute between a British and a French settler as to the purchase of an estate, the former invoked the law of France, while the latter appealed to the law of England!. Ere long, however, the question of the maintenance of the old French law in Quebec was definitely raised, and in 1774, the Act of Quebec⁽²³⁾ provided that, in all matters of controversy relative to property and civil rights, resort should be had to the law of Canada as the rule of decision.⁽²⁴⁾ That law is now embodied in the Civil Code of Quebec, which came into force on August 1, 1866, and abrogated, as from that date, all the old law wherever it was inconsistent with the Code, or dealt with matters for which the Code provided.⁽²⁵⁾ A companion Code of Civil Procedure was enacted on June 28, 1867. The Commissioners for the codification of the laws of Lower Canada, by whom the Quebec Codes were prepared, were required to insert in their drafts the civil laws of a general and permanent character actually in force, to exclude those that had become obsolete, and to give their suggested amendments apart and distinct from the text of the existing law, with the reasons and authorities for every change proposed. In the execution of this task, the Commissioners drew their material from all sources—the old French law, the *Code Civil*—with a bent, however, in favour of the former, for Quebec always has been, and still is, *la fille de la France coutumière*,⁽²⁶⁾ the law of England, and even on some points, the Civil Code, also French in character, of Louisiana. The criminal law of England has, since 1763, been accepted,⁽²⁷⁾ and in the constitution of the maritime and commercial laws of Quebec both the French Maritime Code of 1681 and Code of Commerce and the laws of England, Scotland and America have borne a part.

⁽²³⁾ 14 George III, c. 83.

⁽²⁴⁾ And see S. 129 of the Federation Act of 1867 (30 & 31 Vic. c. 3).

⁽²⁵⁾ See art. 2613.

⁽²⁶⁾ Mignault, *Droit Civil Canadien*, Vol. IV, p. 439 n. (b).

⁽²⁷⁾ See now the Criminal Code for Canada (Dominion legislation) which came into force on July 1, 1893.

French Law in the British System

The West Indies and Mauritius

In St. Lucia alone among the West Indian Islands has the influence of French law definitely survived.⁽²⁸⁾ The French claimed it by length of occupation, under an edict of March, 1642; the English pretensions to it rested on a settlement of 1649. Under the French régime it was administered first by the West India Company, and afterwards as a dependency of Martinique. The main subsequent stages in its history were these—capitulation to England in 1762, restoration to France by the Treaty of Paris in 1763, fresh captures by England in 1778, 1794 and 1796, surrenders to France by the Treaties of Versailles and Amiens, recapture by England in 1803, and final cession to the British Crown, “in full right and sovereignty” by the Treaty of Paris in 1814. The French laws which England found in force in St. Lucia had been established there in 1681 by an *arrêt* of the *Conseil Supérieur* of Martinique, and consisted of the Custom of Paris, certain of the old codifying ordinances of the French Kings and the Slave Code—the *Code Noir*—of Martinique.

It is doubtful whether there was any express guarantee by England of the maintenance of French law in the island, and its continuance would seem to have depended largely on the rule that the law of a conquered or ceded colony, at the time of conquest or cession, remains in force till it has been altered by the new governing authority. A Civil Code, prepared “upon the principles of the ancient law,” but closely following the provisions of the Quebec Code, was enacted in 1879. A Code of Civil Procedure was brought into force in 1882. In other matters, radical changes had already been made. English was made the language of the Law Courts in 1842. English commercial law was

⁽²⁸⁾ According to Ilbert (*Legis. Methods and Forms*, p. 169), some old French *arrêts* still exist in St. Vincent. In Grenada the usual English policy was departed from. English law was introduced into the Colony by Royal Proclamations of December 19, 1764, and January 10, 1784.

Foreign Law in the British Empire

introduced in 1844, and trial by jury in 1848. The criminal law of France was abolished in 1875; and in 1888, were enacted a Criminal Code and a Code of Criminal Procedure, framed on the lines of English law.

Mauritius and its "dependencies"—a category then including the Seychelles—were ceded to England by France under a Capitulation, dated December 3, 1810. The eighth article of this instrument expressly preserved to the inhabitants their religion, laws and customs. The Capitulation was confirmed by a Proclamation of December 5, 1810, but the Treaty of Paris, 1814, ceded Mauritius and its dependencies to England "in full right and sovereignty," and contained no reference to the preservation by the Capitulation and the Proclamation of 1810 of their then existing laws to the inhabitants. Mauritius had been used as a port of call by the Portuguese and occupied by the Dutch; but neither Portugal nor Holland have left any traces of their influence in the laws of the colony. Possession of the island was taken on behalf of the King of France in 1715. It was subsequently administered (i) from 1721 to 1767, by the French East India Company (the famous Mahé de Labourdonnais* was governor from 1735–1746; (ii) from 1767 to 1790, for the French Crown, by a *Conseil Supérieur*; (iii) from 1790–1803, by the Governor and Colonial Assembly; (iv) from 1803–1810, by General Decaen, Captain-General of the French possessions east of the Cape.

The French laws in force in Mauritius in 1814 were (a) those enacted down to 1787 and collected in the *Code Delaleu*—so-called from the name of its compiler, a member of the *Conseil Supérieur*; (b) laws enacted between June 1787 and September 1803; (c) the *Code Decaen*—named after General Decaen, coming down to 1810, and containing the *arrêts* which successively introduced, with modifications, the *Code Civil* of 1805, the Code of Civil Procedure and the Code of Commerce. Neither the *Code Pénal* nor the

* The Governor in *Paul et Virginie*.

French Law in the British System

Code d'Instruction Criminelle was ever promulgated in Mauritius. For substantive criminal law, recourse was had till 1838 to the old French penal law of October 6, 1791; and the French Criminal Ordinance of 1670 regulated, in the main, criminal procedure in Mauritius till 1831. In 1838, a penal code, a local adaptation, in French and English, of the *Code Pénal*, was introduced and it is still in force. It maintains many of the special features of the French *Code Pénal*. Thus, in cases of murder (*assassinat*) as distinguished from manslaughter (*meurtre*), affirmative proof of premeditation is required, although it must be admitted that decisions of the French courts as to the instantaneous character that premeditation may assume, rob this distinction of some of its importance. The Code of Civil Procedure and the Code of Commerce have been largely replaced in Mauritius by local legislation. An Order in Council of 1841 directed that all Acts and Proclamations should be drawn up in English, and another of 1845 prescribed, as from July 15, 1847, the use of the same language in the proceedings of the courts. Evidence may be, and is, taken in French,⁽²⁹⁾ where the judges and counsel understand it (as they invariably do) without interpretation.

A Proclamation of April 29, 1815, confirmed the maintenance in the "dependencies" of Mauritius of the old French laws of that colony. The effect of this stipulation was to constitute the *Code Civil* of 1805, the Code of Civil Procedure and the Code of Commerce as the law of Seychelles. Seychelles was erected into a separate colony in 1903. The Order in Council which created its new legislature confirmed the operation in the colony of the laws in force in Mauritius in that year, but empowered the legislature of Seychelles to repeal any such law either in terms or by necessary implication. The French laws now in force in Seychelles are, therefore, those applicable to it as a "dependency" of Mauritius in 1803, unless affected by its own local legislation.

⁽²⁹⁾ Ord. 29 of 1891. *Aliter*, as regards the "creole" patois.

Foreign Law in the British Empire

We come now to the Roman-Dutch law,⁽⁸⁰⁾ which is still the common law of Ceylon and the Union of South Africa, and held the same place in the legal system of British Guiana, till it was formally abrogated in 1917.

III. ROMAN-DUTCH LAW

THE development of the law in the Low Countries followed a course similar to that of its development in other parts of the Roman Empire. Each province had its own customs, which the Roman law did not supplant, and which, as time went on, were collected and published, expounded by courts and commentators and supplemented, as sources of law, by tentative efforts at codification and, as in France, by royal ordinances. In nearly all the provinces, however, the civil law, the study of which had revived throughout Europe from the eleventh century onwards, was recognised as an underlying authority. There was thus gradually built up a system of jurisprudence of which the Roman law is the framework, with Dutch additions, consisting of judgments, local laws and customs. To this system was given the now historic name of Roman-Dutch law.

The Dutch, as we have seen, carried their law with them, to their possessions "beyond the seas." The English rule of colonial administration was that the law of a conquered or ceded colony remained in force till it had been altered by competent authority. The Dutch rule was exactly the reverse. As formulated in the Instructions of 1623, it proclaimed the supremacy of the law of Holland "until such time as other special instructions shall be made." But it was not the entire body of Roman-Dutch law that was thus

⁽⁸⁰⁾ On the whole subject, see Burge, *Colonial and Foreign Law*, 2nd edition, Vol. I, pp. 6; *et seq.*: and Lee, *Introduction to Roman-Dutch Law*, 3rd edition, 1931.

Roman-Dutch Law

introduced. An elaborate compilation of those portions of the law that were considered suitable for colonial territories was prepared. It was promulgated for Batavia in 1642 and sanctioned by the Council of the United East India Company in 1650, and is known as the "Statutes of Batavia." Although these Statutes had the force of law only in the town and district of Batavia, they formed in practice a code for the whole of the dominions of the Dutch East India Company. A revised edition of the Statutes was issued in 1766. The Statutes of Batavia are sometimes described as the "Statutes of India" in order to mark the extent of their sway.

In the territories belonging to the Dutch West India Company, which was constituted in 1621, the law applicable was prescribed by an "Order of Government" sanctioned by the States-General in 1629, and based mainly on the Political Ordinance of 1580, which was the customary law of South Holland and Zeeland.

Ceylon

The maritime provinces of Ceylon were governed by the United East India Company from 1658 to 1796 and the Statutes of Batavia, both old and new, were in force.⁽⁸¹⁾ These provinces were occupied by the British in 1796, and ceded to England at the Peace of Amiens in 1802. A proclamation dated September 23, 1796, enacted that:

the administration of justice and police . . . should be thenceforth . . . exercised by all courts . . . according to the laws and institutions that subsisted under the ancient government of the United Provinces, subject to such deviations and alterations (as might be) by lawful authority ordained and published.

In terms of this proclamation, Roman-Dutch law is still the common law of the maritime provinces of Ceylon, except

⁽⁸¹⁾ *Van Cleef's case* (1773), *Vanderstraaten's Reports*, 1869-1871, Appendix A, p. XXVII.

Foreign Law in the British Empire

in the cases, on which something shall be said presently, where a personal law applies.⁽³²⁾ The reserved powers of "deviation" and "alteration" have, however, been freely exercised. English maritime,⁽³³⁾ and large portions of English commercial,⁽³⁴⁾ law have been introduced: the system of "fideicommissa" (*substitutions*) has been qualified by legislation following in some measure the English law of trusts, and the penal law and laws of evidence and civil and criminal procedure have been codified after the Indian models.

The province of Kandy, which was never occupied by the Dutch, was ceded to Great Britain on March 2, 1815, by a convention, which guaranteed to

all classes of the people the safety of their persons and property, with their civil rights and immunities, according to the laws, institutions and customs, established amongst them.

The Kandyan law, a body of unwritten customary law introduced and developed by the original Aryan conquerors of the island and constituting, perhaps, at first the common law of the whole country, but gradually driven from the maritime provinces, is still in force and constitutes one of the most difficult systems of jurisprudence that the Courts have to administer. The Roman-Dutch law has been extended to the province of Kandy in cases for which the personal law does not provide.⁽³⁵⁾

South Africa

The pivot of the influence of Roman-Dutch law in South Africa was Cape Colony. The Dutch established at Table Bay, in 1651-52, a settlement which was to form part of

⁽³²⁾ The Supreme Court has always held itself at liberty to consider whether any particular rule of Roman-Dutch law ever was introduced into Ceylon and this attitude has been approved by the Privy Council: See *Karonchibamy v. Angobamy* (1904), 8 N.L.R. 1: *British Petroleum Company v. A.G. of Ceylon* (1926) A.C. 417.

⁽³³⁾ Ord. 5 of 1852.

⁽³⁴⁾ Ord. 22 of 1866.

⁽³⁵⁾ Ordinance 5 of 1852.

Roman-Dutch Law

the East Indies, and to which, therefore, the Statutes of Batavia were applicable. In all cases in which the Statutes were silent, recourse was to be had to "the laws, statutes and customs of the United Netherlands," and, in the last resort, to the law of Rome.

Cape Colony was first occupied by a British force in 1795. The Treaty of Amiens restored it "to the Batavian Republic, in full sovereignty." It was again occupied by the British in 1806, and finally ceded to Great Britain by the Treaty of Paris in 1814. The law in force is the Roman-Dutch law as it existed at the Cape at the time of the second British occupation, *i.e.*, in 1806, subject to its development during the nineteenth century, and to statutory changes made since then, or modifications introduced by local customs.⁽³⁶⁾ Thus, for example, the practice of the Courts as regards procedure and evidence has been modified on English lines,⁽³⁷⁾ and the maritime and shipping law of England was adopted in 1879, so far as it was not inconsistent with any Ordinance or Act of Parliament in force in the colony.⁽³⁸⁾

In Natal, which was separated from Cape Colony in 1845, the common law is the Roman-Dutch law, as accepted and administered by the legal tribunals at the Cape up to August 27 in that year, with local statutory modifications. In the Transvaal, under the regime of the Republic, the Roman-Dutch law was, in 1844, declared to serve "as a basis, yet upon a reasonable system and in accordance with the usage of South Africa, and for the benefit and welfare of the community."⁽³⁹⁾ This enactment was felt to be somewhat vague, and in 1858 it was provided that "the law-books of the State" should be, in order of authority, (i) the works of Van der Linden; (ii) the Commentaries of Van Leeuwen,

⁽³⁶⁾ *Seaville v. Colley* (1891), 9 Juta 39; *Scott v. A-G.* (1886), 11 P.D. 130, 131; *Denysen v. Mostert* (1872), L.R. 4 P.C. at p. 253.

⁽³⁷⁾ Nathan, *Common Law of South Africa*, Vol. I, p. 20.

⁽³⁸⁾ No. 8 of 1879, ss. 1 and 2.

⁽³⁹⁾ Art. 31 of the Thirty-three Articles of April 9, 1844, ratified on May 23, 1849.

Foreign Law in the British Empire

and (iii) the Introduction of Grotius.⁽⁴⁰⁾ On the annexation of the Transvaal in 1902, the maintenance in the colony of the Roman-Dutch law, "except in so far as it is modified by legislative enactment," was affirmed.⁽⁴¹⁾ In the Orange Free State, Article 57 of the Constitution of February 23, 1854, declared the Roman-Dutch law to be the common law of the State. The term "Roman-Dutch law"—and here again the influence of the Cape asserted itself—was interpreted by a later enactment⁽⁴²⁾ to mean that law

in so far as it was found in force in Cape Colony at the time of the appointment of English judges in the place of the previous existing Council of Justice.

In the Orange Free State, on its incorporation into the British Empire, Roman-Dutch law was, as in the case of the Transvaal, expressly preserved.⁽⁴³⁾

British Guiana

The three settlements of Demerara, Essequibo and Berbice were held by the Dutch from the Peace of Breda in 1667 to the outbreak of war between Great Britain and Holland in 1795. They capitulated to a British fleet in 1796, were restored to Holland by the Treaty of Amiens in 1802, capitulated a second time to the British in 1803, and were finally ceded to Great Britain in 1814. They were united into the colony of British Guiana in 1831. The law in force in 1803 consisted of "the old law of Holland, peculiar vernacular laws, and the Roman law *in subsidium*."⁽⁴⁴⁾ Its maintenance was guaranteed by the capitulation.⁽⁴⁵⁾ But the usual inroads in favour of English maritime, commercial and criminal law followed, and it was abolished as

⁽⁴⁰⁾ Annexure No. 1 to Grondwet of 1858, Articles 1 and 2.

⁽⁴¹⁾ Proclamation (Transvaal) No. 14 of 1902, Article 17.

⁽⁴²⁾ Law Book of the Orange Free State, Chapter i, 1, p. 8.

⁽⁴³⁾ Ordin. (O.R.C.) No. 3 of 1902.

⁽⁴⁴⁾ Rep. of W.I. Comm. relating to British Guiana, April 14, 1828, pp. 577, p. 3.

⁽⁴⁵⁾ Herts. Tr., Vol. 1., 367.

Spanish Law and Oriental Systems of Law

from January 1, 1917, by the Civil Justice Ordinance of 1916, pursuant to the reports of a local Commission and the Statute Law Committee.

IV. SPANISH LAW, ORIENTAL SYSTEMS OF LAW, AND LOCAL CODES AND CUSTOMS

THE law of Spain was gradually displaced in Gibraltar, although the peculiar character of that possession renders it difficult to say when the process began,⁽⁴⁶⁾ and in Trinidad,^(46A) which was ceded to England in 1802 by the Treaty of Amiens, it would now govern only the construction of deeds, the form and operation of wills made, and rights of intestate succession acquired, before certain dates ranging from 1844 to 1846,⁽⁴⁷⁾ if it is conceivable that such issues should arise.

Malta, after a chequered history, was annexed to the British Crown by the Treaty of Paris in 1814. The law now in force in this island is based on the Roman law, as modified by legislation and usage, on the Code Rohan, promulgated in 1784 by a Grand Master of that name of the Knights of St. John dispersed by Napoleon in 1798, and on modern codes and ordinances.⁽⁴⁸⁾ Italian is the language of the Courts, though the Maltese as a whole neither speak nor understand it.

Of Oriental systems of law, something must, although

⁽⁴⁶⁾ *Jephson v. Riera* (1853), 3 Knapp, 133.

^(46A) It was suggested to the Common Law Commission in British Guiana that Ordinance 4 of 1848 which was held to have abolished the law of Spain in Trinidad had done so only in so far as procedure was concerned, and that the case for total repeal rested merely on "judge-made law, assisted by a misconstruction of a Procedure Ordinance." (Report, p. 21; and Appendix III, pp. IX-XI.) The language of Ordinance 4 of 1848 seems to support this view. But the point possesses now only antiquarian interest. The *communis error*, if such it was, was validated by a declaratory Ordinance in 1914 (No. 23 of 1914).

⁽⁴⁷⁾ *Jour. Comp. Leg.*, Vol. 2, 293; Vol. 7 N.S., p. 593, and Rep. W.I., Com. 1828, pp. 551, p. 6, for information as to the old law.

⁽⁴⁸⁾ *Gera v. Ciantar* (1887), 12 A.C. 566.

Foreign Law in the British Empire

here much cannot, be said. In British India, the personal law of Hindus, Mahomedans and Buddhists,^(48a) and in the Native States, the customary law of each State, *i.e.*, broadly speaking, Hindu and Mahomedan law, as modified by local and tribal usage, are administered by the Courts. In Cyprus, the continuance of the religious tribunal, by which the Ottoman sacred law was, prior to the British occupation, applied, was guaranteed by the Cyprus Convention of June 4, 1878, and under the recent reconstitution of the Courts, this guarantee has been both observed and extended.

The respect paid by England to the subsisting laws of the different countries of which her Empire is made up, has not been confined to cases in which it was imposed by Treaty or capitulation. In every part of East and West Africa, native laws and customs "not repugnant to natural justice" have been upheld. In Ceylon, a rough "Code," drawn up in 1806, regulates "the laws and usages of Mussulmans": the Malabars of the Northern Province have their "Tésawalamai."⁽⁴⁹⁾ The Mukuvars of Batticaloa had, at least till 1876, their own law of intestate succession. To come nearer home, even in the tiny Isle of Man "ancient customary law" has been recognised by the Courts.⁽⁵⁰⁾

V. CONCLUSION

IT was inevitable that, in their main features, English criminal law and procedure and law of evidence should become law for the Empire generally and that the unification of colonial commercial law on English lines should be

^(48a) See the Burma Laws Act (Act XIII of 1898) sec. 13(1). The Buddhist law, applied in Burma, is not in any way "Buddhistic," but is merely that development of archaic Hindu law, which the Burmese, when they adopted Buddhism, borrowed from the law books of the Buddhist schismatics from Hinduism and applied to themselves: *Phan Tiyouk v. Lim Kyin Kauk* (1930) I.L.R. 8 Rangoon, 57.

⁽⁴⁹⁾ Where the Tésawalamai is silent, the Roman-Dutch law applies.

⁽⁵⁰⁾ *Cain v. Cain* (1838), 2 Moo. P.C. 222.

Conclusion

regarded as an ideal worthy of earnest pursuit. But in no single instance has England set aside *en bloc* by legislative act, a foreign system of jurisprudence to which she had once accorded juridical recognition, so long as its roots were still buried deep in the life and affections of the community. To this proposition, the case of British Guiana presents no exception. The situation was thus admirably described by the Common Law Commission of 1914:⁽⁵¹⁾

The criminal law and procedure, the civil procedure, the law of evidence and large sections of the commercial law have been borrowed wholesale from English models. The English rule of *stare decisis* replaces in practice the older principle laid down by Justinian.⁽⁵²⁾ Owing to the paucity of local decisions, this means reliance on English reports almost exclusively. Yet, while much has gone from the Roman-Dutch domain, much remains. Roman-Dutch law may be seldom quoted in the Courts and even then with little hope of the quotation seriously affecting the issue. . . . But it remains as an element of uncertainty. We have all the disadvantages of a mixed system without the elasticity of the Roman-Dutch jurisprudence.

It increases the work of both judge and counsel. It wastes time and is a source of expense. In this country it is not a living system. We have no resident Dutch population, and few even of the Dutch names survive. The colonists have no sentimental affection for any legal legacy of the Batavian Republic of 1803, or the Kingdom of the Netherlands of 1814. Our population is very mixed in race . . . it is overwhelmingly British in its attachments, traditions and sympathies. The West India Company was not a colonising factor. It was a purely trading concern. Real progress only began after the capture of 1796.

And yet, even where such conditions as these existed, the enactments introducing the common law of England into the colony excluded the English law of real property, retained, save on a few specified points, the Roman-Dutch assimilation of movable and immovable property, and preserved the Roman-Dutch rule of legitimation *per subsequens matrimonium*.

⁽⁵¹⁾ Page 20.

⁽⁵²⁾ Code VIII, 45, 13. The principle is that judicial decisions are not in themselves binding but mere depositories of knowledge—*rationes scriptæ*.

Foreign Law in the British Empire

"*Il faut endormir*," wrote Napoleon to Kléber in Egypt, "*le fanatisme, en attendant qu'on puisse le déraciner.*"⁽⁵³⁾ It was no Machiavellian spirit of this kind that prompted the regard shown by England, on each fresh conquest or cession of territory, for the attachment of her new subjects to their own common law. Nor was her attitude casually assumed in that fit of absent-mindedness in which, according to Professor Seeley, her "expansion" was effected. It was dictated by the real sympathies and the instinct for government of a great colonising Power, and it has contributed in no small measure to the enrichment of her jurisprudence and the durability of the Empire.

⁽⁵³⁾ *Correspondance*, Vol. 5., p. 574.

GREAT BRITAIN

I. THE SOCIAL POLICY OF THE GOVERNMENT

THE position of trade in Great Britain remains the barometer of British politics, and, as has been more than once remarked in these pages, the Government will finally be judged by the success or failure which follows its efforts to cope with the depression. The depression can only be dispelled by international action, and a heavy responsibility rests upon the Government—as indeed it does upon all Governments—in connection with the approaching World Economic Conference. But this does not mean that whatever is done in the interval, in the way of legislation or otherwise, is merely to tide over a transition period and does not therefore matter. The Conference might fail. Recovery may anyhow be a long time in coming, and there are calls which cannot be kept waiting indefinitely. Some of them, indeed, are themselves symptoms of a permanent trouble—the unemployment question is, in part at all events, as Mr. Chamberlain has pointed out, of this nature. Moreover, if recovery when it comes is to find our people fit to make the most of the new opportunities it brings, they must be in good fettle. At the same time, the greatest care has to be taken to avoid action likely still further to hamper our struggling industries, for the solution of the worst of our difficulties is bound up with their welfare, and no opportunity must be lost of promoting it. Domestic politics have far more than a merely secondary interest.

What, then, is the internal situation that faces the

Great Britain

Government at this moment, and how is it being dealt with? A more detailed account of the position of trade and industry will be found elsewhere.* For the purposes of this article a few statistics with regard to unemployment must suffice.

The latest figures for January 23, 1933, indicate a further increase of 179,000 in the terrible roll, as against December. The only crumb of comfort is that there is always a seasonal increase of unemployment after Christmas—in January, 1932, the figures rose by 218,000. Taking last year as a whole, unemployment has increased by over 200,000 on the figure for the preceding year, and according to the Ministry of Labour's report, "the position is rather less favourable than in 1931." One of the most serious features of the position is the increase by 125,000 in the number of unemployed who have been without a job for a year or longer. The percentage has mounted from 13·8 per cent. of the total in January to 19·1 per cent. of the total in December. It was thought that 1931 was the peak year of unemployment, and it is therefore particularly serious that there should be a definite increase in the average rate of unemployment among insured workers from 21·3 per cent. in 1931 to 22·1 per cent. in 1932.

At the same time there is some ground for hope that the worst at all events may be over. The settlement of reparations at Lausanne and the promise of Mr. Chamberlain that the question will not be reopened in spite of the war debts imbroglio should be productive of fruitful results. In the long run the new low rates of interest for both long and short term capital must be reflected in a fresh fillip to enterprise. Mr. Runciman pointed out on February 2 at St. Ives that there were "signs of distinct revival in the iron and steel districts." In the coal export trade, he said, there was "more activity than there had been since 1929," and in shipping, "while hundreds of ships were still lying idle, there were 200,000 tons of shipping less laid

* See page 348.

The Social Policy of the Government

up than this time last year." Successful flotations in the iron and steel trades, the erection of new industries and the development of garden produce in the London district to a degree unknown until recently, have also been quoted as indicative of a general trade improvement. But whether hopeful views are justified or not—and it is as well to wait until they are reflected in the Board of Trade returns—there is certainly one new favourable factor of importance, the psychological factor. There are undoubtedly signs of returning confidence. It is felt that at any rate if we have not actually held our own, our neighbours have lost more ground than we have. A crash has been avoided, and that in itself is regarded as a half-way house back to prosperity.

But though the psychology of trade has improved, the condition of the unemployed has undoubtedly become worse. The dole, which was quite adequate for a few months' spell of unemployment, soon becomes insufficient when the months begin to lengthen into years. It will provide for the immediate necessities of day-to-day existence; it cannot provide the capital out of which boots and shoes can be repaired and new clothes bought, and all the other hundred and one items of recurring expenditure that every family has to meet. For this purpose a League of Personal Service, under the chairmanship of Lady Reading, has been formed, which is doing a great deal by voluntary effort through local centres in the depressed areas to provide the immediate necessities of clothing and shoe leather.

There is some criticism, by no means confined to the official Opposition, that the Government are relying too much on these charitable resources. The Prime Minister, in a broadcast speech from Lossiemouth on December 19, appealed for "personal co-operation in voluntary service." "Let each listener who is able to do so," he said, "contribute in cash or in kind" towards the National Council of Social Service. Everyone must help with local schemes for giving the unemployed something to do, "teaching men how they may be able to furnish their homes, to make mats

Great Britain

out of bits of old rope purchased for a few pence." "Report yourself," said the Prime Minister, "join up, contribute your knowledge." The same day the Minister of Labour announced in the House of Commons the grant of £10,000 for this kind of work. Both the sum and the Prime Minister's appeal were regarded as inadequate for such a situation.

A feeling is growing that for the problem, which the Prime Minister himself described as the existence of "two million permanently scrap," something is needed bolder and more imaginative than has at present been produced. Something, it is urged, must be done speedily to arrest the declining morale of the unemployed. Various plans have been put forward. For some months opinion has been groping around the experiment of a forty-hour week. It is argued that there ought to be a more equitable share of the opportunities for employment that remain. But the proposal finds no favour with the experts. They agree that the shortening of the working day would be a move in the right direction, but they insist that it could only be taken in agreement with competitors abroad. How difficult that is to achieve is illustrated by the fact that even the Washington Eight Hours Convention still lacks several important signatures, including that of Great Britain. The all-important question of wages, moreover, cannot be evaded.

Those who believe in stimulating employment by public loans for works of reproductive value are also lifting up their heads once more. They insist that there can be too much "economy," and that the first essential in recovery is for Whitehall to take off the brake so mercilessly applied in the crisis of August, 1931, on municipal expenditure. This has always been the view of the Labour party. It has never been abandoned by Mr. Lloyd George, who in every speech in the House of Commons makes a plea for land settlement on a grand scale. Sir Herbert Samuel, since he has retired from the Government to his eyrie on the corner

The Social Policy of the Government

seat below the gangway, has also been urging a modified form of reconstruction loan for works that are demonstrably productive, and the ranks of these expansionists have received an accession of strength in Lord Snowden, who is now advocating schemes of housing, the development of water supply in the rural areas, land drainage and allotments which, in his judgment, would provide "self-supporting work for at least 300,000 men."

The Government, however, have other ideas. Their eyes are fixed upon the problem of keeping down taxation. What is called the "Treasury view," from the fact that it has the support of the permanent officials who advise the Chancellor of the Exchequer, prevails. It is pointed out that it costs £500 to put a man into employment, and that these schemes of reproductive employment, when adopted by the Labour Government, proved a ruinous failure, the unemployment figures mounting up from just over one million to just under three millions. A Bill to deal with the report of the Royal Commission is promised, but the only legislative measure yet produced by the Government which will have any direct and immediate bearing on the relief of unemployment is a Housing Bill. This is designed to end the housing subsidy. It discontinues the payment of subsidies under the Act of 1924, and provides that such subsidies shall not be granted in respect of housing proposals submitted after December 7, 1932. The Minister of Health, in introducing the Bill, also foreshadowed what he described as "a great drive" in slum clearance by which at least 12,000 houses would be cleared a year. The chorus of protest from housing experts was almost general. They stated that though they were by no means wedded to the subsidy, which had to a large extent kept up building costs, it was very doubtful whether private enterprise could provide houses at rents which the working classes can afford to pay. The proposal to clear away the slums at the rate of 12,000 houses a year, was scoffed at by Sir Ernest Simon, who estimated that at that rate it would be 200 years

Great Britain

before the last slum was removed. Sir Austen Chamberlain, in an impressive speech from his father's old seat in the House of Commons, expressed "his profound disappointment." Liberal and Labour members contended that by the Bill a great opportunity was being let slip of launching a building programme which would end evil housing conditions and make a big contribution to the immediate relief of unemployment. They argued that money was cheap, labour abundant, the trade unions in an amenable mood and building costs lower, and that these factors might never be as favourable again. The Liberal party threatened that if the Bill were not vastly improved in Committee it would join Labour in voting against it on the third reading.

This pressure on the Government has already led to concessions. Sir Hilton Young has made it clear that he regards 12,000 houses only as a minimum of slum clearance, which will be substantially increased each year. He has further recognised that, in the provision of new houses, there is bound to be a transitional period between the cessation of subsidised building and the beginning of unsubsidised building on a satisfactory scale. He has therefore promised to exercise in a more generous manner his powers of approving, for the purpose of the subsidy, such houses as had been planned and submitted for approval before the decision to terminate the subsidy was taken. To guard against the danger that private enterprise will provide houses only by fits and starts, he has undertaken that a departmental committee shall examine a proposal to establish a National Housing Corporation. In fact, he has gone a long way to meet, at any rate his non-party critics.

Apart from legislation, the Government are relying for the solution of unemployment to some extent on the reorganisation of certain essential industries. Indeed, they are introducing the principle of controlled production to an extent that would make the hair of the old-fashioned Con-

The Social Policy of the Government

servative stand on end, if only he realised what was happening. There are people who argue, with some show of reason, that this Government has been more Socialist in outlook and legislation than either of the two previous Labour Governments. - The pig quota is a case in point. This arrangement, voluntarily entered into with the exporting countries, and designed to restrict the import of bacon, came into operation for two months and has been extended for a further month. It will be followed this session by a Pig Quota Bill which aims at making permanent the regulation of bacon imports. The idea is that behind this shelter the farmers will reorganise their industry on the lines of the Danish principle of co-operation. Much will depend on how far the Government are prepared to introduce the principle of compulsion. The difficulty of all schemes of co-operative marketing in this country is that so many farmers have been ready to break their contracts with co-operative bacon factories the moment that they saw the chance of a better price for their pigs in the open market. This could only be prevented if the Government were prepared to apply to these contracts the force of law. The same considerations apply to the meat quota, which is likely to follow close upon the pig quota. Success depends upon how far the Government will go in for planning on a big scale.

As regards milk, a promising start has been made with the Report of the Milk Commission appointed under the Agricultural Marketing Act. The difficulty in the milk industry has been the widening gap between the price obtained by the producer and the price subsequently charged by the retailer, which has resulted in the market being flooded with manufactured milk at half the price of liquid milk. The object of the recommendations has been to strengthen the bargaining power of the producers in negotiating with distributors and manufacturers. The main proposal is the creation of an organisation which is to be the technical controller of all milk supplies. This organisation is to consist of three boards, a Central Producers' Board

Great Britain

with twelve regional committees, elected by registered producers, to control the dealings of its registered producers, and to assume the position and functions of owners of milk sold off farms, except in the case of milk retailed direct, a Central Dairymen's and Manufacturers' Board, and finally a Joint Milk Council to fix regional control and to arrange for co-operation between the two interests. The Council is to consist of the members of the two Central Boards, together with three additional members, one of whom is to be chairman. These three members are appointed by the Speaker and other outside authorities. Many farmers will no doubt maintain their traditional conservatism by condemning the whole scheme as cumbrous, and an intolerable interference with their right of managing their own industry as they think fit. But clearly, if the Government are to come to the assistance of agriculture, they must have some guarantee that the industry will be efficiently managed. As to the charge that the Commission wishes to set up a board of dictators, the Joint Council, whose impartiality is secured by the inclusion of the appointed members and chairman, will only be able to recommend the adoption of prices, marketing regulations, and a few other things of that kind. The only force behind them will be that of public opinion. Major Walter Elliot, the Minister of Agriculture, who spoke in the highest terms of the report of the Commission, has no illusions about the inefficiency of many branches of British agriculture, and has the courage to insist that the assistance of the Government for the depressed farmer must not be paid for by the consumer alone.

Next to take the railways—their position is relatively as bad as that of agriculture. The companies have had to face a decline in their gross receipts since 1930 of £32,000,000. Comparing the position to-day with that before the war, the situation was that after paying for coal and other non-labour charges, there was an income of £92,000,000 to meet a wage bill of £47,000,000, leaving

The Social Policy of the Government

£45,000,000 for the stockholders. In 1932 the income was £100,000,000 and the wage bill £74,000,000. How is the position to be met? Obviously there can be no increase of freight or of fares, which are already 60 per cent. above the pre-war level. It is six months since the Salter Report recommended a co-ordination of rail and road transport, and a rearrangement of the incidence of taxation; and this seems to be the policy that the Government will follow. An announcement has already been made by the Minister of Transport in the House of Commons that legislation will be introduced to reorganise the system of licences for commercial vehicles and to regulate the hours and conditions of the workers on road vehicles in order to bring them up to the standards demanded by the railway unions. The question of heavier taxation of commercial vehicles will be postponed until the budget statement, but the general impression is that it will not go as far as the scale recommended in the Salter Report. The present position with regard to railway wages is explained on another page.*

The second line of attack on unemployment is through the budget. The Government believe that the most crushing weight on any trade recovery is the burden of direct taxation, and they are concentrating their efforts on a reduction of expenditure by means of administrative economies. The reports prepared by the self-appointed committees of Conservative back-benchers have provided material for action. The application in Circular 1,421 of the principle of a means test to secondary education is perhaps an instalment of further substantial economies to come.

Then there is the problem of income tax reduction. Suggestions have been made in the last few weeks that the Chancellor of the Exchequer should make a substantial reduction in the tax, counting on a resultant increase in trade to make up the deficit. Mr. Chamberlain, however, on January 28 pronounced against a reduction. He ob-

* See page 358.

Great Britain

viously considered that it involved an unbalanced budget. On the other hand, although, like everyone else, he wished to see a rise in prices, he did not see how that could be brought about by monetary reform alone. *The Times* hereupon pointed out that there was an alternative to raising prices by monetary action, *i.e.*, that of lowering taxation "so that at the same time purchasing power may be increased and a severe handicap both practical and psychological upon British industry may be lessened." The Government must see that it was not left between now and April with a choice between maintaining the present level of taxation (already beyond saturation point) and deliberately and dangerously unbalancing the budget. Sir Robert Horne, in a letter to *The Times* on February 7, admitted the risk of an unbalanced budget but insisted that "we have come through the first part of our troubles so much more successfully than we could have hoped, and our prospects are so much improved, that it would not be imprudent to take a measure of risk in forecasting our fortunes for the next few years." "At this moment of fate," he continued, "an act of faith and courage might yield more in material results through the stimulus that it would give to confidence than any 'safety first' precaution." He also advocated the suspension of the Sinking Fund, and pointed out that when in 1922, as Chancellor of the Exchequer, he adopted the same expedient in circumstances not altogether dissimilar from the present situation, it was attended by none of the disasters prophesied by the financial purists of the day. In actual fact, he realised a surplus of over £100,000,000 instead of the trifling sum of £700,000 for which he had budgeted; the main reasons for this surprising result were explained by Mr. Baldwin to be a buoyancy in the collection both of arrears and of current taxes and of a reduction in expenditure. *The Times* the same morning declared that the prevalent lack of confidence could be laid at the door of over-taxation. "It is hardly too much

The Social Policy of the Government

to say," said the writer of its first leader, "that the Government may make or mar the prospects of the present political year, which has opened so brightly for it, according to whether they confront this problem of over-taxation with courage or with timidity." It is obvious that economy and the reduction of taxation are the necessary corollaries of a decision not to adopt a development programme. If the Government do not themselves stimulate industry by expenditure, then they must make it possible for the private individual to do so.

There is one significant feature about the Government, and that is that it is in no sense doctrinaire. It would not be out of keeping with its record if it were to adopt such a Churchillian expedient as balancing the budget by anticipating an improvement in trade. Many argue that what is needed now is just this policy of enlightened opportunism. Circumstances have so changed, what were once regarded as landmarks have so shifted, and the old relations of cause and effect have been so revolutionised, that the most elementary economic watchwords are rapidly falling out of date.

The constant factor in the outlook of the vast Conservative mass which supports the Government is a belief in the efficacy of protection as the main remedy for unemployment. And the future solidarity of the National Government will largely depend on how far the purely protectionist point of view is likely to prevail. At present Ministers enjoy a substantial measure of support from a body of opinion which in ordinary circumstances would be in favour of free imports. The split, for instance, between the followers of Sir John Simon and those of Sir Herbert Samuel is a very real one. In contradistinction to the Samuelites, the Simonites feel that tariffs ought to be given a prolonged trial. What influenced them most in the debate on the Import Duties Bill was the argument that these tariffs were a bargaining weapon, and that, in the words of Mr. Runciman, they were "a tariff to end tariffs."

Great Britain

How far this point of view appeals to the orthodox Conservative will emerge when the process of bargaining begins. Mr. Chamberlain said in a recent speech that "twenty countries had expressed their willingness to reduce their tariffs against us in response and in agreement." But what will happen when these countries in return for the reduction of their own tariffs demand a reduction in the newly created tariffs of Great Britain? Do these tariffs involve a permanent and unalterable change in our economic attitude, or are they merely temporary counters in the struggle to get tariffs down all round? It is a question which goes to the root of the problem that the World Conference is to discuss. The Prime Minister, pressed in the House of Commons on the first day after the recess to state whether the Government would exert its energies to work for the removal of tariff barriers, was silent. Much will depend on the outcome of the visit of the British Ministers to Washington. It may be that if the debt negotiations* break down, the forces of economic nationalism in this country will be too strong to be controlled, and the World Conference on which so many hopes are fixed, which has already been so often postponed, and, according to the Prime Minister, cannot even now be held for at least three months, will end in failure. Such an outcome would undoubtedly imperil the future of the National Government. For its support from non-Conservative elements largely depends on the extent to which it pursues a non-party policy, and a definite abandonment of the attempt to solve the world's problems on international lines would drive voters who are not definitely attached to the Conservative party into opposition.

II. THE ATTITUDE OF THE COUNTRY

AMONG electors in the country, there is clearly still a firm determination to give the non-party administration the fairest possible trial. It is true that in the Exchange

* A special article on this subject will be found on page 270.

The Attitude of the Country

Division of Liverpool the National Government vote fell by 10,000, but it remained nearly 3,000 over that of the Labour candidate—in 1929 the Conservatives only scraped home by 209 votes. The Labour vote increased by 1,500 on the 1931 figures, but it was still 4,000 below the heights of 1929. When it is remembered that the Liverpool unemployment figures are in the neighbourhood of 100,000, that the administration of the Means Test has resulted in intense bitterness, and that the Labour party is advocating its repeal, it is remarkable that the opponent of the National Government did not score more heavily. The result of the East Fife by-election is an even more impressive indication of the desire of the country that the experiment of a National Government should continue. The Conservatives in this case officially stood down, and a National Liberal was opposed by an Independent Conservative and an Independent Liberal. He was, however, returned by a majority of 9,000 over the Labour candidate, the Independent Conservative and Liberal candidates only polling 4,404 and 2,296 votes respectively. In spite of the confusion amongst the older parties, the Labour vote only increased by 1,000. There may be discontent with the Government, but there is clearly no alternative to it at present.

But the Opposition forces show some signs of rallying. Mr. Lloyd George, who took an independent position at the election, has now definitely come out whole-heartedly against the Government. In a speech on the motion for the adjournment before Christmas he delivered a frontal attack on the Prime Minister's broadcast address from Lossiemouth.

The thing that is of supreme importance (said Mr. Lloyd George) is to provide work. What does the Prime Minister propose—the creating of small handicraft industries and turning land into allotments and playing fields, without any indication where you are going to get the land or how you are going to do it, reclaiming slag heaps, making a paddling pool, restoring an old Roman bridge and

Great Britain

making mats out of bits of old rope ? That used to be called picking oakum. That is the work of the unemployed. That is what he calls the problem of the better use of enforced leisure, which is one of supreme importance for 3,000,000—and over 3,000,000, because the 250,000 black-coated have to be added to your 2,800,000, and your black-coated man is not even in the list. The right honourable gentleman went to Lossiemouth to file his petition in bankruptcy and to declare that there were no assets worth realising.

Mr. Lloyd George subsequently wrote to the Labour candidate for the Exchange division of Liverpool, wishing him success, and he celebrated his seventieth birthday with a farewell to "official Liberalism." For the official Liberal party led by Sir Herbert Samuel, which though out of the Government still sits on the Government side of the House of Commons, he professes to have no further use.

It doesn't seem (he told an interviewer) to be able to make up its mind whether it is for or against the Government. It prefers to stand at the cross-roads making silly little rushes down this way and that, now the other way and again back, and then standing hesitatingly until something or somebody pushes it somewhere else.

This severance, however, need not be taken very seriously. Mr. Lloyd George is making a bid for a reunited party in Opposition, and if he achieved his purpose he would certainly return to the forefront of the battle.

The position of the official Liberal party under Sir Herbert Samuel, never strong, is growing steadily weaker. The rank and file in the country are attracted by the vigorous lead given by Mr. Lloyd George, and are clamouring that the Liberal party in the House of Commons should cross the floor and occupy Opposition benches. The Devon and Cornwall Liberal Federation, for instance, passed a unanimous resolution calling upon the Parliamentary party to cease to support the National Government, either directly or indirectly. So serious indeed was the pressure that Sir Herbert Samuel called his followers together at a luncheon, the day before Parliament met after the Christmas recess, to address them on the

The Attitude of the Country

position. Though he refused to commit himself to formal opposition, he delivered a speech severely critical of the whole line of Government policy. He attacked them on tariffs and put forward an urgent plea that Great Britain should endeavour to form a low tariff union with the ultimate object of destroying the network of tariffs which, in his judgment, was strangling the world's trade. With that end in view he proposed the modification of our "most favoured nation" status. He also criticised the Government's policy of economy and pressed for expenditure on reproductive employment. He demanded the adoption of a definite policy with regard to disarmament and the Manchurian question. The authority of the League must, he said, be asserted without qualification. He condemned the housing proposals of the Government as inadequate for the needs and opportunities of the moment. His speech is a good example of the line that responsible criticism of the Government is taking. At the Parliamentary party meeting, however, which followed this speech, a resolution in favour of the Liberal party going into opposition only received the support of one single member. This does not mean that the Liberal party is not likely to cross the floor in the comparatively near future. It is said that there is even to-day a majority in favour of such action, but it was thought that some opportunity ought to be given to the Government to reply to Sir Herbert's criticism. In any case, some big issue of policy should, the Liberals say, provide the occasion for the severance of their connection, and it should be one which will ensure practical unanimity. The effectiveness of the Liberal party is, however, still marred by internal schism, and even if Sir Herbert Samuel were to go into opposition, he would leave behind him the followers of Sir John Simon. It cannot hope to provide a responsible alternative to the present Government until it achieves some measure of unity.

Nor is there much more chance of an alternative Government on the Labour side. The party are slowly rallying

Great Britain

their forces after the rout of October, 1931, and undoubtedly scores of thousands of working men who left them at the last election are returning to their old allegiance. It is estimated by shrewd political observers, for instance, that the discontent over the Means Test would win every seat in Durham for them. But there is no sign that they are capturing any of the great middle-class vote in the suburbs, or in the semi-industrialised constituencies in the counties, which alone could turn a propagandist Opposition party, such as they are, into a stable Government in office. In a word, they cannot expect any great measure of success without appealing to a type of voter that not even Mr. Ramsay MacDonald and Lord Snowden at the height of their prestige in the Labour movement ever really influenced.

The Labour party seems, indeed, to be deliberately going the very worst way about getting back to power. There is no check in the steady drift to the left. The little group below the gangway led by Mr. Maxton continues to set the pace, and the intelligentsia are desperately trying to keep up with it. Major Attlee, the deputy leader of the Opposition, said at Leicester on January 23, "we shall have to take over the Bank of England and take control of the whole monetary machine." Sir Charles Trevelyan—catching the new inflection—declares that "the Labour party is frankly revolutionary." Sir Stafford Cripps goes one better and threatens, in the event of a Labour majority, an immediate demand for emergency powers, and if the House of Lords bars the path, he will require a dissolution. Such propaganda may raise the roof at socialist meetings, but it only frightens the ordinary voter outside. The average trade unionist is far more interested in high wages than in socialist theories. That is the great obstacle every extreme party has to face in this country. There is plenty of enthusiasm in their ranks. There was an enormous procession through the streets of London to Hyde Park the Sunday before the

The Attitude of the Country

opening of Parliament to protest against the operation of the Means Test. A great "call to action" campaign is in progress now. It is generally expected that at the forthcoming Rotherham by-election, a constituency which afforded one of the most extraordinary fluke wins of the last election for the National Government, the Labour candidate will be returned by a large majority. But that is no criterion of recovery even to the position of 1929. Labour has not yet won back the ear of the nation, which is too busy trying to catch the first sounds of returning prosperity, and certainly wants something more than socialist theories and denunciations of the Means Test. It is, indeed, frightened of losing such volume of employment as still remains.

The fact is, as Sir Herbert Samuel stated in his speech to the Liberal party—

The nation cares very little about the fortunes of any political party, whether Conservative, Liberal or Socialist. . . . The nation is thinking only how it can escape from the appalling economic condition that now prevails, how it can end the nightmare of unemployment.

Questions which have no bearing on the economic situation arouse only a flicker of interest. A decision in the Courts, for instance, has made totalisators on greyhound racecourses illegal. The Government has refused to alter the decision, and it has, indeed, stated that it will introduce legislation, if necessary, to diminish facilities for betting on greyhound racecourses. Ordinarily this would start a lively controversy on the whole subject of the ethics of gambling. But nobody except the persons immediately affected displayed the slightest interest on this occasion. Even the long awaited publication of the Report of the Royal Commission on unemployment insurance evoked little controversy. No doubt many of its recommendations will be incorporated in the promised Bill, the slight adjustment of benefits, for instance, the extension of the insurance scheme to children of 14, and the various financial schemes

Great Britain

designed to make the fund solvent and self-supporting. The only far-reaching change at present favoured by the Government is the appointment of the statutory commission recommended by the "dole" report as an instrument to supervise the working of unemployment insurance. The view of the signatories of this report was that no statutory commission could take from the Minister the responsibility for the administration of either the insurance scheme or the scheme for the payment of transitional benefits. Apparently the Government is of the opposite opinion, and the scheme which has been formulated with a view to inclusion in the Bill, is designed to co-ordinate all public assistance under an executive commission which would have security of tenure, and be completely independent of party changes in Parliament. At present, however, the country as a whole is far more interested in the regulation of unemployment pay. Economics dominate everything. Is the industrial situation going to improve materially? That is the answer to the question on which depend not merely individual reputations and the fortunes of political parties, or of a particular Government, but the future of government itself, and indeed the foundations of society as at present constituted.

CANADA

I. POLITICS AND PARTIES

THE opening of the year finds the seventeenth Federal Parliament of Canada at the midway milestone of its statutory course and the Conservative Ministry of Mr. Bennett unshaken in its commanding position at Ottawa. The latter came into power in July, 1930, laden to the gunwale with exuberant pledges that it would find remedies for the serious unemployment which was then afflicting the country, and equipped with a mandate for the enactment of a high protectionist policy, proclaimed by its advocates as a certain panacea for the country's troubles. The Ministry lost little time in giving practical effect to this mandate; and in a special session in the autumn of 1930 and in the regular session of the following spring it used its powerful majority to raise the tariff duties to the highest level in Canadian history, and to provide the domestic manufacturers with safeguards against foreign competition such as they had never hoped for in their wildest dreams. But the brave hopes that Conservatives cherished for their policy were doomed to disappointment through the shattering impact of the world-wide depression, which deepened steadily from the day that the new Government took office, and the stars in their courses seemed to fight against the success of its policies. The effects of a calamitous fall in commodity prices, especially severe in the case of farm products, were aggravated by unsatisfactory crops; foreign markets lost their power of absorbing Canada's exportable surplus with a drastic

Canada

shrinkage in both imports and exports as a consequence; and unemployment mounted steadily until it has now reached dimensions three times as large as when the Government took office. Baffling problems, which had been temporarily obscured during the care-free boom days, emerged in connection with the great structure of railway systems and other physical equipment which the vaulting ambition of a young country, unchecked by the foresight of statesmanlike prevision, has insisted upon creating in anticipation of the needs of a population of thirty millions; and the obligations of the vast load of debt, which had been light-heartedly assumed for the construction of this equipment, became a nightmare as the value of the Canadian dollar in New York, where most of the debts were owed, shrank ominously. Thus from the start the present Government has found itself involved in a continuous encounter with desperate economic problems, and the best that can be said for it is that it has managed so far to prevent any disastrous *débâcle*. If its critics maintain that under its regime the economic plight of Canada has grown steadily worse, its supporters retort that at least it has maintained Canadian credit on a sound basis, that it has taken steps to ensure that no Canadian shall perish of starvation, and that by its tariff policy it has averted a wholesale collapse of the industrial machine. They also argue that a solution for the chief troubles of the Dominion is beyond its own power and can only be found through international action. But the extravagance of the hopes that the Conservatives raised during the last election campaign has been a millstone round their necks, and their opponents have lost no opportunity of mocking at the grim contrast between the glowing promises of Mr. Bennett and the record of their fulfilment.

So, since the first fine rapture of accession to office ended, the Ministry has walked a very thorny and difficult path, faced with a continuous barrage of criticism, often from normally friendly quarters, and beset with the im-

Politics and Parties

portunities of a host of disgruntled suppliants. The Premier, Mr. Bennett, is what is popularly described as a strong man, endowed with many qualifications for his high office: vigour, industry, eloquence, long experience of politics and large business affairs, and a willingness to face responsibilities. But the value of his good qualities is impaired, in the opinion of his critics, by certain defects of temper and judgment, and such a masterful personality as his has often a paralysing effect upon colleagues who, even in the judgment of their warmest supporters, are not a strong Cabinet team. The present Ministry then is, in the eyes of a portion of the Canadian public, credited with good intentions but inadequate accomplishment, and the tale of its sins of omission and commission grows as the months roll by. The prolongation of the depression made it in any case inevitable that even a Ministry giving abundant proofs of strength and resourcefulness would shed its popularity, and the evidence of by-elections reveals that the exasperation of the public at the continuance of hard times is finding expression in a stronger swing of the pendulum of popular favour against the Government than would be normally visible. For example, last June a by-election in New Brunswick, one of the safest Conservative strongholds in Canada, saw the Government majority cut down from 2,924 to 500, and in October a similar contest for a rural seat in Ontario found the previous Liberal majority of 349 increased sevenfold—two results exceedingly significant in view of the traditional disinclination of Canadian constituencies to vote against the candidates of the party in power. Moreover, the last provincial election in Quebec, which re-entrenched Premier Taschereau in power, revealed that the local Conservative renaissance, visible in 1930, had a feeble basis, and the distracted prairie country is in a mood of bitter resentment against the high tariff policies of the Bennett Ministry. So obviously the Government is committed henceforth to a very difficult defensive battle, and only the speedy return

Canada

of a reasonable degree of prosperity can bring hope of a restoration of its full political fortunes.

The Government has done its best to extract political credit from the agreements reached at the Ottawa Conference which occupied most of the time of Parliament during the first half of the present session, now interrupted by a long recess. On the whole Ministers were reasonably successful in countering the comprehensive and persistent assault which the Liberals made upon the agreements, and the acidulated and carping spirit in which this attack was pressed operated to dull the effectiveness of the justifiable criticisms which were directed at the agreements. The country at large is prepared to give them a trial and to defer its judgment until their practical results in trade exchanges can be appraised. During the session there were spasmodic debates on unemployment, currency inflation, and other problems, but the Government succeeded in staving off serious consideration of domestic issues until Parliament reassembles on January 30.

Unemployment, the railway question, the currency problem, and the budget will provide Parliament with the staple material of controversial debate, but the portents at Washington indicate that it will be spared the necessity of dealing with the treaty about the St. Lawrence Waterway, which cannot now be ratified by the Senate at the short session of the expiring Congress, and will probably be re-negotiated on a fresh basis by the incoming Democratic Administration. Unemployment is now a running sore of whose immediate alleviation there is no sign, and the Opposition, for its attack on the inadequacy and wastefulness of the Government's policy, will find abundant ammunition in revelations that there have been serious scandals in connection with the administration of relief, particularly in the province of Quebec, although the Federal Government has some justification for attributing these abuses to the laxity of provincial Administrations. Some time ago the Bennett Ministry definitely committed

Politics and Parties

itself to the principle of a national scheme of unemployment insurance on a contributory basis, and has had its officials at work collecting data and doing other preliminary spade work. There are, however, constitutional difficulties which necessitate the co-operation of the provinces in any scheme, and accordingly the Prime Minister has summoned to meet in Ottawa on January 17 a Dominion provincial conference which will be attended by all the provincial premiers. At this conference the unemployment situation, and the correlated problem of unemployment insurance, will be the main subject of discussion, but it is expected that consideration will also be given to questions like the control of insurance companies, in which there is a conflict about jurisdiction between the federal and provincial authorities. Meanwhile, during the present winter the authorities have virtually abandoned the policy of special public works for the benefit of the unemployed, and are conserving their resources for direct relief.

The railway legislation which the Government introduced in the Senate last session embodied most of the recommendations of the Royal Commission on Railways and Transportation, of which Mr. Justice Duff was chairman, and it produced some instructive debates. But the evidence given by Mr. Beatty, the President of the Canadian Pacific Railway, before the railway committee of the Senate disclosed the fact that the C.P.R. was strongly opposed to the proposed arbitral tribunal which would enforce co-operative arrangements between the two railways in the interests of economy, and adjudicate disputes between them in this connection. Mr. Beatty further suggested that rather than entrust the direction of policies involving the fortunes of its vast properties to such a body, the directors of the C.P.R. would prefer a scheme of amalgamation for the two systems, provided that a minimum return upon the securities of the C.P.R. were guaranteed by the State. It] was considered significant that Senator Dandurand, the Liberal leader in the Senate, practically endorsed

Canada

Mr. Beatty's opinion, and the view now gathers strength that the C.P.R. and its powerful political friends are determined to make a vigorous drive for a policy of amalgamation under private ownership. In that event a protracted parliamentary struggle can be predicted, for while such a merger might be endorsed by the Senate it would meet with resolute opposition in the House of Commons, where the supporters of the public ownership of railways are not confined to any one party. Moreover the Prime Minister is definitely pledged against the amalgamation of the railways, and the enforcement of the curtailment of services, which would be the chief justification for a merger, is full of obvious political perils for the party which sponsors it.

The currency problem has assumed great importance during the past year, and the modest dose of inflation which the Government countenanced last November has not availed to check, among the farmers and other interests who are suffering from low prices, an inflationist campaign, which on the prairies has assumed the aspect of a fierce crusade with the banking system as its chief target. In the main the people engaged in the great natural industries, many of whom contend that they cannot realise any benefits from the preferences conceded by Great Britain in the Anglo-Canadian agreement until the Canadian dollar is brought to a position of parity with the pound, are ranged on the side of inflation. On the other side are the banks and such interests as are faced with heavy debt obligations in the United States, whose burden would be greatly increased by the depreciation of the dollar to the level of sterling. Mr. Stevens, the Minister of Trade and Commerce, is an ardent and avowed inflationist, but his colleagues are sceptical about the value of this nostrum and prefer to pursue a Fabian policy until the World Economic Conference has taken place. Meanwhile they have decided to defer the decennial revision of the Bank Act until the results of this meeting are known.

The thought of the budget opens up a very dark vista

Politics and Parties

for Ministers, for although the yield of the excise tax has exceeded the estimates, the returns of other items of revenue, notably customs, have fallen short of them, and it is already plain that at the end of the fiscal year the total revenues instead of providing, as expected, a small surplus over ordinary expenditures will show a substantial deficit. This in itself would be bad enough, but there will have to be added on the debit side some ten million dollars for capital expenditure, some fifty millions on account of the deficit on the Canadian National system, and at least twenty-five millions more for unemployment relief. So there is a well-founded apprehension that the aggregate federal deficit for the fiscal year 1931-32 will be well over one hundred million dollars, and, if the budget for the next fiscal year is to be balanced, an increase of direct taxation—which will not enhance the popularity of the Government—can hardly be avoided.

At the time of writing, the Government's search for a satisfactory personnel for the new Tariff Board, which is to apply the competitive principle with regard to British imports, has not been crowned with success, and considerable difficulties have arisen in connection with some loose ends of the Anglo-Canadian agreement which were left untied at the Conference. The issue of trade relations with Russia has also loomed up in connection, first with the timber contract concluded with the Soviets by a group of British importers, and, secondly, through a project for the barter of a large number of Canadian cattle for Russian oil and coal. The Ministry is involved in considerable embarrassment through the latter project because, while it is not satisfied about the soundness of the scheme, the cattle raisers of Canada, faced with a serious glut of stock and ruinously low prices, want to know why they should be denied the privilege of finding a new and useful market in Russia a few months after the American-controlled Aluminium Company was allowed to exchange its products for Russian oil.

Canada

Naturally, the Liberals, free from the responsibilities of office, and discerning signs of a rising tide of popular discontent with the Government, are in high feather of hope, and have decided that the time is ripe for an active platform and press campaign of propaganda against the Government. For its stimulation they have created for the first time a nation-wide party organisation styled the National Liberal Federation, of which Mr. Vincent Massey is president. Moreover, speeches which prominent Liberals have delivered in recent months indicate a readiness to move leftward and to sponsor more radical policies than the Liberal party has hitherto felt able to contemplate. For example, Mr. W. D. Euler, an ex-Minister who has always been counted a Liberal of the right wing, surprised Parliament just before it adjourned by his frank advocacy of a variety of advanced policies, including public ownership of all the railways. The Liberals promise a wholesale reversal of the present Government's tariff policy, and they advocate the establishment of a central bank of rediscount, a system of unemployment insurance and a reform of the electoral system through the introduction of proportional representation and the alternative vote. But they stop short of proposing any fundamental reorganisation of society and merely suggest ameliorative measures which will, in their view, produce a revival of prosperity and improve the lot of the farmers and urban workers. It can be surmised that the strength of the conservative element in the party, whose chief bell-wether is Premier Taschereau of Quebec, forbids the sponsorship of policies which might drive it into the Conservative camp, and it remains to be seen whether the Liberal programme will succeed in enlisting the enthusiasm of the hard-pressed farmers and restless urban population, whose temper is now more radical than ever before in Canadian history.

Moreover, for their support Liberalism has now to compete with the new Farmer-Labour party, which, despite the handicap of its clumsy title, the "Co-operative

Politics and Parties

Commonwealth Federation," has shown in the first six months of its existence a vigour disturbing to the managers of the two historic parties. Its leaders, who are being aided and abetted by groups of radical intellectuals in Montreal, Toronto, and other cities, aspire to secure within the fold of the Federation the affiliation of all the agrarian, labour, and socialist organisations in the Dominion, and to consolidate their support behind its candidates. Towards this goal they have already made considerable progress, and the recent adhesion of the United Farmers of Ontario, a body which has always been fearful of extremist paths, was a notable triumph. The Federation have nailed their colours to the mast of a full-blooded socialist programme, and profess that they will be content with nothing less than a drastic reorganisation of the economic structure on lines which will eliminate the motive of profits. They may find it a hard task to reconcile many farmers of the rugged individualist breed to some of their policies, but to-day the times are propitious as never before for a sympathetic reception of their indictment of the present economic system. The new party has a leader of attractive personality and considerable platform ability in Mr. J. S. Woodsworth, who has led the Labour group in the House of Commons, and one of his most effective lieutenants is Miss Agnes Macphail, the solitary feminine member of the House of Commons, who has developed into a very competent propagandist and, thanks to her influence with the farming folk of Ontario, has become a real force in politics. The party still lacks press support and a nation-wide organisation, but if the depression has not been mitigated before the next general election it may poll a formidable vote, particularly in the West, and upset the calculations of its older rivals. The Liberals, however, have more cause to dread its growth than the Conservatives, and they are striving to demonstrate that their own leftward advance is so great and so sincere as to render the existence of a new radical party superfluous.

Canada

II. CANADIAN-AMERICAN RELATIONS

FOR all the misgivings of the experts as to their economic effects, there are many Canadians in these post-Conference days who see in the Ottawa agreements implications far transcending their promised economic benefits. For them the Conference was not merely the climax of our long indignation over American fiscal policy; it marked also the turn in the tide of Americanisation. Henceforth we are to look more towards Great Britain and the Commonwealth and less to the United States. Closer co-operation in trade will re-knit the frayed bonds of Empire, give new life to the British tradition, and check a dependence upon our neighbour which might have ended in political, as in financial, absorption. The crisis being passed, these optimists confess fears which, if they really entertained them, they had previously not dared to express except in vague generalities.

Now, the forces which tend to bring the United States and Canada into closer relationship are so formidable that, if we had to depend upon trade arrangements within the Commonwealth as the main counter-agent, our prospect of a distinct and continuing national existence would be bleak indeed. Common origin and language; similarity of physical environment and common methods of adaptation to it; continual going and coming in the way of business, education, and pleasure; conscious imitation of institutions, manners, and diversions; these and other factors have combined to make of the English-speaking Canadian a man so like the American that the two can no longer be distinguished by Europeans, and of all the sharp contrasts in the texture of Canadian life none is more striking than that between the objective facts of Americanisation and the subjective antipathy of our people to the process. Little wonder that so penetrating a foreign observer as M. André

Canadian-American Relations

Siegfried, and certain less penetrating Canadians, can envisage only one outcome of this more or less biological assimilation. What they foresee is not a dramatic annexation arising out of a particular situation but a growing conviction—which cannot but lead to action—that two peoples with the same language, habits, and ideals, would gain much by uniting.

If this were the general conclusion among those who think about the future of this country in its juxtaposition to the American colossus, such a state of mind would in itself be a grave weakness. The conviction of permanency is probably an essential component of a constructive national spirit. It is worth while pointing out with emphasis that such a conviction of permanency, widespread and deeply imbedded, does exist among our people. The average man does not argue about it, he assumes it and builds upon it. Generally, too, he will tell you that he prefers his lot to that of the American not merely in these *anni terribiles* when he says that “they are worse off down there than we are” but in boom times as well. If you ask him why, he will probably give you three reasons: (1) that he likes being British; (2) that he has greater security from crime; (3) that he has more personal liberty. Asked to substantiate this last impression, he will point to the eighteenth amendment; to legislation against cigarettes; possibly, if his memory serves, to the “monkey trial” in Tennessee. Mere straws in the wind, these, but sufficient in his opinion to explain a vague but real repugnance.

Simple, prejudiced, possibly a little defensive though these sentiments may be, they yet make for national cohesion, and cannot be left out of account in any scientific analysis of our group life. Latterly, moreover, they have been reinforced by a new infusion of legitimate national pride. It is probably true that with the immigration of non-British stocks, added to the mere accumulation of generations separating us from the Motherland, loyalty to old allegiance was bound to weaken. But in its place has

Canada

come a rapid strengthening of the Canadian tradition. We look back now on a hundred years of fairly consistent growth, culminating in the completeness of substantial autonomy declared by the Statute of Westminster, and in acknowledged membership of the family of nations. In the Western Hemisphere a century is a longer time than in Europe, and our independence and international status have taken their place among our treasures. They have made us truly a people, conscious of possessing a distinct rôle in the world.

This development has removed any likelihood of amalgamation with the United States to a future so remote that it is a sheer waste of time to contemplate it. Among the nations of the earth few have firmer prospects of a destiny to be fashioned, so far as destiny is susceptible of human determination, by their own hands. Yet, though we may proceed with confidence in the preservation of our nationhood, it remains true that our fortunes will be affected, perhaps more than by anything else, by the tenor of our relations with our sole and gigantic neighbour. These relations, therefore, must and should hold the foreground of our diplomacy.

The fact that more than half our foreign trade is made up of imports from and exports to the United States is one of the more obvious reasons for the pre-eminence of that country in the world upon which we look out. It is conceivable that, as the protagonists of economic integration for the Commonwealth maintain, this state of affairs may be modified. But there are other reasons which, if less obvious, have almost equal weight. Thus our attitude in the matter of armaments and security has been determined mainly, if not always avowedly, by our position alongside a nation possessing great power and governed by such traditional principles as the Monroe doctrine and non-entanglement in foreign alliances. There is little to suggest that it will not continue to be so determined. One of the rare frank admissions, by a responsible statesman, of this

Canadian-American Relations

truth in its bearing on defence was made by Laurier to the astonished Dundonald in 1902—"You must not take the militia seriously, for though it is useful for suppressing internal disturbances, it will not be required for the defence of the country, as the Monroe doctrine protects us against enemy aggression." That leaves us with no potential enemy to arm against, unless it be the United States themselves, and against them armament is hopeless.

Similar considerations have determined the stand taken by Canada in a number of questions concerning the League of Nations, as for instance in the attack on Article 10 and the rejection of the Protocol of 1924. It is of prime importance to us not to become involved in any international action which might bring us into direct or indirect conflict with the United States. To the same order of ideas belonged, too, Mr. Meighen's intervention when, in 1921, the question of renewing the Japanese Alliance was brought before the Imperial Conference. There has been some tendency in Canada not merely to conciliate American opinion in Far Eastern affairs but to identify our interests in that portion of the globe with those of the United States rather than with Great Britain's. We have the same problem in regard to immigration, and the same sole concern in a peaceful and orderly China offering an open door to our products. The apparent move away from Washington and towards a conservative Whitehall, in the current Manchurian question, comes as something of a surprise in Canada and suggests motives not unconnected with the Ottawa *rapprochement*.

Geographic proximity and similarity of interest give us a vital concern in the general foreign policy of the United States. The bearing upon our welfare of her policy towards us in particular is naturally even more direct and palpable. Perhaps the most fundamental of all our external problems is how to live with dignity and without sacrifice of our just rights beside a neighbour so much more powerful than ourselves. As an inevitable consequence of our assumption

Canada

of control in the field of foreign affairs, we must proceed upon the hypothesis that, just as we would not expect or permit arbitrary interference from Westminster in the conduct of our American business, so we cannot count upon concrete and effective British aid for the enforcement of our rights in this domain. In our multifarious border business, in the regulation of fisheries, of aerial navigation and radio broadcasting, to mention only a few categories, those rights are always to the fore. Apart from our own efforts, we can count only upon the equity of the United States and the general strength of international organisation and opinion for their maintenance. There can be no question of war as their ultimate sanction.

The inference should be clear. The position of Canada gives her a special objective interest in the progress of internationalism in general, and in the establishment of machinery for the peaceful settlement of disputes between her and her neighbour. If the Commonwealth is not to be regarded as a defensive alliance—a view of which she, with her doctrine of “passive belligerency,” has long refused to accept the consequences—she has no such alliances as those upon which a number of European States depend; nor can she invoke any balance of power principle. Nothing would strengthen her position so much as the participation of the United States in an effective League of Nations. But we in Canada, perhaps more than any Europeans, realise the remoteness of such a Utopia.

As very partial compensation for Wilson's failure in 1920 we welcomed the Briand-Kellogg Pact. Yet there was no general rejoicing when the United States, along with the other signatories, undertook not to seek by other than peaceful means the solution of her disputes. The calm in which that event was received in this country was significant. The practical importance to ourselves of every advance along these international lines is far from being generally understood throughout the country. In spite of our utterly exposed position as against the United States, we

Canadian-American Relations

have not for many years suffered any national sense of insecurity. At one time our composure was partly due to reliance upon Empire defence. At the present time it amounts simply to an absence or apprehension of any violent aggression from the south.

We complain bitterly from time to time about American arrogance or injustice. Yet underlying our immediate discontents there seems to be a fundamental faith, not yet extinguished by events, stronger indeed than we avow, in the ultimate good will of our neighbours. Only such faith can explain the absence of any general sense of insecurity in our midst. Only such faith, moreover, rather than any cynical conviction of the futility of international agreements, can account for public indifference regarding the very imperfect condition of Canadian-American machinery for settling disputes. The general arbitration treaty came to an end in 1928 and has not been replaced. The Bryan treaty of 1914 still stands, but provides only for investigation and report, leaving the parties free after one year to act as they will on any given dispute. The Briand-Kellogg Pact, excellent as far as it goes, provides no positive arrangement for conciliation or arbitration. As for the International Joint Commission, that body has no compulsory jurisdiction except in cases of obstruction, pollution or diversion of boundary waters. It may be used to arbitrate any dispute which both parties specifically consent to submit to it, or to report (without binding effect) upon any matter submitted by either. Between these stools any number of conflicts may fall.

What now is the American attitude? Owing presumably to the disparity in size, and to the orderliness of Canadian affairs, few Americans are conscious of any relations with the Dominion. A recent examination into the knowledge of Canada and of the United States possessed by American and Canadian school-children respectively revealed a contrast which would be scarcely less striking in the case of their elders. The Americans take us for granted; we,

Canada

on the other hand, are acutely conscious of the clash of our interests with theirs. Increases in their tariff, excesses of zeal and jurisdiction on the part of their border and coastguard officials, are featured in our press and greeted with general indignation in our midst. Disputes apart, our newspapers devote generous space to political, social, and sporting events south of the line, while most of their press ignores us. Since the interchange of diplomatic missions between Washington and Ottawa, there have been signs of a movement on the American side to correct this state of affairs. Attention is being called to the fact that, whereas Latin-American affairs are intensively studied, Canada, which is of vastly greater economic significance, is being overlooked. It is of the utmost importance that this endeavour should prosper. For at times federal and local authorities have ridden rough-shod over our susceptibilities. The State Department has seemed to share the nation's general ignorance or indifference as to interests about which we felt keenly. There is at least a hope that more knowledge and understanding would carry with it increased consideration.

The *cause célèbre* of the Chicago diversion illustrates at once the American indifference mentioned above and the inadequacy of our arbitral arrangements. For eighteen years the Canadian Government kept forwarding to Washington protests against the drainage of a quantity of water from Lake Michigan which threatened to prejudice shipping facilities in the lower lakes and in the St. Lawrence river. These courteously firm Notes were duly acknowledged and filed away, and the diversion steadily mounted. The riparian States of the Union took up the cudgels, pursuing the Chicago Sanitary District through various authorities up to the Supreme Court. Chicago was uniformly rebuked, enjoined, and condemned, but nothing seemed to stop the flow through its canal. In Ontario and Quebec individuals and associations petitioned Ottawa, crying out against what they represented as a violation of the common

Canadian-American Relations

law of nations and the Waterways Treaty of 1909. But international law on riparian rights is far from definite, and the treaty of 1909 pretty clearly excludes Lake Michigan from the class of boundary waters. It was more than doubtful whether compulsory jurisdiction could be claimed for the International Joint Commission in the premises, and the Dominion Government, probably fearing that a request for voluntary arbitration would be refused, did nothing beyond sending Notes and maintaining a watching brief in the American litigation. No attempt appears to have been made by the Department of State in Washington to conciliate Canadian opinion; no suggestion seems to have been seriously entertained to deal with the problem on an international plane. The real and sensitive interest of the Dominion was for all substantial purposes ignored. The present state of the matter is that the treaty signed last summer for the joint development of the St. Lawrence Waterway stipulates that the diversion shall be limited by 1938 to a volume which will not appreciably lower lake and river levels. That treaty, however, which was only drafted after long and strenuous negotiation, is still a long way from ratification.

Even if satisfaction is given us in 1938 the memory of the Chicago diversion will long haunt Canadian-American relations. It will take its place with the Alaskan Boundary question among the arguments of those who counsel mistrust. There is no good reason why it could not have been quickly and smoothly disposed of, had there been an unambiguous agreement for arbitration by an impartial tribunal, at the request of either Government, of any matter involving common interests. The confident assumption of permanent peace is not sufficient. Peace requires safeguards. Since 1928 the United States have concluded a series of very general arbitration agreements with other countries; and it is scarcely conceivable that they would refuse to negotiate one with Canada. It is well known, indeed, that the Department of State opened

Canada

conversations with Great Britain with a view to replacing the expiring Bryce treaty of 1908, in which this Dominion participated, with an agreement of wider scope. For reasons that have not been made public that initiative was not followed up ; but it remains still more of a mystery why we, in view of our specially intimate relations with the United States, should not have moved for a separate arrangement.

Another field in which a clear line of possible progress is marked out is the administration of what might be called our continental patrimony. Development of this kind has already gone far in the maritime and Great Lakes fisheries, where seasons and methods of operation are regulated by joint commissions. The draft treaty for improving the St. Lawrence adds another of these bodies, and it may well be that aerial navigation and the much disputed realm of radio broadcasting will sooner or later be brought under common government. Everywhere jealous nationalism has for centuries prevented reasonable and equitable exploitation of natural resources for the enhancement of human welfare. Whatever may be thought of its efficacy for the prevention of war, world organisation in the last dozen years has done much to break down this obstacle to economic and social progress. Canada and the United States, with a common language, parallel development, common devotion to a high material standard of living, and their tradition of peace, have a unique opportunity to lead in this advance towards international sanity.

The security of our future lies in the strengthening of the spirit and machinery of co-operation and the maintenance of firm understandings for the impartial and expeditious settlement of disputes when they arise. Nor does the whole burden of this duty rest upon the greater nation. Provocative comment upon every occasion when our interests come into conflict with those of our neighbour is a luxury which Canadian citizens and Canadian news-

Canadian-American Relations

papers professing a regard for the welfare of their country might wisely deny themselves. It adds nothing to our established resolution of independence ; it detracts from our national dignity and engenders a habit of irascibility which prevents clear perception of the realities of our position and the steady but unchallenging course which we must follow.

Canada.

January, 1933.

AUSTRALIA

I. THE FEDERAL CHRONICLE

THE successful conversion of the New South Wales loan on the London market, and the hopes of further conversions in the cheap money market overseas, reductions in interest rates on Treasury bills from 4 to $3\frac{1}{2}$ per cent., and in deposit rates by the Commonwealth Bank and the Savings Bank in Australia, the prospect of a good season and of sane government, produced a cheerier outlook than the business world has known for nearly three years. The stock market rose steadily, a gratifying indication of hopes renewed, with some justification in the success of the efforts of management in the overhaul of business. Indeed, the widespread feeling that the worst was past excited some apprehension that, particularly in politics, efforts still necessary would be relaxed.

A welcome sign of a new chapter in affairs was that, with the financial year ending on June 30, six of the seven governments had presented their budgets before the end of September. All were able to show that they would be within their allowance of deficits, though by the use of characteristically different methods. For example, in New South Wales the Stevens Government were prepared with economies on a scale which vied with the spectacular deficits of the State in recent years; in Queensland the outstanding feature was an increase of the income tax and the reimposition of the super land tax. The methods of the other States lay between these two, as the political situation permitted or demanded. The Commonwealth surplus of £12,000 was achieved by bringing in a surplus of £1,301,000 from the preceding year. Further economies were shown in the salaries of Members of Parliament,

The Federal Chronicle

Ministers and public servants, and in old age and invalid pensions. By November a change had taken place. Increased imports indicated an improvement of £3½ millions on the estimates of customs revenue. Of this the Government devoted £1,300,000 to the reduction of the land tax by one-third, and provision was made for further relief in special consideration of losses incurred by the fall in the price of primary products; the exemption from the 10 per cent. super-tax on income from property was raised at a loss to revenue of about £500,000, and the sales and primage taxes were lifted from various items, including books. The announcement was accompanied or followed by hopes and warnings—hopes that an improved financial position might permit further remissions, warnings that circumstances might make the remissions merely temporary. These warnings were recalled when in December it became clear that the Hoover arrangement was not to be continued, and that in consequence the payments to the British Government which were not budgeted for might have to be resumed. At present it is understood that these payments may still be deferred.*

The increase of customs revenue was viewed with mixed feelings. Manufacturers and the Opposition expressed alarm at the menace to Australian industries of increased imports; the Commonwealth Statistician showed anxiety about the possible effects on London balances, and therefore on government overseas finance, and the producer must have drawn some comfort from the feeling that his exchange bonus was better assured. Opinion generally, keyed to hopefulness, was content to accept the increase of imports as an indication that things were improving.

The first tariff measure of the Commonwealth Government was to abolish the emergency prohibitions of imports

* The Government, it is understood, will not ask for these payments at this juncture, foreign payments being still suspended under the Lausanne agreement. (South Africa has continued its own payments throughout.) (See *The Times*, December 20, 1932.)

Australia

established by the Scullin Government, and to reduce a number of the duties which had been imposed against or without the advice of the Tariff Board. Their next was to introduce into Parliament the legislation necessary to approve and to carry out the Ottawa Agreement. The Agreement was assailed on constitutional grounds—first, that it tied up the Commonwealth to the British Government in matters which were essentially matters of domestic policy; secondly, that it abdicated to the Tariff Board functions which were political in character, and therefore appropriate only to Parliament. The betrayal of Australian industry by Mr. Bruce and Mr. Gullett at Ottawa was denounced with ferocity in exclusionist newspapers, and the apprehended shock to industry and employment drove Mr. Fenton, Mr. Lyons's fellow secessionist from the Scullin Government, to resignation of the portfolio of Customs. A staunchly protectionist but measured statement which perhaps expresses the mean of Australian opinion is that of the *Sydney Bulletin*: that the Australian object at the Conference was to give our primary industries a lift, that the thing to be avoided if possible was doing it at the expense of our secondary industries, and that in this Mr. Bruce and his colleagues seemed to have succeeded. Confirmation of this view of policy may be found in the implementing tariff, for the increased preference to Great Britain was effected in about 20 cases by a reduction of the duty on British goods and in about 440 by an increase in the duty on non-British goods. Nevertheless, the Opposition opposed; a highly dissatisfied Country party was confirmed in its policy of seeking compensations. The Agreement was approved after stormy debates; the tariff will hang on for debate at a later stage. Meantime it is in force.

The resignation of Mr. Fenton has been referred to. The Government had a heavier loss in the resignation of Mr. Hawker, Minister for Commerce, on a point of conscience. Mr. Hawker had during his election campaign

The Federal Chronicle

declared that he would vote for the reduction of members' salaries to £600 a year. The Government decided on a reduction to £750, and on a private member moving that it should be £600, Mr. Hawker resigned office in order to be free to vote for the motion. Mr. Hawker was one of the ablest members of the Ministry, and one of the rare men who represent country interests with statesmanship and not with a merely sectional outlook and aim.

The production of budgets enabled the Premiers to take up with more knowledge the measures possible for carrying out their resolution of July,* whereby in addition to meeting interest obligations and continuing progressively to reduce budget deficits, they were to conduct policy with a view to reviving industry so as to restore normal employment. The last clause implied, of course, that they wanted to borrow more money, to borrow and spend it outside the progressively to be balanced budgets; and there were questions of how to borrow, and how much to borrow, which required the authority of the Loan Council and agreement with the Commonwealth and trading banks. When the Premiers' Conference assembled in October the majority of the Premiers, in accord with the Commonwealth Bank, and all but one of the trading banks, desired to see a substantial part of the financial effort directed towards a beginning of the process of funding the floating debt. But the Premier of New South Wales believes that the time has not yet come when the expansion of credit of the last three years can be beneficially arrested by absorbing floating debt in a long-term loan. When the Conference had agreed upon an £8 million loan for ten years at $3\frac{3}{4}$ per cent., he desired that the whole should be devoted to public works, other government needs being financed by Treasury bills. His colleagues demurred, and the usual compromise resulted in an agreement whereby the £8 millions was to be divided equally between redemption of Treasury bills and public works to reduce

* See THE ROUND TABLE, No. 89, December, 1932, p. 200.

Australia

unemployment. The banks agreed to underwrite the loan, and had to carry the greater part of it, for public subscriptions amounted to less than three millions.

The relief in various forms of "primary producers" is the most pervasive subject in Australian politics to-day, and has even overshadowed the perennial industrial questions. Like these, it provides at once an embarrassment to governments and an arena of competition between State and Commonwealth, for either incurs the reproach of lukewarmness at its peril. At the October Conference of Premiers there was an opinion favourable to the creation of a fund of £2½ millions to be made available to the States for the assistance of wheat growers. The Commonwealth Government decided to provide £1½ millions for distribution by the States among farmers suffering the greatest hardships, and £1 per ton on superphosphates purchased and delivered before June, 1933. The country interests challenged this as inequitable, for the principle of greatest need would involve delay and perhaps humiliating inquiry, and would exclude large numbers from any share; also, the superphosphate requirements of land varied greatly. The form of aid was attacked from an economic standpoint—greatest need might stand for greatest inefficiency in the farmer, and would support wheat production in unsuitable conditions to the detriment of better farming and better lands. An export bounty of 4d. or 6d. a bushel was demanded; threats to withhold wheat from the market became common, and at one place in Western Australia a strike was organised. Agitation against the Government plan was reinforced by a formidable political movement in Parliament which the Ministry soon found it impossible to ignore. They abandoned the superphosphate scheme, and raising their subvention to £2 millions, left it to the States' Governments to determine the method of distribution, according to their respective conditions, among which, of course, were political conditions.

After wheat, wool. In August, the Government appointed

The Federal Chronicle

a committee mainly representative of the wool growers, to report on the conditions of the industry, and in particular as to the measures that might be taken by the industry itself and any other industries rather than by Government, to alleviate its distresses. The Committee's Report was presented in October. It pointed out that the average price for the last two years was 8½d. per lb., and that the average cost of production, exclusive of interest on capital, was 8½d. on the sheep stations and 9½d. per lb. at sales. Interest was put at 4½d. per lb. "Hitherto, the wool growers have managed to continue production by getting further into debt, and by neglecting maintenance." It was reasonable to expect some improvement in prices, but not a recovery to the high levels preceding the slump. Costs, therefore, must be attacked for the permanent rehabilitation of the industry, apart from present urgent necessities. The tariff was responsible for 2d. a lb. in the cost of production. Railway freights on wool, and on the requirements of the wool producer, had been on a discriminatory basis related to the supposed capacity of the industry to bear high rates—the recent action of Western Australia in reducing freights by 30 per cent. was commended, for example. Governments should also reduce port dues and charges and the land tax. Shipping companies, selling brokers and financial institutions were enjoined to make reductions in charges, not merely for the sake of the growers, but, in the case of the financial and selling institutions, for the sake of their own revenues and solvency. The buyer should surrender the "draft," an allowance of 1 lb. per cwt. The references to interest rates are rather ambiguous. Reluctance to advert to the method of legislative intervention avoids even any reference to the 22½ per cent. reductions imposed last year. But reductions in interest were imperative, and were taking place though slowly and reluctantly. There is an expression of sympathy for the creditor (which is rare in these days), but a candid admission of "even greater sympathy

Australia

for the wool-growing industry." "In the present situation contributions to the reduction of costs are required from all sources, however much they may all with one accord begin to make excuses." As to price, the fall in terms of Australian currency was mitigated by the exchange, in spite of some incredulity among growers; the exchange might be restored to 30 per cent., the 1931 level, or even increased. The Report points out that the Commonwealth Bank Board has repeatedly refused to recognise that the exchange rate should be used to support prices. While emphasising the independent status of the Board as a condition of public confidence, and making no recommendation to the Government on exchange policy, it directs the attention of the Board to the precarious state of the industry and the inadequacy of cost reductions to meet the situation, and suggests that the Government should do all in its power to make the maintenance or even the increase of the rate economically possible for the Bank. The Government "would not be interfering with the freedom of the Board if it gave a more positive undertaking of liability for the cost of exchange policy administered by the Bank in the interests of the Nation rather than in the interests of the Bank itself as a trading institution." Thus, in the Report of the Wool Inquiry Committee, we visualise "the Government behind the Bank," as in the Premiers' Conference the picture is "the Bank behind the Government. Finally, while growers had always consistently opposed any form of government control or fixation of prices, any relapse in prices would constitute a national calamity demanding exceptional measures. The Report recommended the establishment of a wool executive representative of the industry, to take prompt and effective measures should the occasion arise, and the Government should take power, at the request of the Committee, to prohibit the exportation of wool except on conditions as to minimum reserve price. Should it be necessary to secure financial provision in order to hold over

The Federal Chronicle

wool, the executive should confer with the Commonwealth Government for the purpose of securing funds.

None of the delicacy and reticences which mark the Report of the Wool Inquiry Committee are to be found in the political agitations in or outside Parliament, of the Country party or of producers' leagues. "Writing down" and "writing off" taste sweet in the mouth of the debtor, and government debtors in particular have faith that words may be turned into works. Many of them do not await political action: they practise various forms of resistance, and an "utter disregard" of the "ordinary principles of business probity" by settlers, prompts the Victorian Closer Settlement Board to demand independence from political control as an essential condition of carrying on. The easier conditions of government debtors stimulate other debtors to seek the same haven; the transfer of producers' mortgages to government, against the issue of government securities, is a happy thought for satisfying creditors and debtors alike. It has not yet commended itself to any government. Granting the wisdom or necessity of the temporary measures of emergency relief provided by parliaments for mortgagors at the expense of creditors, there has been no change of conditions to warrant their abandonment. But their extension in time and scope involves Parliament in a game of consequences without rules. "Oh, what a tangled web we weave, when first we venture to relieve," was the reflection of a worried Attorney-General in Victoria smarting under the attacks of Government supporters. *Les dieux ont soif*, and in the celebration of sacrifice there is some confusion of gods and victims: strange beings array themselves in godlike vestments and crowd on Olympus. The general hopefulness that "Parliament will do something" makes it increasingly difficult to distinguish between inability and unwillingness to pay, and the demand for relief which shall neither be delayed nor be of such a nature as to wound the self-respect of the debtor

Australia

by impertinent inquiry, makes it hard to make of the measures anything like a "business proposition" which may serve as a means of strengthening the economic structure. The position provides embarrassment for governments with an awareness of ulterior effects. In New South Wales, the Government has met it from Labour in the Legislative Council; in South Australia, the former sympathies of an anti-Labour Opposition in one instance drove the Labour Government to threaten resignation on an attempt to overturn a judgment of the Supreme Court in a particular case. In Victoria, a Government, with a large majority over Labour in an Assembly elected a few months ago, had to submit to seeing the business of the House taken out of its hands on the Financial Emergency (Mortgages) Bill, with the result that a chain of irresponsible and uncoordinated amendments provoked a memorandum from the parliamentary draughtsman reporting that the position could not be cured by drafting skill, since it resulted as much from the clash of principles as from the confusion of words, and that the passing of the Bill as it stood might result in something approaching legislative chaos.

Some of the economic results are already apparent, and the cheapness of money mocks those who have need of it, but whose credit is being destroyed by their own action. The sources of money for mortgages on land are dried up, with an ultimate effect on the land values which that money sustains. Investment generally will find its own course; trustees no doubt are embarrassed—government securities alone remain for them. It is one of the ironies of to-day that the restricted area of trustee investments tends to be regarded from the standpoint less of the protection of beneficiaries than of the needs of borrowers.

The path of governments in other respects has been hard. The general recognition of the need for economy does not stay the claim for special consideration of deserving objects of expenditure, nor the need for balancing budgets

The Federal Chronicle

prevent resistance to specific taxation proposals. Some of the disorders of our affairs it is sought to cure by further resort to independent and non-political boards on matters in which political pressure distorts public administration to the impoverishment of the Exchequer; resistance is less on constitutional grounds than on appeals for an assurance of the "sympathetic consideration," which Ministerial discretion offers. Another characteristic of the day marks an inevitable departure from the traditions of constitutional government: a considerable part of the work of a Ministry is in reversing the measures of its predecessors both in legislation and administration; it is facilitated by the liberal devolution of powers to the Executive. Mr. Stevens has to undo the work of Mr. Lang, and Mr. Forgan Smith in Queensland is busy on the doings of Mr. Moore. Mr. Lang gives notice that when he returns to power he will not recognise the appointments of Mr. Stevens, who has displaced, for reasons that all the world may read, various appointees of Mr. Lang. But perhaps the trial may not come, for Mr. Lang is supposed to be thinking of Commonwealth rather than of State politics, and has his eye on Mr. Scullin rather than on Mr. Stevens. The completeness of our revolution may be seen when it is the *Sydney Bulletin* which proposes that democracy shall be protected against itself by constitutional conditions imposed on parliamentary borrowing, and declares that "what self-governing rights demand is that there shall be some authority (and what authority can it be except the Governor) which shall satisfy itself that a Government is in step with the people and which, if it cannot so satisfy itself, shall be required to send the Government to the people for their judgment."*

* The *Sydney Bulletin*, October 26, 1932.

Australia

II. THE POLITICAL PARTIES 'TO-DAY

AT the present time Labour is in power in South Australia and Queensland. But the Labour Government in South Australia is disowned by the Trades Hall, and the Premier, Mr. Hill, is excommunicated because he supports the Premiers' Plan. In Queensland the Government of Mr. Forgan Smith is virtually the nominee of that powerful but moderate union, the Australian Workers' Union. In the Commonwealth and the other four States the parties in power can only be described generically as non-Labour parties. In several States a party called the United Australia party comprises the elements opposed to Labour, but opposition to Labour is their chief bond of union. Radicals, individualists, conservatives, protectionists, free-traders and ex-Labour men dissatisfied with the forces which at present sway the Labour party are united in a single party, but not in sentiment and ideas.

The powerful country interests have always been particularly opposed to tariff extremism and to the industrial privileges fought for by the Labour unions; in their attitude to many social questions indeed they are the most conservative of the three parties. For a considerable number of years groups were formed by country members inside the Liberal and non-Labour parties, but for various reasons they have separated from them and organised themselves on the basis of class interest, seeking to secure their own point of view by dissociating themselves from the other parties, and by giving support to either of them in return for benefits received. This attitude has compelled the adoption of a new form of Ministry—the composite Ministry. The anti-Labour groups retain their separate allegiance to their own party organisations and go to the polls as separate parties; their members support the same Ministry in the House, and oppose one another at the polls.

The Political Parties To-day

This grouping of parties may be briefly described as the organisation of two "interests" for political purposes against the rest of the community. The agrarians and the Labour party each stand for homogeneous interests; and political experience usually shows that in either case a direct single-minded influence is paramount. In Australia the large preponderance of voting power which is apparently possessed by the other sections of the community is too often defeated by the parties which have a particular economic bias, a result which is assisted by the fact that the Labour vote in country districts is usually cast against the United Australia party, and agrarians very often depend upon it at elections.

All parties would probably resent this summary of the position. The Country party considers that in a country like Australia rural interests should prevail and secure political recognition above all others. Labour not only relies on the superior claim of the less fortunate classes; it also suggests that it has, in socialism, the only existing political scheme for reorganising society on an ethical basis. The United Australia party disclaims toryism and points to a century of progress under the stimulus of liberal ideas; it stands for constitutional government after the classical tradition which it considers to be threatened by parties with a solely material basis. Adverse party criticism, of course, puts these claims in another light. Both the other parties see the influence of the tory capitalist, the exploiter of the primary producer as well as of the worker, behind the United Australia party. The liberal suggests that the political demands of the man on the land are essentially parochial, the most obstinate impediment to financial reconstruction. The traditional expenditure on public works—"Roads and Bridges"—no longer satisfies him. He uses his power to exact all sorts of help from the State, assistance in marketing, the repair of misfortunes due to the act of God, whether by drought, fire, or flood, and even direct financial advances.

Australia

Few politicians of any experience are afraid of the Labour party attempting to put Marxian socialism into operation. They do, however, believe that there is a serious danger of domination by the Labour machine in the interests of a class. Such domination would be purely dynamic; it would support no spiritual or ideological system, and it would bring about no social reconstruction. Labour would exercise irresponsible control by seizing the administrative machine and establishing a kind of Labour fascism or bolshevism, which would transfer to members of the party the power and privileges once possessed by the old ruling or capitalist classes; the rank and file would have the satisfaction of seeing their own class in the ascendant. After the changes that have taken place in the intimate structure of modern society, there is no doubt that the Labour form of organisation, the psychology of the workers, and the peculiar appeal of solidarity make such a dictatorship quite a possibility. The position attained by Mr. Lang, and his retention of the loyalty of nearly half the electorate after a wholly irrational and destructive term of power, are strong evidence in support of this view.

The truth is that the State in modern times has abandoned its old *laissez faire* attitude in response to the claim that it should secure social amenities and protection for the weak. This done, it found that considerations of a material character exercise a far more potent influence than sentiment or justice. The parties group themselves round "interests," and the two interests most easily organised are those of the worker and the primary producer. They alone are positive in their objective and aggressive in their political methods, and so they dominate the political scene. Of the two, Labour is easily the most powerful. Its leaders show far more political sense, and its contact with the daily life of the worker gives it a power of interpreting the feelings of the masses which, to the intellectual, seem quite inarticulate. It preaches class-consciousness, rightly from its own point of view, because a class-conscious

The Political Parties To-day

proletariat is almost impossible to defeat. The power of the agrarians is limited by the fact that they have no representation in the towns. In the country they are more powerful than the United Australia party except when a wave of feeling against Labour is sweeping through the constituencies. On such occasions the Australia party reaps the benefit. Thus the political power of the agrarian party can never become complete without the assistance of other parties. In a very real sense it has power without responsibility.

It would, of course, be absurd to suggest that the non-Labour sections of which the United Australia party is composed are not inspired by material as well as other considerations. Conservatism, capital, land, wool, finance, commerce—all of them "interests" in the traditional sense—do stand behind the party. But these sections have little common ground; their objectives are diverse, and they have practically no organisation. More important, they are always on the defensive. It pays the Labour and Country parties to talk of the money power, of "Flinders Lane" or "Pitt Street," though as political influences they hardly exist. Wealth is indeed a handicap in Australian politics, and the elements we have just mentioned—all important in the Australian economic system—are very scantily represented on legislative bodies and have little influence on political decisions. This too produces a lack of responsibility and a distressing absence of public spirit.

It is a bad thing for financial leadership to be thus divorced from political leadership. The conservative sections are willing to make big concessions on matters of policy as long as financial control is not taken from them. They throw open the non-Labour leadership to the leaders of the more radical parties, men with a wide popular appeal, in the hope of detaching support from the extremists. This has been done for years in Victoria, where we find the fierce challenger of the financial interests of one decade holding back the challenger of the next—

Australia

McCulloch in the 'sixties and 'seventies, Graham Berry in the 'seventies and 'eighties, Deakin in the 'eighties and 'nineties, Turner in the 'nineties and the next decade, and, in New South Wales, Hughes in the pre-war and post-war decades, are all illustrations of this principle. The Liberal leader always leads a miscellaneous band whose main bond of union is that they are less extreme than the dominant Labour leaders and not so sectional as the agrarians.

With the surrender to State socialism, politics in Australia have changed from a conflict of sentiments and ideas to a conflict of interests. The manifold economic and financial issues that arise in connection with the formulation of policy for State business, and intricate problems of administration, complicate every political development, and furnish occasions for attack and intrigue, for opportunism of the most destructive type, and for a ruinous parochialism. Each party must orient its policy towards the major questions which affect the State services, cater for State servants and State customers, and assuage taxpayers as best it may. Responsible government, which alone can integrate the forces capable of enabling the community to exercise its common will, tends to be destroyed.

The manufacturing interest which has grown up round the Australian tariff operates in an erratic way in this field. It is naturally aggressive, the Australian tariff is all the time fighting against nature, and the majority of manufacturers are engaged in a struggle for their economic existence, of which the tariff is a condition. Being capitalists, they are naturally opposed to Labour's industrial and socialist policy, and are thus found voting with the non-Labour parties. But the Labour parties are now more fanatically protectionist than any other section of the community; Labour Ministers of Customs forgive the capitalism of manufacturers who support extreme tariffs, and give them an exceptionally good deal. In return Labour, even when led by Mr. Lang, has raised large contributions from manufacturing groups. The policy of the manufacturer is

The Political Parties To-day

to a great extent determined by the numerous small industrial units which the tariff has called into existence, and which form the majority in chambers of manufacturers. Labour policy aims more and more at attaining class domination and monopoly through such devices as a preference in everything to unionists or resistance to the awards of wage tribunals. The concessions that struggling manufacturing groups are prepared to make in return for tariff advantages are exceedingly embarrassing to non-Labour leaders.

The Nationalist and United Australia parties lack then the solid support of a united section of the community with a great tradition and consistent philosophy, like the two older parties in Great Britain, the Conservatives and Liberals. They are usually led by a man with radical tendencies and popular appeal, who finds that his radicalism has gone far enough and wishes to oppose the more extreme elements with which he has been associated. His followers are bound together by no particular creed; they are there because politically they stand on his right, and he finds the support of the more conservative of the sections that he leads sullen and grudging. They disclaim responsibility and regard the constitution of the party as only one step better than socialism. They smart under discriminatory taxation, and the legislation which penalises the great financial interests and landed industry, and they are debarred by the temper of the electorate from actually taking part in public affairs. There are signs indeed of a conservative renaissance. Mr. Menzies, K.C., the deputy Premier of Victoria, one of the ablest young men who have entered politics since the war, frankly calls himself a conservative, and he has a body of enthusiastic followers called the Young Nationalists. But the overmastering parochialism of the country parties and the pressure of aggressive vested interests associated with State activities make progress difficult for any political movement which follows the old tradition.

This diagnosis will explain a great deal that has happened

Australia

in the last two years. Mr. Lang's regime in New South Wales was purely irrational and irresponsible, only to be explained as an attempt to destroy the economic fabric. His methods threatened and frightened every interest in the community, and led to the political defeat of his party throughout Australia. But though some of the more moderate unions are strongly against him they prefer to fight him inside the party, and the solidarity of the Labour party has not been sensibly impaired. It never has sufficient strength to carry an election unaided, and if its casual supporters vote against it it is always defeated. Nevertheless, the solid block of political power that the Labour party represents is always the strongest single force in politics, though better able to realise its policy in opposition than in office. When the difficulties which the heterogeneous character of the followers of the United Australia party involves are considered, the innate strength of Labour can easily be realised.

As a result of this conjunction of forces Mr. Hughes after the war succeeded in imposing a good deal of his State socialism upon Australia. Mr. Bruce was at first deceived by the prosperity induced by imports of borrowed capital, and when he (earlier than most) spoke the truth and tried to meet the coming change of fortune, he fell. The Labour Ministry which then took office was defeated by Langism. Mr. Lyons, the present Prime Minister, was a Labour leader, but he has not the aggressive temper of Mr. Hughes, and his genuine patriotism and tact make him an excellent chief for the mixed party which follows him. But immediately anything is done which cuts across an issue in which sectional interests are involved the troubles of the present Government begin. The Lyons Government came into office pledged to a more moderate tariff, but when they made a beginning by lowering tobacco duties of 500 per cent. they were attacked by the leader of the Country party for depriving a rural industry of protection, and when they attempt to honour the Ottawa Agreement they mobilise

The Political Parties To-day

an immense force of manufacturers and workers against them. They are now indeed in danger of protectionist defections on the one side, and an attack from the agrarians for not lowering the tariff still further on the other. At the same time the effort to secure economy in public expenditure is always hampered by an interest which is more solid than any other in Australia, the public service.

In New South Wales, Mr. Stevens, a leader of great ability, is struggling with a problem of extraordinary difficulty. In Victoria, the position of the strongest Cabinet the State has had for years is at present weakened to an exceptional degree by defections. The Government has to choose between treating important clauses in Bills before the House as not vital—a humiliating course—and sacrificing the only combination which is likely to face the problems that confront the State. In South Australia, the Premier, Mr. Hill, disowned by his own Trades Hall, is almost certain to be defeated in his electorate when he goes to the polls next year. In Western Australia, all parties are at one in their condemnation of the federal tariff policy, and there is a powerful secession movement; in a young State of this kind such grievances all tend to discourage economy. It will thus be seen that a difficult party complex, combined with unparalleled economic difficulties, makes the parliamentary machine work badly in Australia, and in a country so deeply committed to State socialism the effects of political inefficiency are more serious than they would be under a more individualistic system. On the other hand, the control of the State has enabled reconstruction schemes of great importance to be carried out, and the difficulties that face Australia to-day are probably less than those which confront most other countries.

Australia.

December 21, 1932.

SOUTH AFRICA

I. THE POLITICAL SITUATION

THE political situation here since our last survey in the September number has undergone a sudden and dramatic change. At that time, notwithstanding the prevailing distress in the country and a rising tide of criticism of the gold standard policy of the Government, nothing had occurred to shake the confidence of Ministers in the loyalty of their parliamentary supporters, or in their hold on the party in the country. Indeed, the result of the by-election at Colesberg had gone far to confirm that confidence and to discourage the hopes of the South African party that the popular tide had at last turned in their favour. The results of the Ottawa Conference were well received by both parties, and general approval was expressed of the manner in which the Minister of Finance, Mr. Havenga, had acquitted himself at the Conference as leader of the South African delegation. It had been expected in some quarters that the return of Ministers from the Conference would lead to some modification of the Government's policy as regards our remaining on the gold standard. That, however, was quickly dispelled by reiterated declarations of the Prime Minister and the Minister of Finance. The Prime Minister emphatically stated that neither he nor any of his colleagues would be responsible for such a step.

At the same time the feelings of many people throughout the country, more especially among the British section, were seriously perturbed by certain speeches of the Prime Minister, which were understood as meaning that he regarded the recent political movements as indicative of a

The Political Situation

general attack on the Afrikaans language and people, and that the next election would be the occasion of a bitter racial conflict. A counter agitation sprang up in certain centres, criticising the South African party for its alleged laxity in defending British interests and threatening the formation of political or semi-political organisations on strictly racial lines. Disclaimers and explanations have to some extent relieved the tension, but reference is made here to the accentuation of racial feelings as contributing to the further developments which will be recorded below.

The division in the South African party in Natal, which was described in the September issue,* would appear to have been definitely averted by the skilful handling of the situation by General Smuts. At a congress of the Natal section of the party in September, he definitely laid it down that, while he and the party were prepared to go far in extending the powers of Provincial Councils on federal lines, he would not agree to modify the basic principle of the Act of Union—the unlimited supremacy of the Union Parliament. Whatever extension of powers Provincial Councils might desire, must therefore be sought within the four corners of the South Africa Act. With this the parliamentary representatives of the party, with two or three dissentients, professed themselves to be satisfied. At a general congress of the party held at Bloemfontein in December this statement of policy was endorsed with acclamation, and no dissentient voice was raised. To all outward appearance, therefore, the party ranks are closed again. The so-called Devolution League in Natal still pursues a somewhat distracted course, but is unlikely to be a source of political trouble.

By this time, however, the result of a by-election at Germiston had brought a remarkable change in the political scene. The vacancy at Germiston was caused by the death of Mr. George Brown, who was a prominent member of the Labour party when it formed what was known as

* THE ROUND TABLE, No. 88, September 1932, p. 896.

South Africa

the Pact with the Nationalist party in 1924. He won the seat then and held it at the 1929 election by an increased majority of 877 in an electorate numbering round about 3,000. When a section of the Labour party broke away from the leadership of Colonel Creswell and declared its independence of the Government party, Mr. Brown at first remained as a follower of Colonel Creswell, but towards the close of the last parliamentary session, he joined the other section. In the recent by-election five candidates went to the poll. Besides the Nationalist, South African party and Labour candidates, two others came forward, representing independent groups which have sprung up in opposition to the Government. As, however, the two independent candidates with the Labour candidate only polled between them 216 votes, the election was, in the result, a straight contest between the Nationalist and South African parties. The electorate in the meantime had been very largely increased owing in part to the growth of the constituency since the last delimitation, but mostly to the inclusion for the first time of women on the voters' roll. The result was a poll of 4,257 for the South African party candidate, as against 3,076 for the Nationalist. Shortly afterwards, at a by-election for the Provincial Council at Roodepoort, one of the divisions of the Witwatersrand, which had been held for the South African party at the previous election by a precarious majority, the South African party candidate obtained a majority of 1,986 against a Nationalist party candidate. While these results were naturally acclaimed by the South African party as demonstrating that the tide of popular favour had set strongly in its direction, a more impartial survey of the situation led to the conclusion that they were anti-Government rather than pro-South African party victories. This aspect of the matter was quickly sensed by General Smuts, who, at the general congress of the party at Bloemfontein early in December, announced that his appeal to the people for a change of government was to be on a wider

The Political Situation

basis than that of party. He appealed more particularly to adherents of the Labour party, now reduced to impotence by its internal divisions; promised a comprehensive social and industrial programme and urged co-operation among citizens of good will, regardless of past party affinities, with a view to obtaining a Government of national as against racial and sectional outlook. An immediate response was the issue of a statement by nine prominent members of the Labour party, headed by Mr. Morris Kentridge, M.P., announcing their adhesion to the South African party. This undoubtedly gave a marked stimulus to the growing desire throughout the country for a change of government, not merely by a transfer of power from one of the existing parties to another, but by the coming together of men of all parties to form what is vaguely called a national Government.

This was the moment which brought back to the political arena Mr. Tielman Roos. Mr. Roos, it will be remembered, was Minister of Justice in the Nationalist Government which took office in 1924. He was leader of the party in the Transvaal, and was generally regarded as second in authority in the Ministry. A breakdown in health (and, according to the political gossip of the day, inharmonious relations with some of his colleagues) led to his resignation, and in 1929 he was appointed to the Bench of the Appellate Division of the Supreme Court. It has been a matter of public notoriety that his transfer to the judiciary only suspended and did not oust his interest in politics. An early return to the active field of politics has from time to time been anticipated by the public and urged upon him by his friends. On December 16, at one of the Dingaan's Day celebrations, he announced his early return, and a few days later he resigned his judicial office and came forward as the leader of a movement for a national Government on non-racial lines, and for a devaluation of the currency. The effect on our financial policy was immediate. The flight from the gold pound which has been going on with

South Africa

varying intensity since the abandonment of the gold standard by England assumed such dimensions that on December 28 the Government, by ministerial decree in the form of a statutory regulation by the Governor-General, relieved the Reserve Bank from the obligation to redeem its notes in gold and thereby terminated our gold currency standard.

Politically the impetus given by Mr. Roos's reappearance to the movement for a national Government took two directions. In some quarters it revived the desire for a *rapprochement* of the two official parties. Others looked to Mr. Roos to break down the barriers of party allegiance, and to draw from both parties sufficient support to enable him to form what was vaguely termed a coalition Government. General Hertzog in the name of the Nationalist party at once denounced Mr. Roos's move as an act of treason to the party. He has also made it clear that he will have nothing to do with any proposal for co-operation with the South African party. So far only two or three of the Government supporters in the House of Assembly have openly declared allegiance to Mr. Roos and, except for his own assertions, there is nothing to indicate a defection from the Nationalist ranks in Parliament on such a scale as to cause the defeat of the Government. The South African party declared its willingness to co-operate with Mr. Roos on the basis of his being able to carry with him sufficient numbers of the Nationalist party to constitute a workable coalition Government. Negotiations followed but broke down. Mr. Roos, with an undeclared hand as regards the number of his parliamentary supporters or the policy to be followed by the new combination, insisted on control of the new Ministry being vested in the Nationalist elements who might follow him. To this the South African party negotiators, who were representing their party as a whole, could not agree.

What will next emerge from the present nebulous situation it is difficult to surmise. Mr. Roos must do one of two

The Political Situation

things: either bring himself into line with the main body of the Nationalist party—to which he has throughout declared his adherence—or form a third party in opposition to the other two. The question of immediate importance is whether his followers in the House—he himself of course is not a member—will join the South African party in an attack on the Government, and if so whether enough of them will vote against the Government to bring it down. On neither of these points is there as yet any certainty.* The Government position itself is by no means assured. The Prime Minister has repeatedly and emphatically declared that his Government would not remain in office if South Africa abandoned the gold standard. Merely to ignore these pledges will undoubtedly mean loss of prestige and exposure to damaging attacks. On the other hand, if they can avoid defeat in the House, there are certain considerations which may tempt them to carry on till next year when the present Parliament expires. The departure from the gold standard has brought our currency in exchange value to within a few points of sterling and in consequence the gold-mining industry is now receiving a large premium in South African currency on the sale of its gold. On an annual output of about £45 millions in gold pounds, this premium, at present rates, will amount to about £13 millions. Even if the Government does not impose a special tax on this source of profit (as they are fairly certain to do), the enhanced receipts from the income tax and mining leases will produce a marked improvement in the budget position, and with additional taxation on the gold premium they could look forward to a useful surplus. They have already informed the civil service that the recent salary "cuts" will be restored on April 1 next. Whether

* A motion by General Smuts that the Government should resign and make way for a National Government was defeated on February 1, the voting following normal party lines. Mr. Roos's followers voted with the Nationalists. At the present moment the news from South Africa, if there is to be a coalition, points in the direction of one between the Nationalist party and the South African party.

South Africa

they will remain in office till next year and go to the country on the strength of a financial rehabilitation or dissolve Parliament this year before Mr. Roos has time to organise a militant Opposition—if indeed that is his intention—it is too early yet to predict.

II. THE OTTAWA AGREEMENTS

TWO more or less distinct policies have run through the sequence of Colonial and Imperial Conferences. The British Government has tended to stress the ideas of common defence and closer political machinery, an imperial council in the palmy days of the "New Imperialism," or a permanent secretariat or preparatory commission in the post-war Commonwealth era. The Dominions, on the other hand—and this is not to lose sight of the preferences they have given to United Kingdom goods from time to time—have, to put it bluntly, set their hearts on getting in on the ground floor of the British home market and at the same time warding off British competition from their own nascent secondary industries.

South Africans remember that it was Jan Hofmeyr, a South African, who, at the first Conference of 1887, and again at Ottawa in 1894, with the warm support of Rhodes, the federalist Home Ruler, tried to unite the two policies by proposing the imposition of small extra duties on foreign goods at all imperial ports of entry whose proceeds should go towards the upkeep of the royal navy. Nothing came of the scheme, and except during what may be called the "wind-up period" from 1911-14, South Africa's delegates, of whatever political complexion, hankered openly after preferences and resisted all centripetal political proposals. Protectionists almost to a man, South Africans, whether of British or of Afrikaner stock, have watched with hopeful approval the growing power of the protection preference forces in Great Britain. They accepted the

The Ottawa Agreements

preferences on wine and sugar and fruit of 1924 as the welcome earnest of greater things to come; they hailed the Conservative landslide of 1931 in the Old Country, just before the assembling of the Ottawa Economic Conference, as the promise that these greater things were coming at last.

There was need for great things. The Union's approach to Ottawa must be seen against a dark background. Here was a small European community uneasily balanced upon the back of a comparatively large black proletariat, clinging in something like isolation to the rock of the gold standard, with its money pouring overseas and business going dead, its balance of trade becoming more "favourable" monthly by dint of a headlong fall of imports which outran the steady fall of heavily subsidised exports. To a community in such a state Ottawa shone full of promise in the golden west.

Not all South Africans, however, looked forward to the Conference with enthusiasm. True, imperial sentiment appealed strongly to many of General Smuts's followers in the South African party, and even where sentiment counted for little there was a desire to make a deal with what was after all far and away the most friendly of the great Powers, and one with a vast dependent empire. On the other hand, some of the Nationalists definitely hated the Empire, Commonwealth, call it what you please, while others were deeply suspicious of any imperial entanglement. The extravagances of the Empire Crusaders had alarmed these men; they feared that they might somehow be manoeuvred into a pan-British economic kraal. To them the Union's commercial treaty of 1928 with Germany had appeared not only as a good stroke of business, but also as an assertion of economic autarchy and an anti-imperial gesture. That treaty gave Germany most-favoured-nation treatment, and then stood in the way of special preferences to Empire products in Union markets. Yet as recently as February

South Africa

1932, when this point was raised in the House of Assembly, the Government declined to hear of its modification.

Nevertheless, even the most ardent South African Sinn Feiner had to admit that it was to the Union's interest to come to terms with Great Britain, and possibly with other Dominions. General Hertzog had hinted as much after the Imperial Conference of 1930. He had, of course, taken up a stiff particularist attitude, but he had admitted frankly that existing voluntary mutual preferences were precarious, and that what he looked for was fair bargaining in the future which would stabilise preferences "for periods sufficiently lengthy to create confidence." By the middle of 1932 that need was imperative. Thanks to their divergent currencies, the Union and the Rhodesias were drifting apart economically; Canada had put an almost prohibitive anti-dumping duty on subsidised Union maize; above all, everyone knew that Great Britain's adoption of protection had revolutionised the situation. Of late years Great Britain's tone at Imperial Conferences had altered somewhat. There was less of the kindly but harassed father talking with exigent sons, and more of one partner talking friendly but quite definite business with other partners. Now, protectionist Great Britain had given notice that, in default of agreement, existing preferences would disappear in November 1932. That would have been a very grave matter for the Union. In 1931 South Africa ranked fourth among the national purchasers of British goods, taking as she had done for ten years past more than the Argentine, but, on the other hand, excluding gold and including re-exports, over 70 per cent. of her exports in that year had gone to England as contrasted with Australia's 45 per cent. and Canada's 31 per cent. Every year, too, she was, like Australia, becoming more dependent on her export trade.

As the date fixed for the Conference drew nearer, expectations rose higher, sometimes to extravagant heights, when otherwise sober business men could wax lyrical

The Ottawa Agreements

at being on "the threshold of a new economic era, of a complete recasting of economic theories." Mr. N. C. Havenga, Minister of Finance and leader of our delegation to Ottawa, took an early opportunity to dispel any such ideas. To him Lausanne meant much more than Ottawa. "It would be folly," he said in words reminiscent of Smuts's warning long ago that the ills of the post-war world were psychological more than anything else, "to imagine that Ottawa, in itself and by itself, can achieve the impossible—the restoration of economic health to a world in which old habits of thought . . . still prevail."

It was in a mood of cautious optimism, therefore, that the mixed public of the Union saw its delegation sail. Three Ministers went: Mr. Havenga (Finance), Mr. P. Grobler (Lands) and Mr. A. P. J. Fourie (Mines and Industries), with a full tale of official advisers and secretaries. There went also a large unofficial delegation wisely chosen without regard to national antecedents or political affiliations, representing the Chambers of Mines, Commerce, and Industries, the wine and fruit interests, the South African Agricultural Union, and the Federated Farmers' Co-operative Association. Last, but not least, went the editor of the *Cape Times*, thanks to whose special reports the proceedings at Ottawa held their own as first-class items of public interest in spite of the hot competition of two long-drawn-out murder trials, the *sequelæ* of the tar-and-feathering of a too outspoken university lecturer by young Transvaal hotheads, and a furious by-election at Colesberg.

Of the doings of our delegates at Ottawa it is sufficient to record only two facts, and, in the lurid light of our day-to-day local politics, it is pleasant to be able to record them. The salt sea breezes, the kindly mists of London, and the keen air of the Ottawa plateau dispelled old party and so-called racial feuds; the relations between officials and non-officials were so close and cordial that the Union delegation earned the title of the happy family of the

South Africa

Conference. Secondly, Mr. Havenga maintained the Union's reputation of always having at least one big man to send to conferences, or at any rate a man who on that wider platform and in a larger air can rise far above the level of the workaday party politician. He was definitely one of the Conference's successes. As chairman of the Foreign Relations Committee he probably set up a record by getting through the work in twenty minutes, though it must be confessed that that was easier than it sounds, since the Committee agreed that there should be no common policy, but that each State should be free to formulate its own policy towards "lesser breeds without the law." For the rest, he set a good and, it has been whispered, a needed example of reticence outside the council chamber, while within it he always showed himself clear-headed and moderate. Before sailing he had outlined his policy: no ring fences, freedom to trade without as well as within the Commonwealth, no fostering of obviously unsound secondary industries, and an attempt to make a start with the lowering of world tariffs. He stuck to that policy throughout, and thus came nearest perhaps of all the Dominion leaders to the British standpoint. Maybe that was one reason why he and his companions came away from Ottawa better pleased than most of their compeers.

After the conclusion of the Conference our ministerial delegates proceeded to Washington and New York, and then went their several ways: Mr. Grobler to California, where our fruit-growers had gone to school in the early days; Mr. Fourie to Europe, whose markets had always been in the minds of our delegates even in the more enthusiastic moments at Ottawa; and Mr. Havenga to London and so home. There, in the middle of the Orange Free State, where such an admission means more than it would elsewhere, Mr. Havenga generously expressed his appreciation of the way in which the British "went out of their way to help Dominion producers, at times even at the cost of extra burdens upon their own people."

The Ottawa Agreements

Altogether, as one of our unofficial delegates put it, Ottawa had been a good beginning of "a great experiment . . . all that a wise man could expect."

Like everyone else, the people of the Union were left some time in expectation. Certain facts were, however, known at the close of the Conference. Nationalists naturally hailed the rather colourless report of the Monetary Committee to the effect, *inter alia*, that steps should be taken to avert wild fluctuations in the gold value of sterling as an endorsement of their policy of adhering to the gold standard; their opponents suggested that the Committee's preoccupation, like that of the pre-war world, had been with sterling and not with gold *per se*. Be that as it may, this particular dispute is now of only academic importance, as in the middle of December the Union slid off the gold standard and within a month had sunk to the level of sterling. Secondly, it was known that the Union had joined with the Irish Free State in declining to hear of a permanent secretariat or preparatory commission which should carry on in the intervals between conferences, and had also refused to promise financial aid to even the most modest Commonwealth organisation. Lastly, it was announced that South Africa had not followed Canada, Australia and New Zealand in offering to British industry the right to complain to a special Board against alleged unfair tariffs. That, the Union representatives held, was a breach in the defences of Dominion autonomy and probably unworkable withal. On the latter head at least they were probably right. Already we have tidings of difficulties in Australia, and still more in Canada, whose Government insists that only His Majesty's Government may lodge complaints, with all the risk of inter-governmental friction, and not individuals or groups of manufacturers, which surely must have been the idea at Ottawa.

Immediately after the close of the Conference two important steps were taken. Canada removed her anti-dumping duties on Union maize, until 1934 at all events, provided that it is imported at the ruling world price, by which time

South Africa

Union farmers may have to choose between the present 10 per cent. export subsidy and the restriction once more of their Canadian market. For the moment the gain to the Union is considerable. A few weeks later, in October, section 8 of the Union-German treaty was modified by a friendly interchange of Notes, so that South Africa was relieved from the necessity of giving the Reich the privileges of Ottawa under the most-favoured-nations clause. For a moment hopes ran high in Berlin commercial circles that German goods would still rank with goods from the United Kingdom. The mistake arose from the ambiguity of the word "Dominion," the hopeful German distinguishing between post-war Dominions and the United Kingdom. But once it was explained that the United Kingdom is still part of His Majesty's dominions, to which alone reference was made in the revised clause, the difficulty vanished and Berlin got down to business.

Details of the Union's bargains with Great Britain and with Canada were published in the middle of October. The changed rates of duties came into force at once, subject to ratification by Parliament, which is to meet on January 20. The ministerial view of the negotiations as a whole has since been well expressed by Mr. Havenga.

The Conference (he wrote) has perhaps greater significance for the Union than for any other member of the Commonwealth of Nations. It marks the close of an era and the justification of those constitutional changes which commenced in 1926 and for which the Union of South Africa was largely responsible. It is the refutation of those doctrinaire theorists who advocated a federal Empire and could not visualise co-operation except in an atmosphere of dominance and compulsion. When the Dominions obtained their charter as independent States freely associated with Great Britain, owing with her common allegiance to the Crown, and bound by no ties other than the will to co-operate, they doubted the wisdom of that policy and the existence of such a desire, Ottawa has put these doubts at rest. . . . The negotiations were not characterised by a spirit of meticulous bargaining, a balancing of consideration against consideration. . . .

That was certainly true of the negotiations between South Africa and Great Britain. Even those who would

The Ottawa Agreements

question the historical accuracy of Mr. Havenga's description of the genesis of Dominion status will not grudge him this fanfare on the Nationalist trumpet for the sake of the cordial note of co-operation on which he ends.

What, then, did the Union get? It did not get all that its delegates asked for, but who ever did that? Mr. Havenga admits that he would have wished for a greater preference upon tobacco but was well satisfied with a long term of stabilisation; he supported Australia in an attempt to get rid of the £1 per ton preference which Britain gives to colonial over Dominion sugar, but in the end cheerfully agreed to view that as a grant-in-aid to hard-pressed dependencies; finally, he supported Australia, again up to a point, in her fierce efforts to get a preferential duty on meat, and not merely the quota which His Majesty's Government proposed. But Australia's concern was with frozen meat and the Union's with chilled meat. Second thoughts showed Mr. Havenga that the quota really suited South Africa better than a duty which would still leave the chilled meat trade with England in the hands of the powerful South American interests, with whose pastures the Union could not hope to compete. As it is, the Union will be able to dispose of all its surplus sheep and lambs next year (and, unlike some of its beef, South African mutton is good), while Great Britain has promised to help it to market chilled beef also.

The Union's preferential gains are as follows: Substantial preferences on eggs, poultry, butter, cheese and other milk products are to stand for three years, on nearly all the other enumerated articles for five, and on tobacco for ten. What is more, His Majesty's Government "will invite the Governments of the non-self-governing Colonies and Protectorates to accord to the Union . . . any preference which may for the time being be accorded to any other part of the British Empire." Union products such as wine, sugar, tobacco and dried fruits, which enjoyed preferences before Ottawa, will, of course, continue to enjoy them, with marked increases in favour of light wines and dried fruits.

South Africa

There is to be a 10 per cent. preference over foreign imports such as maize, wattle bark, asbestos, whale products, goat-skins, tinned crayfish (which passes well as lobster), fresh hake, kaffir corn, ground nuts, fruit juices, boxwood, potatoes, sausage casings, ostrich feathers, and oyster shell grit. Unwrought copper is to have an advantage of 2d. per lb. provided it is sold at the ruling world price. Fruit has done particularly well. Pears and apples are to have an all-the-year-round preference; other fresh fruit, and in especial citrus, are to have very liberal seasonal preferences. "The position in regard to citrus," Mr. Havenga told a Bloemfontein audience, "is that for a certain period of the year . . . we shall have sole control of the British markets. You will readily appreciate what that means." Others seem to have appreciated it already; at any rate we have news of protests by the British Federation of Fruit Traders and the Palestinian citrus growers. "But things like that, you know, must be. . . ." A great many new citrus trees will be in bearing in the Union four years hence.

What does the Union give in exchange for all these advantages which promise to be of immediate value and of much greater future value in the event of world recovery? Mr. Havenga has been at pains to explain to anxious Free State inquirers that it is not overmuch. The Union delegates had insisted throughout that concessions to British manufacturers were not to be such as would raise prices in the Union, that South African industries were not to suffer, and that there must be no taking away of trade from foreign peoples who were good customers to the Union. Existing preferences to British goods are to be maintained, and even increased for certain lines of iron, steel and machinery; new preferences are to be granted on cranes, conveyors, locomotives, vacuum cleaners, sprayers, tractors, typewriters, radio apparatus, belting, bands, garden hose, canvas and rubber shoes; minimum specific duties are to be levied on certain very cheap lines of textiles, in return, presumably, for the run of England's

The Departure from the Gold Standard

dependent Empire; a preference is to be given to raw coffee and asphalt coming from certain non-self-governing colonies. "The concessions we have made," Mr. Havenga announces, "represent only a small portion of our trade, and will have but the slightest effect on the other countries with which we carry on business."

The Union's bargain with Canada is in the main a complicated interchange of tariff concessions on specified articles. The main gain for the Union is the removal of the practical embargo on her maize, but her exporters look also to good openings for citrus, dried fruit, canned pineapples, and wine. Especially, perhaps, wine. For two years past South African wines have been "listed," *i.e.*, importable, into Canada's western provinces; now they are to be listed for the more populous provinces of the east as well. And adjacent to the east lie the greatest and most thirsty centres of population in the United States, which is apparently on the point of going "wet" once more.

Altogether, the Union delegates have every reason to be quietly pleased with the result of their labours. It will, however, be difficult to judge just how far South Africa may benefit from the Ottawa decisions by reason of the complications introduced by our recent sudden abandonment of the gold standard. Meanwhile, in the intervals of watching the prices of overseas goods mounting in our shop windows, we can spare time for admiring glances at Mr. Bennett's efforts to make wholesale barter transactions between Canada and Russia square with his Conference crusade against the unspeakable Muscovite.

III. THE DEPARTURE FROM THE GOLD STANDARD

ON December 27, 1932, the Union Government abandoned the principle of the convertibility of Reserve Bank notes and thus departed from the gold standard. The immediate cause, or at any rate the immediate occasion, of this development, as has been made

South Africa

clear on a previous page, was the announcement on December 22 of the resignation of Mr. Tielman Roos as Judge of the Appeal Court in order to lead a political crusade to save South Africa from the native peril, the evils of racialism, declining trade and tight money, by forming a coalition Government pledged to devaluation.

When the United Kingdom first left the gold standard in September, 1931, there was a considerable outflow of South African funds to Great Britain on the account of those who speculated either on a rise in sterling, or on the possibility of South African currency being either devaluated or pegged at parity with sterling. The highest estimate of the amount thus exported given "by responsible witnesses" to the Select Committee on the Gold Standard,* which signed its report on May 16, 1932, was £13 millions or £14 millions (South African). The Committee calculated that not more than £9 millions or £10 millions of cash resources were withdrawn from the Union. It is clear that the bulk of this was soon re-imported either in the form of South African obligations, met at favourable exchange rates, or in the form of goods. As the bankers' evidence showed that there was no sign of an undue contraction of credit in South Africa as a result, it is evident that apart from a few difficulties caused by an unusually large demand for exchange for a short period, South Africa had nothing to fear at that time, nor was there any question of South African capital being employed elsewhere until favourable opportunities for re-transfer occurred.

Following the publication of the Committee's report and the Government's declaration of its firm intention of remaining on the gold standard, the demand for sterling exchange slackened considerably. The announcement of Mr. Roos's plans, however, resulted in a second rush to secure sterling drafts. The Minister of Finance stated that, despite rationing of the provision of foreign exchange and tactics of delay, between £2 millions and £3 millions left

* S. C. 9 of 1932.

The Departure from the Gold Standard

the country within three days. To judge by statements of the Reserve Bank, the central institution seems to have been confident of its ability to meet the situation, but additional pressure was exerted through withdrawals of deposits from the commercial banks in order to present notes for payment in gold at the Reserve Bank. The Government therefore decided to intervene. The Christmas holidays provided a welcome breathing space, and the re-opening of the banks coincided with the suspension of the convertibility of Reserve Bank notes on December 27.

Once more there is evidence of great exaggeration of the scale of withdrawals. Statements are not at present available from the commercial banks, but the Reserve Bank statements make this clear. The three relevant statements are appended. From these it is obvious in the first place that there were no serious withdrawals of gold coin or bullion. The ratio of cash reserves to public liabilities never fell below 56·5 per cent., while the Government had previously taken powers to suspend the legal requirement of a 40 per cent. minimum. It is plain that the commercial banks were not so hard pressed as to have materially to reduce their deposits with the Reserve Bank; bankers' deposits even showed an increase during the week in which South Africa left gold, and there was little sign of a large-scale return of speculative money in the week following. The changes in deposits (other than bankers' deposits) do not indicate operations on any large scale through the Reserve Bank. Discounts of bills at the Reserve Bank also give no indication of much pressure on the commercial banks. There can be little doubt, therefore, that the movement of funds about Christmas was much smaller than has been suggested. That the Government should have abandoned gold in the face of this comparatively small "crisis," suggests either that there was a divergence of opinion in the Cabinet, or else that the threat of Mr. Roos gaining sufficient support to overthrow the Administration caused a Cabinet panic.

South Africa

The fears for the immediate stability of the currency that attacked economists apprehensive of the large amounts of speculative money abroad have been allayed by the demonstration of the Reserve Bank returns that speculation has not been on so considerable a scale as alleged. There have been no disastrously large re-entries of the heavy sums of money required for January payments, which were supposed to have been transferred to London towards the end of December as a quick speculation. After a few days of uneasy operations the banks seemed to be managing exchange business fairly comfortably with the South African pound at a few points premium over sterling. Time alone will show whether the fears of the Minister of Finance are justified that "there is a grave risk in a small country like South Africa with a small population, where a small section can exert strong political pressure, that if you once slip your anchor it will be practically impossible to stop what we call inflation."

The chief benefits from the departure from the gold standard accrue first of all to the gold-mining companies. The Gold Producers' Committee stated to the Select Committee on the Gold Standard that if South African currency were devalued 25 per cent., the additional income which would accrue to the mines working on the present scale would be £15,400,000, of which a maximum of approximately £3,200,000 would be swallowed up by increased costs, leaving a net gain of £12,200,000. The Gold Producers' Committee, however, averred that they did not intend to try to reap this immediate extra profit. They would instead prolong the life of the Rand by crushing lower grade ores and would embark on an ambitious scheme of capital development of low grade mines. As the mines are at present working to capacity, the number of ounces of gold produced would at first actually diminish on account of the utilisation of lower grade ores. The Select Committee found it hard to believe that the mines could carry out this policy in face of pressure from their shareholders

The Departure from the Gold Standard

to make the most of the gold premium while it lasted. This comes out very clearly in the examination of Professor Norval and of Mr. Gemmill and Mr. John Martin. Mr. Martin has, however, re-affirmed the decision to develop low grade mining in a statement made on behalf of the Gold Producers' Committee on January 11.

As it appears that the additional profits will accrue to the mines without any increase in the production of gold being envisaged, it follows that incomes will be redistributed more in favour of the gold mines. The policy of the Chamber of Mines pre-supposes that there will be no marked rise in costs over a long period of at least five years. It is plain that depreciation of the South African currency would not have the same effect on the terms of trade as the departure from gold in Great Britain, the world's largest market for goods entering into international commerce. Only the less well informed readers of the less well informed newspapers believed that there would be no rise in the prices of imported goods, and these have already been disabused by the orgy of marking up prices in which merchants and shopkeepers are indulging. Unless all costs are to rise commensurately, it follows that the chief sufferers, on balance, must be the wage earners and producers for their home market—in particular, as Professor Leslie of the University of Cape Town pointed out in his valuable evidence before the Select Committee on the Gold Standard, the large number of farmers who do not produce for export, our suppliers of maize and meat and wheat. It is, in the opinion of the writer of this section, by no means clear that the redistribution of wealth caused by departure from the gold standard is desirable—in fact, the indications point altogether in the contrary direction—and the political uncertainties which have ushered in the change cannot fail to add to our difficulties.

South Africa.

January 18, 1933.

South Africa

APPENDIX

	December 23, 1932.	December 30, 1932.	January 6, 1933.
LIABILITIES.	£	£	£
Capital	1,000,000	1,000,000	1,000,000
	(no change)	(no change)	(no change)
Reserve	8,818	8,818	8,818
	(no change)	(no change)	(no change)
Note circulation ..	7,312,582	8,334,709	7,843,899
	(inc. 562,478)	(inc. 1,022,127)	(dec. 490,810)
Deposits :			
Government ..	1,710,622	1,174,951	1,389,230
	(inc. 245,786)	(dec. 535,671)	(inc. 214,279)
Bankers' ..	3,779,421	3,833,216	4,016,248
	(dec. 296,203)	(inc. 53,795)	(inc. 183,032)
Other	264,213	141,138	130,426
	(dec. 33,373)	(dec. 123,075)	(dec. 10,712)
Other liabilities ..	1,204,031	1,409,976	1,504,379
	(dec. 528,954)	(inc. 205,945)	(inc. 94,403)
Total	<u>15,279,687</u>	<u>15,902,808</u>	<u>15,893,000</u>
ASSETS.			
Gold coin and bullion	6,948,386	7,173,033	7,323,280
	(dec. 673,323)	(inc. 224,647)	(inc. 150,247)
Subsidiary coin ..	509,917	505,683	512,151
	(dec. 14,379)	(dec. 4,234)	(inc. 6,468)
Bills discounted :			
Domestic ..	1,208,106	1,202,780	1,109,412
	(inc. 7,730)	(dec. 5,326)	(dec. 93,368)
Foreign	35	80	97
	(dec. 608)	(inc. 45)	(inc. 17)
Treasury bills ..	391,500	201,500	222,000
	(inc. 380,000)	(dec. 190,000)	(inc. 20,500)
Loans and advances to Government	3,250,000	3,450,000	3,850,000
	(inc. 150,000)	(inc. 200,000)	(inc. 400,000)
Other loans and advances	271,613	343,858	2,000
	(inc. 63,934)	(inc. 72,245)	(dec. 341,858)
Investments ..	1,688,354	1,955,354	1,854,829
	(dec. 136,000)	(inc. 267,000)	(dec. 100,525)
Other assets ..	1,011,776	1,070,520	1,019,231
	(inc. 172,380)	(inc. 58,744)	(dec. 51,289)
Total	<u>15,279,687</u>	<u>15,902,808</u>	<u>15,893,000</u>
Ratio of cash re- serves to liabilities to the public ..	57 per cent.	56·5 per cent.	57·5 per cent.

NEW ZEALAND

I. THE OTTAWA AGREEMENT

LIKE other parts of the Empire, New Zealand had before the close of the Ottawa Conference, a good general knowledge of the preferences that her produce was to receive under her agreement with Great Britain, and the interest with which Mr. Coates's statement on the subject was awaited related chiefly to the concessions she was to offer in return. On October 13 he laid on the table of the House of Representatives the full text of the agreement, and delivered a speech which included a survey of the whole proceedings ; a clear explanation of the new departure in meat policy, which disclosed for the first time that, beginning with an immediate reduction of 10 per cent., Great Britain would reduce her imports of foreign mutton and lamb by 35 per cent. by the middle of 1934, and would keep them at that level for the period of the agreement ; and the full details of the tariff changes to which New Zealand was committed. An undertaking had been given, said Mr. Coates :—

That protection by tariffs should be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success. An enquiry had also been promised into existing protective duties—at which enquiry United Kingdom producers would have the opportunity of expressing their views—with a view to reducing protection to a level which will give the United Kingdom producer full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production.

The reductions definitely promised were six in number. The surtax imposed in 1930 of one-twentieth of the total duty on some goods and nine-fortieths of the total duty on others was to be

New Zealand

removed from British goods at once. The primage duty of 3 per cent. *ad valorem* was to be removed when financial conditions permitted. And four duties were to be lowered as follows: (1) Confectionery, reduction from 30 per cent. to 27½ per cent. (2) Apparel and ready-made clothing, reduction from 32½ per cent. to 27½ per cent. (3) Hosiery, reduction from 32½ per cent. to 27½ per cent. (4) Silk and artificial silk piece-goods, reduction from 10 per cent. to free.

It was, as Mr. Coates said, not an extensive list, but it was even smaller than it looked, for the changes in items 2, 3 and 4 were already due under the existing law as from April 1 next. Confectionery was thus the only new item. A preference of 10 per cent. was also to be granted on writing and printing paper in large sheets (such paper in small sheets having the preference already), but this was to be done by imposing 10 per cent. on foreign paper.

After detailing the preferences that had been arranged on imports from the colonies, Mr. Coates claimed to have said enough to dispose of any attempt by interested parties "to discredit Ottawa by alleging the betrayal of our secondary industries," and that there was nothing in the agreement to prejudice the establishment of the growth of sound industrial enterprises in the Dominion.

We are, however, (he continued) bound by the letter and by the spirit of the agreement to see that reasonable opportunities for trade are extended to the British manufacturer. Already the general fall in prices has injured trade, and has materially added to the burden of protective duties. If we are to revive trade, it must be on a reciprocal basis. We cannot expect Great Britain to embark upon a new trade policy designed to help the Dominions without our facilitating her trade. The agreement definitely commits New Zealand to a thorough overhaul of her protective tariff duties. This should be undertaken not merely for the purpose of giving effect to the Ottawa agreement, but is, I firmly believe, in the interests of our own people. Already the distance which separates New Zealand from the outside world gives substantial protection to local industries. Further artificial protection, which is so easy to establish, so difficult to curb or remove, is apt to be a costly business for our country. If we are to export we must import; we cannot have one-way trade.

We are apt, in judging the results of the Conference, to weigh the concessions granted by the United Kingdom against the con-

The Ottawa Agreement

cessions granted by New Zealand. But it must be remembered that the so-called "concessions" which we made in reducing tariffs are not of advantage to United Kingdom exporters alone. They are a gain to ourselves. The contrary view rests upon the fallacy of assuming that tariff duties are paid by exporters. They are, in fact, as is well recognised, paid rather by purchasers and consumers. Their reduction is therefore a necessary step towards lower costs of production and lower costs of living.

The loss of revenue that the Dominion would suffer during the remainder of the financial year from the proposed changes was estimated at about £250,000.

Mr. H. E. Holland (Leader of the Labour Opposition) attacked the agreement on the ground of its threat to the secondary industries. He considered that the most significant part of the report was that which suggested an inquiry into the existing protective duties. In it were contained the germs of danger to the secondary industries of the Dominion. Referring to the proposed changes in respect of confectionery, Mr. Holland said that British and foreign goods were going to be placed in a far more advantageous position in competition with local industries than had ever been the case before. The confectionery trade in New Zealand was already in a deplorable condition. Wages had been dragged down, and it was no exaggeration of the position to say that the workers in the confectionery industry were being reduced to a condition of serfdom. As for apparel, it could be, and was being, made in New Zealand, and there could be no question that the industry was natural to the Dominion. The same argument would apply to the case of hosiery.

The time has arrived when we should give up tariff tinkering (declared Mr. Holland), and we should say if these goods cannot be produced in New Zealand, they should come in duty free. That is the science of international commerce. If the goods can be produced in New Zealand, then we don't want to import them. We should tell Britain or any other country that we don't want them to send goods here which we can produce in New Zealand. We have got to keep our own people working and we cannot do that if

New Zealand

we allow our market to be flooded with goods from outside, whether from Britain, Japan or any other country.

The Prime Minister's resolution "that this House approves of the agreement between His Majesty's Government in the United Kingdom and His Majesty's Government in New Zealand" was debated on October 19, 20 and 21, the arguments following pretty closely the lines of the opening speeches summarised above. The only division was on an amendment moved by the Leader of the Opposition to insert after the word "that" the following words:—

except in so far as the change tends to destroy the measure of protection accorded by the existing laws to goods which can economically be produced in New Zealand, and always provided that necessities which cannot be produced in New Zealand shall come in duty free.

The division followed party lines, one Independent voting with the Labour party, and it resulted in the rejection of the amendment by 44 votes to 24. The motion was then allowed to pass on the voices.

In the speech with which he concluded the debate the Prime Minister described the Labour party's amendment as "a subterfuge to enable them to vote against the motion."

An agreement (he added) has been entered into in which Britain has been generous to a degree, and when I first heard of the arrangement that had been come to I said that it was simply another instance of the generosity of Great Britain towards New Zealand. She has recognised the difficulties of our primary producers.

Similar sentiments were expressed in leading articles throughout the country on October 14. The only doubt expressed by the Wellington *Evening Post* was whether in the restriction of imports of foreign meat, which rose from 10 per cent. to 35 per cent., Britain had not been persuaded to give too much. Borrowing a word from Viscount

The Ottawa Agreement

Snowden, the *Otago Daily Times* of Dunedin called New Zealand's tariff concessions "illusory" and the Christchurch *Press* described them as "almost trivial in comparison with what the country is getting." The general recognition of the moral that honourable men must draw from Great Britain's generosity was well put by the *New Zealand Herald* of Auckland.

After all that has been said about sordid bargaining and huckstering at Ottawa, New Zealand must affirm that Great Britain has not proved a hard bargainer. The comparative lightness of the direct obligations of the agreement makes prompt fulfilment of the other conditions a debt of honour. New Zealand, with an established tradition of loyalty to the principle of British preference when no return was given or sought, should not hesitate to build on the foundations laid at Ottawa.

Add to this the powerful contention of Mr. Coates that in building for Great Britain on those foundations we shall also be building for ourselves—a doctrine which had not been put with anything like equal force by any New Zealand Minister for a very long time—and one begins to hope that the good start made at Ottawa in scaling down tariffs on British goods may be followed up to the benefit of both parties. In the meantime, as Mr. Forbes said, it is not easy for anybody to adopt a tragic attitude over the $2\frac{1}{2}$ per cent. concession on confectionery, especially as the reduced duty of $27\frac{1}{2}$ per cent. is high enough to recall the discovery which New Zealand made during her tariff controversy with Canada last year, that there is such a thing as prohibitory preference. Hitherto the only strong opposition has been that of the Labour party in Parliament, but the real test will come when the "thorough overhaul" of our tariff, which Mr. Coates has promised, begins. It was remarked in the New Zealand article twenty-one years ago* that "Free Trade and Protection have not been debated in election politics for at least twenty years." That period has now been more than doubled, but if our Government

* See THE ROUND TABLE, No. 5, December 1911, p. 167.

New Zealand

and Parliament do their duty under the Ottawa agreement, next election may see a change.

II. THE BUDGET

WHEN on July 30, 1931, Mr. Forbes, Prime Minister and Minister of Finance, introduced his budget for 1931-32, the prospective deficit of £6,850,000, of which £4,810,000 was accounted for by a loss of revenue, drew from him the characteristic understatement that the year was "probably the most difficult in the history of this Dominion." Yet, on October 6, 1931, a supplementary budget was found necessary to provide for a further shortage of revenue amounting to £1,250,000, and for unemployment subsidies and other charges which brought the whole gap to be bridged up to £8,445,000, equal to about one-third of the total budget. In retrospect, Mr. Forbes now describes that year less inadequately as "a year of world-wide calamity," but his recognition of the current year as a still worse one, for New Zealand at any rate, is implied in the following words:—

As far as I am aware (he said) this is the first time that this Dominion has been so hard pressed as to find it necessary or advisable to budget for a deficit, and the fact is eloquent testimony of the extent to which a landslide in price levels can strain the whole economic and financial structure of the country.

These remarks occurred in the financial statement which, in the absence of Mr. Downie Stewart, the Minister of Finance, who was then in London, Mr. Forbes submitted to the House of Representatives on October 4, 1932. He reminded Members that, as usual,

the storm which had shaken the world, had hit the prices of primary products most severely. New Zealand was thus among the countries that had to bear the full brunt of the depression. As pointed out by the Economic Committee in February last, export prices for 1931 were about 40 per cent. lower than for 1929, and

The Budget

appreciably lower than those ruling in 1914. The result is that about 80 per cent. more exports are now required to meet our annual debt charges. Furthermore, import prices on a sterling basis have fallen to the extent of about 12½ per cent. only, and the net result of these unfavourable movements is to the Dominion a real loss of considerable magnitude. Exports for the year ended June, 1929, amounted, in round figures, to £56,240,000, and for the year ended June 30 last, to £35,547,000. Compared with the previous year (*i.e.*, the year ended June, 1931), this last figure represents a decline of £1,400,000 in value, or approximately 4 per cent., whereas during the year export prices declined by approximately 11 per cent. This means that to some extent falling prices were offset by increased production, which is a cause for some satisfaction. Imports for the same years were: 1929, £46,510,000; 1931, £33,370,000; and 1932, £23,060,000. There has thus been a very heavy falling-off in imports, the striking facts being that imports for last year were only about half what they were in 1929—not only in value, but also in quantity. This had undoubtedly been an important factor in the increase in the number of unemployed.

Besides this drastic curtailment of the purchasing power of our exports there was the internal problem of the wide disparity between costs and prices.

The revenue for the year 1931-32 amounted to £22,720,000, which was £349,000 less than that of the previous year, and £1,946,000 short of the estimate. To this heavy fall, customs, which brought in £1,702,000 less than in the previous year and £846,000 below the estimate, and income tax, which, at an increased rate, produced £444,000 more than the year before, but was still £487,000 short of the estimate, were the chief contributors. On the other side of the account, the estimate had been exceeded. The net expenditure of £24,861,000 was £153,000 in excess of that of 1930-31, and £233,000 over the estimate. On the items covered by the budget there had actually been a saving of approximately £140,000, but the balance was reversed by the £374,000 paid for exchange on remittances to London necessitated by the circumstances which led to the formation of the exchange pool in December, 1931. Departmental economies had actually contributed £280,000 in reduction of the deficit. A table showing the actual

New Zealand

figures for this year, together with a summary of the estimated revenue and expenditure for 1932-33, is appended to this article. As the balance carried forward in the accounts on April 1, 1931, was only £278,601, the 1932 deficit is represented to the extent of £1,862,218 by the outstanding Treasury bills. "We come out with a deficit," is the Minister's comment, "but of manageable size, so are entitled to claim that the situation was saved."

Two points in Mr. Forbes's survey of the current financial year were received with feelings of relief. The customs revenue was looking appreciably better than had been expected when the Minister of Finance submitted his preliminary financial statement last April,* and there was to be no increase of taxation. On the other hand, the intention expressed in that statement of closing the year with "a manageable deficit" was adhered to, though nominally the amount was to be considerably reduced. The revenue is estimated at £21,630,000, which is £1,090,000 less than it was last year. On the other hand, the estimated expenditure of £22,507,000 is £2,355,000 less than last year's figure, the difference being substantially accounted for by the £2,100,000 that will be saved by following the National Expenditure Commission's recommendations, which is, perhaps, the most satisfactory of all the Minister's items. Though these figures leave a deficit of £877,000, it was considered that more drastic economies would unduly restrict the social services and impair the efficiency of the public service.

At the same time (said Mr. Forbes) it should not be overlooked that this programme means incurring further floating debt which has to be liquidated sooner or later. Thus the programme adopted is an extraordinary one, designed to provide a breathing space. It cannot be continued for long, for to pile up debt of this nature is only building up a further serious obstacle to economic restoration.

Allowing for small amounts that may be required for supplementary estimates and contingencies, Mr. Forbes regards

* THE ROUND TABLE, No. 88, September 1932, page 909.

The National Expenditure Commission

it as reasonably certain that the deficit will not exceed £1,000,000, which is half the amount contemplated by the Finance Minister in April. But he is compelled to add that "most of the additional saving arises out of the generosity of Great Britain." The particulars of this generosity are recorded in the following passage:—

Following Mr. Downie Stewart's personal representations in London, in regard to our difficulties, Great Britain has again extended a helping hand by consenting to postpone for another year all payments due on our Funded War Debt and certain other debts due to the British Government. The additional relief to this year's budget is £825,000, in addition to which a saving of £47,000 will accrue to the State Advances Office. Our grateful thanks are due to the Mother Country for this substantial measure of assistance during the acute period of our troubles.

III. THE NATIONAL EXPENDITURE COMMISSION

THE interim report of the Commission appointed to enquire into the public expenditure of the Dominion, and to make recommendations with a view to reducing it as much as possible, was discussed in THE ROUND TABLE last June.* The Commission has now completed its labours, and its final report dated July 1 was presented to Parliament on September 30. The high praise given to the interim report in our previous article may be extended in even more emphatic terms to the final report. Between them they constitute by far the most comprehensive and searching investigation to which the public administration of this country has ever been subjected, and they must be given a high place among the most masterly of our State papers.

Broadly speaking, the method of the Commission has been to review in detail the expenditure of all the public departments, to examine such permanent heads and other witnesses as they thought fit, and to submit their conclusions in the form of a detailed criticism of every vote

* No. 87, pages 690-692.

New Zealand

in the schedules appended to the Appropriation Act of 1931. But the mere axe-work of destructive criticism would not carry true economy very far. The report abounds in constructive proposals for the amalgamation and reorganisation of departments and offices, for the improvement of administrative methods, and for mitigating the tyranny of red tape. And every now and then the Commission pauses in its detailed criticism to present an illuminating essay of ten pages or so on such special problems as public works administration, local government, superannuation funds, native affairs, public hospitals and charitable aid. The most far-reaching of its investigations relate to the Public Works Department, the cost of local government and the administration of public hospitals and charitable aid. The report shows that, whereas in 1914-15 the total expenditure from the Public Works Fund and other accounts under the department's control was £2,785,000, it had risen to £9,307,000 in 1930-31; that the expenditure, which between 1878 and 1921 only twice exceeded £3 a head, exceeded £5 10s. a head in 1931; that the accumulated expenditure up to March 31, 1931, was £150,143,000, of which nearly 90 per cent. came from borrowed money; that lax administration, local and political pressure, and the direct employment of labour by the department—there were 12,000 workers so employed at the beginning of the year—had sometimes resulted in wasteful expenditure and a serious excess over the estimates. A prominent place among the blunders of the department is assigned by the Commission to this system, under which public works are carried out by day labour under the department's control.

It has developed (says the report) an army of workmen who know no other employer than the State, and for whom it is increasingly difficult to find employment. We think it very undesirable that the Government should be the direct employer of men engaged on public works. If works were let by contract, the administrative staff of the Public Works Department could be reduced to a minimum, the expenditure on plant would largely disappear, and the department

The National Expenditure Commission

would escape the work, annoyance, and dissatisfaction which result from the fact that every direct employee of the Government considers that he has the right to have his grievances heard by the Government.

The phrase "government stroke," or some equivalent, doubtless has a currency which is not confined to Australia and New Zealand, and if so, it is probable that outside Russia it has always much the same meaning. In a country where "one man, one vote" is the fundamental and indispensable article of every political creed, a Government is at a great disadvantage in dealing directly with labour on a large scale, and its enforced benevolence does not make for efficiency or economy. A glaring example was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men and the 12s. 6d. paid to married men.

The tendency of public works under the above-mentioned influences to exceed the estimates is illustrated by the Commissioners by a remarkable table the essential features of which are given below:—

Scheme.	Estimated Cost.	Capital Cost.
	£	£
Central Otago irrigation works ..	362,000	527,000
Mangahao electric power	439,000	2,400,000
Railway workshops	1,500,000	2,000,000
Westfield deviation	450,000	803,000
Waihou and Ohinemuri rivers im- provement	150,000	710,000
Rangitaiki land drainage	50,000	500,000
	2,951,000	6,940,000

The average excess of the cost of these schemes over the estimate is 130 per cent. In the Mangahao case the excess was 446 per cent., and in the Rangitaiki case 900 per cent. The Waihou and Ohinemuri scheme was started as the result of the finding of a royal commission in 1910 that the work would cost £150,000, of which one-

New Zealand

sixth was to be paid from the Consolidated Fund and five-sixths to be borne locally. As the result of another commission in 1921 the cost was estimated at £625,000, which was to be equally divided between the Consolidated Fund and the district concerned, but a strong local agitation succeeded in frustrating the recommendations of the commission. The land in the district is now unable to bear any portion of the capital cost, and the Expenditure Commission doubts whether even the full cost of maintenance can be collected. The Dominion, which undertook the construction of this work and the contribution of £25,000 as its share of the cost, has now been saddled with a capital expenditure approximating £750,000, and may have to find the cost of upkeep as well!

The general recommendations of the Commission are that the financing of the construction out of borrowed money should cease; that no public work should be undertaken by the Government nor assistance given to the works of any local authority, without the sanction of a non-political National Board of Works; that one of this board's duties should be to lay down definite rules for the subsidising of local works from the Public Works Fund; that the board's veto on any proposed work should be final unless overruled by Parliament; that the direct employment by the department of the men engaged on public works should cease; that all future public works should be carried out by public tender and contract—a reform which the Commission regards as so essential to true economy that it has not considered it necessary to inquire into the possibilities of economy under the existing system—and that the Public Works Department should be reduced to a staff of advising and inspecting engineers, as was intended when it was first established.

"No British colony has developed a more complete system of local institutions than New Zealand," wrote Lord Bryce in 1921.* With its present total of 696 local

* See *Modern Democracies*.

The National Expenditure Commission

authorities representing about one to every 2,000 inhabitants, the system is described by the Commission as "well beyond the needs of the community." Excluding the 46 hospital boards, which are separately discussed, the Commission reduces the total to 650, and illustrates their progress during the period under review (1915-1930) by some figures which may be tabulated as follows:—

	1915	1930	Increase Per cent.
Population	1,103,000	1,422,000	29
Local bodies, exclusive of hospital boards ..	562	650	16
Employees	13,789	24,290	76
Wages	£1,987,000	£5,945,000	199
Gross debt	£24,539,000	£71,208,000	191
Expenditure	£6,807,000	£22,061,000	224
Rates	£2,325,000	£6,011,000	181

From these startling figures the Commissioners draw the unanswerable conclusion that a reform reducing the number of local bodies by abolishing many of them and amalgamating others, is imperatively needed. But they recommend that a more comprehensive examination of the whole problem than they have been able to make should be instituted before the reduction is started, and that this examination should extend to the present system of subsidies and grants to local authorities from public funds. These subsidies would, it was hoped, provide for the roads and bridges of the country, but that this hope has not been borne out is proved both by "the alarming growth of local body indebtedness" and by the considerable grants made by the Government for specific purposes. In 1930 government subsidies only amounted to £437,000, but the £1,515,000 provided in special grants brought the total up to £1,952,000.

As a proof that even twenty years ago the system of local government was apparently considered extravagant, the Commissioners refer to the introduction in 1912 of a Local Government Bill which proposed to abolish whole

New Zealand

classes of local bodies and to transfer a number of important functions, including the care of main roads and bridges, to Provincial Councils. The reference is apt, but it might have been strengthened by pointing out that the Bill was introduced by the Massey Government in pursuance of an election pledge. During the twenty-one consecutive years of the Liberal régime the government has come to be regarded as a sort of universal provider. Its control of offices and billets, of roads and bridges, supplied arguments which were not easily met. To check this influence three reforms were proposed by Mr. Massey as Leader of the Opposition at the general election of 1911. As we pointed out at the time,*

weakness and extravagance have freely been alleged and constitutional reform has been freely proclaimed, which would free the Legislative Council—at present a nominative body—the public service and the administration of local public works from political control.

The Local Government Bill of 1912 was not proceeded with, and a higher standard of administration has made the decentralisation which it promised less urgent from the political standpoint than it was; but the evil, though less gross, is still serious enough to justify the finding of the Commission that “sound administrative principles have often been subordinated to pressure exerted under the influence of both local and general politics.” Addressing the electors of Bristol in 1780, Burke said:

If we do not permit our members to act upon a very enlarged view of things, we shall at length infallibly degrade our national representation into a confused and scuffling bustle of local agency.

If 150 years later Burke could have been in the gallery of the New Zealand House of Representatives when it was sitting in committee on the public estimates he might have omitted the condition, but the concluding words of the sentence would have needed no change to make them fit precisely what he saw—“a confused and scuffling bustle of local agency.”

* THE ROUND TABLE, No. 6, March 1912, p. 381.

The National Expenditure Commission

The expenditure on hospitals and charitable aid which are administered by elective boards in 46 districts has grown from £534,000, or 9s. 4d. a head, in 1913-14, to £1,931,000; or £1 5s. 10d. a head in 1930-31. The Commission considers that 16 or 18 hospital districts would suffice and recommends that a board of hospitals should be appointed to organise the whole service with power to close hospitals and to amalgamate districts. It estimates that the ultimate saving as a result of these recommendations should be at least £300,000 a year to the Consolidated Fund, while the saving to the rates is impossible of calculation.

The full amount of the assessable savings recommended is £322,000 in respect of the permanent charges and £523,000 in respect of the annual votes, making a total of £845,000. Added to the economies, amounting to £2,916,000, recommended in the Commission's previous report, these figures bring the total up to £3,761,000, representing about 15 per cent. of last year's expenditure. Of this total the Government has already adopted recommendations accounting for £2,097,000, but some of these economies will increase in later years, and those recommended in the final report did not come into operation till the first quarter of the current year had passed.

But it is from those items which cannot be assessed in money—the drastic proposals of the Commission on the broad issues of policy already mentioned—public works administration, local government, hospital administration, and the superannuation funds of several branches of the public service—that the country is likely to derive the greatest benefit from the recommendations of the Commission. And it is satisfactory to report that on the last three the Government is already taking action, though it is only on the very last that it is so far following the exact line proposed by the Commission.

New Zealand.

December 24, 1932.

New Zealand

APPENDIX

Revenue and Expenditure 1931-32

<i>Expenditure</i>		£
Debt services		10,511,989
Pensions and family allowances		3,075,415
Motor taxation transferred to Main Highways		
Account and local bodies		1,807,666
Unemployment subsidies		1,130,231
Hospital subsidies		642,809
Under other special Acts		686,352
Total permanent appropriations		£17,854,462
Annual votes		6,631,617
Exchange		374,473
Total net expenditure		£24,860,552
<i>Revenue</i>		
Taxation—		
Direct		8,200,479
Indirect		7,989,488
		16,189,967
Interest		2,868,138
Other receipts		2,166,803
From reserves		1,494,825
Total revenue		£22,719,733
Deficit		£2,140,819

Estimated Expenditure 1932-33 *

		£
Debt services		10,012,000
Transfer of motor taxation		1,110,000
Exchange		350,000
Other permanent charges		473,000
Total permanent appropriations		11,945,000

* These estimates are not fully comparable with the revenue and expenditure figures for 1931-32, as, owing to a change in the law, a large part of the expenditure hitherto covered by permanent appropriations is now included in the annual votes.

Appendix

	£	£
Social services	6,870,000	
Defence	631,000	
Law and order	688,000	
Development* of primary and secondary industries	897,000	
Administrative and general	1,476,000	
Total annual votes		10,562,000
Total estimated expenditure		£22,507,000
<i>Estimated Revenue</i>		
Taxation—		
Customs	5,700,000	
Beer duty	640,000	
Film-hire tax	35,000	
Motor-vehicles—duties and licences	1,610,000	
Stamp and death duties	2,900,000	
Land tax	515,000	
Income tax	3,400,000	
		14,800,000
Interest—		
Railways	740,000	
Post and telegraph	540,000	
Public Debt Redemption Fund	645,000	
Other public moneys	625,000	
		2,550,000
Other receipts—		
From reserves	2,500,000	
Post and telegraph profits	470,000	
Other items	1,310,000	
		4,280,000
Total estimated revenue		£21,630,000
Estimated shortage		£877,442

THE RECOIL FROM FREEDOM

MANY have asked themselves during the last few weeks whether the victory of 1918 has not been almost undone. While the principal Allies, as they were known during the world war, France, the British Commonwealth and the United States, are still wedded to free institutions, much of the rest of the world, Russia, Italy, Turkey, and now Germany, have apparently thrown them over and substituted dictatorship in some form in their place. They have not restored their pre-war forms of government, but created entirely new systems, communism and fascism, with different ends in view but equally based on dictatorship by a single popular party. Does this mean that the theatre is set for another world war between tyranny and freedom? It is by no means certain that this conflict need arise. It depends partly upon what communism and fascism evolve into and partly on how the countries still wedded to the parliamentary and liberal system react to the terrific stresses of the present age. It may be that the existing phase of dictatorship in Germany and Italy, and even in Russia, will pass away. It may be that there are elements in the experience of Russia, *e.g.*, planning, or of Germany and Italy, *e.g.*, national discipline, from which the liberal Powers may have something to learn. But it is obvious that the complacency with which people, at least in the British Commonwealth and the United States, have assumed that the results of victory of 1918 would maintain themselves is no longer justified and that they must consider seriously how freedom is to be preserved in the world of to-day.

I. THE MEANING OF FREEDOM

WHEN we talk of freedom in the political sense of the word what do we mean? In substance we mean the basic ideas which derive from the civilisations of Greece

PRINTED BY W. H.
SMITH & SON LTD.,
THE ARDEN PRESS
STAMFORD ST.,
S.E., AND PUBLISHED BY MAC-
MILLAN AND CO.,
ST. MARTIN'S ST.,
LONDON, W.C.



The Recoil from Freedom

and Rome, and from Christianity, and which, after long struggles, have become enshrined in the judicial and political institutions of the western liberal Powers. In essence these ideas fall into two groups. There are first the constitutional guarantees of individual liberty, guarantees embodied in Great Britain in Magna Charta, the Bill of Rights and countless legal decisions, and, in other liberal countries, in other similar enactments. Under these guarantees the individual is protected against violence and wrong from other members of the community, and against interference or arrest by the State, save by due process of law administered by courts which are independent of the executive and concerned only with the interests of justice and not with *raisons d'état*. Secondly, there are the constitutional guarantees that government shall be based on the consent of the governed. In recent times this has come to mean that the executive government shall, under the parliamentary system, be in the hands of those who can command a majority of the members of the legislature elected at a general election, or, under the presidential system, of the electors, the electorate consisting in both cases of the whole adult population. What is probably more important, freedom means freedom of public meeting, freedom for the expression of political opinion, and freedom of the press, so long as these do not involve incitement to violence or immorality, libel or other encroachments on individual rights, for this means that in the long run the controlling power behind the government is public opinion, and that public opinion is not "made" by government but is the outcome of the free play of thought in the community itself.

The basic convictions underlying freedom as a political creed are twofold: first, the conviction that every human individual is entitled to equal rights before the law, and that he ought to and can acquire the capacity both for self-government and to think for himself, and secondly, the conviction that human progress will spring from giving

The War for Freedom

free play to individual initiative, imagination and character, not from enforced obedience to constituted authority. Freedom leads inevitably to democracy as the system which enshrines the principle of individual responsibility, and is the best guarantee that law and government will, in the long run, rest upon the consent of the governed.

As against freedom stands the principle of autocracy, political and religious. Fundamentally autocracies do not believe in the capacity of the individual to think for himself or to govern himself. They believe in authority, that the State or the Church or some other human institution must direct and govern, and that the people must obey. Hence, by an inevitable logic they are anti-democratic, substituting conformity, propaganda and the repression of opposing opinions by arbitrary power for freedom of individual judgment. Inevitably, too, individual rights begin to be subordinated to the purposes or policies of the government.

The free system is not easy to maintain. Over and over again in history it has been overwhelmed through internal decadence or by external attack. It depends upon there being enough education, public spirit, independence, initiative and self-sacrifice in a sufficient number of persons to enable them individually to resist the demoralisation that freedom makes possible, to ensure that freedom is not contracted by reaction, but extended to meet the changing conditions of the modern world, and to maintain the reign of law and vigorous progressive government. There are some, indeed, who believe that the statement of St. Paul is true that "where the spirit of the Lord is there is liberty," and that without an adequate element of free and vital religion, a free system cannot last.

II. THE WAR FOR FREEDOM

BEFORE the war freedom had been steadily if slowly growing in the world, both in the greater security that it won for individual rights and in the spread of democracy.

The Recoil from Freedom

It was even challenging from within the great military autocracies of Germany, Austria-Hungary and Russia, and was breathing life into the old static civilisation of Asia. But freedom, before the war, had made little headway in the international sphere. Nations lived in a state of anarchy. They claimed unlimited sovereignty for themselves, had the legal right to make war, to conquer and annex as they chose, and international law was rather a code for mitigating the risks of anarchy than a system of law for securing freedom and justice among the members of the family of nations. In the last resort, in international affairs as in the jungle, might was right.

It is not necessary to enter upon a discussion of the origins of the world war. Disinterested opinion recognises that it was partly the inevitable outcome of pre-war international anarchy and partly an attempt to forestall the advance of democracy. As it ran its course, however, and especially after the Russian Tsardom collapsed, the war became more and more clearly a struggle between the liberal ideals which prevailed among the western democracies and the autocratic ideas which were dominant in Germany, Austria-Hungary and Turkey.

The victory of the Allies led to two major results. On the one hand, the liberal and democratic system spread, sometimes by revolution, over the whole of Europe and had profound effects in Asia Minor and the Far East as well. On the other hand, an attempt was made through the League of Nations to begin the foundations of the reign of liberty and law in the international field. The principles upon which the Peace Treaties were based were clear. Every civilised nation was entitled to independence and to the right to govern itself. Disputes between nations were to be settled not by war, or by a diplomatic trial of strength, but by reason and justice ascertained by arbitration or judicial decision or conference. International problems, especially those which might threaten the peace, were recognised to be the concern of the whole world and

Post-War Deterioration

were to be discussed at the regular meetings of the Council and Assembly of the League. Disarmament was to be made possible and security increased by a system of mutual guarantees whereby members of the League were bound to support one another against unprovoked aggression.

It is true that these principles were imperfectly applied. Some of the frontiers in Europe were, in certain respects, unjust. Certain temporary features of the treaties were very onerous and kept the ex-enemy Powers for a time in a state of subjection. The reparation obligations, like the claims for war debts, were grossly impracticable. And the Peace Conference, while devoting a great deal of attention to the political problems, paid almost none to the economic. It made no attempt to limit tariffs and other impediments to international trade, or to recognise that economic problems, like political problems, ought to be considered collectively in a rapidly shrinking world. None the less the broad effect of the war was an immense extension of the formal boundaries of freedom. And the League of Nations was intended to be the instrument by means of which, given leadership and good will, the defects of the Peace Treaties could be peacefully remedied, armaments reduced, security enhanced, and changes in the political structure of the world, made necessary by man's ceaseless activity, adjusted peacefully and without war.

III. POST-WAR DETERIORATION

UNFORTUNATELY, the price of freedom is eternal vigilance, and that vigilance was not forthcoming. The United States almost immediately retired to co-operation, rejecting the League of Nations and the Anglo-American treaty of guarantee, and resuming a policy both of political and economic isolation, while at the same time she demanded repayment of her war-time loans to her allies. Great Britain refused to implement the treaty of guarantee in unilateral form, though she offered one at

The Recoil from Freedom

Cannes in 1922 to France, who then rejected it. France, deprived of the guarantees on which she had relied, fell back for security upon a system of military alliances with Poland and the Little Entente, the purpose of which was to ensure the integral enforcement of the Treaty of Versailles, and in 1922 she entered the Ruhr to compel the observance of the reparation clauses of the Peace Treaties, and to prove to those elements in Germany which sought to evade the treaties that fulfilment was a condition of Germany's existence. The League came into being, immensely weakened by the refusal of the United States and Russia to join it. It has functioned well as a clearing house for world affairs. But partly because it did not contain the United States, and partly because stability in Europe had come to be based on the military preponderance of France and her Allies, the League never acquired sufficient authority to enable it to bring about such revisions of the treaties under Article 19 as were reasonably necessary, or to create that alternative system of security against aggression which is the condition of disarmament. Still less was it able to effect a lasting settlement between China and Japan in the Far East.

But if there has been failure to bring stability to the world in the political field, the failure in the economic field has been far greater. Except for the creation of the International Labour Office, whose purpose was to try to bring about voluntary agreements protecting the standard of living of the workers, every government was left free to do what it liked economically. The League system provided for no regular conference about economic problems, nor was any restraint on economic nationalism suggested. For a time economic recovery was extraordinarily rapid so far as the stabilisation of currencies, the balancing of budgets, the restoration of devastated areas, and the restarting of international trade were concerned. But there were two factors, the full effects of which were hidden for a

Post-War Deterioration

time, which made a return to economic prosperity increasingly impossible. The first was the gigantic claims, on the one side for reparations, and on the other for war debts, claims representing money spent on devastation and not on construction, which, added to the interest on private international investments, involved an enormous one-way traffic in goods, services or gold, with no counterbalancing flow of trade in the opposite direction. The second was the multiplication and heightening of tariffs and other barriers to trade as a result of the creation of new nations and the growth of nationalist sentiment, the effect of which was to tend to make nations produce the same things instead of exchanging their own specialities with one another. For some years between 1924 and 1929 the profound maladjustment of the economic life of the world, made inevitable by these two factors, was disguised by a series of foreign loans, largely to Germany, by the United States and Great Britain, a series which for the time being enabled the inward and outward streams of trade more or less to balance. But these vast loans could not continue indefinitely. They were brought to an end by the stock-exchange boom in the United States, the dislocation of supply and demand caused by uneconomic debt and tariffs became clear and the great depression set in. As markets became glutted and prices fell it grew more and more difficult for nations and business men to meet their obligations, the monetary system of the world ceased to function under the strain of trying to meet a one-way stream of debt payments, governments rushed into a policy of higher tariffs, exchange embargoes, prohibitions and subsidies in the desperate effort to shield their own producers from the dumping of products offered at a price far below the cost of production, and to protect their own currencies, thus still further blocking international trade, aggravating unemployment and unbalancing budgets.

This dislocation of the economic life of the world had

The Recoil from Freedom

profound results on the political situation. It intensified unrest, weakened the authority of the parliamentary system, strengthened the revolutionary parties and in certain countries led to the establishment of dictatorships as the only method of maintaining order. Moreover, with every month that passes vested interests are everywhere growing up behind these new national restrictions, and it is becoming more and more difficult, if it is not already impossible, to restore anything like the pre-war freedom for international trade. The World Economic Conference ought to show clearly how far we can expect to retrace our steps, and how far we have permanently entered a new world in which high protection, embargoes, quotas, import and export boards and similar methods of conducting a kind of systematic barter between nations, largely self-sufficient, have come, whether we wish it or not, to replace the pre-war order of things.

It is important, therefore, to consider the significance of the two movements, namely communism and fascism, which have come to a head since 1914, and which seem to challenge those ideals of liberty, democracy, economic freedom and a League of Nations, which triumphed in 1919.

IV. COMMUNISM

THE communist creed is not a product of the war. It had been forged long before by Marx and Lenin. But it was the war which produced in Russia the peculiar conditions which enabled a small band of determined Marxists, led by a man of genius, to overthrow both the Tsardom and the liberal provisional government, and to establish in its place the dictatorship of the Communist party in the interests of the proletariat. As an idealist theory communism makes an undoubted appeal. The doctrine that the earth and its fruits should be developed and organised for the benefit of the whole people, that reward should be conditional on work, and

Communism

supply related to need, and that as far as possible men should have all things in common, and not live by usury or the ownership of the means of production by which the community lives, is very much that of the early Christians. The trouble with communism has been the method by which Lenin and his successors have sought to realise their ideal, for that has little or nothing in common with Christianity. The essence of the communist method is a ruthless class dictatorship, involving the total abolition of private property at a single stroke, the persecution, indeed, in many cases, the extermination of the bourgeoisie and the kulak, the suppression of individual rights before the law, of freedom of speech and the press, of public meeting and political association, and the concentration of every instrument for forming or guiding opinion, the schools, the universities, the press and the news agencies, in the hands of the Communist party. If this dictatorship had produced or, after sixteen years, showed any prospect of producing, a millennium, and of relaxing its ferocity and basing the new order that it has created on the free consent of the governed, the savagery of its early years might be forgotten. But it is becoming more and more evident that the communist thesis that it is possible for government to organise every aspect of the political, social and economic life of a people, and to produce either satisfactory material conditions or an ennoblement of the human spirit, or a sense of freedom, has been proved to be wrong. The standard of living in Russia to-day is below that of the period of the N.E.P., the dictatorship is more ruthless and unrelenting than ever in its devastating effects on the mentality both of rulers and ruled, and over a considerable part of its field the Five Year Plan of economic rehabilitation has broken down. There is no sign as yet of any change in the régime. It may manage to get its organisation into some kind of working order, but it seems clear that communism is not going to be, even on the material

The Recoil from Freedom

side, a success, that the peculiar revolutionary method of class dictatorship is not applicable to highly industrialised western Powers, and that peoples who have experienced liberty have decided that the evils of capitalism are preferable to those of communism.

This does not mean that socialism, as an ideal, will not make headway in the west, especially if, for the reasons we have already given, the old pre-war economic order has been fatally undermined. For, in essence, the moral appeal of socialism is that it seeks to secure to every individual citizen the same kind of security, equality and freedom in the economic field that he already enjoys in the political and before the law. If liberty, indeed, is to mean anything it must produce this result. But socialism, if it is to succeed, will have to divest itself of its Marxian trappings. It will have to throw over the old dogma that the entrepreneur capitalist, the person who organises capital, talent and labour to make some improved product or to render some improved service of value to the community, at a profit, or often at a loss to himself, is necessarily a villainous exploiter. It will have to abandon the idea that progress in the industrial west can be achieved by abolishing all private enterprise and substituting universal nationalisation run by an all-pervading bureaucracy. And it will have to produce a plan for socialism which, in the minds of reasonable people, is likely, in practice, to lead to the abolition of unemployment, and to give to all an adequate and a rising standard of living without the destruction of freedom. If socialism can produce such a plan no resistance on the part of the propertied classes will prevent it from being carried by constitutional means, if it is clearly in the interest of the community as a whole. In fact, socialism can only be carried by constitutional means, and if it attempts to resort to methods of revolutionary violence based on an appeal to class feeling, it is almost certain to be anticipated and suppressed by a fascist dictatorship. So far British

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
The Recoil from Freedom	477
I. <i>The Meaning of Freedom.</i> II. <i>The War for Freedom.</i> III. <i>Post-war Deterioration.</i> IV. <i>Communism.</i> V. <i>Fascism.</i> VI. <i>The Future.</i>	
President Roosevelt's Program for Recovery	497
I. <i>The Banking Crisis.</i> II. <i>Emergency Measures.</i> III. <i>After the Abandonment of the Gold Standard.</i>	
Nazi Germany	512
I. <i>Methods and Theories.</i> II. <i>The Nazi-Nationalist Coalition.</i> III. <i>The Terror.</i> IV. <i>The Jewish Boycott.</i> V. <i>Future Prospects.</i>	
World Debts and the Economic Conference	535
I. <i>The Over-weight of Debt.</i> II. <i>Internal and External Indebtedness.</i> III. <i>Means of Readjustment.</i> IV. <i>Present International Indebtedness.</i> V. <i>The Factor of War Debts.</i> VI. <i>Readjustment of International Indebtedness.</i> VII. <i>International Indebtedness and the Conference.</i>	
The Reception of the Indian White Paper	548
I. <i>The Reaction in Great Britain.</i> II. <i>The Reaction in India.</i>	
China after the Loss of Manchuria	568
I. <i>The Economic Effects of the Loss.</i> II. <i>The Political Effects.</i> III. <i>The Psychological Effect.</i> (Continued on next page.)	

Nº 91. JUNE MCMXXXIII Price 5/-

London: MACMILLAN & CO., LTD.

Entered as second class matter March 15th, 1929, at the Post Office at Boston, Mass., under the Act of March 3rd, 1879 (Sec. 397, P.L. and R).

CONTENTS (*continued*)

Treaty Revision	PAGE 584
I. <i>The General Principle.</i> II. <i>The Problems of the Territorial Settlement.</i>	
The Poor White in South Africa :	605
The Carnegie Commission's Report	
I. <i>The Evolution of the Poor White.</i> II. <i>Peculiar Conditions.</i> III. <i>A Possible Remedy.</i>	
Great Britain	619
I. <i>The Budget.</i> II. <i>The Trade Agreements.</i> III. <i>The Home Front.</i> IV. <i>Trade and Unemployment.</i>	
The Irish Free State	634
I. <i>Political Developments.</i> II. <i>Trade and Transport Troubles.</i>	
Canada	652
I. <i>The Government and Its Critics.</i> II. <i>Canada and the Far East.</i>	
Australia	670
I. <i>The Reform of the Legislative Council in New South Wales.</i> II. <i>The Political Chronicle.</i>	
South Africa	685
I. <i>The Hertzog-Smuts Alliance.</i> II. <i>The Work of the Session.</i>	
New Zealand in the Depression	697
I. <i>Symptoms and Causes.</i> II. <i>Remedial Efforts.</i> III. <i>The Reaction to the Depression.</i>	

CONTENTS OF Nos. 89 and 90

No. 89. DECEMBER 1932	PAGE
The Foundation for Disarmament	1
The Task of the World Economic Conference	21
Ottawa and the Trade Agreements	44
The Lytton Report	64
The President Elect	90
Russia and the Five Years Plan	99
Ireland : The Tariff War	118
India : The Reaction to the Communal Award	142
Great Britain : <i>The Resignation of the Liberal Ministers—The Position of the Labour Party—The Future of the National Government</i>	162
Canada : <i>The Ottawa Conference—The Railways : The Royal Commission's Report—The St. Lawrence Waterway Treaty</i>	174
Australia : <i>The Ottawa Agreements and Australian Trade—Government Finance and Banking Policy</i>	191
Southern Africa : <i>South West Africa—The Situation in Southern Rhodesia</i>	207
New Zealand : <i>The Ottawa Conference—Domestic Problems</i>	227

No. 90. MARCH 1933	PAGE
War Debts and World Recovery	245
The Opportunity at Washington	270
The Victory of Mr. de Valera	286
Japan and the League	307
The Future Government of India	322
The United States : The New Deal	335
A Glance at Trade and Industry	348
Foreign Law in the British Empire	362
Great Britain : <i>The Social Policy of the Government—The Attitude of the Country</i>	383
Canada : <i>Politics and Parties—Canadian-American Relations</i>	401
Australia : <i>The Federal Chronicle—The Political Parties To-day</i>	420
South Africa : <i>The Political Situation—The Ottawa Agreements—The Departure from the Gold Standard</i>	438
New Zealand : <i>The Ottawa Agreement—The Budget—The National Expenditure Commission</i>	459

THE ROUND TABLE

can be obtained through any bookseller or any of the following :

GREAT BRITAIN AND IRELAND

Messrs. Macmillan & Co., Ltd., St. Martin's Street,
London, W.C.2.

CANADA

The Macmillan Co. of Canada, Ltd., 70 Bond Street, Toronto.

AUSTRALIA

Messrs. Macmillan & Co., Ltd., 32 Flinders Street,
Melbourne.

SOUTH AFRICA

J. Tyndall, Esq., 126 Corporation Buildings, Johannesburg.

NEW ZEALAND

The Secretary, THE ROUND TABLE, c/o Messrs. McKay and
Little, A.M.P. Building, Wellington.

INDIA

Messrs. Macmillan & Co., Ltd., Bombay, Calcutta and
Madras.

UNITED STATES

The Macmillan Co., 60 Fifth Avenue, New York.

EGYPT

The Express Book and Stationery Store, near Shepherd's
Hotel, Cairo.

CHINA (AND STRAITS SETTLEMENTS)

Messrs. Kelly & Walsh, Shanghai, Hong-Kong and Singapore.

JAPAN

The Maruzen Company, Ltd., 14-16, Nihonbashi Tori
Sancho, Tokyo.

Should information be required or difficulty experienced in obtaining a copy of THE ROUND TABLE, application should be made to THE ROUND TABLE, 2 Paper Buildings, Temple, London, E.C.4, or to the above mentioned, or in Australia to Professor T. Laby, F.R.S., The University, Melbourne.

The price of THE ROUND TABLE is 5s. or \$1.00 per copy, and the annual subscription (including postage) 20s., in U.S.A. and Canada \$4, or in India Rs.15.

Covers for binding volumes, 3s. 6d. each, and back numbers, price 5s. (except three or four out of print), can also be obtained from Messrs. Macmillan & Co., Ltd., London.

Fascism

socialism, like continental socialism, has not succeeded in producing such a plan, for the proposal to nationalise industry and agriculture by instalments seems bound to fail. It would do little or nothing to solve the vital problem of employment or of finding markets ; it would either mean confiscation from a class of property owners only, or the grant to them of the security of the taxes in place of the business they previously owned. It looks, indeed, to-day as if socialism in Great Britain, and indeed in the liberal west, will more and more move away from nationalisation towards a system of "planned private enterprise."

V. FASCISM

FASCISM, unlike communism, is not the outcome of a deliberately thought-out creed. It has arisen from the pressure of post-war events, and varies according to the countries in which it thrives. It is fundamentally the outcome of two causes. The first has been the necessity of creating a counter-organisation to resist the violent and revolutionary tactics of communism in countries where ordinary police methods have begun to fail. The second has been the conviction that the slow-moving deliberative parliamentary system, with its changing and weak governments, could not make the changes needed by the times, and that a more dynamic executive power must take its place. Fascism is by no means a merely reactionary movement. On the contrary it contains a strong ingredient of socialist doctrine. If it objects to the proletarian State beloved of communism, it objects equally to the plutocratic State in which public policy is controlled by capitalist or banking interests. Thus the "unalterable" programme of the Nazi party in Germany on which it has fought all its elections demands the "abolition of incomes unearned by work" (clause 11), and its financial principle is stated by Gottfried Feder, the official interpreter of its policy, in

The Recoil from Freedom

the 1932 election programme as follows: "Finance shall exist for the benefit of the State; the financial magnates shall not form a State within the State. Hence our aim is to break the thralldom of interest."

The constructive side of fascism rests upon the idea of the corporate State. It does not abolish private property or nationalise the means of production, distribution and exchange, or seek to run them exclusively by government officials. It retains the services and initiative of those who have made and created the industry, agriculture and transportation and distribution systems of the day. But it considers that the State must stand above and outside all interests, whether of capital or labour, and be strong enough to prevent either capital and labour or any other interest from taking anti-social action and to compel them to conform to what is in the interests of the community as a whole, because "the general welfare is the highest law of all." For this reason, while preserving universal suffrage as the ultimate test of popular sanction, it substitutes for the attempt to adjust a continuous conflict of interest and opinion in Parliament the dictatorship of a party controlled by those who are prepared, while consulting the interests of capital and labour, to govern autocratically in the interest of the community as a whole. For it considers that nothing but the will of a dictatorship sternly enforced is strong enough to bring about the profound social and economic reorganisation to which the world is now being driven by the progress of science and the economic dislocations begun by the war.

Such is the political theory of fascism. In Italy, under the iron hand of Mussolini the corporate State has come into being. In Germany, the Nazi movement has succeeded in seizing absolute power, but has not yet formulated its programme of reconstruction.

It is too early to judge of the future of fascism as a world movement. It is growing more rapidly than socialism, and in its claim to put the community above any class and to create a government strong enough to master the social

Fascism

consequences of the economic crisis which to-day affects every country alike, it has an appeal which is related to the facts of the time. Nor is there, inherently, any reason why fascist States should not work successfully a League of Nations system, for their preoccupation with economics must make them even more aware of the devastating consequences of war, and of the benefits of settling disputes by pacific means, than the less economically minded States which went to war in 1914 and made the peace in 1919.

But fascism, like communism, is liable to be a very different thing in practice from what it claims to be in theory. For it seems to be almost as much in love with dictatorship as an end in itself as communism, though it substitutes, especially in Germany, an appeal to racial pride and ascendancy for the appeal to class feeling as its main driving power. Like other revolutionary movements, it has drawn its strength from the intemperate enthusiasm of youth—youth which knows little of what war really means or of the fatal risk of violent short cuts to idealistic ends, and which sees in the seizure of power the surest prospect of employment for itself in a disorganised world.

No doubt, the Nazi revolution in Germany represents to some extent a healthy national resurgence against the defeatism engendered by the defeats of 1918 and later years, and a desire to purify and discipline the national life from some of the corruption which has been manifest since the war. But the corruption and inner decay caused by a dictatorship based on racialism and violence are far more subtle and far reaching in their effects than the corruption engendered by freedom, and far more difficult to remove. The indiscriminating brutality of the "Brown terror," especially its inhuman persecution of the Jews merely on the score of race and regardless of whether the individual was or was not a loyal citizen, cannot make for the greatness or independence, or power of initiative of the German people. The suppression of an independent press and independent political controversy, the principal means of

The Recoil from Freedom

enabling people to learn to think and act for themselves, the constant pressure of terror brought to bear on people by a secret police, and the streams of tendentious propaganda flowing from sources controlled by government, are evils far more devastating and devitalising to the soul of Germany and menacing to the world, if they are continued, than the evils against which the Nazis protest. Let us hope that the ruthless attempt of the Nazis to identify a party with the State is a passing phase, and that a revitalised, purified and progressive Germany, in which individual freedom and freedom of public opinion are restored, will soon reappear. But for the moment the liberal nations cannot fail, while suspending judgment, to be on their guard. For history warns us that dictatorship and brutality and the worship of force at home tend in due time to express themselves also in foreign affairs. And, if that is so, and the present Nazi phase becomes permanent, it can only be a question of time before Germany challenges those essential international gains for freedom which were the outcome of the sacrifices of the war.

VI. THE FUTURE

IT is evident that the pleasant assumption which has underlain most people's thinking since 1919 has been rudely challenged. We can no longer take for granted that there is going to be steady progress along democratic lines all over the world, that international trade is destined to recover, that we can maintain the broad type of economic civilisation which has existed hitherto while improving it in detail, and that the nations are going to disarm because they are learning how to solve their differences by pacific means under the Covenant of the League of Nations or the Kellogg Pact. Dictatorship or reaction in some form is now in the saddle over about two-thirds of the world. The prevailing tendency is for nations to become more "autarchic" and self-contained and to move away from international trade.

The Future

If this tendency continues it cannot fail to have profound consequences both in the external and the internal policies of the liberal Powers. However anxious they may be for disarmament, and for lower tariffs and freer trade, they may be forced to admit that the defence of freedom from external menace must become their primary concern. And the drying up of international trade may compel them to a degree of internal economic reorganisation and planning, on lines not unlike those advocated both by socialists and fascists, as the only means of adapting their own economic life to what is going on in the rest of the world.

At the moment, the essential thing is to do everything possible to support the League of Nations and the Kellogg Pact. The League indeed is more important than ever. For however their internal structure may differ it is essential that the nations should continue the habit of sitting round a common table to discuss their hopes and fears and needs. Nothing short of this will bring home to all the necessary limits of national policy, both political and economic, in a congested world. The future of civilisation clearly depends upon the nations developing some system for the pacific settlement of disputes, and some economic organisation enabling nations to live in reasonable prosperity. But if it is impossible to organise the whole world for these purposes then the liberal Powers ought to organise their own portion of it so that freedom and prosperity may be assured within it. What does this mean in terms of immediate policy?

Let us deal first with the economic side. On an earlier page of this article we expressed the view that the principal reason for the catastrophic fall in prices has been the economic dislocation caused on the one hand by one-way international trade made inevitable by international debts, especially reparations and war debts, and on the other hand by new and higher tariffs, embargoes and subsidies, prompted partly by nationalism but partly also by the necessity of countering the detrimental effect of demands for

The Recoil from Freedom

reparations and debts, both governmental and private, on domestic industries and currencies. The extent of these debt obligations and their effect on the exchanges is discussed elsewhere in this issue.*

The first object of the liberal and democratic Powers at the World Economic Conference, which is to assemble on June 12 in London, should clearly be to remove or lessen these double causes of depression. It should endeavour to take effective steps to eliminate reparations and war debts because of their effect in producing a purely one-way trade, to restart international lending so as to make possible the payment of private international debts, and of such inter-governmental debts as still remain, to establish some form of stable international currency, to eliminate embargoes and prohibitions, and to reduce tariffs and subsidies for a period sufficient to enable business to make its plans with confidence. If it can do these things, the wheels of international trade will begin to move again, prices will begin to rise, thus facilitating the removal of all other obstructions, and the march towards revolution and dictatorship in the world will be arrested. But the failure of the Conference to achieve results would inevitably throw the world back on nationalism again both in politics and economics, would strengthen the forces which stand for dictatorship and violence, and would have an effect on the internal economic position of even the most stable Powers that no one can foresee. We should then have to consider whether new economic arrangements could not be made over a more restricted area, such as the English speaking world.

Let us turn now to the political side. The best security that the gains of the world war in liberty will be safe and a still further challenge by reaction prevented is a close association between the great liberal and democratic Powers, the United States, the British Commonwealth and France, in defence of the ideas on which their own civilisa-

* See page 535.

The Future

tions are based. And that means the re-entry of the United States into world affairs in some form under the Kellogg Pact.

Some revision of the structure created in 1919 is also necessary. The word "revision," indeed, has already been officially pronounced as an essential for lasting peace. We publish an article elsewhere which describes what territorial revision would involve.* But we think that when the time for revision comes it must include not only those elements of the Peace Treaties which may be unjust or out of date, but a reconsideration of the Locarno Treaties and a clearing up of the interpretation to be put upon the so-called "sanctions" clauses of the Covenant of the League of Nations. Both the Covenant and the Locarno Treaties were drawn up and signed upon certain assumptions which no longer hold good. The Covenant assumed that all the nations of the world would join the League, and that the great majority of the powerful nations would be in active sympathy with its principles. On that understanding it provided for guarantees under Article 10 and Article 16 which involved "automatic" economic sanctions and might involve military sanctions. Such guarantees might be suitable and effective in a League which embraced the whole world. They are obviously impossible in one which does not include Russia and the United States and Japan, and some of whose most powerful members can now hardly be relied upon as enthusiastic champions of its ideals. Some of the principal difficulties of the post-war period have been caused by uncertainties as to the meaning of the sanctions clauses, and as to how far Great Britain alone could make good the defection of other Powers. It is now generally recognised that Articles 10 and 16 no longer possess an "automatic" character. It was formally stated by Sir Austen Chamberlain before the Locarno Treaties were signed that Great Britain could undertake no military responsibility in

* See page 584.

The Recoil from Freedom

eastern Europe. And after the rejection of the Covenant by the United States it was made clear by the British Government that it could not undertake economic sanctions under Article 16 if to do so would involve it in a quarrel with the United States over the freedom of the seas. Other nations have taken the same view. It is now generally agreed that the meaning of the Covenant is that it is the duty of members to take any international dispute or threat of war into immediate consideration under Articles 11 or 15, but that they are free to decide what action they should take in the circumstances to defend the Covenant. We think it important that this interpretation should be regularised, partly because we are convinced that Europe cannot and ought not to be stabilised on the basis of any kind of guarantee by Great Britain alone, and it is essential that there should be no misunderstanding on this point, and partly because we think that by far the best security for liberty and peace is that the United States should return to some kind of active participation in world affairs, and because it will be difficult to frame any basis of association between the United States and ourselves so long as there is any kind of automatic commitment to take part in a European war.

It is the same with the Locarno Treaties. These were signed on the assumption that friendly relations could be established between a democratic France and a democratic Germany on the basis of the fulfilment of the Paris treaties and promises. The position has now fundamentally changed. Germany is no longer democratic, and the dominant party in Germany is, to say the least of it, unsympathetic to the ideals both of Locarno and the League—a state of affairs for which France is partly responsible. Further, the principle that Germany is to have “equality of status” has been conceded and if Germany is to be given equality she clearly cannot have imposed upon her in perpetuity a unilateral demilitarisation of part of her territory. On the other hand, if Nazi

The Future

Germany comes to be regarded as a menace to freedom it is absurd that Great Britain should be under any obligation to go to war with France, if, in the event of a conflict, she should be the first to violate the demilitarised zone. This is not the season to discuss the precise form which the revision of the Locarno Treaties should take, but we think that it must conform to one essential condition—it must be one which is accepted by all the nations of the British Commonwealth, and it must be consistent with a consultative arrangement under the Kellogg Pact.

If there is to be a consultative pact with the United States, what should be its basis? It can only be the one set forth by Mr. Stimson in his speech to the Council on Foreign Relations in August, 1932.* The basis therein proposed was that if there was any threat of war there should be immediate conference of the signatories on a basis that, while none of the signatories was bound beforehand to any particular action, “neutrality” in the old sense of the word was out of date, and that they all had an active interest in and a common responsibility for trying to prevent war and for bringing about just and pacific settlements of international disputes. Acceptance of such an arrangement, formal or informal, by the United States would be a far more effective deterrent to war and imperialism than any new European security pacts or any unilateral commitment in Europe by Great Britain alone. We would go further. If after a reasonable period of trial, it should become apparent that there is no real prospect of Europe becoming more stable, or of such a consultative pact as we have suggested, we think that it will be more important, both for our own security and for the peace of the world, that the British Commonwealth and the United States—the oceanic Powers—should come to a naval, political and economic understanding, if necessary apart from Europe, than that Great Britain should go on

* See THE ROUND TABLE, No. 88, September 1932, p. 701.

The Recoil from Freedom

trying to bolster up a European structure which has no prospect of developing any inherent stability of its own.

It is exactly the same with the British Commonwealth. Since 1919 the problem of inter-imperial relations has been subordinated to the Geneva system. Great Britain has undertaken unilateral obligations in Europe, to which the Americans have not been parties, in the interests of that system. But, if the authority of the League is further weakened and dictatorship spreads, that cannot continue, and the question of inter-imperial relations will come to the fore once again. For in a world in which force may be more important than reason, the power of the nations of the British Commonwealth to support world peace or to defend themselves will depend upon their own unity and capacity to act together. Individually they are weak and liable to be defeated in detail. Collectively, and especially in association with the United States, they would be secure.

There remain the questions of revision of the Treaties and disarmament. The position seems quite clear. The first point to determine is whether Germany and the other advocates of revision want to upset the principles of the Treaty settlement or whether they are merely concerned to remedy incidental injustices and defects in it by consent. If they mean the latter, the whole question of revision and equality in armaments ought to be taken in hand as a single whole without delay, with a view to making a final and agreed settlement. But if by revision is meant throwing the Treaty settlement into the melting pot, questioning the right of European nations to self-determination, the inclusion of majorities of other races in Germany or Hungary or other countries against their will, or transfers of large colonial territories, then the only course for the signatories to the Peace Treaties will be to refuse discussion and to resist any change in the disarmament provisions of those Treaties until a revision has been reached over the whole field which is accepted as final on all sides.

PRESIDENT ROOSEVELT'S PROGRAM FOR RECOVERY

THIS article must leave tomorrow, May fifth, on the *Majestic*. A week will go by before the printer gets it, and there will be another two weeks before it is read. It seems hopeless to try to set down anything here that will be worth reading three weeks from now. For affairs are moving at a swift pace in the United States and the future is quite unpredictable. A review of some of the things that have happened since Mr. Roosevelt took office on the fourth of March will, I think, substantiate that statement, and will lend support to the opinion, held on many sides, that this country is at a turning point in its history. If that should prove to be the case, then those who write the books will begin a fresh chapter with the day when Franklin Roosevelt became President.

On that morning between thirteen and fifteen million wage earners were without jobs. (It is a fact that no one knows, within two million or so, how many unemployed there are.) Every charitable organization in the land was taxed to the breaking point. The public relief funds of many States were exhausted. Farmers were in open armed revolt against the sheriff and the auctioneer. The streets of cities were lined with beggars and blocked with queues of men waiting for coffee and bread. Millions of men and women and children were in terror at what they saw as they looked into the eyeballs of starvation—a mass of patient, beaten, hopeful beings—infinitely patient, cruelly beaten, pitifully hopeful—a black backdrop to the pageant of the inauguration. They understood what the new President meant better than he understood it himself.

Values have shrunk to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no market for their produce; the

President Roosevelt's Program for Recovery

savings of many years in thousands of families are gone. A host of unemployed citizens face the grim problem of existence. Only a foolish optimist can deny the dark realities of the moment. . . . We must act, and act quickly.

By the night of Thursday, March 2, the bank deposits of twelve States—all the deposits in all these twelve States—lay behind closed doors, safe from the feverish fingers of the people who demanded them back. By Friday morning the number of States had increased to twenty-three; by Friday afternoon thousands of depositors were fighting to reach the cashier's window at the Bowery Savings Bank in New York City, the largest savings institution in the world. By Saturday morning—the day of the inauguration—every bank in Illinois, New York, Iowa, Missouri and Minnesota was shut by Governor's proclamation and every securities market in the country was closed. At one o'clock on Saturday Roosevelt was sworn in. He made his way slowly and without help across the platform. He stood without coat or hat in a bitter March wind. He spoke briefly and bravely. "In this dedication of a nation," he concluded, "we humbly ask the blessing of God. May He protect each and every one of us! May He guide me in the days to come!"

On the next night two proclamations went out from the White House. The first called Congress "to convene in special session at 12 o'clock noon on the ninth day of March 1933, to receive such communication as may be made by the Executive." The second decreed a four-day bank holiday throughout the United States, "and that during the said period all banking transactions shall be suspended." There is no room in these few pages to discuss at length how every bank in the United States got closed. As a matter of fact, the situation was handled so well, and so much has happened since then, that the fifth of March already seems almost as far back in the "white water" of events as the collapse of the Credit Anstalt in the spring of 1931. It is impossible to recount here the

President Roosevelt's Program for Recovery

labors by which most of the banks were re-opened in one week's time: or to write of the various currency expedients proposed in many States, adopted by a few, and then discarded before there was a real chance to try them out. And one can merely make a note of the serenity and sportsmanlike spirit with which the catastrophe was met, and the incredible faith in the President which this attitude attested.

The national banking system collapsed under the combined pressure of domestic hoarding and the flight of foreign short-term balances. An increasing number of inland depositors had sought to protect themselves by getting their hands on hard cash: interior institutions had called home their balances held in New York: foreign depositors caught the fever and converted their banking credits into gold. Uneasiness in the smaller towns and cities was increased by publication of the list of emergency advances to banks which had been made by the Reconstruction Finance Corporation; doubts concerning the true condition of the big New York financial institutions spread like wind as the result of a Senatorial investigation into the affairs of the National City Bank and the conduct of its President, Charles E. Mitchell. All these small clouds were blown into something huge, then ominous, then filled with thunder and lightning by the declaration of a bank holiday by the Governor of Michigan on February 14. But behind this March madness, and the cause of it all, was the long, slow deterioration of values—the cash values of commodities, stocks, bonds and real estate. The banks collapsed because of the collapse of prices. Thus the spiral of deflation ran its full downward course. Beginning with the stock market *débâcle* of 1929, intangible and tangible goods had been converted into cash because prices were tumbling, the resulting deposits in banks had been converted into currency because of apprehensions concerning the safety of banking institutions, and currency had been converted into gold because of doubts concerning the stability of all paper money except gold certificates.

President Roosevelt's Program for Recovery

The fury of the final stages of the three and a half years' panic may be measured by noting that between February 8 and March 8, in one month's time, the gold reserve declined by \$555,000,000, and money in circulation increased by a billion and three-quarters dollars. On one day alone, Friday, March 3, the day before Roosevelt's inauguration, \$116,000,000 in gold was withdrawn from the Federal Reserve Bank by frantic thousands who brazenly took what they could lay their hands on, and ran—a destructive, disgraceful, and quite comprehensible performance—comprehensible, that is to say, to an American: for we live in a community of 120,000,000 people, most of whom do not realize that a deposit in a bank is a loan. We enjoy a bad banking system, administered by persons who have proved themselves quite inadequate in this crisis. Those of you who live in the British Commonwealth are in these respects more fortunate: therefore, by you, these events may *not* be understood.

Be that as it may, Mr. Roosevelt had to deal with them. On March 9, in the promised "communication from the Executive," he asked Congress to confirm the emergency action which he had taken on the previous Sunday under a wartime Act of 1917. He asked for power to open the closed banks, to license exchange transactions, to control the export of gold, and to refuse demands for it at home. He requested authority to ease the statutory conditions under which a limited amount of new currency might be issued. Before Congress convened, the Secretary of the Treasury had sent out an appeal for the return of gold and gold certificates, presumably in order to increase the coverage behind the national note issues. Three things were then vital: First, to set the financial machinery in motion again; this was accomplished by the gradual re-opening of banks holding 90 per cent. of the nation's deposits, and by providing new currency for these banks where necessary against the pledge of Government bonds. Second, to induce depositors to use their banks once more

President Roosevelt's Program for Recovery through the Government's moral guarantee that the "sound" institutions which had been licensed by the Treasury to reopen would not be permitted to fail. Finally, it was imperative to establish faith in the eventual convertibility of the new currency into gold, by recalling as much of the hoarded metal as possible into the Government's hands. These things were done, and from the moment that the Administration did them, rapidly, boldly and confidently, it became clear that a new hand was at the wheel. Gold was to be exchanged for currency, first as the result of an appeal, and then, if necessary, by penal legislation; currency was to be exchanged into bank deposits by making the banks safe for the depositor; and, lastly, as the program became clearer, bank deposits were to be exchanged into goods, and this was to be brought about by "reflation"—a deliberate attempt to lift prices from the panic levels to which they had fallen.

II

THE emergency banking legislation requested by the President was passed by the House of Representatives by unanimous vote and by the Senate by a vote of 75-7 as soon as Congress met. On the following day the President requested that he be given full authority to reduce war veterans' allowances and government salaries, and to reorganize government departments. On Sunday, the twelfth, he spoke on the radio, explaining in reassuring voice and in simple words precisely what had happened to the banking machinery. It had been overhauled, and now it might be safely used again. On Monday, after a week's holiday, the first "sound" banks were reopened, and the President, pursuant to his campaign pledges, asked Congress to legalize, and tax, the sale of light wines and beer at once. With these powers in hand, it was proposed to balance the budget—and specifically, to realize what even Roosevelt's admirers had regarded as a campaign phantasy, the reduction of the normal budget by a billion dollars.

President Roosevelt's Program for Recovery

Though some of the legislation for which he asked was delayed for a few days, the national credit was bolstered up by the evident intentions of the Administration, and on the fifteenth of March the Treasury was able to market \$700,000,000 refunding notes at a rate of interest no greater than that which prevailed prior to the banking holiday. Looking back upon these swiftly moving events, one is impressed by the coherence of the President's emergency program and its plain courage. For he over-rode the interests of millions of his people (so they thought) by refusing to let their particular banks open: he grasped the nettle of war veterans' allowances firmly, reducing them by almost half a billion dollars, thereby correcting an evil which no President in American history has dared to attack; he displeased thousands employed in the civil service by slashing their salaries substantially; he secured his reforestation program with its wage of a dollar a day at the cost of a fight with the American Federation of Labor; and he overthrew the "dry" lobby by restoring beer to the country within two weeks of taking office. He showed himself to be master of Congress, master of minorities, master of the situation. He maintained an unequivocal determination to balance the normal budget: by the third of May he announced that in the exercise of powers granted to him, the normal budget was so near to balance that the result was practically assured; and he reported savings in appropriations of \$880,000,000 with the promise that the final \$120,000,000 would still be achieved.

So far the program was easy to understand. The measures were necessary, they were logical, they were magnificent. But except as the honorable fulfilment of campaign promises, and the provision of a bit of bread and a peep at the circus by way of the beer Bill, and except for supporting that expensive and exacting mistress, the national credit—where was the New Deal? Beer-making and all the collateral arts, from cooperation to bartending,

President Roosevelt's Program for Recovery

might be advanced and profits might show here and there; but, after all, four billion dollars stayed locked up in closed banks, and *that* wasn't good for the country. Government spending had been cut down a billion more, and *that* was not good for business. Deflation had brought the United States to the brink of ruin, and the first acts of the new Administration had done nothing but intensify the process. It cannot be said that the prestige of the President suffered. His personal popularity was, and is, enormous. He maintained, through all these first weeks of collaboration with Congress, a power which it was useless to contend with, even if there had been the disposition to do so. And as the rest of his program of reconstruction became known it was clear that the President and his advisors did have a program for recovery—which envisaged measures of relief for the farmers and small house owners whose property was under mortgage, a scheme for the employment of a quarter of a million men in reforestation, a plan for developing the resources of the Tennessee Valley by operating the gigantic unfinished power plant at Muscle Shoals, and a program of public works involving the expenditure of some two billion dollars, calculated to provide work for a considerable number of unemployed. Except for the last of these projects, Congress has either passed the necessary legislation or has it under consideration, with little doubt as to the outcome. Nor is there great alarm in conservative circles over the effect of spending government funds in these ways. Projects which add to the material wealth of the country and its future earning power may not improperly be considered as capital outlay to be distinguished from the budget of current expense. When, too, they put money in circulation, provide work, stimulate industry and restore confidence, they are to be welcomed. But it cannot be denied that the right wing is badly bewildered by the Bill to raise the price of farm products now under consideration by Congress, and thoroughly alarmed by the possibilities of the so-called

President Roosevelt's Program for Recovery

Inflation Bill, which has been attached to it as an amendment. It is significant, they feel, that both houses of Congress have already passed the "dangerous" amendment by overwhelming majorities, even though they have not yet reconciled their differences with respect to the principal Bill. Under the latter measure the farmer, in effect, is to be paid a bounty to reduce his production; but the document embodying this principle contains some eighty pages, and even the most painstaking explanations of its authors have failed to make clear how prices for farm products will be raised thereby. The President has proposed it frankly as a promising experiment, but the failure of similar national and international schemes to control prices makes the success of the Farm Bill very dubious. The intentions of the inflation amendment, on the other hand, are clear, and the story of how it came about may have a bearing upon the uses to which it will be put when the President wields the power which it confers.

The Republican party, controlled as it is by the creditor element in the United States, has always been the party of "hard money." The Democrats, controlled by the debtor half of the electorate, have ever taken the view that a little elasticity now and then never hurt anybody. In 1896, when the currency of the United States was last in grave danger, William Jennings Bryan advocated the use of silver as backing for government notes in the ratio of sixteen units of silver to one of gold. On this issue—the cry of "16 to 1"—he was defeated by McKinley, and for thirty-seven years Bryan's losing slogan has been the synonym for absurdity. During the Presidential campaign last summer Republican speakers tried to frighten the country with warnings against tampering with the national credit. Mr. Roosevelt, then and in his inaugural address, declared for a "sound but adequate currency." Surely his first deflationary acts were "sound"—five billion dollars had been cut off the spending power of the nation. And surely his far-reaching plans for physical reconstruc-

President Roosevelt's Program for Recovery

tion were not alarming. But just at the end of April, with this program apparently working smoothly, he was brought sharply to book by a startling proposal advanced in the Senate. Senator Wheeler, of Montana, had the effrontery to propose a measure for the free coinage of silver, not on any new basis, nor as the result of any plan adapted to present circumstances, but purely upon the notorious Bryan ratio of 16-1. Senator Frazier offered an amendment authorizing the printing of fiat money. Senator Connelly proposed devaluation of the gold dollar. And when a poll on the silver amendment was finally taken, thirty-three Senators voted for it. The proposal was lost by ten votes; but the showing of inflationary strength was a shock, and the manner in which the Democratic Senators deserted their leader to vote for this measure indicated that Mr. Roosevelt had a crisis of the first magnitude on his hands.

It is now agreed that the President met the situation in the best possible way under the circumstances. Faced with the certainty that unless he took quick action he would shortly be confronted with a *fait accompli*, he called Senator Thomas, the leader of the inflationary group, to the White House. They agreed together on a new Bill which would not force inflation by mandatory provisions, but would put power in the President's hands, within his discretion, to use any or all means of achieving higher price levels which had been suggested in the Senate debate. These powers will shortly be at Roosevelt's command: the one question of the moment is, how does he intend to use them? Presumably he will first instruct the United States Treasury through the Federal Reserve Banks to buy \$3,000,000,000 worth of government securities. This amount of cash lying idle in the banks as deposits will presumably be put to work in the shape of commercial credits. This is orthodox finance, but it didn't produce an upturn of business when President Hoover tried it, and may make little headway even with Roosevelt's magic

President Roosevelt's Program for Recovery

touch. The President is further authorized to issue up to \$3,000,000,000 in new paper money, backed by neither gold, nor silver, nor bonds, but by the good faith of the Government. This is unorthodox finance, dangerous *per se*, and likely to lead to further such emissions of money if Congress takes the bit in its teeth again. A color of soundness has been lent to the scheme by providing that 4 per cent. of the total issue will be retired annually by funds appropriated by Congress, and the President's advisors are today considering a new tax which is expected to yield the required 4 per cent. in case he uses the power granted to him. Finally he is authorized to cut the gold content of the dollar down to 50 per cent. of its "present standard of weight and fineness." This violent possibility might ease the burden of debtors, but its repercussions would be severe. It is profoundly to be hoped that nothing will be done under this authority, but if it is going to be done, let's have it over quickly!

What are the prospects? It is clear that the Administration is determined to raise prices. It is probable that the President will use his sweeping powers step by step and with moderation. He is forced to steer the Ship of State between whirlpools of uncontrolled inflation and the rocks of the collapse of his plan. He will have the hard-headed advice of Lewis Douglas, Director of the Budget, at his right hand; at his left he will have Messrs. Raymond Moley, Adolf Berle, Rexford Tugwell, Mordecai Ezekiel and the other Academes who make up his "Brain Trust." They present a strange phenomenon in Washington, these professors, mostly from Columbia University, making plans, refashioning the railroads, reforming the banks, raising wheat prices and the like. But strange phenomenon or no, the President selected them, he has confidence in them, they are fertile in suggestions, they have studied their subject matter for many years, and, oddly enough, they seem to be able to make up their minds. In these latter years nothing has been more noteworthy

President Roosevelt's Program for Recovery

than the utter failure of the bankers to take a leading part in affairs, unless it be the inability of the railroad heads to do more than scratch the surface of their problems. They have abdicated their natural seats of leadership, and they are scarcely entitled to be noticed when they shake their heads over the doings of the "Brain Trust."

III

AT some moment or other in the midst of this whirlwind of events the United States went off the gold standard. It would be hard to say when. Certain people will tell you, with blood in their eye, that it happened on April 19, when Mr. Ramsay MacDonald was on his way to the White House to work out plans for international co-operation. These people seem to think either that an unpardonable offence against a friendly nation was thereby committed, or that the United States, clever and callous, at last secured for itself a major diplomatic advantage. These are the same knowing folk who take you by the buttonhole to tell you that the secret use of the Sterling Equalization Fund is either a menace to the very life of the United States or that it is a triumphant weapon for Great Britain in some vast financial war. It is useful, perhaps, to recall that the United States first went off the gold standard, not on April 19, but on March 6, when every bank in the country was closed, and the holder of convertible currency was no longer able to convert it. After that date, no American was able to obtain gold for his private use, and only a negligible amount of it was specially licensed for export. The gold standard was first abandoned as a result of the bank panic; feeble efforts to return to it were made during the next succeeding weeks; the final decision to stay off it for an indefinite period was made in mid-April in the fear that unless such steps were taken a second bank panic would ensue. The pressure of this fear, the ominous social situation in Detroit and Cleveland, the threat of uncontrolled inflationary legislation in Congress,

President Roosevelt's Program for Recovery

all seemed to make it necessary to abandon the gold standard for the sake of being able to return to it at a less troubled time. If the action had been taken during Mr. MacDonald's visit, it would have provoked the deepest bitterness. If taken after his departure, it would have undermined the basis of any agreements which might have been reached. In the view of the Administration it was best to act quickly, not because the British Prime Minister was on his way to the United States, but in spite of it.

This decision has had one ugly consequence. On May 1 the holders of interest coupons attached to United States Government bonds and bonds of private corporations presented them for payment. Almost all these coupons, owing to a provision peculiar to American fixed obligations, were payable "in gold coin of the United States of America of or equal to the standard of weight and fineness existing" on the date when the obligation was contracted. Because of the government prohibition against obtaining gold it was impossible for corporations to meet their obligations as stipulated in the bond. But what is more serious, the Federal Government itself, holder of a huge store of United States gold coin, refused to make interest payments according to the letter of the contract. It must be evident that neither the Government nor private corporations issuing these obligations ever expected that payment of principal and/or interest in gold would be exacted, for the face amount of such securities now outstanding is said to exceed \$75,000,000,000, and there is scarcely one-sixth of this amount of gold above the surface of the earth. Nevertheless it is contended that the Government of the United States is not thereby excused from literal performance, and that private obligors, if they really wish not to evade their obligations, should pay in current funds, in addition to the face amount of the coupon, a certain number of dollars reckoned by the percentage of decline which the dollar has suffered *vis-à-vis* a gold unit such as the French franc. When holders of coupons did ask for excess dollars on this theory, they were denied them. In France and in

President Roosevelt's Program for Recovery

England the United States Government is being accused of repudiation. This is a grave charge. It is no answer to reply "that the United States has not, in fact, done one single thing which foreign governments, almost without exception, have not done first and in greater degree." It is true that when francs depreciated, the foreign owner of francs suffered a loss; that when Great Britain went off the gold standard many a foreign holder of sterling lost a considerable part of his purchasing power in terms of his own domestic currency. But the French Government did not contract to maintain the parity of the franc, nor did Great Britain engage herself to remain on the gold standard. How this obligation of the United States Government will be construed by appropriate authority remains to be seen. It will be time to characterize our "May Day" action when the Supreme Court of the United States, or an international tribunal, has decided how the express obligation must be met. While we await this opinion it will become clearer than ever before to many of us living in the United States that certain other nations, owing money here, cannot pay in gold the sums they have contracted to pay in that medium.

But the war debts, it is said, are not to be discussed at the Economic Conference to be held in London. Mr. MacDonald has said so, and his statement has not been qualified by Mr. Roosevelt. Surely an understanding must have been reached that the United States will permit the fifteenth of June to go by without insisting on payments then due. It is not conceivable that the Conference could have been advanced from the end of June to the twelfth of the month, with the approval of its Chairman, unless some such agreement exists. Otherwise, in the first three days of its existence, the assembly would expire from a surfeit of lampoons.

It remains to be seen what other results were accomplished, and are now being accomplished, by the preliminary conversations held in Washington at President Roosevelt's invitation. The atmosphere seems to have been good; per-

President Roosevelt's Program for Recovery

sonal relationships that have been established are bound to be helpful in the long run. Optimistic communiqués have been issued, but they have little meat in them. No doubt the most favorable view is this : that the principals agreed on the need for a general increase in commodity prices and upon certain practical steps to be taken, jointly, to bring about that result in both the economic and the monetary fields ; that a broad understanding was reached that war debt payments should be alleviated and that tariff barriers must be lowered. And lastly, it is possible that the new President of the United States gave indication of a new policy in international affairs—that of active collaboration in the economic sphere on a scale not envisaged heretofore.

But if these most encouraging conclusions were indeed reached, they have been considerably shaken by certain happenings since Messrs. MacDonald and Herriot left these shores. Europe rages at the "repudiation" of the gold obligations of the United States Government. We, I regret to prophesy, will be equally voluble over the gigantic increase in the Exchange Equalization Fund which Parliament granted to Mr. Chamberlain today. These are vicious obstacles to better understanding : both of them retard such microscopic progress as we are making. All of us, as Sir Walter Layton has said, are prepared to will the common end, but for the very life of us we cannot will the means to that end.

There was a moment in the history of the American Continental Congress when the independent tendencies of the colonies in their dealings with each other threatened to wreck the political independence of them all. Benjamin Franklin brought them to their senses. "If we don't hang together," he said, "we shall hang separately." Perhaps the Economic Conference could be opened with a discreet animadversion to this idea, with a dash of prayer thrown in. For we have arrived at precisely that state in the affairs of the world.

The United States of America.

May 4, 1933.

510

President Roosevelt's Program for Recovery

NOTE

SINCE the above article was written President Roosevelt has sent a message to the 54 States taking part in the Disarmament and Economic Conferences. In it he points out the extent to which "the happiness and prosperity, the very lives, of the men, women and children who inhabit the whole world are bound up in the decisions," and the need of the decisions being come to quickly. He refers to the dangerous clash of confused purposes at the Disarmament Conference. "Our duty lies," he says, "in the direction of bringing practical results through concerted action based upon the greatest good of the greatest number . . . Petty obstacles must be swept away, petty aims forgotten." He sees two reasons for the reluctance to give up excessive armaments: the first, the desire, "disclosed or hidden," which, he believes, only affects a small minority, to enlarge their territories ; the second, a fear of aggression—a fear for which he recognises the justification. "Modern weapons of offence are vastly stronger than modern weapons of defence." "The ultimate objective of the Disarmament Conference must," he adds, "be the complete elimination of all offensive weapons. The immediate objective is a substantial reduction of some of these weapons and the elimination of many others."

"There are," the President considers, "three steps to be agreed upon at the present discussions : (1) To take at once the first definite step towards this objective as broadly outlined in the MacDonald plan ; (2) to agree upon the time and procedure for taking the following steps ; (3) to agree, while the first and following steps are being taken, that no nation shall increase its existing armaments over and above the limitations of treaty obligations."

He proposes a fourth step : "That all nations of the world should enter into a solemn and definite pact of non-aggression ; that they should solemnly reaffirm the obligations they have assumed to limit and reduce their armaments, and, provided that these obligations are faithfully executed by all the signatory Powers, individually agree that they will send no armed force of whatsoever nature across their frontiers." "Common sense," adds the President, "points out that if any strong nation refuses to join with genuine sincerity in these concerted efforts for political and economic peace, one in Geneva and the other in London, progress can be obstructed and ultimately blocked. In such an event the civilised world, seeking both forms of peace, will know where the responsibility for failure lies."—EDITOR.

NAZI GERMANY

I. METHODS AND THEORIES

THE so-called National Revolution in Germany throws a disquieting light upon the potentialities of propaganda in an age of rapid development. Propaganda, thanks to scientific improvements, provides an instrument capable of influencing, for good or evil, the lives of a teeming world population, just as easily as those of small populations used to be influenced by more primitive means in a simpler age.

The Hitler upheaval owes more to propaganda than any similar movement. The Bolsheviki had completed their revolution before they learnt the uses of propaganda. The Italian Fascists met with real opposition, and had to expose themselves to danger. But the Nazis had merely to create the appearance of a menace to secure the acquiescence or passivity, first of the aged President and the minority in power, and then of, say, half the electorate, for the purpose of ferocious measures which only panic caused by fear of an unprecedented national catastrophe would have been felt to justify in any less emotionally gullible country. The Nazis accomplished their object by propaganda, and it is a nice question whether we should recall with pride or with regret that it was we ourselves who taught them the trick. It was our own war propaganda that first showed them the effectiveness of such a weapon. They have always acknowledged their debt to us and, with characteristic thoroughness, they set themselves at an early stage to learn their lesson.

Their studies were destined to produce a genius. The Governments of the Weimar republic had, in their own efforts, to comply with accepted standards of accuracy and to take into account the existence of an intelligent, well-informed public opinion abroad. No such trammels impeded Dr. Goebbels, the present Minister for National

Methods and Theories

Enlightenment and Propaganda and the architect of the Nazi "Third Reich." His experiments were only upon his own countrymen, and he acted upon the old principle that one may as well be hanged for a sheep as a lamb. He was suppressed at times, but never for long. Restrictions were astonishingly elastic in the days of the old republic.

The National-Socialist movement was worked up by an unceasing campaign of what can only be compared with religious revivalism. The method was to play upon the feelings of a people inherently susceptible to mass suggestion, and rendered more subject to emotion by undernourishment, strain and other hardships during the war and the inflation. The Treaty of Versailles was the most valuable tool in the agitator's bag. To it was ascribed blame for a sense of undeserved national humiliation and undeserved social misfortune, the last attributable more especially to the reparations clauses. President Wilson's fourteen points, and the sanctimonious wrappings of the Peace Treaties, made it a simple enough matter to hypnotise crowds, vaguely conscious of grievances, into overlooking the hard fact that they had lost the war, and later that the whole world, not only Germany, was suffering from economic depression and passing through a social crisis. Whatever the faults of the Treaty—and they were great—they became magnified out of all proportion. Thousands listened with uncritical enthusiasm while Herr Hitler poured forth airy promises of a mystical national resurgence, and promised remedies for the social grievances of every one of his listeners. The effect was enhanced by brilliant stagecraft, and as the hysteria grew, the figure of the prophet stood out more and more luminously, and what he actually said mattered less and less. Last May Day was a good illustration of the method.

The Hitler legend once established, there was no difficulty in transforming the impersonal hatred of the Peace Treaties imposed by the foreigner into a venomous personal

Nazi Germany

animosity against those sections of the community at home which had to be dislodged before the Nazis could hope for power. It was easy to brand the supporters of the Weimar constitution as the accomplices of the oppressor. Had they not been forced to face facts and to make some attempt to fulfil their country's international obligations? Anti-Semitism fell naturally into place in the programme. Democratic conditions under the republic gave free scope to ability, and the Jews—already to some extent encouraged by Wilhelm II—attained a prominence in the political, commercial and artistic world out of all proportion to their numbers. They thus became identified with "the system," as the republican regime was called.

There were scandals and corruption under the republic, as under most governments; but they were exaggerated and distorted, and the average Hitlerite became firmly convinced that practically no one who had been officially connected with "the system" could possibly be honest. Pacifists the Nazis were taught to look upon as international in outlook and therefore disloyal to the cause of national regeneration. Communists, socialists and democrats alike were guilty of pacifism as well as "Marxism," and therefore doubly traitors. Jews, besides being profiteers and bloodsuckers, were mostly communists, socialists and democrats, and those of them who dominated literature, art or the stage were "intellectual Bolshevists," who had contaminated clean, solid German art with clever decadent foreign ideas. There was clearly some foundation for the demand for a purification of the national life. But licence here and there was hardly a reason for sweeping genius wholesale into the dustbin.

The Nazi appeal to the discontented was the more effective for being presented by the discontented. Many of those who gathered round Herr Hitler in the early days, and later became subordinate leaders, were formerly officers or non-commissioned officers whose occupation had gone

The Nazi-Nationalist Coalition

with the close, if not of the war, of the turbulent period of free corps and "Black Reichswehr" activities. Many of them were soldiers of fortune both in type and temperament, whose record had been far from exemplary in those irregular forces which accepted brutal hole-in-the-corner murder, in the name of patriotism, as "execution." These men, turned street corner orators, had not only the discontent of their own class to work upon, but that of the younger generation, which, thanks to the economic depression and the abolition of compulsory military service, was for the most part unable to find anything to do. It is remarkable that any idealism at all should have survived in the ranks of the Brown army, whose instructors were in their element inflaming the minds of their youthful hearers with theories of the systematic application of violence for vengeance sake, which they confused with the virtues of patriotism and manliness, and with the traditions of Frederick the Great and the War of Liberation against Napoleon.

This summary of Nazi methods may be challenged as doing less than justice to the measure of sincerity which undoubtedly underlies the movement. Yet both Herr Hitler and Dr. Goebbels, the first in a paragraph that has been cut out of later editions of his book, and the other in an inadvertent revelation in a public address, have admitted, from their own experience, the necessity—for the good of the people, of course—of exaggeration and misrepresentation in the building up of a popular movement.

II. THE NAZI-NATIONALIST COALITION

BY the summer of 1932, nearly 40 per cent. of the electorate had been carried; but Herr Hitler scorned coalition, and demanded all or nothing. Yet an absolute majority seemed a long way off. The violence after the July elections, especially the disgusting murder of Potempa

Nazi Germany

in Silesia,* even caused a setback, and some two million votes were lost by the end of the year. The decline continued until chance and human weakness unexpectedly combined to bring Herr Hitler what he wanted. It cannot be too plainly stated that the Nazis first obtained power by an accident, and not because the majority of the electorate wanted them.

General von Schleicher, in his efforts to force the then Chancellor, Dr. Brüning to accelerate his pace, started in 1931 a system of "palace" intrigue which was to be his own undoing a couple of years later. The President, who in the summer of the following year was staying in East Prussia, and, as octogenarians are apt to do, becoming more and more susceptible to the influences of his early environment, was persuaded that the Chancellor was contemplating the introduction of a sort of "agrarian Bolshevism," because he had proposed that hopelessly insolvent large estates in eastern Germany should no longer be kept going by endless State subsidies, but left to the normal working of economic laws, which meant that they would in due course be sold and converted into small holdings, a result which was widely agreed to be desirable. Dr. Brüning, who could still rely upon a parliamentary majority to prevent the repeal of the measures he decreed, was trying to develop constitutionally a less clumsy form of parliamentarism than the one created at Weimar. He had, moreover, plans for bringing the Nazis into the government under safeguards. Early last summer, however, he was virtually dismissed by the President.

With him fell the last chance of saving parliamentary democracy. After his fall, the Junker-Nationalist group, a small minority, with Herr von Papen, who enjoyed the President's personal confidence, as Chancellor, took office. General von Schleicher had not, it would seem, meant things to go so far; but he made the best of the situation

* For full particulars of the Potempa case see *The Times* of August 20, 22, and 23, and September 3, 1932.

The Nazi-Nationalist Coalition

and became Defence Minister, though he remained in the background, leaving to Herr von Papen the responsibility—the rope with which he could hang himself. This, in five months, Herr von Papen did, though not, as it turned out, beyond all possibility of revival. His government did not obtain the support of more than a tenth of the electorate in two successive Parliaments, and he refused to meet either of them. By giving the Nazis, however, a freedom of action which they abused, then by suppressing disturbances with a strong hand, and finally by snubbing Herr Hitler in the negotiations for a coalition, he checked the Nazi advance for the first time, and even forced it to retreat. But at the same time he antagonised Labour and drove many people who were not really Communists at heart into the Communist ranks. His isolated position finally became intolerable and the President, despite his unbroken personal trust in Herr von Papen, had to appoint General von Schleicher Chancellor.

The general's outlook was still much more akin to Dr. Brüning's than to von Papen's. As a soldier of the younger school he had a keen sense of the importance of the trade unions, upon whose members the munitions supply would, in the last resort, depend. He hoped, moreover, by way of the unions to link up with the Nazis and to elbow out Communism. The fact that he had taken the place of von Papen began indeed to check the increase in Communist numbers. But it was too late. Von Papen and the Junkers could not forgive him. Now that he was Chancellor, he found his predecessor, together with Colonel Oscar von Hindenburg, the President's son and A.D.C., in full possession of the President's ear, and himself, who had once shared it with them, left out in the cold. They overthrew him before he had a real chance, by the methods he had himself taught them, and for the very faults with which he had credited Dr. Brüning—hesitation and a failure to take dramatic action.

Nazi Germany

Partly from fear that the Army might rally to the general's aid—there was no lack of rumour—Herr von Papen, Herr Hugenberg, the Nationalist leader, and the Nazis stampeded themselves and the aged President into agreeing to a coalition of “national concentration,” with Herr von Papen, who alone had the necessary influence to move the President, as the leading spirit. The Nationalists imagined that they could control their new Nazi allies (whom they had been fighting furiously only a few months before), and harness the “national” half of the National-Socialist spirit to a nationalistic, and perhaps even a monarchist, revival.

Dis aliter visum. Herr Gregor Strasser, the intermediary through whom General von Schleicher had hoped to link up trade unionism with the Nazis, and the most moderate and constructive of the Nazi subordinate leaders, had already been suppressed. Herr Hitler and his friends, probably not without reason, feared a trap. They preferred to make one more effort to rally the movement in the hope of securing undivided power, in spite of the decline of their influence. Fortune always favours the brave. Herr Hitler was, so to speak, in the act of walking away from the Wilhelmstrasse pondering over his plans when Herr von Papen unexpectedly called him back through the back door into the Presidential residence. Though still suspicious, he decided to take the risk when he saw that General von Schleicher had been eliminated, and that the Junkers and Nationalists were in a flutter. The proposed coalition after all offered him a chance of getting possession of the country without a fight if he played his cards well. He accepted. It was to be a test of cunning, and anyone less serenely self-confident than Herr von Papen would have hesitated before venturing to come to supper with the Nazis with such a very short spoon. As fanatically inspired, in his own way, as the Nazi leader himself with the conception of a national rebirth, and full of hope that he would be able to make use of the “national” side of

The Nazi-Nationalist Coalition

Naziism, he disregarded the risk of the “socialist,” in some respects the almost Bolshevik, side getting out of hand. With the landowners and the industrialists, irredentism and hatred of international Labour were as ever the ruling motives.

A Nazi-Nationalist Government, with Herr Hitler as Chancellor, was formed on January 30, 1933, and Herr von Papen, now Vice-Chancellor and still the most influential adviser of Field Marshal von Hindenburg, completed his Prussian *coup** on constitutional pretexts which, in spite of their flimsy character, apparently satisfied the President. Captain Göring, the Nazi fire-eater, at the instance of Herr Hitler and despite warnings from his Nationalist colleagues, was appointed Deputy Commissioner of the Interior, nominally under Herr von Papen as Chief Commissioner for Prussia. It was then that the latter began at last to realise what, to use a colloquialism, he was up against. He had not only retained the chief position in Prussia for himself, but he had also to all appearance safeguarded the future of the Junker-Nationalist group by obtaining a promise that the Nazi element in the Reich Cabinet, then in a minority, would not be increased after the general election to more than half. Yet, it was all in vain. The Nationalist hold both in Prussia and in the Reich Cabinet was soon undermined. Captain Göring consulted Herr von Papen less and less about the reorganisation of the Prussian administrative services; some Nationalists, but far more Nazis, were appointed to executive posts and Captain Göring soon had the police under his own thumb. The revolution was gathering momentum, and it was to be not merely a “National” but a “National-Socialist” revolution.

The reign of terror began in earnest, in Prussia at any rate, several weeks before the general election. In previous years there had been provocation on both sides in the street

* Herr von Papen seized Prussia in July, 1932, on the ground that the Prussian Government could not keep order.

Nazi Germany

feuds. With the Nazis in power and the Brown Army a sort of privileged force, the provocation became one-sided. S.A. columns,* accompanied by police, made demonstrative marches through Communist districts. On one occasion—the very day that the Government's accession to power was being celebrated—a policeman with proletarian sympathies and a Nazi, not particularly popular among his comrades, were mysteriously shot. This provided the material for the flamboyant State funeral in Berlin which was designed to accentuate the officially encouraged fraternisation between the Nazis and the police. Elsewhere there were similar incidents and the Nazis exacted far-reaching vengeance. Police who attempted to check them were reprimanded and, as early as February 21, Captain Göring issued his notorious order to the police to make a ready use of their firearms in the campaign against "Marxism" (which, it had already been announced, would be conducted with "brutality"). He instructed them to give every support to the patriotic organisations, which meant primarily the brown-shirts. He had already on February 15 informed the provincial governors and chiefs of police confidentially that the S.A. and the Nationalist Stahlhelm were to be armed and used as auxiliary police. It was pretended that no more was contemplated at the moment than the enrolment of a few storm troopers and Stahlhelmers to help to keep order at provincial election meetings. But a few weeks later S.A. men (not only auxiliary police) were strutting about the streets everywhere with big revolvers in their belts, and sometimes long knives stuck in their top-boots.

This is a characteristic instance of the sort of misrepresentation upon which the whole operation of seizing the country was based. Ever since Herr von Papen's Prussian *coup*, official statements, assurances and denials had become steadily more ambiguous, until intelligent political circles had ceased to take them at anything like their face value.

* Nazi brown-shirt storm detachments.

The Terror

But the ingenuous ambiguities of the Papen régime were child's play compared with what came later. And they were by no means unknown in the early days of the Nazi movement. At his trial after the abortive Munich *Putsch* of 1923 Herr Hitler, when asked whether he had not broken his word, admitted that he had done so "for the Fatherland." Herr Strasser had made a similar admission in a public trial, and declared that he would break his word again for the sake of the Party. Often, it must be admitted, the official assurances were so subtly worded that disregard of them might later be defended if anyone thought of challenging them. For instance, Bavaria was told again and again that there would be no Reich intervention so long as law and order were preserved. They were preserved, but when every other State in the country had been taken over on the pretext of disturbances, there was some ground for the claim that, owing to the possibly uncontrollable impatience of Bavarian Nazis, law and order might be endangered and intervention was therefore justified. There was always a pretext which, however flimsy to start with, became overwhelmingly convincing to the fanatical or simple minded, when it had been through Dr. Goebbels's propaganda machine.

Dr. Goebbels' kept pace with every advance. Most of the pioneer work was indeed accomplished by him, and later on, when his department became a Ministry, his propaganda became more and more indispensable as the lack of constructive thought among the National-Socialist leaders grew more and more apparent.

III. THE TERROR

THE general election took place on March 5. It was meant to give a semblance of popular confirmation to the minority government's dictatorship and to the relentless turn of the wheel by means of which, on one pretext or another, it was thrusting the Weimar republican régime

Nazi Germany

under. Both Nazis and Nationalists boasted that they intended to remain in power whatever the result ; nevertheless, the Nazis at any rate wanted the reassurance of a majority. It might be awkward, they felt, if the President were to cause difficulties and leave no other course open to them but a *coup d'état* against himself, especially as they were by no means sure of the Army, of which he was the supreme head. The Nazis also wanted to underline again their numerical superiority over their Nationalist allies.

The administrative machinery, especially in States where it was under direct Nazi control, was made the utmost use of for the purposes of intimidation. Communist, Socialist and even Democrat and Catholic Centre newspapers were suspended and Opposition election meetings broken up on the slightest pretext. The daily incidents, in which real or apparent violence against, or obstruction of, uniformed Nazis was followed by disproportionate retribution, had a way of ending in the incapacitation of leading Opposition orators and organisers. But despite all this, and notwithstanding the strenuous oratorical campaign of Herr Hitler and his staff, the feeling persisted, even in government circles, that the Nazis and Nationalists together were hardly likely to obtain the coveted 51 per cent. of the votes. It is beyond question that in some quarters, with or without the full knowledge and approval of the leaders, an act of provocation on a striking scale was under consideration. Indications too serious to be disregarded pointed to the probability of a simulated attempt on Herr Hitler's life which would provoke a spontaneous or partly spontaneous outburst of fury among his followers, leading, it might be, to something in the nature of a massacre, in which not only the Jews but marked leaders of the Opposition would suffer. It was never quite clear whether the outbreak was intended to precede and influence the election, or to cover a *coup d'état* in case of defeat at the polls. Alarming reports found their way into the press of many foreign countries, pointed questions were asked in foreign parliaments, and the abhor-

The Terror

rence with which, whatever the pretext, any such outbreak in a civilised country, disposing of large disciplined forces, would be regarded in the rest of the world was made plain. Owing perhaps to such warnings, the Nazi terror did not take the form of concentrated violence, though it might not be unreasonable to wonder whether in the long run the death roll will have been very much, or the accumulated suffering at all, less considerable under the systematic but attenuated reign of savagery which developed from that time and has continued ever since.

The sense of strange happenings was nevertheless in the air, and to many who had followed political developments closely it came as no great shock to see the central dome of the Reichstag glowing orange with seething flames on the Monday preceding the elections. The fire was unexpected, yet the mind was prepared for something at least as spectacular. That an act so senseless—politically so suicidal—should have been planned by leading Communists or Socialists, and carried out in such a way that there remained nothing for the police to find except an alleged Dutchman with a dubious communist past, who, though only half clothed, retained compromising papers, including a passport with the name spelt in the German and not the Dutch way, was found hard to accept even by many intelligent supporters of the "National Government." The alleged incendiary, van der Lubbe, was not allowed to be seen even by the official representatives of his alleged country ; nor was there any sign of his being brought to trial two and a half months after the event.

Fantastic though the official story was, no direct evidence has become available in support of the theory, not unnaturally advanced by sceptics, that leading authorities, such as Captain Göring, were aware in advance of what was going to happen. But if it had been in their minds, they could not have exploited it more swiftly and effectively. At 2 a.m., some three hours after the fire had been got under control, a summary of the drastic measures which Captain

Nazi Germany

Göring was going to impose in Prussia was already being released to news agencies, though it was withdrawn temporarily after a few moments on the ground that alterations had still to be made in consultation with the Reich Government. Nevertheless, although a Reich decree for the protection of the State, suspending the constitutional guarantees of the person, was promulgated the next evening, the almost hysterical Prussian declaration indefinitely suspending, not only the Communist but the whole of the Socialist press in the State, on the ground that van der Lühbe had admitted his connection with the Socialists as well as with the Communists, was published on the same Tuesday morning. Yet, according to police statements, van der Lühbe himself, after an all-night examination, in which he obstinately denied having had any accomplices, had fallen into an exhausted sleep and was not questioned again until the afternoon. It was hard to understand how his alleged confession of Socialist associations (which was in any case admitted by the investigating authorities later to have been without foundation) could have been available before 2 o'clock in the morning, when Captain Göring's decision to suppress the Socialist press was let out.

To justify Captain Göring's measures the Reichstag fire episode was combined with "material" disclosing widespread plots for a Communist rising, alleged to have been seized by the police in "catacombs" (in reality extensive but not abnormal cellars) in the Communist headquarters, which had previously been searched repeatedly by the police. Official promises of ample publication of the "material" were not fulfilled as the weeks went by. Parts of the alleged brief extracts disclosed corresponded almost word for word with passages in well-known Bolshevik works long since published, including an outline of revolutionary methods written by Lenin at least a decade ago and obtainable in a paper edition for 1 m. 60. Nor, despite occasional discoveries of stolen explosives and the like, were the police able to find convincing evidence of the supposed prepara-

The Terror

tions for a Communist outbreak timed, according to Captain Göring's statement, for that very Tuesday. In Germany, which is nearer to Russia than the Western Powers, and which still remembers Kurt Eisner, there is an ever-present fear of Communism. But the German Communist movement, though numerically strong—there were 90 Communist members in the last Reichstag—had never been dangerous, being absolutely destitute of leadership and initiative, and a revolt was the last thing it was likely to have in hand at this particular juncture, when the forces against it were exceptionally powerful and ruthless.

Nevertheless, the pretext for an accentuation of the existing Nazi terror was there, and the means had already been provided by the arming of the S.A., and by the previous orders which, in effect, rendered whatever they might do no longer of concern to the police. The Reich decree, providing for the arrest of all Communist deputies, was easily and rapidly extended—especially in Prussia—so as to rope in all persons in any way prominently associated with communism, the Social-Democrats, *i.e.* the moderate labour party, the democratic or liberal movement, and, above all, with pacifism. Those who were arrested by the regular police considered themselves lucky. The uniformed Nazis, often unaccompanied even by comrades who had been appointed auxiliary policemen, had their own lists of "suspects." Victims were knocked up, usually in the middle of the night, by armed groups who, if kept waiting, would often break in the door. If not maltreated on the spot, they were forced at the pistol's point to enter motor cars and driven to "Brown Houses," as group headquarters are often called, or, in outlying districts, to small beer houses used as Nazi rallying places. There prisoners were kept for several days, sometimes much longer, flogged with horse whips, sticks or steel rods, made to do physical drill, to spit upon their party symbols and abjure their principles, and in other ways physically tortured and mentally humiliated. Sometimes they died. In the early stages the

Nazi Germany

bodies, like those of victims upon whom direct vengeance had been taken, were found lying in the countryside, to become insoluble cases for police investigation. Later, they were sometimes disposed of through public mortuaries, where officials were terrorised into supporting official versions of accident or suicide.

Some of the more badly injured prisoners were delivered to hospitals and police infirmaries, where they either died, or if they recovered, were discharged straight into custody. Methods varied—there were cases in which men with mutilated faces and bodies were released, to crawl back to their homes broken in spirit and terrorised into silence by threats of dire retribution. Happier were those who, after a day or two in a Nazi cellar and a straightforward beating, were able, after medical attention or a spell in bed, to resume their ordinary lives. Releases, however, became rarer when it was found that there were still men who had the courage to tell of their experiences, or to address sworn statements to the Public Prosecutor. The usual fate of the prisoner after examination in a Nazi place of detention was to be handed over on a vague political charge to the regular police, who did not ask the date of his arrest or what might have happened in the interim. He would eventually find himself in one of the big concentration camps with thousands of other political prisoners.

Besides the physical suffering inflicted, very numerous instances in which individuals were deprived of their livelihood on account of their opinion or their race must be remembered—cruelty may take many forms.

This is the plain truth about the terror in Germany, which has continued along much the same lines up to the present day. The British public find it hard to understand that such things could happen in a civilised country. But these things have been happening in Germany, and the terror was at no time the work of ungovernable bands of revolutionary youth. It has been carried

The Terror

out systematically and in cold blood from the beginning. The so-called revolution was accomplished without any fighting worthy of the name. Within a week of the elections even occasional hostile shots in working class districts had virtually ceased. Nowhere had there been organised resistance on any scale, and the main operation of seizing the power in one federal State after another was carried out without bloodshed on the constitutional pretext that the authorities in office were incapable of maintaining order, or unwilling to apply with sufficient rigour the decrees for the suppression of Marxism.

It is doubtless because this disagreeable form of revengeful bullying was so patently unnecessary that such pains have been taken to deny it and to suppress evidence. The lid has been so tightly screwed down on the truth that nothing unauthorised can be published in the German press. The Government has cleverly avoided formally expelling foreign journalists, but pressure is exerted on them in various ways. The publication of accounts of any kind of maltreatment, if not supported by full evidence, can, under the elastic laws now prevailing, be made the basis of a charge before a special court, of "spreading atrocity propaganda injurious to the State," or something to that effect, against both writer and informant, and six months to a year's imprisonment may result. Moreover, any German victim even suspected of having divulged his experiences must expect immediate rearrest by the S.A. and worse treatment than before, so that the mention of names, or a recognisable description of an individual case, is almost out of the question. Skilful manoeuvres have secured the unostentatious withdrawal of several foreign correspondents from the country.

When, in the case of persons too prominent for their fate to be hushed up, it is announced that, after their arrest, they have had to be taken to hospital "on account of illness," experience fully justifies the interpretation, in the absence of further details, that they have been seriously mishandled

Nazi Germany

after their arrest. Such an announcement was made after the raids on the Trades Union offices on May 2, in which the S.A. were authorised to take part, a striking instance of the slight value to be placed on apparently reassuring regulations like the one which had just officially withdrawn from the S.A. the right to make arrests. The Terror, in its later stages, may have received rather more sanction from the law in the form of decrees since the Reichstag gave Herr Hitler carte blanche, but there has been no sign, in spite of the frequent assurances given by Ministers, of any serious attempt being made to stop it. The prevailing spirit was revealed by Captain Göring when, in a savage speech, he recalled the fact that their followers had been promised "a settlement of accounts" and declared that the promise was being kept. This, and his assumption of personal responsibility for every bullet fired by those under his control, clearly set the pace for the average Nazi, and his statements were not by any means ousted by Herr Hitler's mild manifestoes in March, which may be fairly summarised as amounting to an assurance that practically nothing had happened; that in any case it was mostly the work of *agents provocateurs*; and that the S.A. must desist from such "individual actions." The extent to which further legislation may be expected to improve matters can be judged by the fact that one of the most notorious of the Nazi places of detention in Berlin, the one in the General Papestrasse, has from the first been the headquarters of an auxiliary police unit and as such presumably a legal police station; yet the methods employed there have not differed from those of the S.A. quarters in the Hedemannstrasse and elsewhere. Prisoners dealt with there have been given formal discharge certificates bearing serial numbers running into hundreds signed on behalf of S.A. "auxiliary" or "field police."

The Jewish Boycott

IV. THE JEWISH BOYCOTT

AMONG the early victims of the Terror were many Jews, especially "intellectuals," lawyers and doctors, but they were at that time involved, not primarily as Jews, but because of their real or alleged association with the communist, socialist or pacifist movements. It is quite a mistake to imagine that the persecution of the Jews as such has been the chief aim of the Terror. This false impression abroad is due to the stupendous publicity given to the notorious boycott of April 1 by the propaganda ministry. By that time the coveted 52 per cent. of the votes had been obtained by the Nazis and Nationalists together at the general election, if not by direct intimidation or manipulation at the polls, largely as a result of the terror in Prussia and of raising the communist bogey among the simple peasants of Bavaria, who still had memories of the brief Soviet régime after the war. The whole country was in the central Government's hands, the solemn National Pageant had been staged at Potsdam on March 21, and the Government had obtained a free hand for four years from a truncated Reichstag. There were no constructive measures in hand, and in accordance with the plans decided upon, it was the business of Dr. Goebbels's propaganda department to provide fresh distraction for the populace. Ugly reports were getting abroad about the Terror. A ferocious anti-Semitism had been preached by Herr Hitler and his lieutenants for years.

A brilliant scheme was hit upon for killing several birds with one stone. The survivors of the German press—now, after the elimination of the communist and nearly two hundred socialist newspapers, rendered almost entirely subservient—made much of certain atrocity reports published by irresponsible papers in the United States and, it was vaguely alleged, in Great Britain. Such reports were

Nazi Germany

also said to have been spread by Jewish organisations abroad. They told of hands chopped off, eyes put out, Jewesses raped and similar atrocities reminiscent of the war-time allegations against the Germans in Belgium. They cannot have been very widespread, as they did not appear in responsible newspapers; the Nazi Terror had taken disagreeable forms, as has been made clear, but there had been no authenticated evidence of these particular types of outrage. The impression was, however, given that the whole foreign press, especially newspapers under Jewish control, was conducting an exaggerated atrocity campaign, and the German public was worked up into an anti-Semitic fury for which an officially organised boycott of Jewish shops was provided as an outlet. Anti-German boycotts of small extent organised by Jewish communities abroad provided fuel for the flames. Once the Hitlerites—and others who did not require much stimulation—had been aroused, it was a simple matter, despite the nominal calling off of the boycott after the first day, to set relentlessly in motion the whole programme for the removal of Jews from public offices, from the professions and from art, business, and indeed from every kind of employment. At the same time the German anti-atrocity propaganda succeeded to some extent—by contrasting exaggerations with the few “excesses inevitable in time of revolution,” which were all that the Government would officially admit—in drawing the attention of foreign opinion away from the genuine Terror.

V. FUTURE PROSPECTS

THE persecution of the Jews has since proceeded steadily, together with the establishment of Nazi control over all branches of intellectual life, industry, commerce and organised labour, the preliminary steps to the absorption of the Stahlhelm and the relegation of the Nationalist-Junker group to a subordinate position in the Administration.

Future Prospects

At one time the hopes of those who were dissatisfied with Germany's new masters—the hopes even of the Socialist workers—were centred in the belief that this group would not tamely allow itself to be brushed aside and might, with the support of the Stahlhelm and the Army, make a bold bid for a Hohenzollern restoration—anything for a change from the present order of things. Field Marshal von Hindenburg, it was believed, could not, if he really knew what was going on, fully approve. And although he has probably to a large extent been hoodwinked, like so many of his countrymen since the suppression of the newspapers likely to enlighten them, there have been some indications that the venerable President may have seen more of what was happening than his actions would suggest, and that he is remaining at his post with a purpose. Possibly there may yet be a call for his services. It may be, too, that the Army, which its successive commanders have sought to protect from political influence, is still biding its time, though here again it may be that its inaction means that it has already been too much affected by the Nazi spirit to move. At any rate, opportunities for a restoration, such as the emotional occasion of the Potsdam ceremony, slipped by without any action being taken.

It will no doubt be asked, what is to be the fate of Dr. Brüning's party, the *Zentrum*, which has always played such an important part in German politics? No answer can be given to this question except that the Centre party has hitherto weathered the storm by bowing before it, in the hope no doubt of some day influencing things for the better, by obtaining concessions in return for the loan of its experience, at the same time retaining cohesion so as to be able, should occasion offer, to take the lead. It will, at any rate, have the advantage of first-rate leadership. Dr. Brüning, the one outstanding figure from the former régime, has just become its chief.

The dominant fact at the moment is that all along the

Nazi Germany

line the Nazi revolutionaries have triumphed. Everything else is surmise. Herr Hitler's strongest card is undoubtedly the appeal of his movement for national resurgence. The very title "National" gives it a certain sanctity, and Nazi propaganda has cleverly made the most of this advantage. It is, of course, this feature in the Revolution, and not its half-baked social and economic theories, that chiefly explains its easy capture of thousands of *bourgeois* supporters, and the acquiescence and docility of thousands more. But far the largest element in the party has been neither the *bourgeois* nor the proletarian, but the petty shopkeeper and the small farmer.

This "National" fervour, however, requires incessant nourishment, and it gets it in the form, not only of parades and processions, but also of stirring irredentist speeches and similar appeals. To satisfy the mood that has been induced, the new Germany of the National Revolution has been promised, directly or by implication, the recovery of most, if not all, of what was taken away by the Treaty of Versailles, including full military sovereignty; and dreams of further expansion are not discouraged. No secret is made of Germany's intention to rearm as rapidly as she can towards whatever level may be decided upon by the other great Powers, whether it means going up or down. The Brown-shirts are taught to expect war, and kept keyed up to the pitch of being ready to die for the Fatherland. Until, however, Germany is ready to fight, her foreign policy is bound to be dominated by the necessity of avoiding serious embroilment, so that, in all probability, for several years the rest of the world will have a breathing space in which to decide upon their policy.

Abroad, where it has been found difficult to grasp the ruthless destructive character of the Nazi Revolution and its entire lack hitherto of constructive statesmanship, a belief has persisted that there must be something sound behind the movement to justify it, and there has been much talk of its "idealism." But what is this idealism?

Future Prospects

One attractive feature in the Nazi's creed* is certainly the ambition to break down class barriers, the opposite of the Bolshevik's class warfare. There have also been signs that they may tackle the thorny problem of the big uneconomic estates in the east, and make room for small holdings, thereby weakening the historic power of the Junker. If so, they will have earned one title at all events to gratitude. The unification of Germany may prove to be another.

But, when all is said, their ideas are so vague that, with every opportunity, they have been unable in more than three months to present any better constructive suggestion than conscription; labour conscription, apparently to be extended to military training, was the sum total of Herr Hitler's May Day exposition of his first year's programme. Dissatisfied with the capitalist system in its present shape, they dream of a return to something like the mediæval guild idea, but the problems of revolutionising modern industrialism in this sense are easier to discuss than to settle, and they are still, to all appearances, intoxicated with the simplicity of destroying or prohibiting everything they object to. They have certainly been courting economic trouble. They have, suddenly and to a dangerous degree, replaced with their own untrained supporters experienced men in the civil service, in business, in scientific research and in the academic world. But all warnings are met with a light-hearted assertion of their readiness, if need be, to impose on the country a lower standard of living in order to have a self-sufficing Germany moulded after their own desires. Economic collapse may yet put an end to the dictatorship, though recent experience has shown that countries which, by all economic right, ought to be dead, continue to exist.

Apart from the danger of economic collapse, there seems to be nothing to prevent the Nazi dictatorship from lasting for anything up to, say, ten years, though that will obviously

* For a further reference to the idealistic side of Naziism and Fascism see page 487 *et seq.*

Nazi Germany

depend upon their being able to commandeer constructive talent. It is quite possible, however, that ceaseless propaganda, combined with intimidation and economic pressure, may put such talent at their disposal.

There is, however, another consideration. Hostile elements, though thoroughly cowed for the present, have been given unforgettable motives for the perpetuation of a smouldering hatred. Apart from the considerable sections of the population which have never heard the truth or been obliged by material considerations to turn a deaf ear to it, it may be roughly calculated that some 40 per cent. of the nation must have suffered or been indirectly affected by the Terror, and therefore be hostile though inarticulate.* The existence underground of a persistent Opposition ready to take vengeance at any moment of weakness is a factor that cannot be ignored, even though millions of workers dutifully waved swastika flags on "National Labour Day." To have aroused the antagonism of the Socialist skilled workman, upon whom so much depends, may yet prove to have been the fatal mistake.

Berlin.

May 1933.

* A striking feature of the March general election was that although the Communists, against whom the Terror was in the first instance mainly directed, lost about a million out of six million votes, the more moderate anti-Nazi parties, *e.g.*, the Socialists, the Democrats, and the Centre, practically held their ground. The Socialists only lost 75,000 votes out of 7,251,000 votes. The Centre party, which polled 4,423,161 votes as against 4,230,644 in November, actually gained 3 seats. (See *The Times*, March 7, 1933.)

WORLD DEBTS AND THE ECONOMIC CONFERENCE

WE know from history that communities can become overburdened with debt to an extent which cripples their economic machinery, destroys their energy and lessens both their production and their consumption of goods. It is not open to doubt that such an overweight of debt afflicts a great part of the world at the present time.

The condition of over-indebtedness can be either internal or external—national or international. It exists internally when what are called the fixed charges of a nation come to absorb more than a reasonable proportion of the national income. These fixed charges consist in the first place of interest on all debts, public and private; and for practical purposes include all taxes as well, for in modern democratic communities it is rarely possible to reduce taxation by any really large amount. The national income is reckoned by the total value of goods and services produced by the nation each year. If taxes and interest absorb an unreasonable proportion of this value, then commercial and business enterprise becomes unprofitable. As the motive of profit is the driving force of production, production stagnates and the supply of goods is diminished. It might be supposed that this would produce a rise in prices and so cure the evil. So it might if effective demand remained the same. But the stagnation of business lessens the demand for, as well as the supply of, goods—and in practice the demand often falls off even faster than the supply. So the ultimate result is a lowering of the standard of living for everyone except the comparatively small class of those who enjoy fixed incomes in terms of money. Their position is always relatively, and often absolutely, improved. Carried to the extreme you would get a situation where the whole annual production of the nation in goods and services went to the Government—which can always help itself—and

World Debts and the Economic Conference

to the creditor class, after deducting a bare subsistence for the rest of the people.

The ordinary cause of internal over-indebtedness is a period of inflation followed by one of deflation. During the inflationary period prices rise, most people are optimists and spend freely. Production is profitable and is speeded up. Public bodies, corporations and individuals borrow freely; for providing public services and amenities; for increasing the plant and equipment of production; for furnishing themselves with articles of use and enjoyment which they think they can afford. All these things are actually produced from day to day and neither their production nor their use logically implies any mortgaging of the future. But in effect it does involve that. For the people who use them are not the same as those who produce them and the spenders in one form or other give a mortgage to the non-spenders. There is a great increase in the volume of debt. Then deflation comes, by accident or design. Prices fall; and the borrower finds that his obligation, being stated in terms of money, has become a far greater charge than it was when he contracted it. A simple instance is that of the farmer in Canada or the United States who borrowed money four or five years ago to buy land or machinery and who finds that, whereas at the time he borrowed he had to set aside 400 bushels out of his crop to pay the interest on his mortgage, he now has to set aside 1,200 bushels for the same purpose.

II

THE United States of America is perhaps the most striking example of internal over-indebtedness at the present time. Her taxation, plus her fixed charges in the way of interest on internal private debts, is calculated to amount in terms of money to nearly 20 billion dollars a year. Four years ago her national income was reckoned at 90 billion dollars a year. To-day, owing to the deflation, and the consequent fall in prices and restriction of produc-

World Debts and the Economic Conference

tion, it is reckoned at less than half that figure. The internal debt charges and taxes of the country which used to absorb less than a quarter of the national income now absorb nearly half.

The internal position of Great Britain is not so bad as this—especially since Great Britain checked the process of deflation by going off the gold standard in 1931. But it is bad enough. Those European countries which were belligerents, and which swelled the volume of their public and private debts in the war and reconstruction period, have without exception wiped out the greater part of their internal indebtedness by a drastic process of inflation—stabilised subsequently by the devaluation of their currencies. For them accordingly the internal debt burden is not a pressing problem at the present time. The neutral countries have for the most part not devalued their currencies, but then neither did they expand their internal indebtedness as the others did.

We now turn to international indebtedness. Here the position is different. The United States instead of being in the worst is in the best position, having no foreign debts and being herself a great foreign creditor. Great Britain and France are in the same position except for the war debts they owe to the United States. Germany has borrowed freely since the war; and foreign indebtedness is an important factor in her economic position. This applies also, though to a less extent, to some of the smaller European countries. But it applies most of all to the so-called "new countries," *e.g.*, South America and British Dominions, such as Canada and Australia. These communities both before the war and after have borrowed great sums, both on public and private account, mainly from Great Britain and the United States. With prices at their present level they are finding it increasingly difficult to meet their foreign debt charges by the export of produce. To take a simple example, four years ago the value of Canada's wheat exports sufficed to cover the whole

World Debts and the Economic Conference
of her foreign debt charge and left a substantial surplus to help to pay for her imports. To-day her wheat exports do not suffice to meet half of her foreign debt charge.

III

WHEN the burden of internal debt has grown too heavy in proportion to the national income, the balance can only be restored by diminishing the money value of the debt charge or increasing the money value of the income. In practice this generally means the alternatives of widespread bankruptcy or general inflation, *i.e.*, the raising of commodity prices by monetary measures. For to restrict production, even if it raises prices (which it does not necessarily do, for the reasons already given) will not increase the total national income, which is a multiple of the volume of production by prices, and to raise prices while maintaining or increasing the volume of production is only possible by monetary inflation.

It may be said that neither alternative is necessary because debt charges can be brought down gradually by money becoming "cheap" in the technical sense, which leads to a fall in interest rates. But interest rates are for the most part fixed for a period of years. They can sometimes be brought down by a powerful debtor—the conversion of part of the British debt is a striking example. But the process is neither generally applicable nor rapid. It may suffice in a situation where the balance between debtor and creditor has only become slightly disturbed, but it will not suffice where the maladjustment is serious. In such cases voluntary adjustment has to be supplemented by involuntary adjustment, *i.e.*, by repudiation or bankruptcy on a wide scale. It is almost certain, for example, that if the money value of the national income of the United States remains at its present figure or sinks lower there will exist before long a widely spread condition of bankruptcy in that country.

Just as internal debt charges must be met out of the sur-

World Debts and the Economic Conference

plus of national income, after providing for the subsistence of the rest of the people excluding the creditor class, so international debt charges must be met out of the surplus of international trade after providing for necessary exchanges of goods. A good deal of international trade consists of these necessary exchanges, *i.e.*, those in which one country obtains from another what it cannot produce for itself. Thus Great Britain, the United States and all European countries must import rubber, coffee and tropical produce generally, while most tropical countries must import a good many classes of manufactured goods, or do without them.

Then there is another large slice of international trade which is taken up by exchanges which are not so absolutely necessary as in the instances quoted above but may be called semi-necessary, *i.e.*, those in which one country gets from another what it can only produce for itself at a great disadvantage. For instance, it is conceivable that a country like Great Britain or Belgium could do without imported foodstuffs, and that a country like the Argentine or South Africa could do without foreign manufactured goods. But it would only be by sacrificing all economic principles and producing painfully and dearly what could be got much more easily and cheaply by exchange.

These necessary and semi-necessary exchanges of goods cancel out with one another. But there must be a surplus of international trade over and above these if international debt payments are to be made: that is to say, the debtor must have a surplus out of his exports which will meet his debt charges after paying for his imports.

IV

WHAT is the volume of international debt charges at the present time? There are no complete statistics available but an estimate can be made. To take Great Britain first; her overseas investments are valued at 3½-4 billion pounds. Rather more than half of this

World Debts and the Economic Conference

consists of fixed interest bearing securities. The British claim on the rest of the world in the way of annual debt interest on long term loans is estimated at 102½ million pounds for 1932. This is after writing off claims in respect of such investments as Russian and Mexican loans.

Great Britain's total receipts in respect of her foreign investments of course largely exceed this figure, even at present, but the balance is made up of dividends on share capital and so on which are not fixed charges, but vary with earnings.

The investments of the United States abroad are stated to reach a figure of 15 billion dollars claiming a return of 900 million dollars annually. The available statistics do not divide this into loan and share capital, but it is estimated that rather more than two-thirds of the claim represents fixed interest on debt. This does not include war debts owing to the United States.

The claim of other creditor countries such as France, Holland, Belgium, Switzerland, etc., is difficult to estimate but probably does not in the aggregate amount to more than half of the British claim. Neglecting for the moment the difference in value caused by the depreciation of the pound sterling, and omitting war debts, we therefore arrive at an estimate of the world's total international debt charge as something between 1,200 and 1,500 million dollars a year. It must be remembered that in addition to this there is a very large claim of Great Britain and the United States for dividends on share capital and other forms of foreign investment apart from actual loans. This might reach another 600 to 800 million dollars a year. While it is not a fixed charge, and in fact varies considerably, it is none the less, so long as any part of it continues to be paid, a charge to that extent against the surplus of international trade.

If we compare the position to-day with that of 1913, when the United States had not begun to be a creditor nation at all, we shall be safe in saying that the total money

World Debts and the Economic Conference

volume of international debt charges has approximately doubled. There is no corresponding increase in the volume of international trade as it stands to-day. In 1928 and 1929 the volume of international trade, reckoned in terms of money value, was nearly 70 per cent. higher than it was in 1913. But in 1930 it was only about 30 per cent. higher; in 1931 it sank below the 1913 figure by about 4 per cent.; and 1932, as far as the figures are available, shows a further shrinkage of about 25 per cent. as compared with 1931. In other words a volume of international trade which in terms of money is 30 per cent. less than it was in 1913 is called on to supply a surplus applicable to international debt charges of double as much as was required in 1913.

V

IN the above figures no account has been taken of reparation or war debt charges. In this matter the position after the Young settlement was, roughly speaking, as follows. Germany had to find something like 400 million dollars a year; and most of this went ultimately to France and the United States. By the Lausanne settlement Germany's obligation was practically wiped out. Assuming that the latter settlement holds and that, as a consequence, Great Britain's European debtors also cease to pay, we are left with the claim of the United States against Great Britain, France and the other Allied States. This amounts in round figures to 250 million dollars a year. It will be seen that it does not constitute more than a fraction—say, one-sixth at most—of the world's total international indebtedness. While its reduction or complete cancellation would be a great relief to the debtor nations concerned—just as the abolition of reparation payments was a great relief to Germany—it would by no means remove the general problem of international indebtedness nor relieve the difficulties of other debtor nations and particularly of the “new countries.”

But there is a special reason why war debts (and repara-

World Debts and the Economic Conference

tions) have hitherto assumed the first place in the discussion of the world's debt burdens. This is the only piece of international debt which can be dealt with directly by governments. The governments of Great Britain and France can say to Germany: "We will reduce or abolish your reparation debts." The Government of the United States can say to France or Great Britain: "We will reduce or cancel your payments on account of war debts." But the Government of Great Britain cannot say to Australia or Canada, nor can the Government of the United States say to the South American countries: "We will reduce or cancel the payments you have to make on account of your borrowings from our country." For those borrowings were made from private investors and the governments of the lending countries have no power either to reduce the principal of the debt or to accept a lower rate of interest. If the creditor were any single body the debtor might approach it and say—"We cannot pay all, but we can pay so much and we will do so if you will waive the rest of your claim." And so a composition might be made by agreement. But the creditor being thousands of scattered bondholders, there is no one to approach. The debtor, whether it be a government, a municipality or a corporation, cannot negotiate privately. It can only call its creditors together, which is a public admission of bankruptcy; and if it is pushed to that it would as soon stop paying altogether.

This method of reduction by negotiation—without an admission of bankruptcy—has in fact been employed all along in the case of war debts and reparations, both by Germany towards the Allies and by the Allies towards the United States. It is still being employed in the latter case. In the former it has reached its limit for there is hardly anything left to reduce. But it is not applicable to the other five-sixths of international indebtedness for the reasons given.

World Debts and the Economic Conference

VI

WE have seen that when internal debt becomes too heavy to be borne the only way of restoring the balance is by increasing the national income stated in terms of money or by cancelling the whole or a considerable part of the debt through the method of bankruptcy. Similarly, in the case of international debt, when the burden becomes too heavy in comparison to the surplus of international trade which is available to carry it, there are only two ways out. One is a general failure to pay on the part of debtors—which is parallel to bankruptcy in the case of internal debt—the other is to increase the value of international trade in terms of money. This again can be effected by increasing the volume of goods which are dealt with in international trade or their price or both. An increase of volume would no doubt follow on a removal or a great lowering of tariff barriers on the part of creditor countries. But this would cause such internal dislocation—particularly in the United States and France—that it is not in the least likely to take place to anything like the extent required. An increase of prices could be brought about by international inflation or even by inflation on the part of the creditor countries. Thus the departure of Great Britain from the gold standard has diminished the burden of her foreign debtors by about one-third as compared with what it would have been if the pound had remained at par. There is a third method of adjusting the balance which is familiar, namely, that of fresh foreign lending. The effect of this is to swell for the time being the volume of international trade. If the United States lends, let us say to Chile, 100 million dollars, in effect she imports from Chile a number of printed pieces of paper which, for the purpose of balancing foreign trade, are reckoned, not at their value as paper which is negligible, but at 100 million dollars. The imports of the United States and the exports of Chile are each increased by that

World Debts and the Economic Conference

figure. But this is obviously only a temporary solution. You cannot decrease the burden of debt simply by more borrowing, if you stop there. You may get out of an immediate difficulty that way, but you must at the same time take steps to increase your means of payment in future. And even as a temporary solution it is to be feared that fresh foreign loans are out of the question at the present time, except to the limited extent to which they can be made by one government to another. Neither the credit nor the prospects of the borrowers are good enough to tempt the private investor.

VII

THE Economic Conference will no doubt consider the problem of international indebtedness. The other problem of internal indebtedness will hardly come within its scope. Each country will have to settle that for itself. Nevertheless, the way in which it is settled may vitally affect the deliberations of the Conference.* If, for instance, the United States, before the Conference takes place, should decide on a policy of internal inflation—to meet her own internal over-indebtedness—with the result, let us say, of doubling the dollar price of commodities, the difficulties of the international debt problem will be much lessened if not altogether removed. For the debtors whose obligations are expressed in terms of dollars would be relieved of one half of their burden. And as sterling would undoubtedly follow suit—for Great Britain could not afford to see the pound at a premium over the dollar—the real burden of all debts expressed in sterling would be similarly reduced. And most international debts are expressed either in dollars or in sterling.

But let us suppose that this does not happen and that the United States continues to pursue a deflationary policy up

* This article was written before the United States had renounced the gold standard—presumably as a preliminary to internal inflation. If she carries on with that policy the position will be altered, as pointed out in the following paragraphs.

World Debts and the Economic Conference

to the time of the Conference. How then will the Conference deal with the matter of international indebtedness? It seems probable that it will pass a series of resolutions in favour of a general lowering of tariffs. For the industrial and labour interests, which generally speaking are opposed to this, will not have much to say at a conference consisting mainly of politicians advised by bankers. If these resolutions are carried into effect, the result will doubtless be an improvement in the volume of international trade, and the international debt situation will be eased to that extent. But will the resolutions be carried out? That seems less probable, when we consider the opposition of both industrial and agricultural populations, which will be aroused by any attempt to reduce the protection they now have. Still, something may be effected in this direction, even if it is no more than the setting up of a tendency to negotiate trade treaties for the purpose of admitting foreign products instead of for the purpose of shutting them out.

Secondly, it is possible that the Conference might recommend some measure of concerted international inflation with the object of raising commodity prices all over the world. This would relieve international indebtedness. But while this is possible it is not probable. Up to the present the indications are that the deflationists will control the Conference. France is certainly on their side. She has inflated on her own account and thus settled her own problem of internal indebtedness. She holds few foreign long term bonds and is not worried by the prospect of general default on these. On the other hand she is a large holder of gold and short term money—on which there is the least risk of default. Her interests therefore are almost wholly on the creditor side, and she is free from the anxiety which the bondholding countries must feel about the solvency of their debtors, and which might induce them to consider measures of general relief. Countries like Holland and Switzerland will probably follow her lead.

The deflationists have also managed to sway the financial

World Debts and the Economic Conference

policy of the United States up to the time of writing this article. Their sway now appears to be threatened, but it is not yet overthrown. If they retain it until the Conference they will shape the line taken there by America. Of course the position will be quite different if, before the Conference meets, the United States has already turned to inflation on her own account. But in that case, as pointed out above, the problem of international debt will be of much less importance.

As regards Great Britain, while the deflationists may not be strong enough to impose their own policy, they are strong enough to prevent any decided action towards inflation and this country therefore is not likely to take any initiative in the matter one way or the other.

But, it will be said, if the Conference is not likely to take any action towards a general lift of commodity prices, nor yet any action which will result in the lowering to an important extent of the tariff barriers against international trade, then it will have done nothing at all towards solving this particular problem of the excessive burden of international debts. There is, however, one other thing which the Conference might do which would be helpful in the existing situation. That is, if it should point out to international bondholders and creditors in general, that with the present price levels there is no likelihood that their debtors will be able to pay in full, and that it is bad policy to go on piling up interest and renewal charges which will end by creating a situation where the debtor will lose hope and refuse to pay at all, since he may as well be hanged for a sheep as a lamb. The Conference might therefore suggest the setting up or even itself set up a semi-judiciary body to which debtor governments and municipalities and perhaps even private corporations (though this is more doubtful) could apply for a revision of their foreign long term liabilities, and to which they could make an offer of composition. If the revising body approved this offer it might be submitted by them to a meeting of the bondholders con-

World Debts and the Economic Conference

cerned ; and if accepted by a majority it would be understood that the debtor governments were free to enforce it by local legislation without any diplomatic protest and without it being considered any reflection on their credit.

Assuming that nothing else could be done towards lightening the burden, the establishment of such machinery would at least mitigate the difficulties of the situation. For it would create a means, which does not exist at present, whereby debtors unable to pay in full would have the opportunity of making a composition with their creditors and escaping the stigma and loss of credit which attends on a mere failure or refusal to meet their obligations.

THE RECEPTION OF THE INDIAN WHITE PAPER

THE Indian White Paper has been so fully discussed in the press that it is unnecessary to describe it in detail in an article appearing more than three months after its publication. Briefly it provides that the new constitution shall be based on the three principles of federation, responsibility and safeguards, which emerged from the first Round Table Conference. The federation, subject to parliamentary authority, is to come into being when 50 per cent. of the more important States have joined the federation. There is to be full autonomy, including control of "law and order," in the provinces, and a responsible ministry at the federal centre having control of federal subjects, except the army and foreign affairs, for which, together with the necessary financial supplies, the Governor-General is to be responsible. The safeguards, in addition to the reservation of the army and foreign affairs, are to consist in giving to the Governor-General and, in lesser degree, to the Governors of provinces, a "special responsibility" for "preventing a grave menace to the peace or tranquillity of India," for "safeguarding the financial stability and credit of the federation," for "safeguarding the legitimate interests of the minorities," and securing the rights and legitimate interests of the higher civil service, and for "the prevention of commercial discrimination." When, in the opinion of the Governor-General or the Governor, a course of policy is being pursued by his Ministers which challenges one of these special responsibilities, he has the constitutional right and duty of intervening and of no longer acting on the advice of his Ministers, and in the last resort, if agreement is impracticable, he may act on his own responsibility so far as is necessary to discharge his special duties.

Such are the Government's proposals for the government of India during the next stage in working out the

The Reaction in Great Britain

Declaration of 1917. In the sections that follow the reception of these proposals in Great Britain and in India is described.

I. THE REACTION IN GREAT BRITAIN

JUDGED merely by the figures of the division lobby the Indian White Paper had an easy passage through Parliament. In the House of Commons it was committed to the Joint Select Committee for further examination after a three days' debate by a vote of 449 to 43. But it is well to recall that in actual fact that was all that did happen. That vote cannot be taken as Parliament's definite approval. Speaker after speaker reiterated the view that the appointment of the Joint Select Committee did not necessarily involve approval of the White Paper. In this they were on sure ground for the Government has always insisted that the White Paper scheme was not a cut and dried one but that alternative proposals were open for the consideration of the Select Committee.

But even this restricted issue gave an important reflection of the division of opinion. The official Opposition was frankly of the opinion that the proposals did not go far enough. The policy of the Labour party, as defined by Mr. Lansbury, was the admission of India at the earliest possible moment, and by her own consent, as an equal partner in the British Commonwealth of Nations. They were opposed to the appointment of a Select Committee to carry out a policy that had not, in their view, the support of the people of India, and they went into the lobby against it. The Liberals, on the other hand, whom angry Conservatives sometimes call "the other wing of the Opposition," were on this occasion the strongest supporters that the Government possessed. Such criticisms as Sir Herbert Samuel directed against the policy of the Government crystallised round the fear that it might alter it at the dictation of its own supporters. He earnestly hoped that the

The Reception of the Indian White Paper

Select Committee would not recommend any increase in the safeguards or any cutting down of the degree of liberty that had been granted. In this attitude Sir Herbert Samuel had a united party behind him.

But fifty Socialists have as little chance of wrecking the Indian policy as have fifty Liberals of carrying it on to the Statute Book. The real decision remains with the 490 Conservatives whom the national tide has swept on to the green benches. What is their attitude? It can be said that the prospect of a sweeping extension of self-government to India fills few of them with enthusiasm. Nearly all of them contend that such a gigantic experiment in self-government is a risky business. Where they differ is on the extent to which they regard those risks as justifiable. On that they are divided into three sections.

The first and at present much the largest section are those who whole-heartedly support the Government. They regard themselves as realists. They stand by the conclusion, however unpalatable, that the time of tutelage in India is over and that it is impossible to impose a government by force, however preferable that form of government may be to the one that it is desired to substitute for it. Their chief spokesman from the back benches was Sir John Wardlaw-Milne, the chairman of the Conservative India Committee. It was he who did so much to upset Mr. Churchill's speech by interrupting to ask what Mr. Churchill's authority was for saying that the civil service was "packed" in favour of the reforms. The outburst of cheering that greeted Mr. Churchill's temporary discomfiture at being unable to supply the required evidence plainly showed the direction of the sympathies of the great majority.

But it would be idle to deny that Mr. Churchill's following indicates signs of increase. He is now attracting some recruits from among the younger men who make up such a large proportion of the present House of Commons. The Secretary of the India Defence League, Mr. P. W. Donner, is one of them, and men like Commander Agnew

The Reaction in Great Britain

and Mr. Lennox Boyd are powerful additions. It is notable that Mr. Robert Boothby, one of the most influential of the young Conservatives outside the Government, is now voting with the Die Hards. Though Mr. Churchill did not challenge a division on the White Paper, on the motion for the appointment of the Select Committee he took 80 Conservatives into the opposition lobby with him. It is true that the issue on that occasion was narrowed down to the existence of an overwhelming preponderance of Government supporters on a Committee that was supposed to be impartial. But the doubling of Mr. Churchill's strength in the lobby was not without its significance.

Probably the real arbiters of the situation are the third group in the Conservative party which has not yet made up its mind. They include men like Sir Robert Horne and Mr. Cadogan, who was on the Simon Commission. They are awaiting the report of the Select Committee before they will declare themselves on the critical question of responsibility at the centre. Much depends on the attitude of the Conservative party in the country. Far the most formidable revolt against the White Paper policy has come from the constituencies. Resolutions against the Government policy are pouring into the Conservative central office. They by no means come exclusively from constituencies represented by members avowedly opposed to the Government's policy. Frequently they are passed in direct defiance of the views of the sitting member with whom on all other questions the members of the association would be in complete agreement. The resolution of the Horsham and Worthing Conservative Association is a case in point. Lord Winterton, the sitting member, has all the prestige that comes from 29 years' continuous representation. At a meeting of his association summoned to hear his views he strongly supported the federal solution proposed in the White Paper as being "the wisest and safest course." He cited as supporters the names of men like Lord Irwin,

The Reception of the Indian White Paper

Lord Peel, Lord Reading and Lord Lytton, and "almost all the prominent business men recently or at present connected with business in India who have spent most of their working lives there." It was to no purpose. He was defeated by 161 votes to 17. Yet Lord Winterton was the man who was put up by the Government in the last Indian debate as the most convincing speaker to answer Mr. Churchill.

It is not merely constituencies in the rural and residential areas that are revolting against their members' support of the Government policy. One after another the constituency associations in the Lancashire towns are passing hostile resolutions. One of the central organisations of Conservative women and the Junior Imperial League have also passed motions against the Government policy. Indeed there is a danger that at the annual meeting of the Conservative caucus in the autumn not even Mr. Baldwin and Sir Samuel Hoare together might be able to prevent an adverse vote.

It is impossible to estimate what would follow upon that. The general impression is that the Government will in no circumstances throw over their policy and that the rebels, faced with the prospect of splitting the Conservative party from end to end, will give way rather than bring it about.

The difficulty that the supporters of the Government policy find is to mobilise enthusiasm for it. The great mass of the electors are ignorant of and uninterested in the Indian problem. The sprinkling among the working classes who have any personal knowledge of India are mostly returned soldiers whose inclination would be naturally towards the policy of the strong hand. But though it is not easy to obtain any very definite expression of support for it, the electors in general are almost certainly on the side of an extension of self-government, for the policy of repression is traditionally unpopular in England.

And, to return to the House of Commons, it must be remembered that the three sections we have described are

The Reaction in Great Britain

all of them members of the Conservative party. It is one thing to feel doubts about the proposed reforms, it is quite another thing to carry these doubts to the point of putting the Government out of office and breaking up their party. The Government, moreover, could certainly count upon the support of Labour as well as Liberals, if their scheme were really in danger of being thrown out when it comes back to Parliament from the Joint Select Committee. But the doubts in the country have been sufficiently pronounced to show the importance of nothing happening in India that would further strengthen the hands of the opponents of the Government's proposals.

The fundamental difficulty is that, while it is easy to point to the inherent dangers in any measure of constitutional advance in a country as large, as diverse and as illiterate as India, and to appeal to the natural pride of the Briton in the century of peace and order he has given to India, it is much more difficult to bring home to Parliament or English audiences the political facts of modern India—the advance of education (10 million students in primary schools, 100,000 in universities), the influence that educated Indians exercise upon their illiterate countrymen, the development of an Indian press, the strength and influence of nationalist political opinion, the economic transformation of the village through the effect of world prices, the Indianisation of the services and the extent to which legislatures and Ministries are now in Indian hands. It was pointed out during the debate in the House of Lords that, in the legislatures, there are 935 elected members to 166 officials. In the central legislature there are 145 elected and nominated members as against 26 officials. No fewer than 32 out of 43 Ministers in the provinces are Indians. In the large provinces there are five Indian Ministers out of seven, in the medium provinces four out of five, and in the smaller ones three out of four, and there are three Indians in the Viceroy's Executive Council. Yet, it is on the weighing of these political facts as against the physical

The Reception of the Indian White Paper

and geographical facts that any sound judgment as to the future form that "dualism," inevitable in India to-day, should take in the new constitution must be based.

The White Paper had an unexpectedly easy passage through the House of Lords. Most of the speakers were men who had had practical experience in India, and spoke to the merits or demerits of the particular proposals rather than on the abstract issue as to whether the White Paper was abdication or statesmanship. The House listened to these expert opinions and was clearly content to await the report of the Joint Select Committee before coming to a judgment.

London.

May, 1933.

II. THE REACTION IN INDIA

(From our Correspondent in India)

NORMALLY, contributions from India cover a period of three months, and discuss comprehensively whatever important political, administrative or economic events may have occurred during that period. The present one is relatively restricted in scope and deals with one subject only—the reactions in India to the White Paper; and since the White Paper was issued only on March 18 and this section is dated April 21, it will not be concerned except incidentally with occurrences outside a limit of about four weeks.

April 21 being the day on which the names of the Indians invited to attend the Joint Select Parliamentary Committee were published, the section of time under review, though short, is nevertheless a tidy and compact chronological unit, within which what must seem to English readers the essential contrariness of the Indian response to the White Paper shows up clearly. For, while on the one hand the vast majority of Indian politicians and political organisations of standing have vehemently denounced His Majesty's

The Reaction in India

Government's proposals, or portions of them, on the other no important group which was represented at the last session of the Round Table Conference in London has shown any genuine desire either to abstain from participating in further constitutional discussions or to commit itself to boycotting the new system of government, even if it is introduced precisely as set forth in the White Paper without any modification in accordance with Indian desires. Indeed, the list published to-day renders this an under-statement, since among the new names are those of two individuals representing interests which were not represented in London last winter.* To a casual visitor from abroad who had arrived in India for the first time on March 18 and endeavoured to follow the movements of political opinion by studying the newspapers, so satisfactory an outcome by this date would have seemed inconceivable. The denunciations of the White Paper that filled the press during the first ten days or so after its publication were so intense, voluminous and comprehensive, that he would doubtless have concluded that practically the whole of political India was united in considering His Majesty's Government's proposals utterly unacceptable, and that in such circumstances the chances of a new constitution on the lines suggested being successfully established, or even of representative and influential Indian politicians in any number thinking it worth while to go to London to discuss it, were practically nil.

* Namely, Mr. Rangaswami Iyengar and Sardar Buta Singh. The former, who is perhaps more usually looked upon as a right-wing Congressman than a left-wing Liberal, is believed to have refused an invitation to attend the last session of the Round Table Conference owing to the fact that Mr. Gandhi and other Congressmen were in jail. (It may incidentally be remarked that both Sir Purshotamdas Thakurdas and Mr. Kelkar, who are also on the list, have at one time or another during the last three years been associated politically with Congress.) The significance of Sardar Buta Singh's inclusion in the list is that he is a Sikh from British India. It will be remembered that in protest against the terms of the Communal Award the Sikh delegates who had attended the second session of the Conference refused to attend the third session, and that in consequence the only Sikh present at the latter was one from an Indian State.

The Reception of the Indian White Paper

Naturally, the most vehement denunciations of the scheme were found in the pro-Congress newspapers, and the following extracts from editorials, all of which appeared within the first three or four days after the White Paper was published, are typical of the kind of comment in which a substantial portion of the Press indulged. *The Tribune* (Lahore) declared that "on almost every single point the proposals contained in the White Paper constitute a definite infringement of the basic principles laid down in the October announcement* in the Premier's speech at the conclusion of the first Round Table Conference, and in the Delhi Agreement.† Altogether, the White Paper justifies the worst apprehensions of those who have been indulging in gloomy forebodings during the last few months. We have not the smallest doubt that those who have any right to speak on behalf of political India will with one voice reject the offer contained in this document." According to the *Amrita Bazar Patrika* of Calcutta, the proposals of the Government showed "their contempt for public opinion." "They (the proposals) would," declared the *National Call* of Delhi, "give the Viceroy the powers of a hundred Hitlers and Mussolinis. . . . Responsibility conceded with one hand is taken away with by the other." "A mockery of progress" was the verdict of the *Hindustan Times*, "not a vestige of the principle of responsibility." "Unacceptable provisions and sinister precautions," said the *Bombay Chronicle*, and so on.

Criticism of the proposals by the Liberals and other predominantly Hindu groups which have hitherto stood aloof from the Congress was also severe. The *Hindu* of Madras, a powerful organ edited by Mr. Rangaswami Iyengar,‡ remarked that

the White Paper will be received not perhaps with surprise, but none the less with supreme dissatisfaction. The Government's

* i.e., in Lord Irwin's announcement of October 1929.

† i.e., the "Irwin-Gandhi" Agreement.

‡ *Vide* footnote, p. 555.

The Reaction in India

proposals aim not at setting up a self-governing federation conditioned by safeguards of a temporary self-eliminating character, but at maintaining virtually intact the control of the Central Government from above.

The *Leader*, an influential Allahabad paper edited by Mr. C. Y. Chintamani,* entitled its first leading article "White Paper and Black Outlook." Mr. Chintamani further declared, during the debate on the White Paper in the United Provinces Legislative Council, that

everyone must have realised that the overwhelming consensus of opinion in the country is that the scheme falls short of even moderate expectations and is cast on lines divergent from those on which Indian reformers wish the future constitution to proceed. If the people of England are not going to take seriously and treat with sympathy the unanimous desire of the people of India for a genuine scheme of self-government, a crisis is bound to overtake both countries.

Sir Tej Bahadur Sapru,† in a press statement issued shortly after the White Paper was published, said :

India has given a hostile reception to the new constitution. That it is not a constitution for a self-governing Dominion requires no argument. Its outstanding feature is that it has laid far more emphasis on safeguards and reservations than on central responsibility and the possibility of its early growth and expansion. The constitution as outlined is one which none can enthuse over, and from the point of view of constitutional theory exhibits a large front to attack.

Mr. M. R. Jayakar,‡ Sir T. B. Sapru's close political associate, said : "Almost all the undesirable features of the last Round Table Conference have been repeated in the

* A former Minister of the United Provinces Government and delegate to the earlier sessions of the Round Table Conference.

† The well-known Liberal from the United Provinces who has taken a prominent part in all three sessions of the Round Table Conference, and was formerly Law Member of the Viceroy's Executive Council.

‡ Mr. Jayakar comes from the Mahratta country ; was formerly associated with the Hindu Mahasabha ; and was one of the founders of the "Responsive Co-operation" group which has stood between Congress and the great mass of Hindu nationalism since 1931.

The Reception of the Indian White Paper

White Paper, and none of the suggestions that Sir Tej Bahadur Sapru and myself made to the Secretary of State—with the exception of two—find a place in the document. The coming of federation seems to be more distant than ever.” Sir P. S. Sivaswamy Aiyar,* Mr. V. S. Srinivasa Sastri† and Mr. Ramachandra Rao, in a joint statement on behalf of the Madras Liberal League, declared that

the White Paper is inspired throughout by deep-seated distrust of the capacity and *bona fides* of the legislatures, the activities of which will be surrounded by so many restrictions that it will be impossible for any sense of responsibility to grow up. In effect, the scheme appears to be a perpetuation of the present *régime*. The vast powers conferred upon the Governor-General and Governors amount virtually to autocracy, not mitigated but strengthened by the unchecked control of Whitehall.

Sir Purshotamdas Thakurdas‡ is reported to have remarked: “The White Paper is said to embody the decisions of the Round Table Conference, but the several dissents by Indian members at the various meetings find no place in it. As far as the third Round Table Conference is concerned, my dissents have been discarded, and I must therefore mark my emphatic protest against the decisions of His Majesty’s Government.” In the debate on the White Paper in the Bihar and Orissa Legislative Council, Mr. Sachchidanand Sinha§ characterised His Majesty’s Government’s scheme as a political imposture. The system that was sought to be installed would, he declared, “perpetuate British domination and enthrone pure and unadulterated autocracy, rendering the people far more

* “The grand old man” of the Indian Liberals.

† Formerly Agent of the Government of India in South Africa.

‡ A well-known Bombay merchant who has at times closely identified himself politically with the Congress, and whose acceptance of an invitation to attend the last session of the Round Table Conference caused that party some annoyance. His name is on the Joint Select Committee list referred to on pages 555. Was a member of the Hilton Young Financial Commission.

§ Formerly Finance Member of the Bihar and Orissa Government.

The Reaction in India

helpless to resist the despotism of the Government than they are at present.” During the three days’ debate on the White Paper in the Legislative Assembly, Dewan Bahadur Ramaswami Mudaliar* declared that “the White Paper must be subjected to two tests—namely, how far the proposals are in consonance with the hopes and aspirations of the people when Lord Irwin announced the decision to convene the first Round Table Conference, and how far they embody the agreed decisions of the Conferences.” He considered that on some fundamental points the scheme involved “an unjustified departure from the agreements,” and launched a strong attack on the proposals made regarding the position of the All-India services under the new constitution. Sir Hari Singh Gour† complained that the White Paper did not contain a word on the question of Dominion status, and urged that the Declaration of 1917, as amplified by the Irwin Declaration,‡ should be embodied in the future Government of India Act. Mr. B. Das§ asserted that only 20 per cent. of responsibility would be transferred to Indians under the White Paper scheme, and took strong exception to the proposals that a Statutory Railway Board should be established under the Constitution Act. Mr. F. X. De Souza|| described the White Paper as “waste paper” containing an unnatural combination of autocracy and democracy. There was, in his opinion, no doubt that the safeguards had been framed in the interest of the paramount Power. Mr. H. P. Mody¶ said that the White Paper did not secure one of the fundamentals of good government,

* A leader of the Madras Justice party. Has attended all three sessions of the Round Table Conference.

† Leader of the Nationalist party, whose name is on the Joint Select Committee list referred to on pages 555.

‡ See first footnote on page 556.

§ Whip of the Nationalist party.

|| A nominated member of the House. Formerly a member of the Indian Civil Service.

¶ A prominent Bombay merchant.

The Reception of the Indian White Paper

namely, that the control of the Secretary of State should be eliminated from the day-to-day administration of the country.

The White Paper scheme was also denounced by the various communal organisations. The All-India Hindu Mahasabha, at a meeting in Delhi on March 27, adopted an extensive list of resolutions adverse to the proposals, among them being one declaring that the Communal Award, which formed the basis of the structure of the proposed new constitution, is predominantly pro-Moslem and highly unjust to the Hindus. On the same date the All-India Moslem Conference in Delhi passed a corresponding resolution in which profound disappointment was expressed at the proposals contained in the White Paper, and radical changes in the scheme were demanded. Sir Mohammad Iqbal,* who presided over this meeting, had previously in a public statement declared that the White Paper would not satisfy either the country as a whole or the Moslem community, since provincial autonomy would be crippled by the special powers reserved for the Governors. Chaudhri Zafarulla Khan,† during the debate on the White Paper in the Punjab Legislative Council, strongly criticised the safeguards and reservations which, in his view, caused real equality of status “to be lost in a distant mist.” The majority of the Moslem newspapers also expressed disapproval of the scheme, the *Eastern Times* of Lahore, for example, which is normally considered almost a pro-Government paper, declaring that “the reforms outlined in the Parliamentary White Paper are unacceptable to politically-minded India as a whole, and even these will not prove workable unless they are considerably modified in the light of popular opinion as expressed in the Press and on the platform.”

* Well-known as a poet and leader of Moslem thought in the Punjab; a delegate to the Round Table Conference sessions.

† A Round Table Conference delegate; recently a temporary member of the Viceroy's Executive Council.

The Reaction in India

This spate of denunciation must, to anyone who took it at its face value, have appeared of extremely ill omen for the introduction and working of the new constitution. The chorus of disapproval was not, of course, unanimous. Most of the powerful English-owned newspapers, including the *Statesman* (Calcutta), the *Times of India* (Bombay), the *Madras Mail*, the *Civil and Military Gazette* (Lahore), and the *Karachi Gazette*,* supported the scheme, as also did a few Indian-owned newspapers, such as the *Pioneer* (Allahabad), the *Star of India* (Calcutta), and the *New Times* (Madras). The *Statesman*, in its first leading article, remarked :—

No one can read the White Paper without realising that nothing less than a revolution by constitutional means is proposed, and that under the Crown a gigantic transfer of power and responsibility from the Government and Parliament of Great Britain to Ministers responsible to Indian legislatures, and to legislatures responsible to a greatly extended electorate, is involved.

The paper added, “Some of the most epoch-making changes occupy only a few lines, while inevitably pages are occupied with restrictions and safeguards which, in the interests of the smooth working of the new constitution, have to be defined clearly and exactly.” A considerable number of individual politicians also, either in statements to the press or in speeches during the debates in the central or provincial legislatures, welcomed the proposals, or portions of them. The fact remains, however, that favourable comments were relatively so infrequent as to be practically submerged beneath the torrent of denunciation with which the White Paper was greeted, and that anyone unfamiliar with Indian conditions and with the methods of political controversy in this country would have considered it inevitable that the publication of His Majesty's Govern-

* The *Englishman* (Calcutta) was the only paper in this country which openly attacked the White Paper from the “die-hard” point of view, arguing that it conceded too much. Some of the comments of the *Civil and Military Gazette*, however, were also critical from this side.

The Reception of the Indian White Paper

ment's constitutional proposals must result in a pronounced and widespread deterioration in the general political atmosphere.

The reasons why the Indian reaction to the document was superficially so extremely unfavourable are diverse, and require analysis. First, there is no question that even the most moderate sections of Indian political opinion were genuinely disappointed with certain portions of the proposals. Probably the part of the White Paper which was most strongly resented was that which dealt with the future control of and recruitment to the all-India services. During the month which has elapsed since the White Paper was published, criticism has been increasingly concentrated upon these provisions, and the speeches by some of the ablest and most respected Indian Liberals in the Legislative Assembly, such as Sir Cowasji Jehangir and Dewan Bahadur Ramaswami Mudaliar, have demonstrated that Indian opinion as a whole considers the retention of control by the Secretary of State to the degree proposed, in principle, obnoxious, and, so far as the White Paper scheme as a whole is concerned, logically unnecessary. The extent of the special powers conferred upon the Governor-General and the provincial Governors was also strongly objected to, though there have been indications during the last fortnight or so that the more responsible political leaders realise that a good deal of the criticism under this head was misconceived, and that the likelihood of these special powers being brought into force is much less than seemed superficially probable when the White Paper was first perused. Other features of the document with which the Indian moderates expressed themselves particularly disappointed were the limited scope of the future Finance Minister's control over the expenditure of central revenues, the decision to establish a Statutory Railway Board under the Constitution Act, and the uncertainty regarding the date of the inauguration of federation. Disquiet regarding the last item was naturally accentuated by the acute

The Reaction in India

dissensions which broke out among the princes during the first ten days or so after the White Paper was published regarding the fundamentals of the whole federal scheme.

Objections to the substance of the proposals were accentuated by the form in which the document was cast. From the Indian point of view it had, in this respect, three most conspicuous defects, which rendered it, on first examination, singularly dispiriting and repellent. It was dry, precise, almost legal in manner and wording; it was altogether devoid of abstract generalities and arguments of the kind which readily fire the imagination of politicians and newspaper men, particularly in this country; and it laid emphasis throughout on the negative and prohibitory aspect of the proposed constitutional changes, making no attempt to expatiate upon, or indeed even to explain in much detail, the extent of the immense transfer of power to Indian hands which it implied. Even responsible European officials were heard to remark that, so far as manner and phraseology were concerned, it could scarcely have been more offensive to Indian sentiment if it had been expressly designed for the purpose. And, although the majority of Indian politicians of standing were well aware of the parliamentary reasons why it was framed in this particular shape, and recognised also that at any rate most of its contents derived directly from the Round Table Conference agreements, sentiment has in the past played so peculiarly important a part in Indian politics that there seemed a real danger that the cold and uninspiring way in which the White Paper was written might cause a serious emotional reaction against the actual proposals it contained.

Disappointment with the form of the document and with portions at least of its substance was therefore genuine, and would alone have sufficed to account for a good deal of the adverse criticism directed against it. The stream of denunciation, however, was artificially augmented from other sources. The fact that the measure

The Reception of the Indian White Paper

of real power and responsibility enjoyed by the generality of Indian politicians has hitherto been relatively small has rendered criticism among them of anything emanating from Government habitual, and much of the condemnation with which the White Paper was received was manifestly of the parrot-like kind to which everyone is well accustomed in this country, and to which no great importance is attached. In addition, there is no doubt that the propensity of Indian politicians and publicists for indulging in purely automatic abuse of any official proposal regarding the future government of this country was reinforced on this occasion by the desire to neutralise by means of denunciations here the utterances of Mr. Churchill and his supporters in England. Finally, the fact that the Government is still engaged in carrying on a species of "war" with the Congress, rendered it inevitable that the White Paper, whatever its form had been, should be condemned by all newspapers, associations and individuals who have definitely committed themselves to supporting the Congress policy.

The reactions of the Congress to the document have been interesting. For a period of about a month before it was published there were increasing signs that many Congressmen felt that persistence in their present policy must prove politically suicidal, and that, since the civil disobedience movement on this occasion had obviously failed, it had better be definitely abandoned, and some arrangement made for working with the Liberals and other nationalist groups to secure "the substance of independence" for India. Influential pro-Congress newspapers such as the *Tribune* (Lahore), both before and after the White Paper was published, devoted much space to urging the importance of organising "a united national effort" to obtain an ampler measure of reforms than appeared likely to emerge from the Round Table Conference scheme, and it was clear that among nationalists of various schools of thought there was a growing conviction

The Reaction in India

that persistence by the Congress in the civil disobedience policy was futile. Mr. Jamnadas Dwarkadas, a prominent Bombay Congressman, had in February publicly repudiated the Congress creed, and subsequently in an open letter to Mr. Gandhi, which was extensively reproduced in the press, remarked that,

if after starting non-co-operation you could negotiate with the Government on its Communal Award, and from behind prison bars could launch a campaign against untouchability, and even advocate co-operation, then no man of common sense will accept your argument that you cannot call off a movement which thousands have joined solely in deference to your wishes.

At about this time Sir Chimanlal Setalvad, the Liberal politician, in a statement to the *Times of India* on the general political situation, declared that it was the clear duty of Mr. Gandhi to call off the civil disobedience movement, which had been rendered moribund by the firm policy of Government, and thus to end the sufferings of thousands of misguided Indians in jail. Mr. Chagla, a nationalist Moslem of Bombay, who has closely identified himself with the Congress creed in the past, pleaded in a speech at a meeting of the Moslem students' union for the abandonment of the civil disobedience movement. Mr. Kelkar and Dr. Moonje, the Hindu Mahasabha leaders, who have also from time to time been associated with the Congress, made similar suggestions, the former advising the Congress in a series of articles in his paper, *Kesari* (Poona), to withdraw civil disobedience and concentrate on the capture of the legislatures under the reformed constitution, since the movement had outlived its usefulness and the people had become disgusted with it. During the confabulations at about this time, which took place in Poona and Benares amongst such Congress leaders as are at present at liberty, it is believed that an influential section of those present, including Mr. Aney, the acting President, expressed themselves in favour of abandoning civil disobedience. The consensus of opinion, however, is known

The Reception of the Indian White Paper

to have been against this course, and it was due to this that the intention of the Congress to hold their annual session in Calcutta at the end of March in defiance of the anticipated prohibition by Government was persisted in.

The attempted session, however, was manifestly a fiasco. Its organisers, it is true, succeeded in persuading a fair number of "delegates" from various parts of the country to make the journey to Calcutta,* and some of these managed to hold a species of meeting in the city, during which small portions of pre-arranged resolutions are claimed to have been read. It was, however, obvious enough that the decision to hold a session could only be justified if it enabled Congress to work up enough popular excitement to cause, on the one hand, a definite revival of interest in, and sympathy with, the civil disobedience movement, and, on the other, manifestations of "cold feet" on the part of many of those who would normally accept invitations to attend the Joint Select Committee. And it was soon clear that in both these respects the Congress had signally failed. Even in Calcutta, very little interest was taken in the proceedings, their intrinsic absurdity being emphasised by the fact that Government decided that it was not worth while to retain in captivity for more than 48 hours or so those whom they had arrested in connection with it; and the country as a whole remained almost entirely unmoved, the spectacular and widespread *hartals* and so forth, which during the 1930-31 civil disobedience movement were the almost inevitable consequence of arrests of Congress leaders, being conspicuously absent. Again, as regards the intimidation or exercise of pressure upon the moderates, the publication to-day of the very satisfactory list of widely representative Indian

* The vast majority of these, however, came from two provinces only, the United Provinces and Bihar and Orissa. The relatively very meagre response from elsewhere must have been disappointing to the Congress leaders, particularly in the case of Bombay, in view of the hold they have hitherto exercised over that part of India.

The Reaction in India

politicians who will be attending the proceedings of the Joint Select Committee is sufficient to demonstrate how complete the failure of the Congress has been.

There seems now no reason at all to doubt that during the last year or so an increasing proportion of the politically minded classes, owing partially to the experiences of 1930-31, and partly to the near prospect of obtaining a large measure of political power under the reforms, have begun to look with active disfavour upon subversive activities and to approach political problems in a more realistic spirit than has been customary in the past. The debates on the White Paper in the Legislative Assembly, the Council of State, and the various provincial Legislative Councils were throughout practical in tone, and although, as we have seen, there was a great deal of adverse criticism of the details of the scheme, there was singularly little inclination to consider it from the standpoint of abstract political theory, and such appeals to sentiment as were made regarding it fell noticeably flat. If, as appears probable, this tendency to eschew emotionalism and concentrate on common-sense practical details remains a feature of Indian politics until the new constitution is established, the prospects of its working successfully may be considered bright.

India.

April 21, 1933.

POSTSCRIPT.

Mr. Gandhi, who had just commenced his three weeks' fast on behalf of the untouchables, was released from Poona gaol on May 8.—EDITOR.

CHINA AFTER THE LOSS OF MANCHURIA

THE Manchurian affair presents to the outside world an abnormal number of international aspects. Besides the question of the relations between the principal parties there is the League of Nations constitutional aspect, the Russo-Japanese, largely strategic in character, the American-Japanese and, closely connected with it, the momentous problem of the balance of power in the Pacific; there is the point of view of Manchuria and its inhabitants, of the reactions inside Japan and, finally, the effect on China and on Chinese foreign relations.

From a world standpoint the last of these aspects is certainly not the least important. The question how far China, emerging from the crucible of the Manchurian troubles, will be a changed China is one of primary interest, and it is this aspect of the problem which is considered in the following pages. It may appear somewhat premature to attempt to estimate the effects of a conflict which at the time of writing is still in progress, and one does so with the consciousness that events yet to come may stultify present conclusions. But those who deal with Far Eastern affairs learn the hopelessness of waiting too long on events, and a point has been reached which seems to justify at least an *interim* summing-up on broad and general lines.

I. THE ECONOMIC EFFECTS OF THE LOSS

THE effects on China of the Manchurian affair fall conveniently under three headings, the economic, the political and the psychological, meaning by the last of these the impress on the Chinese mind. To begin with the economic, the first question to consider is what China has lost by the cutting off of her Manchurian provinces. For this purpose let us, for brevity's sake, take "China" as

The Economic Effects of the Loss

meaning the China of to-day—China within the Wall—and limit the meaning of loss to the actual injury incurred, without taking into account the loss of future potential benefits. It is true, looking ahead, that the potential losses may in the long run prove vastly the greater, but to reckon the "might have beens" would lead us too far afield and involve us too deeply in the realm of speculation.

The only practical course, then, is to base our enquiry on the facts of the situation as they were at the time when the separation of China and Manchuria took place. What was the economic benefit accruing to China prior to that date and how much of it has been lost? Economically Manchuria was already almost a separate unit, divided from China by a belt of mountainous country with only one practical land route running along a narrow corridor between the mountains and the sea and a single line of railway* passing through the gap. By sea, it is true, communication has always been easy between the coasts of the two promontories—the Shantung and the Liaotung—which face each other at the mouth of the Gulf of Chihli and are less than 100 miles apart; but apart from the "coolie traffic," with which we will deal later, the business from port to port has been of relatively small importance. The far more considerable trade route between Dairen and Shanghai carried mainly transit cargoes in so far as China was concerned. Intercourse generally between Manchuria and China was on nothing like the same scale as between the individual provinces south of the Wall.

Manchuria's railways had developed independently and, taken as a whole, were almost completely divorced from the railway system of China. She is self-sufficing also in the matter of sea ports, of which she possesses three, including that of Dairen which has hitherto ranked as the third in

* The division of this railway into two halves, managed one from each end, and with the revenue similarly appropriated by an act of *force majeure* on Mukden's part, was a typical instance of the relationship between the central and Manchurian Governments.

China After the Loss of Manchuria

importance in China. Commercially Manchuria stood on her own feet, having, unlike the rest of China, a favourable trade balance. The customs, the posts and the Salt Gabelle were under the control of the central Government of China which received the revenue of the two former and part of the revenue of the third. For the rest the public finances were almost, if not entirely, distinct from those of Nanking. Lastly, the military establishments—an essential matter to take into account in any reckoning up of Chinese economic affairs—stood on a wholly separate footing, while for the supply of munitions of war the Manchurian Government had its own arsenal at Mukden.

Under these conditions the economic interdependence of the two territories, as well as China's share in the natural wealth of her Manchurian provinces, were less than might at first sight have been expected, and any analogy one might be tempted to draw between these and superficially similar cases, such as that of Alsace-Lorraine or Upper Silesia, would be apt to be very misleading. With this qualification in mind let us now consider in turn the most important respects in which China's economic position is, or is capable of being, affected by the loss of her three "Eastern Provinces" and the setting up of an independent Manchurian Government.

First, to take emigration. The outlet for over-population which Manchuria has for years past provided by absorbing every year several hundreds of thousands of Chinese peasants from the provinces of North China has been closed by the present crisis and its reopening will depend on whether conditions of peace and security are established in the northern and western regions to which most of the emigrants used to go. No one can say when and under what conditions the movement will recommence. If it starts afresh when Manchuria settles down, the emigrants who are for the most part Shantungese (some of the best human material in China), will in any case be lost to China as citizens. The economic importance to be attributed to the

The Economic Effects of the Loss

stoppage of immigration will of course largely depend on the view taken with regard to the whole problem of Chinese over-population, though the monetary side also enters into the account through the loss of the remittances sent back by the settlers to their homes in Shantung or other parts of North China—the counterpart on a very much lesser scale of the huge influx of money into the ports of Southern China from the colonies of Chinese in America, the Dutch East Indies and elsewhere.

Akin to this stoppage is the loss of imported wealth formerly brought back in the form of savings by the army of seasonal labourers who went every year to Manchuria and shared in the prosperity which she derived from the great increase in her bean trade. In this connection, the wider question arises: how much of the profit accruing from the favourable balance of trade of the three Eastern Provinces found its way into the rest of China? This is not an easy question to answer. The existence in the heart of Manchuria of the South Manchurian Railway with its many industrial subsidiaries, the profits of which passed into alien hands, the official manipulations of the Manchurian currency and the unknown factors of military expenditure and of financial "deals" between the Mukden and Nanking Governments make it impossible to determine the eventual destination of the credit balance of trade. That considerable funds accumulated in the hands of Manchuria's rulers is a notorious fact, and a proportion of them must certainly have found their way into China proper. This was especially the case at the end of 1930 after Chang Hsueh-liang had transferred his headquarters from Mukden to Peiping and brought Manchurian wealth to the old capital of China, which in consequence experienced a visible recovery from the bitter impoverishment of the previous few years. Besides these various channels for the flow of funds from Manchuria into China which for the present have ceased to exist, we have to remember the contributions from the Customs and Salt Gabelle to the central Government's

China After the Loss of Manchuria

exchequer. The former used to amount to nearly one-third of the total Customs revenue and its loss represents a serious diminution of the Government's income.

The last important factor is the volume of trade. There are no available statistics which would enable us to make an accurate measure of the China-Manchuria trade, but according to the calculations of the experts attached to the Lytton Commission,* China's share in Manchuria's imports during the years immediately prior to the crisis was about 32 per cent. and her share in the exports about 25 per cent. The Chinese market for Manchurian natural products—soya beans, especially in the form of beancake fertiliser, grain, coal and timber—and the value to China of the Manchurian market for her cotton-piece goods and other manufactures has to be estimated in the light of its great potentialities, as well as in that of its development up to date. Any permanent curtailment would certainly be a serious loss. It must be remembered too that Shanghai has served as the entrepôt for most of Manchuria's trade, and that Chinese shipping carried some 10 per cent. of the trade with Manchurian ports. To what, if any, extent China is destined to suffer in these respects—trade, agency and shipping—through the creation of Manchukuo still remains to be seen. It will depend of course mainly upon the Manchukuo policy with regard to tariffs and other restrictive measures. Last year's figures for the port of Dairen actually show a substantial rise both in imports and exports with China, but until the political trend is clearer there is very little to build on. One circumstance, which in any event should stand China in good stead, is the fact that the bulk of Manchuria's trade is, and seems sure to remain, in the hands of Chinese.

This weighing up of China's actual losses in the economic field, judged with a due sense of proportion, inclines one to the view that they are not of vital importance and

* See Special Study No. 6 annexed to the Lytton Report. China's proportion of Manchuria's trade as a whole is there given as 28 per cent., comparing with Japan's 40 per cent. share.

The Political Effects

that the course of Chinese affairs is hardly likely to be affected by them to a very material extent. Nanking has been hit in its revenue, and there are elements in the north, especially in Shantung, which are feeling the pinch from the stoppage of emigration and the inflow of imported funds; but, taking China as a whole, it is probably safe to say that very few of the population will be conscious of any change in their daily life as a result of Manchuria's new status. As the Lytton Report remarks: "The principal ties between Manchuria and the rest of China are racial and social rather than economic."

II. THE POLITICAL EFFECTS

THE political effects of the conflict with Japan and the creation of Manchukuo can be divided into those which affect China from outside and those which affect her from within. In the former category the most vital are first the effect in connection with her northern frontier, secondly the effect on her relations with Japan and Russia, and lastly the effect upon her position *vis-à-vis* the League of Nations and the world at large.

The old Argun-Amur boundary with Russia, though productive of much friction at various times, was on the whole a reasonably stable frontier. Manchuria itself, moreover, which bore the brunt of frontier disputes and took the shock of any armed conflict which might occur, served as a buffer for China. So long as Manchuria's relationship to her remained what it was there was no great risk of China as a whole becoming embroiled in a vital frontier dispute with Russia. From the strategic point of view her remoteness from the vital points of contact was a guarantee of security for China. The new frontier-to-be (assuming no permanent occupation by Manchukuo-Japanese troops of China proper) will presumably follow the line of the Great Wall or rather the foot of the ranges along which the Great Wall runs. For China this will mean a far worse

China After the Loss of Manchuria

strategic position, the reappearance, in fact, of that secular threat from the north which has played so large a part in modelling her history. Whoever holds the passes has Peking and the northern plain at his mercy. The implications of this alteration in the strategic position are too wide to trace out here, but it is obvious that the change may have the most far-reaching consequences.

A secondary point about the new frontier is the fact that its eastern extremity will intersect a region of great mineral wealth. The rich coal deposits worked by the Kailan Mining Company are 90 miles distant from Shanhaikuan. The dangers inherent in the close proximity of valuable sources of supply to an international frontier require no emphasis.

The question of China's future relations with Japan opens up a vast field of enquiry in which for the purpose of this article we can only select a few of the most prominent features. Reserving for a later page the "psychological" aspect, let us for the moment look at the position from a purely objective standpoint. Thus regarded, perhaps the most pregnant effect of Japan's action in Manchuria upon her relations with China is the change that it has brought about with regard to the old sources of friction between the two countries. The effect, if one may put it so, has been to "fund" the Manchurian points of conflict. The long list of disputes over the building and financing of railways, over tenure of land, over the status of Koreans and other such matters is now wiped off the slate so far as Nanking is concerned. For China their place has at the present moment been taken by a comprehensive antagonism directed against the invader of Chinese soil. We must also, however, remember that a fresh batch of problems is almost bound to arise later on in connection with two fresh factors—the new international frontier and the passing under Japanese control of a population of 28 million Chinese. The new frontier will, for all practical purposes, place Japan on the threshold of North China. Besides the new strategic advantages in a purely military sense which the position

The Political Effects

gives Japan, it will put into her hands the power of intervening in Chinese domestic affairs in the neighbouring northern provinces, where conditions are in a chronically unstable state. The threat of such intervention will in its turn provide a means of putting pressure on the central Government of China.

To hazard a general conclusion, the removal of the old causes of friction in Manchuria should open the way to better mutual relations, *if* China can resign herself to accepting the new situation and *if* Japan will refrain from exploiting her new power. If, on the other hand, these conditions are not fulfilled and relations remain strained, the potentialities of conflict become seriously increased and the outlook will be gloomy indeed.

Russia, like Japan, had, prior to the *coup* of September, 1931, her own bones of contention with China—the status of Barga, the management of the Chinese Eastern Railway,* the control of the Amur navigation, to cite a few of the most important of them. These matters of dispute were "hang-overs" from the Czarist *régime*, and partially faded out of the picture as a result of the Bolshevik revolution. Very soon, however, they revived and had already led to an undeclared war along the Manchurian border in 1929. The loss of Manchuria has liquidated these former Russian disputes for China, in the same way as the old troubles with Japan, and relations have become easier in consequence. The Governments of the two countries, meanwhile, found themselves ranged together in a common grudge against Japan. It therefore, surprised nobody to see them agree to restore diplomatic relations—suspended since Borodin's days when Russia made her abortive attempt to seize the steering-wheel of the nationalist movement—and it was considered a significant fact that the veteran Dr. W. W. Yen, in the judgment of many the ablest of Chinese diplomats, has been selected by his

* Since this article was written the Soviet Government has offered to sell Japan the Chinese Eastern Railway.

China After the Loss of Manchuria

Government to fill the Moscow post. To maintain a Sino-Russian *entente* notwithstanding the existing position with regard to "communist" China where the central Government is actually engaged upon a military attempt to suppress the "red armies," and to win back the sovietised areas, could not be a simple problem. Much will obviously depend on the policy of Moscow on the question of world revolution as applied to the Far East. The "red" movement in central China appears, as a matter of fact, to have been comparatively free from direct Russian control for the last few years.

We must now turn to China's relations with the League of Nations, its member nations, and the United States of America. An immediate effect of the crisis was to bring China into intimate touch with the political side of the League. Apart from the (more or less personal) action of Mr. T. V. Soong in obtaining for China technical assistance from Geneva, the League has in the past filled a rather insignificant place in Chinese eyes, notwithstanding the fact that China has for many years been represented on the Council. The ordinary Chinese knew and cared little about the League. When the crisis arose it suddenly appeared as a heaven sent agent for the extrication of his country from a situation which by itself it was powerless to mend. When it became plain in due course that the Powers would not coerce Japan the inevitable reaction occurred. The League fell from its pinnacle, its popularity vanished and it is now very widely regarded as a broken reed, a delusion.

However deplorable this attitude may seem, a moment's reflection will show its inevitability. At a time when League standards for the conduct of world affairs are proving so far beyond the reach even of the organised western Powers, one cannot expect them to count for much in a country in the disorganised state of China. She has her idealists—some of them, as her records proclaim, ready to uphold their ideals at the cost of their lives—but to the mass of the Chinese people League con-

The Political Effects

cepts are too remote from the common experience of life to have much practical meaning. The gap between what the League stands for and what China actually is, is, in fact, a little too wide. While there were signs that the League Powers might—whatever their motives—fight China's battle for her, the League of Nations was all that China could wish; when the contrary proved to be the case the League's bubble was pricked.

A similar reaction against individual Powers has shown itself in such manifestations as the unbridled wave of resentment with which a large part of the Chinese press and Chinese public opinion greeted Sir John Simon's "anti-Chinese" speech to the League Assembly. This hostile feeling may be—one feels hopeful that it is—no more than a transient phase, but it carries a latent threat which many Chinese are not unready to stress. The shattering of the hopes which were placed in Geneva and Washington will, it is said, result in China turning towards Moscow, and a further strengthening of the new bond forming between the two neighbours.

In conclusion one cannot refrain from mentioning one concrete result which the Manchurian dispute has had upon Sino-foreign affairs. Negotiations with Great Britain for the relinquishment of extraterritorial rights—implying in due course the termination of the present *régime* at Shanghai—had got as far as the initialling stage in the summer of 1930. Although a check had occurred due to an unwillingness on both sides to confirm the initialled draft (the Chinese fearing political reactions at home, the British Government not uninfluenced, perhaps, by the Thorburn case* and its popular repercussions), there was good cause to suppose that the suspension was only temporary and that *pourparlers* would be resumed without any long delay. In the meantime, however, the Manchurian crisis arose and attention was diverted to other

* In June 1931, Mr. John Thorburn, a British subject, was arrested by the Chinese, charged with killing a gendarme, and executed without trial.

China After the Loss of Manchuria

matters, the "extrality" problem was shelved and there is no certainty at the present moment when or in what form it will again be brought on to the *tapis*. It may be noted, however, in passing that local negotiations on the outstanding issues between the International Settlement and Chinese "Greater Shanghai" have been continued and made favourable progress, bidding fair to lead to a settlement which will solve a few at least of the most urgent questions with regard to foreign rights.

Chinese domestic politics are, in themselves, so confused and entangled that to separate out with any certainty the effects of the Manchurian crisis on internal affairs is an impossible task. One cannot even give an assured reply to the persistent query whether Japan's attack has served to consolidate the country and lessen domestic strife. In a negative way one may point to the absence of civil war, other than local outbreaks, as evidence of the restraining effect of aggression from outside; but it is hard to discern any positive signs of closer union or even of a disposition on the part of the various cliques to sink their quarrels. The relations between Nanking and Canton—the most important in the field of internal politics—have certainly not improved and are frankly disappointing. If foreign aggression has had any unifying effect it has been among the people rather than among the politicians and "leaders."

More direct and definite consequences of Manchurian events seem likely to show themselves in the period that lies ahead. North China has been thoroughly disturbed. The exit of Chang Hsueh-liang (against whom the Japanese are reputed to have a strong personal grudge) leaves a political vacuum which the Nanking Government may, or may not, find itself able to fill, while at the same time monarchist and anti-nationalist elements from over the frontier are said to be harbouring schemes to seize the power at Peiping. The upsetting of equilibrium in the North reacts upon Nanking, whose prestige is already somewhat shaken by its inability to deal effectively with

The Psychological Effect

the military situation—a handle of attack which its political rivals do not hesitate to use. To this extent the Manchurian situation has tended to weaken central authority in China and to make more imminent the ever-present risk of the country lapsing again into a state of political disintegration.

III. THE PSYCHOLOGICAL EFFECT

IT has been possible to describe the economic effects of the Manchurian affair on China with a certain degree of assurance. To approach the question of the political effects with equal confidence is difficult—to attempt to define the psychological effects must almost savour of rashness. It is neither possible for a foreign student of affairs to explore the Chinese mind with any great feeling of certainty, nor can one say—as one does of our Western press-ridden countries—that "China" thinks this, or "China" feels that, on any particular subject. Insomuch, however, as the psychological effects may, in the present instance, prove in the end the most important of all, they call for an effort to detect at least the main currents of thought set up by the events centring round Manchuria. The present attempt is based on views in the Chinese press, on personal contacts with educated Chinese and on the reports of foreigners in the interior who are in touch with the peasant masses.

The Chinese peasant, as a whole, has an extremely narrow horizon, which embraces with difficulty events in distant parts of the country. Even exposure to war and its repercussions is, alas, only a normal experience in many parts of the country where fighting and soldiery, together with floods, famines and bandits, are regarded as common misfortunes. It is true that conditions are rapidly changing under the influence of the new popular press, of the "mass educational movement" and similar aids to literacy and, near the larger cities, of educational and propaganda cam-

China After the Loss of Manchuria

paings undertaken by students throughout the countryside. It is doubtful, however, whether Manchurian affairs have produced in the mind of the rural masses anything more definite than vague feelings of hatred and horror stirred up by highly coloured descriptions of incidents in the conflict. In any case peasant opinion, in its present stage of development, is hardly a calculable factor in considering China's political course.

The town worker's position differs from that of the peasant mainly in degree. He is naturally more exposed to the influence of newspapers, and one of the striking features of last year's Shanghai affair was the comet-like rise of the "mosquito" press. Special "war extras" were rushed away from the printers, hawked noisily through the streets and snapped up by the mob in a manner reminiscent of war-time conditions at home. Mob passion is as easily excited in China as anywhere in the world, and there is no doubt that anti-Japanese feeling has run very high in the towns. The psychological aspect has a special importance as the boycott can only survive effectively so long as feeling persists among the proletariat and small shopkeeper class. While the feeling is strong there is also the standing danger of violent outbreaks against Japanese life and property, possibly opening the way to fresh hostile operations.

Among the educated classes—who alone supply an effective public opinion in so far as it can be said to exist—one comes upon several distinct currents of thought. The students, true to type, worked themselves up to a high pitch of excitement, leading to such excesses as the physical attack on Mr. C. T. Wang when he was Foreign Minister, and on other members of the Government at Nanking. Their agitation for military resistance to Japan has not been entirely confined to words. The number of students who have actually joined the ranks is probably very small (though cases of enlistment in the armies are within the writer's knowledge). A strong movement has, however,

The Psychological Effect

set in for physical military training and for the study of military subjects as a step towards the creation of an up-to-date national force.

In this connection the advances of recent years in the military state of China have to be taken into account. The standard of the bulk of the regional armies may not have altered much, but the creation of "picked units" has gone rapidly ahead. A new class of professional officer has emerged from the military schools—very different from the old ignorant type; technical officers have been engaged from abroad and a great advance has been made in arms and equipment. The result showed when some of these picked units—the XIXth Route Army and the 87th Division—faced the Japanese at Shanghai, and by their determined resistance both surprised the world and roused in China a wave of military enthusiasm. There are indications, of which the attitude of the students is an outstanding example, that a new military spirit is being engendered in China and that a "militarised" China according to Western standards may be a far more imminent development than most people have imagined. Though somewhat outside the proper scope of this article, an allusion here to the export of foreign arms to the Far East is hardly to be avoided. One cannot but ask whether the Governments of the exporting countries are fully alive to the risk of there growing up a militaristic China and whether allowance is made for the possible consequences in the event of China attaining a greater degree of unity. To watch the Disarmament Conference at work and the simultaneous stream of war material pouring into China and Japan gives an impression of incongruity which would hardly be surpassed at a meeting of experts discussing fire extinguishers and throwing matches into the dry grass behind them.

The student body, whose influence in China to-day is disproportionately great, has violently opposed coming to terms with Japan and is a powerful obstacle to any move

China After the Loss of Manchuria

towards a direct settlement—for which, by the way, some sections of the Nanking Government are said to be not disinclined. A different frame of mind is met with in conversation with members of the banker-merchant community, which is becoming more and more of a political force. Its *élite* meet and seriously discuss national affairs, and from this habit there is steadily emerging a corporate body of opinion which, though by no means proclaimed from the house-tops, exercises a strong influence in China and is brought to bear in discreet but effective ways at political head-quarters. The feeling one encounters among this small band of leading bankers and merchants is as strongly nationalist as that of the students and little, if at all, less bitter against Japan. It is tempered, however, by a recognition of the fact that much of the present disaster has been brought on China by herself, and by the realisation that in her present chaotic state she is impotent to stand up for her rights. The policy, therefore, to which it gives rise is one of cutting the loss. “Manchuria has gone; we shall make matters worse if we persist in a hopeless struggle; let us accept the position for the present and devote ourselves to rebuilding our national strength. In time we shall face our adversaries on an equal footing.”

Such is the frame of mind of a section at least of the mercantile leaders, and with it goes a highly critical attitude towards public affairs as they are in China at the present time. A self-searching tendency and a demand for the overhauling of the whole national machine shows signs of replacing the spirit of moral surrender to the hopelessness of the situation into which many of the best Chinese seemed to be sinking before the crisis arose. Nor is this reaction to the crisis—this turning of the eyes inward—confined to a single class. Plain speaking about the evils and abuses current in public life has come in no soft terms from the highest quarters, notably in the speeches of Chiang Kai-shek, while evidence is not lacking that the friendly strictures contained in the Lytton Report—

The Psychological Effect

especially those on the subject of anti-foreignism—are, in spite of all protests, having their effect on the popular mind.

Although the same movement towards a national “stock-taking” and concentration upon reforms at home appears also among the students and the leaders of the academic cultural world, there is a conflicting attitude of mind which at times finds expression there—an attitude which says: “We know we are no match for our enemies. But China must save her soul at whatever material cost. It is only by fighting to the end that our country can find itself. Our numbers anyhow must prevail in the long run; we can afford ten lives for every one of our enemies. Let us, therefore, maintain the struggle and trust that time and exhaustion will come to our help in the end.”

One other trend must also be mentioned—it has come to one’s notice in recent months. We have already spoken of the feeling of disillusionment over the absence of help from Europe and America. Growing out of this one sees signs here and there of a general disgust with “western” things as a whole, a tendency to turn back from the path of “westernisation” to which China has so far committed herself. It is hard to distinguish how much of this tendency, where it exists, is due to disappointment at Geneva and how much of it to the sorry spectacle which at the present juncture the West as a whole presents to the East. The Great War shook China’s all too unquestioning faith in western morals, western science and western institutions. How great the likelihood is that a further shock—combined with such proof as the past year has given of the decline of the Great Powers’ effective interest in the area of the western Pacific—may start China off on a changed course, is a matter for careful thought and for serious concern to those who care for her destiny.

China.

April, 1933.

ss

TREATY REVISION

THE veil has not, at the moment of writing, been lifted from the negotiations which are in progress for what is generally known as the Four Power Pact, but it is common knowledge that one of the objects that is being discussed is the possibility of revising the Peace Treaties in certain respects. It is not the purpose of this article to discuss the advisability of attempting revision at the present juncture—some suggestions on the question of policy will be found elsewhere*—nor is it our object to prejudge any of the questions involved, but merely to give a brief indication of the character of those questions.

I. THE GENERAL PRINCIPLE

THE term "treaty revision," in its currency at the present moment, is being used in a special restricted meaning which is not apparent on the face of the two words. It is being used to mean the revision of the territorial provisions of the Peace Treaties in which the political map of the world was re-drawn after the war;† and it is being used to mean the revision of these particular chapters of these particular diplomatic instruments by a peaceful agreement as opposed to a violent resolution of forces in a fresh outbreak of war. It is in this special sense, in which "treaty revision" is on the agenda of the world's affairs here and now, that we propose to use the term in this place.

The raising of the issue of treaty revision in this sense of a pacific revision of territorial arrangements is a new departure in the history of international relations; and it is in the combination of pacific revision with territorial questions that the novelty lies. There is nothing new about the pacific revision of non-territorial arrangements. To look no further than the set of peace treaties that are

* See p. 493.

† A map showing these changes will be found on pages 590, 591.

The General Principle

now in question, their financial chapters have been revised peacefully already, and even their military, naval and air chapters may—if the World Disarmament Conference avoids breakdown—go the same way. Again, there is nothing new about the revision of territorial peace terms by fresh outbreaks of violence. To look no further than the last general territorial re-settlement but one, after the last general war but one, we may observe that almost all the territorial provisions of the peace settlement of 1814-15, which followed the wars of 1792-1814, had been revised by violence before the outbreak of the next general war in 1914. The only two noteworthy exceptions are the political union of Norway with Sweden, which was dissolved peacefully in 1905, and the Russo-Prussian frontier repartitioning Poland, which was drawn at the Congress of Vienna, and which survived until the war of 1914-18, though it was perhaps the most iniquitous product of the whole post-Napoleonic settlement. (The reason why this particular frontier survived was that Russia and Prussia were bound together by their common interest in perpetuating the results of their common crime against Poland, even after they had drifted into opposition to one another about almost everything else.)

It will be seen that, by one or other of the two alternative methods of peaceful reconsideration or fresh recourse to armed force, peace treaties—to judge by recent history—always are revised out of all recognition sooner or later, and this in their territorial chapters as well as in other spheres. And the reasons for this matter of historical fact are not far to seek. In the first place, it is evident that even the most consummate political wisdom incarnate in mankind at any given moment is unequal to the task of politically re-mapping the world, and re-mapping it permanently right, in a single act of settlement! Wisdom, as we believe, in an empirically minded England, comes mostly by experience and hardly at all *a priori*; and to learn by experience takes time. And then again, at the

Treaty Revision

close of any general war, the peoples are as a rule in the wrong mood and the governments in the wrong hands for exercising any sort of political wisdom. For the moods and the men that are the best for winning wars are clearly not the best for making successful peace settlements (which means subordinating present passions to a long and dispassionate view of the future). Finally, in violent and general wars "war aims" as a rule crystallise into a vindication of general principles which have usually become half anachronisms before they are taken up by the victors. For example, the peace settlement of 1814-15 was made by the coalition that had beaten Napoleon in the name of the principle of "dynastic legitimacy," at a time when legitimacy was already doomed to forfeit to nationalism such hold as it had over men's hearts and consciences. Similarly, the peace settlement of 1919-20 was made by the Allied and Associated Powers which had beaten Germany in the name of the principle of "national self-determination," at a time when nationalism was bound to wreck society, if it could not, or would not, accommodate itself to the exigencies of the new economic and financial system of "the machine age," which cannot operate effectively on anything short of a world-wide scale.

These considerations indicate why it is that peace settlements always are ephemeral; on this occasion, however, there is, we may be confident, no idea in the mind of our Government of any revision that would upset the principles of the settlement of Versailles. Whatever the dangers inherent in the idea of national self-determination, it still holds the field as firmly as ever, and apart from this, public opinion, both in this country and in France, would be strongly against any dangerously drastic course—many, indeed, doubt whether, in view of what has been happening in Germany, it is a suitable moment even to revise details.

If revision, then, is attempted, it will almost certainly be confined to one or two danger-points which, if left as they are, might later involve Europe in war.

The Problems of the Territorial Settlement

Territorial changes will necessarily be confined to a minimum. This is a common-sense principle which is dictated by the very complexity and delicacy of our latter-day social structure in this "machine age." In the age of Charlemagne, or even in the age of Charles V, when the normal economic unit of western life was the self-sufficient agricultural village community, these social atoms could be arbitrarily separated from or combined with one another politically with relative impunity. In these latter days of machine-made interdependence, the social life of mankind has become a seamless robe in which the economic and political threads are almost inextricably interwoven; so that even the deftest attempts to unpick and re-weave the political threads are bound to damage the whole texture of our social life most barbarously. The sequel to our light-hearted political re-mapping of the world in 1919-20 surely shows that territorial revision ought to be regarded as being strictly an *ultima ratio*. It goes without saying, moreover, that if any cases come up for revision, they will necessarily be examined not on *a priori* grounds, but in a concrete common-sense way on their own individual merits, in the light of all the relevant considerations, linguistic, economic, historical, emotional and strategic.

At the moment of writing we can only guess which particular cases are occupying the attention of the Powers—it may even be that before this article reaches the reader the negotiations will have broken down. But the fact that they are taking place brings the Versailles territorial settlement and the various problems to which it has given rise once more into the foreground. In the section that follows we propose to describe these questions.

II. THE PROBLEMS OF THE TERRITORIAL SETTLEMENT

PERHAPS the most prudent way of approaching the difficult problems is to glance at the less contentious provisions of the settlement. Alsace-Lorraine, of course,

Treaty Revision

is now a settled question. In the Pact of Locarno Germany renounced all pretensions to sovereignty over these provinces. The Alsatians, it is true, speak German and are racially of the same stock as the people on the other side of the Rhine. They are also quite naturally finding some difficulty in reintegrating themselves into France. But the Germans themselves have never ventured to suggest that they are now looking back wistfully to their half century's experience of life in an Alsace which was a German *Reichsland*. Alsatian discontent in its extreme form has rather taken the direction of a desire to become an independent neutralised State like Switzerland, belonging neither to France nor to Germany. To-day the current controversies over local self-government in Alsace, and over the local relation between State and Church, belong to the domestic politics of France.

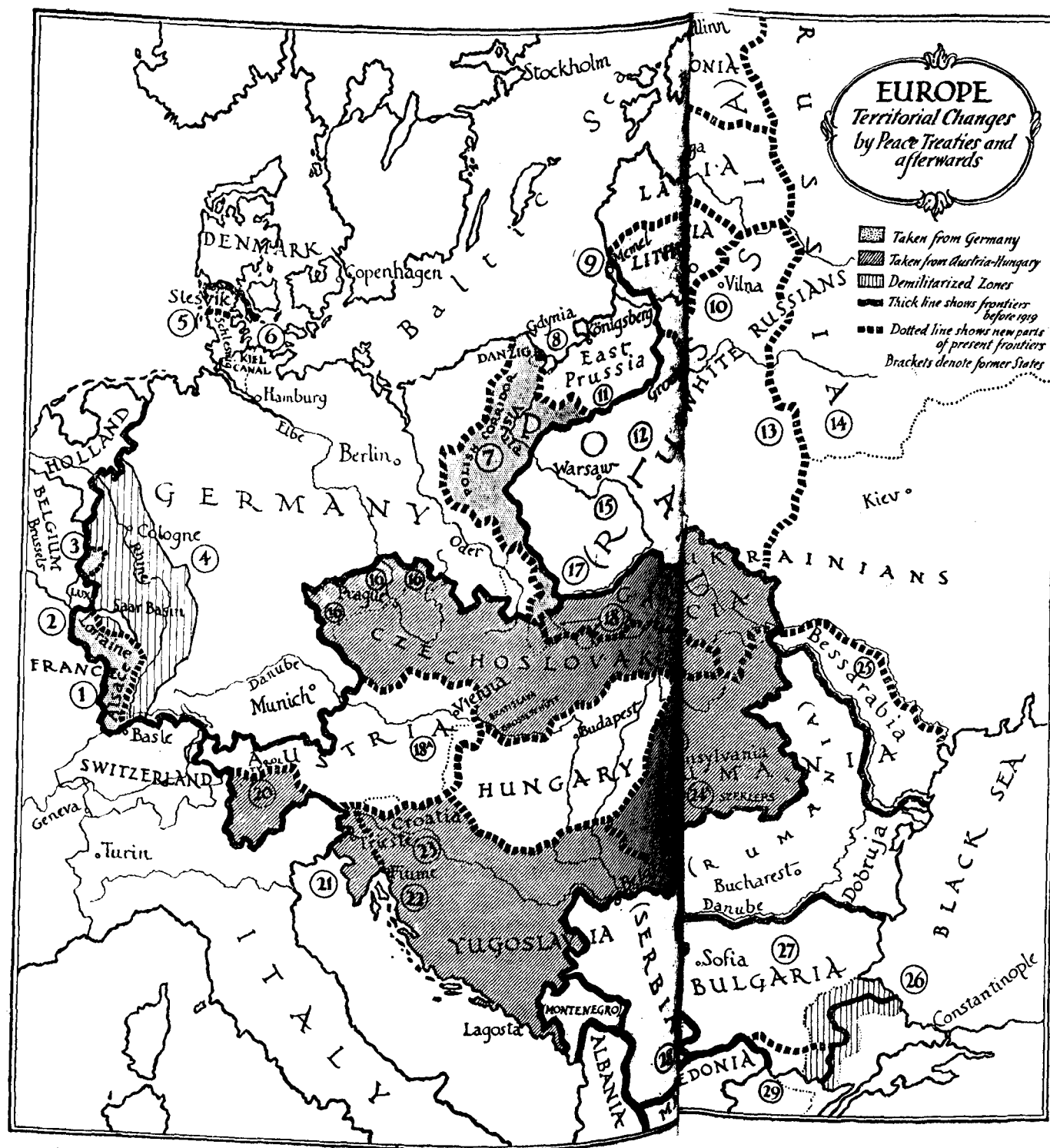
Another territorial arrangement made in the settlement of 1919-20 which is looked upon as non-contentious, is the transfer of Northern Slesvik, by the post-war plebiscite, from Germany to Denmark. For Denmark, in the Paris peace settlement, showed herself a paragon of good sense. She had a prospect of obtaining, at the hands of the victorious Allied and Associated Powers, a considerably larger slice than she has actually accepted of the territories that were taken from Denmark forcibly by Prussia in the war of 1864. Yet, in this situation, the Danes were wise enough neither to think in terms of "historic rights" nor to feel in terms of revenge. They realised that the disaster of 1864 had come upon them because, in the peace settlement of 1814-15, they had been cajoled into accepting the German territories of South Slesvik and Holstein in compensation for the loss of Norway (which was transferred in 1814-15 from Denmark to Sweden in order to compensate Sweden, in her turn, for the cession of Finland to Russia). In 1919-20, the Danes were determined not to repeat the mistake of a century before; and they therefore refused to take back from Germany any part of Slesvik in which the

The Problems of the Territorial Settlement

local population did not declare its wish to be re-transferred from Germany to Denmark in unmistakable terms in a properly conducted plebiscite. These were the circumstances in which the present "post-war" frontier between Denmark and Germany was drawn.

Eupen and Malmedy are in the same position as Alsace and Lorraine. Under the Treaty of Locarno Germany voluntarily accepted the territorial position as between herself and Belgium fixed by the Treaty of Versailles. The grounds on which Eupen and Malmedy were transferred to Belgium were that, although five-sixths of the joint population of 60,000 were German speaking, the majority were held, in origin, to be French speaking Walloons, only Prussianised as a result of having been taken from Belgium and assigned to Prussia in 1814-15. (About 94 per cent. of the inhabitants of Malmedy were still French speaking.) The people of the two districts were allowed by the Treaty to record their wishes in a register kept open for six months, but only 271 declared for remaining with Germany. The Germans lodged a protest on the ground that signature, being public, led to intimidation, but it was disallowed by the Council of the League. The annexation was finally declared in 1925. Germany has twice offered to buy the districts back, once in 1926, and again in 1929, but without result.

We now come to a more contentious question—a big irridentist claim—the case of the Bohemian Germans, who, in spite of their language and their nationality, and their strongly expressed German national sentiments, were transferred in the peace settlement from pre-war Austria to the newly created "succession State," Czecho-Slovakia. The German contention is that these Germans, who inhabit the region adjacent to their own frontier, should be incorporated in the Reich. To hand over some three million Germans to Czecho-Slovakia was certainly a strong measure. The new State was thus saddled at birth with one alien minority which (apart from the Hungarian and Ruthene



1. Alsace-Lorraine—to France (T. of V.).*
 2. Saar Basin—under governing commission appointed by L. of N. until 1935, when a plebiscite will be held. Mines ceded to France till 1935.
 3. Eupen and Malmédy—to Belgium (T. of V.), confirmed after plebiscite by L. of N.*
 4. Demilitarised zone.
 5. Slesvik—plebiscite 1920, north part to Denmark.
 6. Kiel Canal—internationalised (T. of V.).
 7. Polish Corridor—from Germany to Poland (T. of V.).
 8. Danzig—free city under High Commissioner of L. of N. (T. of V.).
 9. Memel—to Lithuania (Conf. of Ambassadors) 1923. Confirmed by L. of N. 1924.
 10. Vilna—by Russia to Lithuania July, 1920, seized by Poles Oct., 1920. Boundary defined by Conf. of Ambassadors, leaving Vilna to Poland 1923.
 11. East Prussia—plebiscite 1920, retained by Germany.
 12. From Russia to Poland, boundaries defined except to East (T. of V.).
 13. To Poland after Russo-Polish war (Tr. of Riga 1920).
 14. To Poland, and Eastern Boundary defined (2nd Tr. of Riga 1920).
 15. Poland—independence proclaimed 1918, recognised T. of V. Minority population under protection of L. of N.
 16. Bohemian Germans.
 17. Silesia—plebiscite 1921, dotted part to Poland.
 18. Teschen, Otava and Zips—part to Poland and part to Czecho-Slovakia after plebiscite 1920.
 - 18A. Burgenland—plebiscite 1921, final award L. of N. 1922 to Austria.
 19. From Austria-Hungary (T. of St. G.).*
 20. Austrian Tyrol—to Italy (T. of St. G.).
 21. To Italy (T. of St. G.).
 22. Fiume—Free State T. of Rapallo 1920, to Italy by Italian-Jugo-Slav Treaty 1923.
 23. Croatia—to Jugo-Slavia from Austria-Hungary (T. of V.).
 24. Transylvania—from Hungary to Rumania (T. of Tr.).* Hungarian-Rumanian disputes 1923-27-28.
 - 24A. Minority under supervision of L. of N.
 25. Bessarabia—from Russia, 1920.
 26. Demilitarised zone (Tr. of Lausanne 1923).
 27. Minority population under supervision of L. of N.
 28. Macedonian Bulgars.
 29. From Bulgaria (Tr. of Neuilly 1919).
- Besides the above changes, Estonia, Latvia and Lithuania, formerly parts of Russia, declared their independence 1918; boundaries settled 1920 by agreement. Lithuania-Polish frontier settled by Conf. of Ambassadors 1923.

* T. of V.=Treaty of Versailles 1919.
 T. of St. G.=Treaty of St. Germain 1919.
 T. of Tr.=Treaty of Trianon 1919.
 L. of N.=League of Nations.

Treaty Revision

minorities on the opposite flank) amounted to nearly a quarter of its total population. This was hazardous when the political strife between Germans and Czechs in Bohemia had been one of the chief standing political troubles of pre-war Austria for half a century. The act was defended, during the Peace Conference, on the ground that, if the German fringes of Bohemia were cut away, Czecho-Slovakia would be rendered geographically, strategically and economically, incapable of leading a genuinely independent national existence. She was therefore given the old frontier of Austria *vis-à-vis* Germany in Bohemia, and twelve years' experience has proved the inclusion of these three million Bohemian Germans in Czecho-Slovakia to be politically workable, contrary to all the evidence of pre-war history, a fact which speaks well for the self-restraint and positive political ability of the Czechs. Nevertheless, Czecho-Slovakia is at the moment confronted with the danger of these northern Germans becoming Nazis and recognising Herr Hitler as their chief. Naziism has already made considerable headway among them.

Next, we may consider certain possible revisions which, however just in themselves, have been objected to on the ground that they could not be put into practical effect without incidentally producing or reviving other injustices which would be equal or greater.

For example, the extreme south-eastern corner of Transylvania is inhabited by a compact population of Magyars, several hundred thousand strong (the so-called Szeklers), who have genuine grievances against the Rumanian rule to which they have been subject since the peace settlement, and who ardently desire to be reunited with their Hungarian mother country from which they were then forcibly detached. The trouble is that these Szeklers could only be reunited politically to Hungary at the price of forcibly detaching from Rumania, and re-subjecting to Magyar rule, a considerably larger number of Rumanians who were liberated in the peace settlement, and who are just

The Problems of the Territorial Settlement

as anxious to remain citizens of post-war Rumania as the Szeklers are anxious to return to the bosom of Hungary. Since the Szekler country happens to lie at the very geographical centre of post-war Rumania, it would hardly be feasible to make this Szekler country into a detached enclave of territory under Hungarian sovereignty, on the analogy of East Prussia and Germany—even if the East Prussian arrangement had worked well enough to be an encouraging precedent! The only possible amelioration of the peace settlement that has been suggested, *à propos* of these Szeklers, would be for the world to persuade Rumania, as she values cordial relations with her neighbour, Hungary, to grant them some measure of local self-government under Rumanian sovereignty.

The Germans in East Prussia are not so badly off as the Szekler Magyars in Transylvania because East Prussia has, after all, still been left as a part of Germany, under German sovereignty and government, though it is divided from the main body of Germany geographically by a piece of territory under Polish sovereignty. The Germans demand—and have demanded insistently ever since the peace settlement—that the territorial continuity of Germany on the political map shall be restored by replacing the Polish corridor between East Prussia and the rest of Germany under German sovereignty. The trouble here is that this corridor is to-day inhabited by a mainly Polish speaking population which wishes to remain under Polish sovereignty; so that the German demand for its restoration could only be satisfied by replacing under German sovereignty some hundreds of thousands of Poles who are vehemently opposed to the change, Polish experience of German rule before the war having been extremely unhappy.

All the same, we cannot simply dismiss the German demand for treaty revision in the Polish corridor, for twelve years' experience has shown conclusively that, as a matter of fact, this is really one of the places where the "shoe pinches" and we will return to it on a later page. On the

Treaty Revision

same showing, the shoe also pinches in territories that were transferred from Germany to Poland in Upper Silesia; in the territories transferred from Hungary to Rumania and Czecho-Slovakia; in Bessarabia, which was transferred from Russia to Rumania; in Jugo-slav Macedonia, whose Slavonic inhabitants are Bulgars and not Serbs in national feeling; in the Vilna district, which is reclaimed from Poland by Lithuania; and in the vast White Russian and Ukrainian territories which are now under Polish rule.

For various reasons, a number of the items in this list are not "practical politics." For example, the Ukrainian and White Russian subjects of Poland who wish to escape from Polish rule assuredly do not want the only alternative which seems at present to be practicable: *i.e.*, to fall out of the frying pan into the fire by joining their fellow nationals who are under the dominion of the Soviet Government. Again, the cases of Russia against Rumania over Bessarabia, and of Lithuania against Poland over Vilna are juridical rather than substantial. The complainants rightly object to the methods of violence by which the Poles seized Vilna and the Rumanians Bessarabia, but the fact remains that Bessarabia is not inhabited by Russians, nor Vilna by Lithuanians. The majority of the inhabitants of Bessarabia are Rumanians, while Vilna is a Jewish city in a White Russian countryside. As for the Macedonian question, it could hardly be solved except by the entry of Bulgaria herself into a greater Jugo-Slavia which had been transformed from a unitary into a federal State.* And as for Upper Silesia, this is essentially an economic problem which can never be solved by re-drawing political frontiers, but can only be solved by a thorough-going economic

* The transformation of Jugo-Slavia from a centralised State under Serbian domination into a federal union, in which the Croats and the Macedonian Bulgars, as well as the Serbs, would have their own local self-government is now the policy of almost all parties and peoples in Jugo-Slavia, including the large Serbian elements in the territories formerly belonging to the old Hapsburg monarchy. This is the policy for which the Croat leader, Dr. Matchek, has just been sentenced.

The Problems of the Territorial Settlement

concordat between Poland and Germany. What is wanted there is an invisible frontier, like the Franco-Belgian frontier in the neighbourhood of Lille and Roubaix.

We are left, then, with three main points in Europe which might be placed on the agenda of the Powers. These sore points are, first, the Polish corridor and Danzig; second, the frontier between Hungary and Rumania (except, probably, the question of the Szeklers in the heart of post-war Rumania, which we have dealt with already); third, the frontier between Hungary and Czecho-Slovakia. Let us deal with the two relatively simple Hungarian cases first. We can deal with both together, because they are in essence of the same kind.

As between Hungary and Czecho-Slovakia, and between Hungary and Rumania, there appears to be a real possibility of helpful frontier rectification, with a minimum amount of social disturbance. A reconsideration of these two particular frontiers would seem, moreover, to be practical politics. The wise and courageous Czech statesman, M. Benesh, has just, in a public speech, himself admitted the possibility of "a small adjustment of frontiers" on certain conditions,* and has coupled it with the suggestion that this might bring about a reconciliation between Hungary and the three succession States of the defunct Hapsburg monarchy which now constitute the Little Entente. The entry of Hungary herself into the Little Entente was even hinted at by M. Benesh. It is interesting to speculate on the effect that such a step would have on the political and economic situation in central Europe. The example might even tempt Austria.

The case that is put forward for boundary revision is as follows. In the drawing of these two difficult frontiers at the Peace Conference, a considerable injustice was, it is claimed, done to Hungary because, on almost every debatable

* The conditions were: (1) no outside pressure; (2) mutual accord of the countries concerned after a period of peaceful co-operation without threats, pressure or blackmail on one side or the other; (3) adequate compensation.

Treaty Revision

point, where it was a question of striking some compromise between the nationality map and the economic map, the arbiters gave the benefit of the doubt to the allied succession States, and thereby penalised the enemy State, Hungary. Taken in itself, each of these local injustices was neither flagrant nor deliberate; but the total mounts up to a large and indefensible injustice in the aggregate. Now that the distinction between ex-ally and ex-enemy has happily been dropped by common consent, the time might be considered ripe for reconsidering these two frontiers in a more objective and conciliatory spirit than could be conjured up a dozen years ago. If the attempt was made, it would be found that quite a lot of useful cheeseparings could be done which would restore many hundred thousand Magyars to their mother country without inflicting any comparable loss upon Czecho-Slovakia or Rumania.

Within the limits of an article like this it is clearly impossible to survey the possibilities of rectification in detail along these two frontiers, but the following instances will serve to show the sort of lines that it would follow. We must be content with giving one sample of a rectification that could be made, and one sample of a case in which the post-war frontier would almost certainly be left as it is. One obvious rectification along the Hungarian-Czecho-Slovak frontier would be the retrocession to Hungary by Czecho-Slovakia of the Grosse Schütt: an island between the main stream and a side-arm of the Danube which is inhabited exclusively by Magyars. The island was given to Czecho-Slovakia in the peace settlement in order to make the main stream the frontier; but this is of no substantial advantage to Czecho-Slovakia since in any case both banks of the Danube are under Hungarian sovereignty a little lower down. The retrocession of the Grosse Schütt is evidently the sort of frontier rectification which could be carried out. On the other hand, it would surely be unjust to Czecho-Slovakia to ask her to retrocede to Hungary the river port of Bratislava which stands on the north or

The Problems of the Territorial Settlement

Czecho-Slovak bank of the Danube just above the point where the river divides to encircle the Grosse Schütt; for this river port is not only vital to Czecho-Slovakia's economic wellbeing, it has actually been created, since the peace settlement, by Czecho-Slovak enterprise with Czecho-Slovak capital to serve essential Czecho-Slovak purposes. This is a case in which the *de facto* situation since the peace settlement has genuinely changed in harmony with the new political map. Even if the pre-war Hungarian town of Poszony had been inhabited by Magyars, there would be no case for retrocession here, since the pre-war population of the place has been peacefully and legitimately swamped by the post-war influx of Czechs and Slovaks into the new Czecho-Slovak river port of Bratislava. As a matter of fact, this post-war Bratislava was only pre-war Poszony in name, for that Magyar name masked the identity of the historic German town of Pressburg. The real fact is that a mediæval German city of Pressburg under Hungarian rule has been transformed into a modern Czecho-Slovak river port of Bratislava under Czecho-Slovak rule. It will be seen that the case for the retention of Bratislava by Czecho-Slovakia is quite as strong as the case for the recovery of the Grosse Schütt by Hungary.

A fortiori, for the analogy brings us back to the Polish arguments with regard to the corridor, Poland would seem to have a strong case for retaining the sovereignty over the new seaport of Gdynia which she has built and equipped—literally out of nothing—on the short stretch of Baltic coast which was assigned to Poland in the peace settlement. For this seaboard, between the main body of Germany and the free State of Danzig, on which the Polish port of Gdynia stands to-day, is inhabited by a Polish population, and a continuous belt of territory mainly, it is pointed out, inhabited by Poles, stretches away from Gdynia into the interior of Poland in that corridor, under Polish sovereignty, which now intervenes between the main body of Germany and East Prussia. In this statement of the Polish

Treaty Revision

case for the retention of Gdynia we have gone to the heart of the Polish corridor problem : the sorest, and at the same time the most difficult to heal, of all the sore places on the post-war political map of Europe. The problem is indeed the most intractable of those which have arisen out of the peace settlement. Nowhere else is national pride involved on both sides to the same extent, and the parties to the dispute are both great nations. One of them, Poland, is fully armed and has powerful friends, the other, Germany, is potentially a first-class military Power. Neither side has shown the smallest sign of any disposition to compromise with regard to their respective claims.

The Polish claim has its roots in history. The history of the corridor question goes back indeed to the thirteenth century of the Christian era, when the Polish principalities in the future corridor, Cujvia and Masovia, were—and had already been for two hundred years—an integral part of western Christendom like the German countries to the west of them, while Prussia, east of the corridor, was still a pagan country beyond the pale. A Christian Polish prince called in the German crusading order of the Teutonic Knights to extirpate the heathen Prussians (who were neither Poles nor Germans, but Lithuanians). The knights succeeded in the enterprise, and filled up the conquered and depopulated Prussian territory, on the far side of Poland, with Christian German settlers. Thereafter the Teutonic Knights sought (as the Germans are seeking now for the third time) to link up this new outlying German colony beyond Poland with the main body of Germany by annexing the Polish territory that now intervened, no longer between a Germany and a Lithuanian Prussia, but between a Germany and a Prussia which had become a German enclave. But the Teutonic Knights did not succeed in dealing with their relatively civilised Polish fellow-Christians as they had dealt with the primitive Prussian heathen ; and their struggle with the Poles ended, after nearly two centuries, in the political recovery of the Polish corridor by the Poles,

The Problems of the Territorial Settlement

who had also continued, even under German rule, to occupy the soil. The Polish corridor, it is pointed out, was Polish in sovereignty, as well as in population, from 1466 to 1772, and it remained mainly Polish in population when it fell under German sovereignty for the second time between the first partition of Poland in 1772 and the peace settlement of 1919-20, though the German population increased under German rule. To-day the corridor is Polish in sovereignty as well as mainly Polish in population again. In the light of this history, an attempt to solve this problem by simply replacing the Polish population of the corridor under German rule would, it is argued with undeniable force, be unjust. The very word "corridor," the Poles assert, gives an undue impression of narrowness ; that access to the sea, both by rail and by the Vistula, is vital to them, for nearly 70 per cent. of their trade now goes by sea. If it had to go through Germany it would, they say, mean domination by Germany again, and a German Danzig would block the Vistula and threaten their railway communication with Gdynia.

The German contention is as follows : The country occupied by the corridor has been part of Germany for nearly 150 years, and this—the period of progress and invention—should count for more than all the centuries of stagnation that went before. They claim to have made the country by the improvements they introduced during this period, and anyhow, they say, the fact that they were the last holders, and holders for so long a period, is a vital point in their favour. They remind us that the transfer to Poland has cut in two the proudest part of their country. It cut, moreover, right across the old east and west communications and played havoc with them. There is through passage for certain purposes, but facilities are not what they were, and, whatever the Poles may say, they are still very unsatisfactory. Merchandise and goods that used to come by the old routes across East Prussia are now all taken round by the corridor. Everything is passed through that neck, the old markets are disorganised, and East Prussia has lost

Treaty Revision

her natural hinterland. Her inhabitants no longer even have the access they used to enjoy to the right bank of the Vistula, for though it forms the real frontier of the corridor proper, a narrow strip along the right bank was given to Poland, and the inhabitants of East Prussia can only get to the river at one single point. As for the population argument, the Germans say that, if the corridor is overwhelmingly Polish to-day, that is because the Poles have made it so—it is their policy to make sure that it shall be as little German as possible.

It is only fair to say that in this the Poles have taken a leaf out of the German book. Before the war, a systematic effort was made to plant German Poland with German colonies. The Germans further say that the Slav population includes a substantial number of Kaschubs who are not Poles at all. Danzig is a German city, and Gdynia was, they say, deliberately established to steal the Danzig trade, and to make the Polish claim to the corridor impregnable.*

Such are the rival contentions. We have already disclaimed any intention of attempting to put forward solutions for these problems. One suggestion we have seen, in so far as the corridor is concerned, is that some sort of two-way corridor should be established, in which both parties would have equal rights and facilities for communication. Danzig would presumably be free to go back to Germany and Poland would retain Gdynia.

It is clear that the Polish corridor problem is the most difficult of the territorial arrangements which may be brought up for reconsideration. And to add to its complexities, there is to be a general election in Danzig on May 28. A Nazi victory—and Naziism, as recent events have shown, has spread to Danzig just as it has over the

* The population of Danzig is 407,567; roughly 95 per cent. are Germans. Satisfactory statistics of the population of the corridor at different times are hard to find. They should accurately reflect the policy of encouraging its own settlers and discouraging members of the other race pursued by each country in turn. Such figures as are available are appended.

The Problems of the Territorial Settlement

Bohemian frontier—would undermine the position of the present régime.*

So much for the corridor and Danzig, but there is another problem equally dangerous and complex—that of the *Anschluss*, the union of Germany and Austria, which is the declared object of the Nazis in both countries. It is not, strictly speaking, a question of territorial revision at all, but no description of revision problems would be complete without some account of it, and it is closely bound up with one of them. A union between Germany and Austria can only take place under the Peace Treaties with the consent of the Council of the League of Nations, and the *Anschluss* problem will at this moment necessarily be much in the minds of the negotiating Powers, though it does not follow that it will figure on their agenda. The union would, it is claimed, in no way infringe the principle of national self-determination—the Germans and Austrians are members of the same race, and the Holy Roman Empire and the German Confederation both included Austria. From the economic standpoint, too, the union has much to recommend it; but there are grave political obstacles to its consummation. For easily intelligible reasons, a united Austria-Germany has always been the *bête noire* of many other nations and is now more so than ever since the Nazi revolution in Germany. Czecho-Slovakia, for instance, would be ringed in by potential enemies on every side, except on her Polish border and the short strip of her Rumanian frontier, if the union should take place—the very suggestion of a revision conference has been enough to make the Little Entente close up its ranks in alarm. Italy, too, is deeply concerned. Mussolini, of recent years, has been found in so many controversies on the side of the ex-enemy Powers, that it has sometimes been assumed that he would assist Germany and Austria to unite, in return, it might be, for support for his plans in south-

* Danzig is a self-governing free city under a High Commissioner appointed by the League of Nations. It forms a small enclave in the extreme north-east of the corridor.

Treaty Revision

eastern Europe. But there is another aspect of the matter. Could Italy regard with equanimity a change that would create a greater Germany, and bring its frontier right up to her Tyrolese border, to the scene of perhaps the most questionable of the territorial alterations effected by the Peace Treaties which, in order to give her the frontier she required, handed over to her three-quarters of a million of unwilling Tyrolese Germans? Recent events, moreover, have changed the outlook. Italy has to consider what her line would be if it came to war again in Europe.

But, whatever the attitude of the Powers to this question, an effort might be made to take it out of their hands. Naziism, like communism, takes no heed of national frontiers anywhere where it can find German minds to work upon. The present Government of Austria is making a gallant stand to preserve its independent existence, but a Nazi *Putsch*—with help from over the border—might bring Austria as much under the control of Berlin as outer Mongolia is under that of Moscow. It is claimed that one-third of Austria is Nazi to-day. There need be no infringement of the Treaties, for Austria might still nominally remain a separate State, but the union would be none the less effective on that account, and it would mean control of the machinery of government, not merely personal allegiance as in the case of the Bohemian Nazis. For the Nazi party is one and indivisible, and it would, after a successful *Putsch*, itself constitute the State in both countries, recognising a single chief, Herr Hitler.

Lastly, there are the colonies.* The Germans have always indignantly repudiated the aspersion cast on their methods by M. Clemenceau's letter covering the peace terms. They demand overseas outlets for their people and sources from which they can obtain their own raw materials. Agitation has tended to concentrate especially on Tanganyika. The strongest objections made to the German demand

* A list of the German colonies and the countries entrusted with mandates is set out in the appendix.

Appendix

are not imperialistic. They are based on the interests of the indigenous population, and they take the following form. Is it fair, after thirteen years, once again to hand over millions of natives from one Power to another, especially to one with the aggressive militarist ideas of Nazi Germany? As things are at present, there would at least be a prospect of keeping Africa out of the maelstrom, if unhappily another war should come. Could that be expected with Germany back in Africa to-day? Is it indeed conceivable that Nazi Germany would submit to mandate conditions even in time of peace?

APPENDIX

I. POPULATION OF THE POLISH CORRIDOR AT VARIOUS TIMES. (previously West Prussia) excluding Danzig

Authority	Date	Nationality	Numbers
German Census..	1910 ..	Poles	439,014
		Germans	421,933
		Kaschubs	113,719
		Bi-lingual	15,702
		Miscellaneous	677
		Total	990,145
Polish Census ..	1921 ..	Poles	754,907
		Germans	184,588
		Total	939,495
German version of figures ..	1921 ..	Poles	438,769
		Germans	418,107
		Kaschubs	87,847
		Total	944,723
Polish Census ..	1931 ..	Poles	976,563
		Germans	109,686
		Total	1,086,249

A German estimate in 1927 put the German population of the Corridor at 110,000. The population of Danzig to-day is 407,567. The composition roughly is, Germans, 95 per cent.; Poles, 3½ per cent.; other nationalities, 1½ per cent.

Treaty Revision

II. GERMAN COLONIES AND COUNTRIES TO WHICH THEY WERE ASSIGNED UNDER MANDATE

Colony	Mandatory Power
Togoland and Cameroons ..	France and Great Britain. The larger parts of these territories were allocated to France.
German East Africa (now known as Tanganyika)	Great Britain
German South-West Africa ..	The Union of South Africa
The German Samoan Islands ..	New Zealand
Nauru	British Empire. The Administration is vested in the Governments of Australia and New Zealand, together with the United Kingdom. The Australian Government was appointed to administer the island. Matters of major policy are referred to all three Governments.
The other German Pacific Possessions south of the Equator (excluding the German Samoan Islands and Nauru, and including German New Guinea) ..	Australia
German Islands north of the Equator	Japan
Ruanda and Urundi in the North West of German East Africa ..	Belgium

THE POOR WHITE IN SOUTH AFRICA

THE CARNEGIE COMMISSION REPORT

THE poor white has for many years been the skeleton in the cupboard of the European family in South Africa, and for nearly as many years one section of the family has been telling the other what should be done about it. As a rule, people too have been more ready to prescribe remedies for the evil than to inquire how and why the evil has come to be what it is.

A thorough investigation was made possible recently by the generosity of the Carnegie Corporation. The main function of the Commission, which was appointed in 1928, was one of fact-finding. It had to make a diagnosis of the problem of the "poor white" and it was only incidentally concerned with remedies. This was a wise provision, because in this way the Carnegie Commission's Report stands a chance of escaping the fate of other excellent reports which have been primarily concerned with the proposal of remedial measures, and failing to fit in conveniently with the policy of the party in power, have been pigeonholed. The country in such cases has lost what is generally the most valuable part of such reports, viz., the diagnosis or fact-finding work involved.

Though the Poor White Commission enjoyed the cordial co-operation of all government departments, it was not a government commission. The fact that it was an independent investigation, carried on in the spirit of scientific research, greatly enhances its value. Moreover, the Commission did not sit formally round a table receiving evidence in the usual way. It went out after the poor white and studied him in his natural habitat—on the farm, in the cities, on the diggings, on relief works, and in the poor white settlements under the church and the State Departments of Labour, Lands and Forestry.

We visited (so runs the report) the poor whites in their homes, we saw them at work or in idleness and listened to their stories of

The Poor White in South Africa

stress and vicissitude. Thus we collected hundreds of biographies and case histories, which we generally checked by interviewing the local minister, teacher, shopkeeper, attorney, doctor, policeman, etc. . . . This method necessitated our travelling continuously for over a year and covering about 30,000 miles, mostly by car.

Besides using this method of the personal interview the Commission sent elaborate questionnaires to various types of institutions, including fully half the schools in the Union. Standardised mental and scholastic tests were given to about 20,000 children, including over 3,000 poor whites, with a view to getting a more or less objective measure of the intelligence and educational level of the various sections of the population.

The form of the report is also to a certain extent unique in that it is published in five separate volumes,* wherein each member of the Commission has dealt with the problem from his own particular angle. Each volume, however, contains a summary of the joint findings of the whole Commission.

So much for the aim and method adopted. As regards the findings, one of the main points made by the Commission is that

The problem of the poor white should not be treated as an isolated phenomenon, but rather as the acute manifestation of influences and conditions generally prevalent in our social structure. . . .

* Vol. I. *Economic Report*: Rural Impoverishment and Rural Exodus (245 pp.), by Dr. J. F. W. Grosskopf, Professor of Agricultural Economics, University of Stellenbosch.

Vol. II. *Psychological Report*: The Poor White (206 pp.), by Dr. R. W. Wilcocks, Professor of Psychology, University of Stellenbosch.

Vol. III. *Educational Report*: Education and the Poor White (364 pp.), by Dr. E. G. Malherbe, Director, National Bureau of Education, Pretoria.

Vol. IV. *Health Report*: Health factors in the Poor White Problem (154 pp.), by Dr. W. A. Murray, Union Department of Public Health, Pretoria.

Vol. V. *Sociological Report*: (a) The Poor White and Society, by Rev. J. R. Albertyn; (b) The Mother and Daughter in the Poor Family, by Mrs. M. E. Rothmann, B.A. (217 pp.). (Published by the Pro Ecclesia Drukkery, Stellenbosch.)

The Evolution of the Poor White

Rather than calling poor whiteism a disease, it will probably be nearer the truth to speak of it as a *symptom* of a disease . . . which affects our whole social organism. . . . Any measures which succeed in toning up the health of the whole body politic, socially and economically, will in that same proportion diminish the symptom of poor whiteism.

Though for statistical purposes, *e.g.*, when applying psychological and other tests, the Commission defined a poor white as "an impoverished white person of rural origin," and included under that category chiefly poor *bywoners* (tenants-at-will), hired men on farms, owners of dwarf holdings, or of small undivided shares of land, poor settlers and the growing group of unskilled or poorly trained labourers and workers outside farming, the investigators all emphasise the fact that the poor white is not a class apart in the "caste" sense.

Moreover, owing to the difficulty of defining precisely the term "poor white," the Commission did not make the poor white as such its chief object of study. Rather, it concentrated upon the study of the process which has produced poor whites in the past and is producing them in increasing numbers to-day.

I. THE EVOLUTION OF THE POOR WHITE

THE term "poor white" was written in inverted commas for the first time in 1892, indicating that in the early 'nineties people were already becoming conscious of the poor white as a problem. From about 1880 the discovery of diamonds and gold, the capitalistic exploitation of mines, the influx of immigrants with the modern business outlook and the rapid penetration of the country by railways forced the development of South Africa into new channels. From 1890 onwards the older white settled population was faced with entirely changed conditions. A rapid economic transition took place from the old patriarchal

The Poor White in South Africa

régime to the modern commercial and industrial order.

Economic conditions during the first two hundred years of South Africa bred the pioneer, or *voortrekker*, chiefly a pastoral type, with whom the main economic motive was the opening up and occupation of new land. This economic motive was at work as early as the latter half of the seventeenth century among the first generation of European settlers at the Cape. Influenced by certain non-economic factors, it worked at greater speed during the time of the Great Trek (1835-38), when the Transvaal, the Orange Free State and Natal were opened up, and it is still a driving force in some parts of the northern Transvaal. Land was plentiful in the early days, farms were large. The sons of farmers could either live comfortably on the same farm or go farther north to seek pastures new. There were hardly any obviously poor people in those days, and the few temperamentally shiftless or with low intelligence could always reckon on the hospitality of the farmers to provide them with a livelihood in return for odd jobs on the farm. Game was plentiful, and those who did not have cattle were never short of meat. The wealth of the farmer lay in his cattle and sheep. He was primarily a pastoralist. The little agriculture that he practised was merely for his own consumption. In this way the pioneer type was created. With his Bible as the only instrument of culture, with his gun to protect him against the savages and to shoot game, and with a plough as the instrument for breaking new land, he was perfectly adjusted to his environment. His life was simple, his needs few. He was religious, fairly honest, independent and rather self-satisfied.

This we may designate the patriarchal stage. With the increase of the population and a check to the possibilities of acquiring new land, this stage was bound to come to an end. The transition stage set in. Adjustments had to be made. Those with capital or education or intelligence

The Evolution of the Poor White

above the average made the adjustments successfully. Those who lacked these advantages were soon adrift. The sub-division of farms (where some got less than a 1,000th part of the original farm) worked the undoing of their numerous descendants. On the one hand, farms were overstocked and the pastures ruined beyond redemption by erosion and other damage. On the other hand, there was the frequent intermarriage of near relations in order to keep the land in the family, and in many cases mental and physical deterioration resulted. Here, then, is an end to the desire for land and more land as the chief economic motive. Those who clung most tenaciously to the old tradition suffered most. The descendant of the voortrekker who failed to adapt himself to changed circumstances is now adrift, not knowing where to go. His little piece of land, inherited from his father, is too small. He mortgages it and loses it. He does not know a trade; the education that once sufficed for his grandfather does not assist him in analysing the process of which he is the victim; he can see no escape. He becomes a bywoner (or squatter) on another man's farm, and with the unsatisfactory and loose terms of leasehold obtaining under the bywoner system, has little hope of ever finding his feet again. Here, then, is one of the first links in the long chain of causes that have produced the poor white.

The transition was one also from a system of subsistence economy to one of cash economy. New times also demanded new methods of production in agriculture. When labour was plentiful, markets distant and the ox-wagon the only means of transport, the farmer's agriculture was sufficient only for his own needs. This tradition bred inefficient methods of farming, which, when tried later on for production on a large scale for marketing, have proved uneconomical. Here the bywoner is again the victim. The farmer desiring to put more land under cultivation finds that there is less room for bywoners than before, and tells some of them, usually the weakest, to go. Where now? To the city?

The Poor White in South Africa

No, not yet. He is still afraid of the strangeness of the city. Most people speak English in the city. He does not speak it very well. Neither does he know what to do in the city. All these things contribute towards creating in him a feeling of inferiority. He is diffident about going, and hovers around the countryside, flitting from farm to farm, until through some friend in the city he hears that work can be found there, and with that friend as his only sheet anchor he betakes himself to the city, where new, and often more difficult, adaptations are demanded of him.

But the farmer himself is also in danger. Owing to his ignorance of marketing principles, he sells his produce to the local storekeeper at a ridiculously low figure. The very qualities of independence and self-confidence which stood his ancestors in such good stead militate against him at a time when his only salvation lies in co-operation. He is puzzled by the new commercial methods. He suspects some form of *verneukery* (sharp practice), tries a little of it himself when he can, and generally comes off second best. On the whole he clings to his old methods. There he still feels fairly safe, but none the less he is marked for destruction by the same ruthless economic forces that have brought the bywoner to his farm.

Immigration, which brought in English and Jews who were more *au fait* with the new (commercial) methods, further complicates the situation for him, and he is left behind in the race. So precarious indeed is the economic footing of a large number of such farmers, that it only needs some movement of catastrophic nature, such as cattle disease, a drought, or a war—of which South Africa has had more than her due share in the past—or any other novel situation which needs rapid adjustment, to precipitate considerable numbers of them from the owner class into the bywoner class.

Such in broad outline has been the evolution of the poor white. He is recruited mainly from the older section of the European population, *i.e.*, those of Dutch-French-German

Peculiar Conditions

extraction, and is to-day mainly *Afrikaans* (South African Dutch) speaking. This is no doubt due to the circumstance that until recent times about 80 per cent. of the rural population was *Afrikaans* speaking and the poor white problem is essentially an agrarian question. There is, however, a small admixture of English and Irish descent amongst the poor whites. The Commission mentions over 200 British family names among *Afrikaans* speaking poor whites, and does not claim that the list is exhaustive. Professor Macmillan in his recent book, *Complex South Africa*, also refers to the surprising number of poor whites, descendants of Englishmen, who have been absorbed in the *Afrikaans* speaking population. As one of the investigators puts it :—

It is not as if any of the two white races has a monopoly of the original sin. It is rather that, side by side, Britisher and Boer were caught in the same economic maelstrom, which is blind to the very arbitrary distinctions of nationality. Wherever they were slow in adapting themselves, they became victims of the same economic Nemesis, irrespective of language or creed or colour. I add the last word "colour," because, as I motored through the native areas and noticed the closely settled land and badly worked fields of the Kaffirs, the thought came to me that, in less than 50 years' time, the Carnegie Corporation will perhaps feel it incumbent upon them again to appoint a Research Committee, but this time to investigate the causes of the Poor Black Problem—a problem which may prove to be very black indeed, because I have not the least doubt that if things are allowed merely to drift, the natives will, if they are not already, be even worse victims of the same ruthless process.

The truth of this last point is borne out conclusively by the Native Economic Commission's Report.*

II. PECULIAR CONDITIONS

IT might be contended that other countries have passed through similar economic transitions and yet we do not hear of their having a poor white problem. The Com-

* See THE ROUND TABLE, No. 88, September 1932, p. 90c.

The Poor White in South Africa

mission meets this question by pointing out that there are certain conditions which are more or less peculiar to South Africa.

The first is the presence of the South African native. In the circumstance that the European population lives in close contact with an overwhelming black population is to be found the *raison d'être* of the very term, poor white. The only other country where a similar class name has been evolved is in those Southern States of America where the white population is in a minority.

Every country has its submerged tenth. Are the submerged 10 per cent. of the South African whites so much worse off economically than those of other European nations that on that account alone they constitute a serious economic problem? To this question the Commission confesses that it is unable to give an answer in the absence of comparative data. The educational investigator who was responsible for the estimate that there were between 300,000 and 400,000 very poor people out of a white population of 1,800,000, an estimate based on the study of 49,434 representative European families over the whole Union, makes the following observation in this connection:

Now it may be that, because we are a white race living in juxtaposition to native and coloured races, we have distorted ideas as to what constitutes poverty. We may, on account of aristocratic tendencies, be inclined to call a white man poor when we would not call a native, who lives under similar conditions, poor. The lowest economic condition ascribed in popular parlance to a white man is to say "he lives as a Kaffir." Further, what we call poor here in South Africa may not be considered poor in European countries. We do not know for certain. There is no absolute normal or objective scale of measurement. In any case the term "very poor" is circumscribed to mean something fairly definite for South Africa, viz., those who are dependent upon charity for a living, or eke out a miserable existence as bywoners on the farms. I do not think that it was generally realised that in fairly normal times (*i.e.*, before the beginning of 1930) *nearly one-fifth of the European families in South Africa lived in dire poverty*. In some parts of the country the conditions are much worse than in others. In the

Peculiar Conditions

north-western Cape (Namaqualand, etc.) the proportion of "very poor" is 33·3 per cent. In the Oudtshoorn section of the Little Karroo, it is 31 per cent. The north-east Transvaal stands at 30 per cent. The northern Transvaal, if Pretoria town is excluded, stands just a little lower than this. On the other hand, the Rand, which is almost purely urban, stands at 11·5 per cent., and the Orange Free State (which includes Bloemfontein) and Natal (the bulk of whose population is urban) stand at the same level, round about 12 per cent.

It is pointed out that these calculations also include many who are not "poor whites" in the sense in which the term is defined above. The definition did not include the regular urban poor classes.

From the above two things are clear. In the first place the poor white obtrudes itself as a problem because of the presence of a majority of blacks living in competition with whites. In the second place, South Africa has a dual economic standard, one for the white man and one for the native.

While the fact that there is the underlying fear that the lower levels of the white population may sink economically below the upper levels and even the average of the native population, may account for the mere name, poor white, it cannot be proved that native competition as such has been in the past a potent direct cause of the actual impoverishment of rural Europeans. It may become a cause in the future, particularly on the unskilled level. But the fact remains that in the Cape coastal regions, and in the Little Karroo from Prince Albert to Jansenville, which may be called the cradle areas of the poor white, there have been hardly any natives.

On the other hand, indirectly, the contact with the native has certainly caused impoverishment. Inefficient methods of farming based on inefficient labour have been perpetuated and the lack of industrious habits has been partly due to a prejudice against certain types of manual labour which are designated as "Kaffir work."

This attitude affects all levels of society, as is

The Poor White in South Africa

shown by the following quotation from the Educational Report :—

It is often said that the poor white is lazy. Yes, he is, but he is lazy for the same reasons that many a well-to-do man is lazy. *It is the absence of a specific stimulus to work and to work hard.* If he can have the work done while he looks on, why should he worry? A couple of poor whites were earning 6s. each a day on relief work on a remote road. They hired a couple of natives to do the work at 3s. each per day while they (the white men) lazed about sleeping in the shade behind a bush. The natives were content with the wages. The work was done. The white men “earned” 3s. each per day. Why should they worry? It was good business!

The prosperous business man, who sits at his office desk and rings the bell for Jim Fish, who is working in the yard, to bring him his spectacles which lie just a little beyond his reach on the desk, and his wife, who while sewing drops her thimble, and halloes in shrill tones for the little picannin on the other side of the house to come and pick it up at her feet, are lazy in exactly the same way as the poor white, whom they despise as an indolent scoundrel, is lazy. In one of the recent public examinations in Natal, a schoolboy in a science paper was asked in a question on the principles of the lever to show how he would make use of a crowbar to move a rock on the roadside. After explaining how he would adjust the fulcrum so as to get an adequate leverage, he added, “and then I would get a native at the other end of the bar to lift the rock.” These illustrations are symptomatic of the energy-sapping process that is going on amongst all classes of our white society, due to the fact that we are a white aristocracy on a big black foundation of natives. In many cases the native stands, as it were, between the white man and manual labour.

This, of course, was always more the case in the northern and eastern parts of South Africa, where the natives are more numerous than in the southern parts.

An excellent analysis of the origin of this attitude and of the way in which it is rapidly dying out under the pressure of economic competition is made in the Psychological Report.

Regarding restriction of certain work to Europeans the report says that :

A policy of protection by reservation of work to the European should be treated as merely a measure of transition for a period

Peculiar Conditions

during which the poor white is given the opportunity to adapt himself to new conditions in South Africa. It will be disastrous for the poor white himself if any protection given him is of such a nature that it results finally in impairing his ability to compete with the non-European on the labour market. With a view to the welfare of the poor white the period of protection should be made one during which they are trained to greater efficiency than they often have now, and during which their children are trained to become good and, as far as possible, skilled workers.

If protection takes the form of reserving unskilled or semi-skilled work to the European it is necessary either that (i) wages be paid on a piece-work basis or that (ii) steps be taken to ensure sufficient competition between Europeans themselves, and that continued employment be made dependent on good performance.

If the unskilled or semi-skilled European and non-European labourer compete with each other, *such competition ought, as far as possible, to take place at minimum wages fixed for both on the basis of a reasonable “white” wage.* In so doing the result will depend on how they compare with each other in performances, and not on difference of standard of living. The latter makes the position practically untenable for the European from the very beginning.

This second form of protection would not only serve to raise the standard of living of the non-European, but is, in our opinion, much more likely to remain in force and is thus calculated to serve the interests of the poor white best in the long run.

Practical experience seems to show that even with unskilled work the average poor white is a better labourer than the average native if the European is placed under sympathetic supervision and is given an incentive to improve his performance (*e.g.*, by payment according to piece work).

Besides the presence of the native there are other circumstances which have made the economic and social development of the rural population in South Africa somewhat different from that in other countries. The system of inheritance prevailing amongst the Dutch speaking population to which reference has already been made, has bred thousands of poor whites on the land. The excellent report of the Transvaal Indigency Commission of 1906, of which the present Lord Lothian (then Mr. Philip Kerr) was the principal author, rightly made much of this tradition as a cause of poor whiteism.

It was largely because of the absence of this tradition

The Poor White in South Africa

amongst the English settlers of 1820 that they escaped the Nemesis which has overtaken the older Afrikaans speaking population of the land. Theirs was an artisan tradition rather than a pastoral one. English boys sought other occupations in industry and commerce and did not, as their Afrikaans speaking neighbours did, remain sitting on the land with their eyes glued to the little bit of it they were to inherit. The influence of isolation and distance can hardly be over-emphasised in this connection.

Droughts, plagues, and events of a catastrophic nature are often named as causes of poor whiteism. According to the report they never were primary causes, but rather aggravating circumstances which put the final touches to a process that was already destroying the people. And then, too, the subdivision and subsequent overstocking of farms led to what has justly been called "man-made-droughts." The influence of malaria and climate in producing economic deterioration has, according to the Health and Educational Reports, been exaggerated in the past, though there seems no getting away from the fact that malnutrition is a very potent factor in bringing about a gradual weakening of the physical stamina of the rural poor.

Closely connected with the above tradition is the fact that South Africa did not have industries to absorb the redundant rural population such as the older European countries, and even America and some of the Dominions, had. It is only in recent years that the rural Afrikaner has found his way into the two main industries of South Africa, mining and the railways. Farming here is an intensely difficult proposition demanding a high degree of what may be called adaptive or directive intelligence. It is the lack of exactly this quality that leads to the undoing of many men on the land—men who, on a routine job in a factory, where little directive intelligence is required, would become useful and successful workers. The psychological tests showed clearly that the poor white deviates less

A Possible Remedy

from the normal in purely mechanical ability than he does in those higher mental processes which require reasoning.

III. A POSSIBLE REMEDY

THE above are only a few of the main points brought out by this valuable report. It is practically impossible within the compass of a single article to summarise the 1,200 odd pages closely packed with information and interesting discussions. There is much in the report which may make one pessimistic about the future, *e.g.*, the increasing spirit of dependence of the people on State and charitable support. It is specially noticeable amongst that rural section of the population which until a short time ago always boasted of its independence. The dangers of the future lying in the fact that the poorer section, which has become the parasitic part of the population, is multiplying more than twice as fast as the smaller and more intelligent section which have to carry the former on their backs, as it were, are clearly illustrated by interesting figures on differential fertility and by the discussion on the question of birth-control. The abuse of the vote and political pressure which prevent the adoption of salutary measures are frankly discussed by all the members of the Commission. The report states :

Serious dangers are attached to attempts to improve the economic position of the poor white by the shortest possible way for him in such a manner as to lessen the urge of self-help. . . .

It is a radical mistake for the State, in its attempts to save those classes that are falling behind because of their clinging to primitive and inefficient farming methods, to keep on offering financial assistance every time that distress becomes pressing. It would be hard to find a method more apt to perpetuate an obsolete tradition—and thus to ensure constant repetition of the need for help.

The chief point in the sociologist's report is that there must come a shifting of emphasis from mere relief to service. All methods arriving at the rehabilitation of the

The Poor White in South Africa

poor white must in the first instance be educative, otherwise they defeat their own ends.

Interesting facts are advanced in the Psychological and Educational Reports with regard to the educability of the poor white. These are distinctly encouraging and may remove the pessimism which other facts tend to inspire. The average intelligence quotient of the poor white is about 96. That is less below normal than has been imagined. The bulk of the poor whites fall within the range of normal intelligence, and one-third of them are above the average for the whole country.

The cumulative effects of poverty and scanty education have had much to do with their inferior intellectual position. The solution lies to a large extent in education in the broad sense of the term—an education which will continue beyond mere schooling and, by means of extension work like that done by the Department of Agriculture in a small way to-day, will not only help the people to control their environment more effectively, but will compensate them for the limitations imposed on them by their occupations and isolation. The possibilities of adult training which recent studies have revealed, the improved facilities in the way of education, which include libraries for rural areas and broadcasting, have led the investigators to conclude their survey in a hopeful tone.

Old-fashioned education has been shown to be an inadequate prophylaxis. It has failed to help rural South Africa to weather a difficult economic transition. But education, which trains people in the knowledge and skill necessary for economic adjustment, and is above all directed towards the correction of wrong mental attitudes inherent in their *mores*, may be the chief means of saving white South Africa from being drawn under by an ever-increasing section whose cry is fast becoming that of decadent Rome: *Panem et Circenses*.

South Africa.

April 1933.

618

GREAT BRITAIN

EARLY in the year, Mr. Neville Chamberlain made a pronouncement in the House of Commons which will go down in the history of this Parliament as the "pegging away speech." "To-day," he said, "we have to keep pegging away if we are to succeed in bringing about trade recovery." It remains the keynote of the whole Government policy. They will not be tempted by short cuts; they tend to regard any alteration from the course they determined upon at the beginning of the Parliament as "hysterical and panicky" and they will have none of it.

I. THE BUDGET

IT is in this light that the budget must be judged. Certainly the figures of revenue and expenditure must have made unattractive reading for Mr. Chamberlain. Last year's revenue fell short of the estimates by approximately £22 million, and expenditure exceeded the estimates by £11 million, and there was a payment of £29 million to the United States. These items total £62 million. Thus there was a net deficiency of £33 million, which had the result of creating a deficit of £32,200,000. Mr. Chamberlain regarded the payment to America as an exceptional expense, and thus narrowed the real deficit down to £3,300,000. For next year he again refused to budget for the American debt. On the existing basis of taxation he estimated the total revenue, including the Post Office and the Road Fund, at £796,269,000. His estimated expenditure was £781,025,000. Thus he had a prospective surplus of £15,244,000, allowing nothing for the Sinking Fund, which he has decided to suspend. Minor tax changes increased the prospective surplus to £17,291,000. A further windfall was added by taking the £10,000,000 from the old 5 per cent. war loan depreciation fund, which was no

619

Great Britain

longer needed. With this surplus he proceeded to a reduction of the beer duty, which cost £14 million, and to restore the system of paying income tax in two equal instalments, which cost £12 million. Thus there was a final prospective surplus of £1,291,000. Such a budget arouses neither enthusiasm nor indignation. It was, as Sir Herbert Samuel described it, "a pedestrian budget." Mr. Neville Chamberlain would not quarrel with that definition. That was what the budget was meant to be.

The Chancellor was faced with the alternative either of producing what has been called a gambler's budget or a grim budget. He had his choice between the Keynes view and the Treasury view of sound finance. The Keynes view has been brilliantly expressed in a series of articles in *The Times*. Briefly it is that the best way to balance the budget is to unbalance it. The argument is that lower taxes, by stimulating trade, would, in the long run, produce more revenue. To give this policy time to bear fruit, it is further suggested that the national finances should be balanced, not for a period of one year as at present, but for a period of three years. Against this radical departure were ranged the hosts of orthodoxy. It was argued that such a course would lead to the revival of all the old fears about the stability of the pound. A balanced budget was the only effective barrier against a flight from the pound. It was asked what guarantee there would be that relief of taxation would result in relief of unemployment. Unless real confidence was restored, the money released might merely take flight, not into reproductive employment, but into the strongrooms of the banks. The psychological effect on the United States had also to be taken into account. It would be increasingly difficult to get Congress to release Great Britain from her debt if it became known that her finances were already restored to such a sound condition that she could afford to embark on sweeping reductions of her income tax. Anyhow, the arguments of the orthodox prevailed with the Chancellor, and the present

The Budget

humdrum budget has been the result. It is certainly consistent with the Government's whole record—of eschewing the spectacular.

As such it has received a great measure of support among the mass of Government supporters. They recall that their main appeal at the election was for a balanced budget and that any radical departure from that principle would be to betray their own pledges. Indeed, there is a strong inclination to think that the hard thing is right primarily because it is hard. The indecisive attitude of Mr. Chamberlain on the taxation of the co-operative societies has exasperated a great number of members. They urge that if it is just to tax the co-operative societies, then the Government ought to do so and "damn the consequences." But is it just? The crux of the question concerns trading with members. The Raeburn committee appointed to enquire last year into the whole question accepted the argument that the dividend is only a returned overcharge and recommended that it should not be taxed. The question is whether the same argument does not apply to the reserves. It is contended that they are as much the property of individual members as the dividend, the difference being that the one is distributed and the other is undistributed income. The opinion of the mass of Conservative members, stimulated by the private traders who regard the co-operative societies as in a privileged position, will be in favour of their further taxation. There will also be keen criticism of the high duties on heavy motor vehicles which follow on the recommendations of the Salter Report, though they are not so high as was suggested in the report.* In one case the duty leaps from £60 to £300. On the whole, the budget raises no great issue of principle in the ranks of the Government supporters, and should have a comparatively easy passage.

The official Opposition, as is the way of Oppositions, opposes. Their main contention is that it contains no

* A reference to the Road and Traffic Bill will be found on a later page.

Great Britain

benefits for the unemployed. "The fundamental cause of bad trade, unemployment and poverty," said Mr. Lansbury, after the Chancellor had sat down, "is that no Government had faced the fact that production outstripped consumption and the only problem to be solved was how to bring an increased consumption of the goods produced. Until they got down to that, all this business of budget balancing was beside the point." Sir Stafford Cripps, who is rapidly becoming the most formidable controversialist in the Socialist ranks, used it as a text for an attack on capitalism. "The system of trying to revivify private enterprise," he argued, "by allowing it to accumulate large private funds was not functioning because at the other end the people had not the opportunity to increase their consuming power."

So far as this budget was concerned, the Chancellor of the Exchequer had clearly pinned his faith on revitalising industry by the building up of the profit fund. The Opposition, on the other hand, believes that the profit fund should be eliminated altogether and that the State should take over the control of the means of production and thereby the organisation of the expenditure of the country, and in that way they could force into circulation money and credit at present lying idle and unused.

Sir Herbert Samuel for the Liberal party launched an attack so severe that many thought it must be the prelude to leading it into opposition. His main contention was that the budget was a smashing illustration of the failure of protection. "This was what the country had said at the general election—we cannot bear this enormous burden of taxation, we cannot carry this immense amount of unemployment. That was a year and a half ago. A majority of the Cabinet chose their course. We (Liberals) dissented and we resigned. The Government pursued its policy; it has produced its results. Unemployment is increased, taxation is undiminished. That is the picture presented by the present Government."

The Trade Agreements

II. THE TRADE AGREEMENTS

FURTHER evidence of "the pegging away" policy appears in the trade agreements concluded with the Argentine, Germany and Denmark, and there are two more agreements with Norway and Sweden to follow. Great emphasis has been laid, both at the election and since, on the fact that tariffs are not merely being employed for the purpose of reducing imports, but that they are, in the words of Mr. Baldwin's election address, "the quickest and most effective weapon to induce other countries to lower their tariff walls." The pledge was repeated in the debate on the Import Duties Bill, and the moment that the Ottawa Agreement was concluded, negotiations were opened with foreign countries for greater reciprocal trade by a mutual reduction of tariffs. The results have now been laid on the table of the House of Commons.

The agreements can be summarised briefly. The main point of the Anglo-German agreement, which is of a limited character, is that the British coal quota taken by Germany shall in no case be less than 180,000 tons a month and that it shall increase in proportion to the consumption of coal in Germany.* These concessions by Germany are conditional on Great Britain agreeing to reductions of tariffs on a variety of articles such as toys, gramophones, jewellery, safety razor blades and many other secondary manufactures. The Government calculated that the agreement would result in the employment of 3,800 British miners, as against, say, 1,800 persons adversely affected by the reduction of the British duties involved.

The agreement with the Danes is wider in its operation. Its main feature is the recognition by Denmark that the balance of trade between the two countries is heavily in her

* This quota in October, 1931, had been 300,000 tons, but it was lowered gradually to 100,000 tons. Bunker and Free Port coal, about a million tons a year, are extra, and left free from trammels.

Great Britain

favour and her promise to redress that position. She agrees to admit free of duty a wide range of British goods, machinery, coal, coke, iron and steel, tinplates, galvanised sheets, jute cloths and the like. She agrees to take from Great Britain 80 per cent. of her total coal imports,* and is to make every effort to maintain the market for British coke. She is to reduce her tariffs on other classes of British exports, including printed cotton piece goods, not to increase her tariffs on "a very wide range of goods," including all cotton and woollen piece goods other than those covered by the reductions just mentioned. She is, moreover, to buy from Great Britain all the jute, salt, saltpetre and wrapping paper required for the export to us of bacon, hams and butter. It is further announced that the Danish Government is to undertake "a course of action," as a result of which it is hoped that Great Britain's export of iron and steel to Denmark will be doubled. An order for the construction of the Storstrom bridge, which will be one of the finest in Europe, has already been placed in this country.

Great Britain on her part agrees not to regulate the quantity of Danish bacon, hams, butter, eggs, or cream except in so far as it may be necessary for the effective operation of domestic marketing schemes. There follow clauses which specify the minimum that she agrees to take. In the case of bacon, which is easily the most important of the Danish exports, it is not less than 62 per cent. of the total permitted imports from foreign countries. In butter the Danish allocation is not to be less than 2,300,000 cwt. in any year. The agreement is to last for three years.

Next we come to the Argentine agreement. The question of amending the Argentine general tariff is still under discussion. The Argentine delegates are agreeable, "so far as the fiscal situation and the interests of national industries permit," to lowering, for all nations alike, the

* An increase of about 1,300,000 tons on the 1931, and of about 780,000 on the 1932 comparison.

The Trade Agreements

present duties on goods, a substantial part of which, especially certain cotton goods, come from the United Kingdom, to the old 1930 scale, and no new or increased duties are to be levied, which means that our coal will still be admitted free. We too agree to impose no new or increased duties, or quantitative restrictions, on certain goods. The convention may, however, be denounced if a supplementary agreement with regard to tariffs is not come to by August 1 next.

So far as this country is concerned, the most important advantage thus far gained has been a financial one. The convention provides, subject to the Argentine Government being allowed to deduct a reasonable amount towards payment of its public debt services generally, for the unfreezing of debenture interest and remittances, to the amount of some £10 million due in respect of British investments in the Argentine. As a result of the exchange restrictions, a good deal of trade has been blocked in this way. The Argentine on its side is to be free to send us as much chilled beef (99 per cent. of Argentine chilled beef depends on the British market) as it sent us in the corresponding quarter of the year ending June 30, 1932, unless restriction is necessary to keep the price at a remunerative level, in which case the quota may, provided that the gap is not filled by other kinds of meat, be reduced by a further 10 per cent. But any further reduction will not be made unless it is to be shared by the Dominion supplies. No restrictions are to be imposed upon our imports of foreign frozen meat, except those agreed to at Ottawa, unless a restriction of the supplies from the Dominions should be arranged, in which case the Argentine is to be fairly treated. Its frozen meat is of far less importance than its chilled. It was calculated by the Government that, by June, 1934, one-third of the former Argentine supply will be supplied from the Dominions and this country. The underlying principle of the arrangement is the home supply first, next the Dominions,

Great Britain

then the Argentine. The convention, if not denounced by August 1, is to be for three years.

These agreements have been attacked by a section of the Conservative party with a ferocity hardly equalled even on the Government's Indian policy. The attack began with the German agreement and was led by no less a parliamentary figure than Sir Austen Chamberlain. His main argument was that, for limited and problematical gains to the coal industry, we were risking serious loss to the small industries now beginning to sprout under the shelter of the new tariffs. The particular industry that concerned his constituency was jewellery, and his speech opened the way for member after member rising to state the case of specialised constituency interests. A debate that was expected to run an hour or two at most lasted all day and ended in more than 50 Conservatives going into the lobby against the Government and three times that number of abstentions. The general attitude of the Liberal and Labour parties was that, miserable though the gains were that the Government's use of the bargaining weapon had produced, they were better than nothing. The agreements were in the direction of freer trade and as such ought to be supported. This approval from free traders only exasperated the ultra-protectionists further, and when Mr. Runciman bluntly stated, in the course of his reply, that if they did not like the way he had negotiated the treaties they must get somebody else to do it, there were some cries of "we will." Lord Beaverbrook is leading the attack in the country and the *Daily Express* every morning exposes the iniquity of what it has christened "the Black Pacts."

It is unfortunate that the attack should coincide with the return of the Prime Minister from Washington. Mr. Roosevelt has gone so far as to propose a tariff truce, but the difficulties of striking a bargain are enormously increased every reduction in tariffs is to be the subject of relentless hostility stage by stage from the interests concerned. Indeed such an attitude would imperil the future success

The Trade Agreements

of the Economic Conference. For obviously there cannot be effective tariff reductions unless they are mutual. It is no good talking of a truce if only one side proposes to end hostilities. But a fear has been expressed from a different angle that such bilateral agreements at this stage may themselves prejudice the prospects of the Conference. The Americans, it is said too, may resent the Argentine convention, and Germany and Poland, who stand to lose by our coal arrangement with Denmark, may retaliate upon her and weaken her buying power.

So far the Prime Minister has only given the most general account of his visit to Washington. In the course of a short statement in the House of Commons he said that his conversations with President Roosevelt on tariffs, quotas, exchange control and currency stability had yielded encouraging results. On the subjects of war debts differences of view have been usefully defined. There was one sentence which gave some alarm to the free traders. It was to the effect that in answer to the tariff truce proposal of Mr. Roosevelt he had pointed out the difference between the position of a country like Great Britain which had a low tariff and that of other countries which had the most elaborate network of economic defences. He made it clear that the application of any truce would be subject to the safeguards which this difference made necessary. This is regarded in some quarters as indicating that the pressure of the protectionists has not been without its effect and that the Government are unwilling to take the lead in tariff disarmament at the Economic Conference. Searching questions will also be asked about the Government's policy and plans for the Conference. There is a feeling by no means confined to the Opposition that the Government are not sufficiently prepared to direct events.

Great Britain

III. THE HOME FRONT

BUT though the main attack of the Government on unemployment has been international, they have not been idle on the home front. They have foreshadowed important legislation on the vital subject of rate relief. Responsibility both administrative and financial has been accepted for the able-bodied unemployed who are now largely a local concern. This step will necessitate a re-adjustment of the block grant and the opportunity will be seized to make some special allowance to the necessitous areas. The announcement follows a long agitation conducted quite as strenuously by the Government cohorts as by the members of the Opposition. It has been realised by all who are in intimate touch with the worst unemployment belt, that one of the main obstacles in the way even of the smallest measure of trade recovery is the burden of the rates. They frighten away any manufacturer looking for a new site for a factory. Thus where the plight of the population is most desperate the chances of rescue are the most dismal. There is also the more elementary question of the decreasing capacity of these areas to raise the necessary rate at all. Some towns which are dependent on one industry alone, like coal, have been faced literally with bankruptcy. This admission by the Government therefore that unemployment was a national rather than a local responsibility was more widely welcomed than any measure that they have yet produced.

The Road and Rail Traffic Bill, which is an attempt to place the two vital forms of transport on an equal competitive basis, has received a second reading with less opposition than was at first expected. Only the Socialists voted against it because it was not socialism. The main Conservative opposition was concentrated in the argument that, as Sir Arthur Steel Maitland put it, "the charges

The Home Front

imposed by the Bill, coupled with the increased taxation imposed in the budget, would raise the cost and impair the efficiency of transport generally, and thus add to the cost of living at home and to the competitive handicaps of British industry abroad." The Bill has been sent to a Standing Committee, where it is likely to have some rough handling from the interests that are affected. But the general view is that the railways are, in existing conditions, operated under a disadvantage and that the removal of restrictions, out of date now that the railways no longer hold a monopoly, and the enforcement on the owners of road vehicles of a higher standard of safety and service will do something to stop the rot in the catastrophic fall in railroad receipts.

The position of the iron and steel trade continues to cause the Government anxiety. The committee appointed as the price of tariffs to draft a scheme of industrial re-organisation has now reported in favour of control of the industry through a central body co-ordinating subsidiary associations appointed to deal with each separate productive branch, which shall be called the Iron and Steel Corporation of Great Britain. Mr. Neville Chamberlain in a letter to the chairman of the Import Duties Advisory Committee welcomes the proposal but adds, "you will, however, recognise that only the first stage has been reached and that much remains to be done before the industry can be said to be properly organised." The letter ends with the hint that the Government, while infinitely preferring re-organisation on a voluntary basis, reserve the right to take, if necessary, compulsory powers.

Now that the Housing Bill is through the House of Commons the clearing of the slums is also for the time being a question rather of administration than of legislation. In this connection the Government have issued an important circular declaring that the present rate of progress in slum clearance is too slow, and calling for a concerted effort between the central government and the local authorities. The Minister of Health has asked to see "not later in

Great Britain

any event than September 30 next a copy of the programme adopted by the local authority." During the last fifteen years slum clearance has only been effected at the rate of a thousand houses a year and this recognition by the Government of the necessity of increased driving force from Whitehall has given great satisfaction. Its bearing on unemployment is also obvious, for the percentage of the unemployed in the building trade is one of the most lamentable features of the monthly trade returns.

Another weapon for grappling with the crisis that might legitimately come under the head of administration is the Exchange Equalisation Account which is maintained by the Treasury to stabilise the pound. Powers are now being taken to increase the amount available for flattening out undesirable fluctuations from £150 million to £350 million.

On only one issue have the Government allowed themselves to be distracted from their struggles to bring down the unemployment figures, and that has been the Russian arrests. The temper of the House of Commons was more inflamed on the debate on the Russian embargo than at any time in the history of this Parliament. It was felt, as Sir John Simon unfolded the story of the fantastic charges and Russian methods, that the actions of the Soviet authorities were a flagrant violation of the principles of international justice. Only the Labour party voted against the grant to the executive of the powers to employ an embargo on Russian goods if it was deemed advisable, and even they were unusually restrained in their criticisms. The feeling of abhorrence at the OGPU was undoubtedly reflected in the country.

But since the promulgation of the sentences public opinion is not perhaps as unanimous as it was. There are doubts whether the British Government have done right in imposing the embargo on Russian imports as they did. It is argued by many that no hostile action ought to have been taken until the petitions of the sentenced men had been heard.

Trade and Unemployment

IV. TRADE AND UNEMPLOYMENT

THERE is some small evidence that an impression has latterly been made in the terrible figures of unemployment. The latest statistics show a decrease of 78,550 in the numbers of unemployed compared with the previous month, when there was a corresponding decrease of 80,454. On April 24 there were 92,000 more persons in employment than there were a year ago. There is a slight but definite improvement in the heavy industries. Under coal, for instance, it is reported that "the immediate enquiry is fairly brisk for all classes of graded steam coal." In iron and steel it is stated that, though the volume of business is still disappointing, "an undertone of confidence continues in the markets." It is announced from the wool area that there is "increased activity among the buyers of hosiery yarns," and from the cotton districts that "home trade is broadening steadily and some of the contracts for summer dress fabrics, linings, linings and overall cloths have been for substantial quantities." Leicester reports "possibly a slight increase in business."

There are, however, features in the trade returns which show that the time has certainly not yet come for optimism. *The Economist*, which had found "some evidence of a slow improvement in British industry," in its review of the March statistics, reminds us that the April figures, even allowing for the fact that Easter fell in that month, show a falling off "ominously greater in exports than in imports," that the reduction of £28.1 million in our adverse trade balance for the first three months of the year has now shrunk to £21.3 million, and that there has been a decline of 22.2 per cent. in our re-export trade since the beginning of the year.

The numbers of total unemployed, moreover, notwithstanding the recent reduction, still remain at the huge

Great Britain

figure of 2,697,634. There is an undercurrent of feeling that the Government is losing ground.

The continued flirting of the Labour party with revolutionary socialism is, however, probably an electoral asset. Sir Stafford Cripps, the ex-Solicitor-General in the Labour Government, who may be Labour's next Prime Minister, has once again stated that a Labour Government with a majority in the House of Commons would pass in the first session a General Enabling Act for the immediate socialisation of banking and other industries. Parliament would be asked merely to express its general approval of the proposal, the details would be transferred from the control of a House of Commons committee to the laboratory of Whitehall. Mr. G. D. H. Cole, who has great influence with the younger Socialists, has elaborated this proposal in a pamphlet for the Socialist League entitled *The Socialist Control of Industry* in which Parliament is definitely relegated to a subordinate position in the constitution. Even the ex-Liberals in the Labour party who up to now have exercised a moderating influence are beating the same drum. Sir Charles Trevelyan speaking in Manchester recently said, "the Labour party is never going to be any good until it makes up its mind that it is out for revolution. By that I mean revolution by English means and English methods. We have got to get the workers to vote for a revolution of our economic society, and then we have got to use constitutional means to carry through that revolution. . . ." It is argued that speeches of this kind prevent the flow of recruits to the Opposition being converted into a flood.

Such by-elections as there have been indicate that, though there is the inevitable decline in the Government vote and an increase in the Labour vote, they have not yet assumed proportions that need give the Government cause for serious alarm. At Ashford a semi-industrial seat of the kind that Labour must capture if it is ever to secure a majority in the House of Commons, the Conservative vote

Trade and Unemployment

only fell by 4,000 on the enormous figure of the general election and the Labour candidate was at the bottom of the poll, 5,000 votes below the Liberal. In East Rhondda, in the heart of the stricken South Wales coalfields, there was no Government candidate, but the Communist who might well have been swept back by "the misery vote" increased his poll by less than a thousand. It can be safely said that as yet there is no growth in the forces of revolution. Indeed the industrial districts are certainly quieter than they were at the beginning of the winter. This improvement in temper is very largely due to the efforts of the Social Service League in providing not merely soup-kitchens and clothing but social and occupational centres for the unemployed.

On the record of the Government as a whole the country is suspending judgment. Its mood has not really changed since the election. It will support any measures that will get it out of the morass. It is united for action. What it will not tolerate is drift. The turning point in the life of the Government will be the meeting of the Economic Conference to be opened by the King on June 12. Is the principle of national self-sufficiency or international co-operation to triumph?

THE IRISH FREE STATE

I. POLITICAL DEVELOPMENTS

OUR political situation is developing "according to plan." The new Dail met on February 8, and re-elected Mr. de Valera as President of the Executive Council. His proposer, Mr. Sean Moylan, expressed the pious hope that on the next occasion he would nominate Mr. de Valera as President of an all-Ireland Republic. Mr. Cosgrave, on behalf of his party, opposed Mr. de Valera's re-election on the grounds that there could be no hope of national advance whilst his policy was persisted in. Mr. MacDermot, the Leader of the Centre party, stated that, whilst they were in strong disagreement with what Mr. de Valera had done and proposed to do, they would not vote against him because they must accept the situation and recognise that the result of the general election made his re-election inevitable, but they could not vote for him, and would therefore abstain. He further stated that the difference between his party and Mr. de Valera was not so much one of objects but of methods, that Mr. de Valera's methods unfortunately struck at the root of Irish prosperity and well-being, and not only created bitterness, but were opposed to all common sense and bound to be barren of any useful results. Mr. Norton, Leader of the Labour party, said that Labour would support Mr. de Valera because it believed that Fianna Fail, in co-operation with Labour, would initiate a bold economic and social policy, and a no less bold national policy.

Mr. de Valera was then re-elected by 82 votes to 54, the Centre party not voting, and, after being received by the Governor-General, announced the composition of the new Executive, which, under our constitution, is nominated by the President and approved by the Dail. The only changes were the expected retirement of Mr. James Geoghegan, K.C., from the Ministry of Justice, the

Political Developments

transfer to that position of Mr. P. J. Rutledge, a May solicitor, previously Minister for Lands and Fisheries, the transfer of Senator Connolly, formerly Minister for Post and Telegraphs, to the Ministry of Lands, and the appointment of Mr. Gerald Boland, formerly Chief Government Whip, to the vacant Ministry of Posts and Telegraphs.

Prior to the opening of the Dail there were strong rumours that the eleven Nationalist members of the Northern Ireland Parliament would attend the first sitting in order to demonstrate against the partition of Ireland. Such a performance would have been both provocative and useless, and fortunately did not take place. A few days later, however, in a broadcast message to America, Mr. de Valera said that Ireland could never abandon the hope of regaining territory hallowed by so many memories and the scene of so many heroic incidents in her history. The efforts of her people would inevitably be bent upon the undoing of partition until all the land within her four seas was once more united. To test the feelings of the Dail on this vital question Mr. MacDermot, the Leader of the Centre party, on March 1 moved that a re-union of the Irish nation founded on good-will should be the primary object of government policy and that every other constitutional issue should be subordinate thereto. In moving this motion he pointed out that the abolition of partition was one of his party's principal aims; they proposed to abolish partition by abolishing the animosities which were its cause. A republic might be a stage on the road to unity which it was impossible to cut out, even though it took them far out of the direct way. Let them get over. Such issues as the Governor-General, the oath and the republic were trivial in comparison with Irish unity. The work of Irish re-union had yet to be accomplished in Ireland itself and by Irishmen. For them the beginning of wisdom was the recognition of the fact that we were dealing with the Irish nation of to-day, not with the Irish nation of the past. So long as they confined their ideas

The Irish Free State

nationality to what was Catholic, or Gaelic, or anti-English, they would not master the elements of the problem, and all hope of a union of the Irish nation founded on good-will would be an idle dream. The more they taught the Ulster Unionists to believe that they could not claim to be Irishmen at all the more insoluble the problem would become. It was not the constructive side of Irish nationalism that stood in the way of re-union; it was the side that, even if the North did not exist, they would be better without—jingoism, bitterness, intolerance, narrow mindedness and love of what was tawdry and superficial.

Mr. de Valera, in accepting the motion, complained that it was merely a pious expression of opinion, and that Mr. MacDermot had suggested no solution of the problem. He made, however, the pregnant admission that the only policy he could see for abolishing partition was for us so to use our freedom as to make the people of Northern Ireland wish to belong to the Free State. This is the policy which Mr. Cosgrave and his party have preached and practised consistently for the last ten years. But something more is needed, and Mr. MacDermot is right in suggesting that, if we desire to make progress towards national unity, we must subordinate relatively unessential issues to its achievement. For the moment Mr. de Valera's all-Ireland Republic remains, and is likely to remain, a carrot attached to the nose of the republican donkey, which it can never reach but which serves to distract its attention from realities.

On the same day as he accepted Mr. MacDermot's motion Mr. de Valera proved his complete disregard for the policy it laid down by proposing the Government's resolution to send back to the Senate in its original form the Bill for the removal of the Oath of Allegiance from the constitution.* No step could be more fatal to Irish unity. He made no speech, explaining that the Dail already was

* See THE ROUND TABLE, No. 87, June 1932, p. 513 *et seq.*, and No. 88, September 1932, p. 747 *et seq.*

Political Developments

fully aware of the circumstances, and that no discussion was necessary. Mr. P. J. McGilligan, however, on behalf of the Cumann na nGaedheal party, insisted that the country must be acquainted with the facts of the case; that the Bill, which the Government now proposed to force into law, bore on its face the acknowledgment that it constituted a breach of the Treaty and that the Government had apparently decided to turn its back on methods of negotiation and agreement. The Treaty was, he said, still in force, although the Government had been trying to smash it piecemeal, and we now had all the disadvantages of isolation without any of the advantages of membership of the Commonwealth to which the Free State still belonged. Even now, however, if Mr. de Valera would institute negotiations with the British Government in respect of the oath, or any other constitutional problem with which the people might be said to be dissatisfied, he would, he was sure, have the unstinted support of all parties in the House.

The resolution was carried by 75 votes to 49. On March 16 the Bill once more came before the Senate, and, although Mr. de Valera pointed out that the electorate had given a clear verdict on the matter and that if the Senate should insist on rejecting the Bill again, there would be an end of democratic government, the Senate refused to pass the Bill. Under the Constitution the Bill was, however, passed into law by resolution of the Dail on May 3, the Senate's right of veto having then expired.

The dispute about the land annuities had meantime been also carried a step further.* On March 7 Mr. Thomas read to the House of Commons a letter which he had received from Mr. Dulanty, the High Commissioner for the Irish Free State, announcing that his Government had decided to use for "normal Exchequer requirements" the sums received from the land annuities and other charges which they had hitherto retained in suspense accounts.

* See THE ROUND TABLE, No. 88, September 1932, p. 747 *et seq.*

The Irish Free State

In his reply, Mr. Thomas stated that the United Kingdom Government had received this communication with regret. Their offer of arbitration or negotiation still remained open, but they "cannot be understood to acquiesce in the action now announced." Mr. Lansbury, the Leader of the Opposition, suggested that the Government ought to give way on the "narrow issue" of the chairmanship of the Arbitration Commission, which was the obstacle to negotiation, but Mr. Thomas pointed out that, apart from questions of finance, the political question of the violation of the Treaty was involved. He was equally emphatic in refusing to go outside the Empire for an arbitrator. In reply to a question on April 26, Mr. Thomas stated that the sums withheld by the Irish Free State from May 1932 to date amounted to £4,864,000. The approximate total amount collected from July 15, 1932, up to April 22, 1933, in respect of the special duties and the duties under the Import Duties Act, 1932, on goods imported from the Irish Free State, was £2,727,000. It therefore seems that on April 22, 1933, the amount collected in respect of the duties by Great Britain was £2,137,000 less than the amount retained by the Free State.

It is, however, impossible to estimate accurately the losses, both tangible and intangible, which both countries have suffered by this senseless dispute. It was evident that the action of the Free State Government had become inevitable owing to their increasing financial difficulties, and that it would be impossible for them to meet their obligations without using the money in the suspense account. In the middle of March they introduced, and passed rapidly into law, a measure permitting them to use for ordinary Exchequer purposes the money paid into the land purchase annuities fund. Mr. MacEntee, the Minister for Finance, on the second reading, pointed out that under the existing law the local authorities were bound to make good the deficiency arising from the moratorium granted in respect of the land annuities,

Political Developments

which in the present year would not be much less than £2,000,000. There were only four ways in which the position could be dealt with, namely, by additional taxation by withholding local taxation grants, by borrowing, or by the method the Government had actually adopted. Mr. Cosgrave moved an amendment to the effect that the Dail should decline to give a second reading to the Bill until proposals had been introduced by the Government providing that, pending a solution, by arbitration, agreement, or otherwise, of the outstanding disputes with Great Britain, land-purchase annuities should not be collected or payable. He pointed out that there was only one market for our farmers' exportable produce, and this had been, perhaps permanently, injured by the policy adopted. In seven months our exports had decreased by £7,000,000.

Immediately the Bill became law, on March 29, the Government began to use the money in the suspense account for general purposes, and it is now exhausted. But this raid on the suspense account, whilst it relieves, does not end the Government's difficulties. Twelve months ago the farmers were assured that the land annuities would be used, *inter alia*, to relieve them completely of local rates. Mr. Cosgrave's Government increased the original agricultural grant of £599,000, payable under the Local Government Act of 1898, to £1,948,000, and last year Mr. de Valera's Government added an additional £250,000, bringing the total sum devoted to the relief of agricultural rates up to £2,198,000. In order to make ends meet the Government have now had to reduce this grant by £448,000. This means under present rating conditions that even if the annuities are, in accordance with the promise of the Government, reduced by one-half, 30 per cent. of that reduction must be handed over to the rate collector. As the reduction in the grant was not announced until most of the county councils had already passed their estimates of expenditure for the year, it is not

The Irish Free State

impossible for them to reduce them, and they are naturally in revolt against the Government's decision. It is clear that these councils, which are largely composed of farmers, are not likely to press strenuously for the payment of rates, and an eventual breakdown of local government is not impossible. The Cork Farmers League has already warned the county council that its members will not pay an increased rate this year, and the General Council of county councils on April 5 passed a resolution stating that the agricultural community was entitled to exemption from rates and annuities during the economic war, and that there was no justification for reducing the grant.

Grants to various educational and cultural bodies, such as the Royal Hibernian Academy and the Abbey Theatre, have also been materially reduced. Economy and culture are apparently incompatible. But the Government believe in equality of sacrifice, and it is not only the farmers who have to suffer. At the end of March Mr. MacEntee introduced an Economy Bill which makes substantial reductions in the salaries of civil servants. He explained that in the first instance its duration would only be for one year. The proposed cuts would result in a saving of £280,000, and he had tried to spread them equitably over all branches of the civil service. The judges would be dealt with by special legislation involving a change in the constitution. In order to balance the budget either social services or salaries must be reduced. The Government did not propose to make economies in the social services or to increase the general level of taxation, so they were, he said, forced to impose reductions in the salaries of civil servants. Those whose total remuneration did not exceed £300 would not be affected; on salaries of from £300 to £400 (including the bonus) there would be a cut of 2 per cent., and from these upwards there would be a steep graduation until at the highest grade the figure of 25 per cent. would be reached. The Centre party moved an amendment making a second reading conditional on a

Political Developments

reduction in the allowances to members of the Dail and Senate, which, needless to state, was not carried. Mr. Norton, on behalf of the Labour party, strenuously opposed the Bill, which was, he said, a wage-slashing measure on the capitalistic theory that if wages were cut all would be well, and the National School teachers, who have really least to complain of, and who are mostly supporters of Mr. de Valera, held a fatuous one-day strike to demonstrate their righteous indignation.

It is certainly strange that the Government should have chosen this moment of financial stringency to arrange for the repayment of the balance of the Irish Republican Loan, raised in the United States during 1919-21, which amounts to about £1,000,000, and which need not have been repaid until after the recognition of an Irish republic. *The Irish Press*, Mr. de Valera's paper, states that the loan is being repaid to show our gratitude to the Irish in America, and to demonstrate to the world that we admit and pay our just debts. But if the account of *The United Irishman*, the Cumann na nGaedheal party organ, is correct, it should be pointed out that Mr. de Valera, in February 1930, circularised subscribers to this loan and apparently obtained from many of them an assignment of their bonds, which were then being repaid in part out of unused moneys retained in America, to assist in the establishment of *The Irish Press* itself. If so, when these bonds are now paid off in full, Mr. de Valera will, of course, receive the substantial balance due on those already assigned to him and can use the money for the maintenance of the newspaper he controls. The Labour party may justly complain that the amount to be used in repaying this loan would have been better employed at home in saving the civil servants from an unfair cut in their by no means extravagant remuneration.

The relations between the Labour party and the Government are indeed far from cordial, and have not been improved by Mr. Hugo Flinn, the Parliamentary Secretary

The Irish Free State

to the Minister for Finance, who is in charge of the unemployment relief schemes, and who refuses to pay in agricultural districts more than agricultural wages. It is true that Mr. Flinn, who is a rather aggressive person, has not attempted to sweeten the pill by his method of administering it, but there is, nevertheless, some point in his complaint that with a necessarily limited grant the higher the wages paid the fewer the persons who can be relieved. It is obvious that if the Government deal firmly with extreme Labour demands they can rely upon the support of the Centre party and are therefore not in jeopardy. Labour is, in fact, virtually impotent in the new Dail, and its followers are beginning painfully to realise that their leaders have sold their birthright for a mess of pottage.

The Government, in fact, seem to be at more pains to placate the extreme republican element than Labour, for they have introduced two Bills, one of which would abolish the declaration of allegiance to the State and constitution which has to be made by local officials, and would compensate those who have suffered loss or disability by refusing to make them. The other proposes to remove the prohibition which prevents persons who fought against the Government in the civil war from obtaining compensation for damage to their property. Perhaps even more significant of this tendency was the Government's removal from office, on February 22, of General Eoin O'Duffy, the Chief Commissioner of the Civic Guard, who has been the head of that efficient police force ever since its formation, and is largely responsible for its satisfactory development. His dismissal had been demanded for several months by *An Poblacht*, the official organ of the I.R.A., but Mr. de Valera, who denied in the Dail that he ever read that journal, indicated that his objection to General O'Duffy was that he was Chief of Police for ten years under the last Administration, and stated that during those ten years every act of indiscipline was condoned. He added that, whether it was the Governor-General or

Political Developments

the Chief of Police, as long as his Government were responsible for public policy they meant to have men in whom they had confidence. This would have been a perfectly legitimate attitude when the Government first took office, but it was hardly fair to remove General O'Duffy at this stage without any ostensible reason, more particularly as he was offered at the same time an equally responsible office in another department of State, an offer which should not have been made if he is not to be trusted. Altogether this affair following, as it did, upon the removal in a similar fashion of Colonel Neligan, the head of the Criminal Investigation Department, did not increase public confidence in the Administration.

The Government committed another *faux pas* by instituting hasty criminal proceedings, under the Official Secrets Act of 1911, against Colonel Hogan, an army officer and brother of the former Minister for Agriculture, and Inspector Edward O'Connell, the second-in-command of the Crimes Branch of the Civic Guard. When the trial took place it transpired that Inspector O'Connell had quite openly, on instructions received from his superior officer, Colonel Neligan, sent some pamphlets dealing with communism from the official files to Colonel Hogan for perusal by his brother, James Hogan, Professor of History at the National University and a reputable publicist, who is writing a book on communism. The pamphlets, in fact, never reached Colonel Hogan, as the officer who was told to deliver them handed them over to Colonel Broy, the new head of the Civic Guard, and proceedings were hastily instituted without asking the officers concerned for an explanation. The jury stopped the trial before the case for the defence was closed and returned a verdict of "Not Guilty." After this verdict Inspector O'Connell was reduced to the rank of Sergeant, an action which seems contrary to justice.

The I.R.A. refused to be placated by these overtures, and are becoming definitely antagonistic to the Govern-

The Irish Free State

ment. They strongly object to the new Volunteer Reserve force which the Government is understood to contemplate forming, and General Sean Russell, one of their leaders, speaking in Dublin on March 24, stated that if there was to be a clash with Great Britain the Republican Army was the only force that could be relied on. He called upon the young men not to become members of the new force, but to join the Republican Army, drill, arm and equip, and be ready to strike for freedom when the opportunity arrived.

Another serious difference has arisen with the Government over a deportation order against one James Gralton, a returned American citizen, who is alleged to be an "undesirable alien" and accused of being a Communist. Gralton, who resides in the County Leitrim, has gone into hiding, and when Mr. Peadar O'Donnell and other I.R.A. stalwarts ventured into the district to hold a meeting protesting against the deportation order, they were soundly beaten by the inhabitants and chased out of the locality. Mr. O'Donnell and his friends maintain that the right way to attack the British Imperialist machine in Ireland is to strike at its foundations, the landlord, the rancher, the banker and other exploiting interests, and that the Government have failed to do so. "The Treaty, the constitution, the legal code, and the economic and social order resultant from these evils" must, they say, all be scrapped as they have been imported from Britain, and the Government, in their view, has become enmeshed in their machinery. The Workers' Republic, which they describe as their aim, is, of course, only camouflaged communism. A draft political report, recently discussed by the organising committee of the Irish Communist party congress, states that the Irish working class is confronted with the task of winning the leadership of the mass movement against British Imperialism and so defeating the attempts of the national middle class to come to a compromise on the basis of a revised treaty. This is the path forward to a united independent Ireland, to a Workers' and Farmers' Republic, to the dictatorship of the working class in alliance with the working farmers.

Political Developments

A considerable number of the I.R.A., and the political wing known as Sinn Fein, of which Miss Mary MacSwiney is the real leader, do not agree with these views. Neither has the Catholic Church any illusions as to where they lead, and influential clergymen as well as the Catholic press demand Catholic and, if necessary, State action to prevent the organisation of a Communist party in the Free State. Communism commands at present no real support amongst the people; in fact, a very different attitude was revealed when a mob recently wrecked Connolly House and other premises in Dublin which are identified with the communist movement. An amusing incident in connection with this occurrence arose out of the subsequent police proceedings against Mr. Charles Gilmore, a famous I.R.A. hero, for carrying a revolver and using threats. Gilmore stated that he had permission to carry a gun from the I.R.A., the only people in the country competent to give it, whereupon the Adjutant-General of that force wrote to the press to state that Gilmore had no such permission.

A sense of humour would really be more valuable than guns to the I.R.A., but the A.C.A., or Army Comrades Association,* which is the rival organisation, seems to be equally defective in this respect, for one of its prominent members in Kerry, having recently seceded from the organisation, proceeded to form a new body which he called the Irish Unity League! The A.C.A. have now revised their constitution, and define themselves as a civil organisation giving disciplined service to the nation, whose principal objects are to promote the reunion of Ireland by peaceful means, to oppose communism, and to safeguard the right of free speech. They have adopted blue shirts and black berets as their official uniform, and are taking steps to improve their organisation throughout the country. These indeed are not the only manifestations of a Fascist trend in our political life. Mr. Cosgrave's party organ, *The United Irishman*, has recently published an unofficial article

* See THE ROUND TABLE, No. 89, December 1932, p. 125.

The Irish Free State

attacking our "demagogic parliamentary constitution," to which it attributes Mr. de Valera's success, and claiming that the only hope of stopping shady politics is a great movement for the establishment here of an organic associative State on Fascist lines ; whilst Mr. de Valera himself has recently stated that it would be a very good thing for the country if the Government could get six months' holiday from the Dail in order to solve the question of unemployment. The one thing we unfortunately seem to lack is a Mussolini.

II. TRADE AND TRANSPORT TROUBLES

ONE of the new and vital factors in our economic life is the increase of our population. This is due principally to the virtual stoppage of emigration to America. The increase now is at the rate of from 10,000 to 20,000 a year. Ten years ago the decrease, owing to emigration, was from 20,000 to 30,000 a year. The increase in population at present is not equivalent to that, because apparently deaths are exceeding births in a higher degree than formerly. The total population is now virtually 3 million ; in 1930 it was 2,946,000. The Government claim that their tariff and tillage policy is the only sound method of absorbing this surplus population, and that we are now passing through a transitory period of hardship before the new policy begins to bear fruit. Whatever may be the ultimate effect of this policy there can be no doubt about its present unpleasant results. During the last twelve months the persons in receipt of Poor Law relief have increased by more than a third. In some of the more remote country districts trade is sometimes carried on by a system of barter. Shopkeepers are reducing credit in all directions, and business generally is stagnant. Organised Labour will not allow social services to be cut, the farmers are clamouring for more relief, and the patient middle classes are being bom-

Trade and Transport Troubles

barded with income tax assessments and demands, for they are fair game and no one's child.

The latest trade returns illustrate only too well the disastrous results of the economic war. Our total trade for the year that ended on February 28 was £64,742,278, as compared with £86,210,865 in the previous year. In the same period the adverse balance rose to £15,393,328, as compared with £14,124,043. Only 71 per cent. of the Free State imports in February came from Great Britain and Northern Ireland, while Germany, Poland, the United States, Holland and Sweden increased their sales to us, but not their purchases. However much we spend abroad we cannot sell abroad. Great Britain and Northern Ireland still take 94 per cent. of the goods we export, and no one else will do this. Our import of motor cars for January and February, 1933, has, owing to the prohibitive tariffs, fallen from 1,047 to 106. To meet this situation, the Ford Company are using a portion of their almost closed Cork factory to assemble their "baby" car, but, as things are now, even "baby" cars will shortly be a luxury beyond most people's means. The export of live stock during the first two months of 1933 shows a decrease of more than a million pounds as compared with the corresponding period of 1932. Our total exports for the same two months show a fall of over two million pounds as compared with last year.

On the other hand, Mr. Lemass, the Minister for Industry and Commerce, speaks of a hundred new factories, and claims that unemployment is decreasing, that we are becoming more and more self-supporting, and that we are the only country not suffering from over-production. In spite of these developments, however, the past year was the most unfavourable the Irish banks have experienced in recent times. Their aggregate profits show a reduction of £165,000, or 14 per cent. Each bank shared in this fall in earnings, and in every case dividends were lowered. There is no doubt that this state of affairs is due to the condition

The Irish Free State

of our agricultural industry. The recently published census of industrial production shows that during the period 1926-1929, under the Cosgrave Government, the net output rose by 8 per cent., and the number of persons employed by 4.2 per cent. The same return shows that exports then constituted 38 per cent. of total production in the Free State, as compared with 27 per cent. in the United Kingdom.

On April 13 the *ad valorem* duty of 40 per cent. on Free State cattle entering England was altered to a *per capita* duty varying from £1 5s. to £3, according to the animal's age. This change has apparently been made for administrative reasons and is not expected to affect the yield of these duties in the aggregate. Whilst all these things are going on, the Argentine and the Scandinavian countries are busy negotiating trade agreements with Great Britain which give preferences to British goods in return for preferences to their products, which are chiefly agricultural. Our trade rivals suffer from no anti-English complex and will not cut off their noses to spite their faces. In short, since the economic war was started our agricultural producers have lost far more than they could possibly gain by the complete remission of the land annuities. If the dispute lasts much longer they can reconcile themselves to the painful fact that no outlet will exist for their produce, except the very limited and grossly over-rated home market. The Scandinavians and the Argentinos will have captured what should belong of right to the Irish Free State.

Our present difficulties have been further aggravated by trouble on the railways. In January a strike took place on the Great Northern Railway, owing to the refusal of the railway unions to accept the cut of 10 per cent. in wages which was sanctioned by the Wages Board. This strike would have taken place also on the Great Southern Railway if the Free State Government had not agreed to pay by subsidy the difference in wages until the end of April. They could not do this on the Great Northern line, a large portion of which is situated in Northern Ireland.

Trade and Transport Troubles

The strike lasted for over ten weeks and caused a serious dislocation of life in the districts served by the railway, although it also demonstrated conclusively how easily the railways could be dispensed with altogether. It was unfortunately accompanied by acts of sabotage, such as the derailing of trains and the throwing of bombs at trains and 'buses, some of which resulted in loss of life. No one believes that the railway men were responsible for these outrages, which indicate that sinister revolutionary forces were only too ready to use the strike for their own ends. After several abortive conferences in Belfast, where the Northern Government's attitude towards Labour did not help matters, the strike was finally settled in Dublin on April 5, largely through the good offices of Mr. Lemass. He also settled an unofficial strike which then broke out in the Dublin district of the Great Southern Railway and lasted for a few days. The 7½ per cent. cut, with no allowances for holidays, to which the unions finally agreed, is virtually the same as the 10 per cent. reduction awarded by the Wages Board, and the terms of reinstatement enabled the companies to stand by the men who remained loyal.

There is some quite natural indignation in Ireland at the policy of the English railway unions which apparently involves fighting their test cases here at our expense. The perilous position of the Great Southern Railway is amply proved by the Company's annual report, which was issued at the end of February.* Gross receipts have fallen by nearly half a million pounds, and although expenditure was reduced by nearly a quarter of a million pounds, there was only a balance of £44,995 available after payment of debenture interest and fixed charges, so no dividends could be paid. The economic war is, of course, responsible for much of this loss. Nor is this condition of things due to mismanagement, for during the last seven years the directors, by economies and reorganisation, have reduced

* See THE ROUND TABLE, No. 83, June 1931, p. 631 *et seq.*

The Irish Free State

annual expenditure by £1,282,421. They have also acquired control of the principal omnibus and road delivery concerns in the Free State, so that they can now undertake co-ordinated transport service both by rail and road throughout the whole Free State.

The Government's policy of dealing with this crisis in our transport system is embodied in three measures, the Road Traffic Bill, the Road Transport Bill, and the Railways Bill. The Road Traffic Bill is a non-controversial measure on somewhat similar lines to that introduced by the Cosgrave Government, but not passed into law.* It provides a very necessary code for the regulation of road traffic, including compulsory insurance of motor cars, on the lines of the recent English Motor Car Act. The Road Transport Bill compels all transport of merchandise and passengers by road to operate under licence, and authorises the railways, subject to the Government's consent, to transfer any such licences to themselves. They must pay compensation for these transfers, with further compensation for disemployed labour, and the terms of transfer will be settled by an arbitrator. As the Great Southern Railway are already in a position to eliminate competition by ordinary trade processes, it seems rather hard that they should now have to buy their competitors off the roads and liberally compensate their employees.

The Railways Bill is the most revolutionary measure of the three. Its outstanding provision is the drastic reduction of the Great Southern Railway Company's capital by more than one-half, from £26,000,000 to £12,000,000. £100 of 4 per cent. Debenture Stock are reduced to £85, of 4 per cent. Guaranteed Preference Stock to £50, of 4 per cent. Preference Stock to £35, and of Ordinary Stock to £10. All these securities are held extensively in Ireland, and many thousands of small investors have received a most unpleasant surprise on learning that their capital has

* See THE ROUND TABLE, No. 85, December 1931, p. 151.

Trade and Transport Troubles

almost vanished. The shareholders were not consulted and the directors did not consent to this drastic step. The legal position of the debenture holders, which is, of course, quite different to that of the shareholders, seems to have been completely ignored or overlooked. The right of the London, Midland and Scottish Railway Company to nominate a director on the Great Southern board is repealed, and the number of directors is reduced from twelve to seven. Nor does the Bill hold out any hope of reward to the shareholders for these compulsory sacrifices. It increases restrictions and holds out no prospect of greater traffic or substantial economies. The Railway Tribunal will continue to control freights and charges. It is true that the Company can discontinue or reduce unprofitable train services, but in every case they must provide an alternative road service and compensate redundant workers. The net result is a measure which halves the Company's capital, increases its burdens, and will do little to revive its fortunes.

The Irish Free State.

May 1933.

CANADA

I. THE GOVERNMENT AND ITS CRITICS

THE Federal Parliament, which had concentrated its energies during the autumn part of the present session mainly upon consideration of the fiscal agreements reached at the Imperial Economic Conference, resumed its labours on January 30, but expectations, based on the modest character of the legislative programme, that prorogation would be possible either before or immediately after the Easter recess, were not fulfilled, and the project, which the Opposition have agreed to facilitate, of winding up business by May 15, in order to allow the Ministry some time for adequate preparations for the World Economic Conference, which Premier Bennett will attend as Canada's chief representative, will entail the jettisoning of part of the Government's legislation.

The resumption of the session found the Liberals, who constitute the official Opposition, eager to exploit the popular discontent, and the disillusionment with the Government's policies which the persistence of the depression had generated, and to indulge in a comprehensive arraignment of the Ministry for a variety of sins of omission and commission. And since they were well equipped with parliamentary debating talent, they were able to press Ministers very severely on numerous occasions. Their general strategy was to limn the Ministry as in reality a reckless and incompetent dictatorship, manipulated by a Prime Minister who treated his colleagues as office boys, and who stubbornly refused to acknowledge the error of his ways, and to reverse fiscal and other policies which had aggravated the Dominion's economic difficulties and constituted a fatal barrier to any prospects of an early recovery of prosperity. Mr. Bennett and his colleagues strenuously denied the validity of these accusations about the Premier's dictatorial proclivities and, while admitting

The Government and Its Critics

that the fruits of the remedies which they had prescribed for the country's troubles had failed to realise their hopes, contended that the responsibility for their failure lay in general world conditions, beyond the possibility of cure by any Canadian Government, and that their tariff and financial policies had averted a wholesale industrial *débâcle* and maintained Canadian credit at a high level in the money markets of the world.

The Canadian public was disposed to make considerable allowance for the special difficulties which faced the Ministry, but it was far from satisfied with certain of its performances and was obviously reluctant to accept the picture of Ministers as a band of earnest, able men struggling with adversities beyond their own control. Three years' experience of the Bennett Government has produced an almost general consensus of opinion among intelligent Canadians that it contains too large a proportion of feeble vessels to be a first-rate administration, and that, prodigious and tireless as the labours of its leader are, they cannot compensate for the absence of sound intellectual equipment and administrative energy from which too many of his colleagues suffer. Peculiarly weak is the French-Canadian element in the Ministry, and, until conservatism can recruit for itself some reasonably competent leaders in the province of Quebec, its spells of power at Ottawa can only be intermittent.

But, although the Liberal Opposition is confident that the tide of public sentiment, to judge from the evidence of by-elections and other symptoms, has definitely turned against the Bennett Ministry, it has no serene confidence about its own future prospects. Its leaders have come to realise that a barrage of taunts about unfulfilled election pledges, and accusations about the inadequacy of ministerial policies, will not convince the country in its present mood that a Liberal Government can offer any better promise of economic salvation than a Conservative, and also that the bid which the new radical party, styled the Co-operative

Canada

Commonwealth Federation, is making for the support of the disgruntled elements among the voters cannot be treated lightly. So, after Parliament reassembled, the Liberal board of strategy proceeded to evolve for their party a new programme, which Mr. Mackenzie King disclosed in a speech delivered in the House of Commons on February 27. The majority of its fourteen items were largely in the nature of affirmations of doctrines which have been the stock-in-trade of the party since the war, but some new ground was broken. For example, the party is now definitely committed to the establishment of a national bank of rediscount, an investment control board and a system of unemployment insurance. With regard to the fiscal question, it is pledged, as soon as it is returned to power, to restore the general tariff to the level which prevailed before the advent of the Bennett Ministry, to enlarge the British preferential rate, to wipe out various arbitrary customs regulations designed to strengthen the protectionist fabric, and to negotiate liberal trade treaties with foreign countries. The new programme marks a distinct leftward advance for Canadian Liberalism, and is obviously planned for the purpose of stealing the thunder of the Co-operative Commonwealth party, but there is no certainty that it can accomplish this object, and meanwhile its more radical features have caused a certain restlessness among the more conservative faction of the Liberals of Quebec, which the Conservatives are assiduously trying to fan.

In Parliament the representatives of the new party have not during the session made a very effective impression, and there was recurring evidence of disunity of purpose. Some of them were frankly and persistently sympathetic to the Government, and one of these sympathisers, Mr. Milton Campbell, was rewarded with an appointment on the new Tariff Board, for which his qualifications are difficult to discern. Another group, headed by Mr. J. S. Woodsworth, an experienced Labour politician, who is

The Government and Its Critics

the titular leader of the new party, were continuously critical of the Government and its policies, and voted against it on practically every division. But they felt it good political strategy to be equally critical of the Liberal party and all its works, and to develop the thesis that there is no fundamental difference between the creeds and policies of the two historic parties. Naturally this attitude exasperated the Liberals, and there has, as a consequence, developed a cleavage between the two wings of the Opposition which will make co-operative arrangements between them for the avoidance of three-cornered contests at the next general election extremely difficult. Meanwhile the leaders of the Co-operative Commonwealth party have been exceedingly active in their campaign of propaganda in the country, and the large attendances which their meetings attract indicate that they find, at least in all the provinces west of the Ottawa River, fertile seedbeds for their policies, which are of a frankly socialist nature, and that the number of their adherents, who are drawn from both the Conservative and Liberal parties, is growing steadily as the depression deepens. In Parliament the agrarian members of the party were, during the session, very zealous advocates of currency inflation and the complete abandonment of the gold standard, and have had the satisfaction of seeing the Government converted by force of circumstances to the second part of their monetary policy.

The month of February was mainly consumed in academic debates initiated by the resolutions of private members who had been debarred from this form of activity during the autumnal sittings, and the resulting expositions of pet panaceas and the ventilation of grievances, if they rarely produced any tangible results, at least satisfied the orators who essayed them, and may have helped to convince doubting voters of their parliamentary industry. Early in March, however, the Government called a halt to these enterprises and demanded the attention of the House of

Canada

Commons to more serious business. They did not wait for the end of the financial year on March 31, for the Federal budget was submitted on March 21 by Mr. Rhodes, the Minister of Finance, who had a somewhat sombre tale to tell about the national finances. Estimated revenues of \$315,290,000, placed against ordinary expenditures of \$364,425,000, had left a nominal deficit of some 49 million dollars, but it was seriously swollen by heavy additional debit items of \$9,123,000 for capital expenditure, of \$42,483,000 for special expenditure such as unemployment relief and the wheat bonus, and of \$1,959,000 for minor extraordinary charges, which raised the total of the expenditures to \$417,990,000. But, in addition, a sum of \$68,135,000 had to be provided for the deficit of the Canadian National Railway system, \$17,489,725 had to be advanced to western provincial administrations to avert defaults on their obligations, and some 6½ million dollars found for the needs of different harbour commissions. So the aggregate result was a deficit of very formidable proportions, and Mr. Rhodes had to admit that the net national debt, which he placed on March 31, 1933, at \$2,649,000,000, apart from indirect obligations totalling roughly 996 million dollars, had increased during the fiscal year by \$102,700,000.

However, in a comprehensive review of the Dominion's financial and economic situation with which he favoured the House, Mr. Rhodes argued that the Government's policy of meeting its foreign debt obligations according to contract, restricting the export of gold and purchasing the whole domestic output of this metal, had been fully justified by its results, and, aided by the proved stability of the banking system, had kept the financial repute of Canada high in the outside world. He did not minimise the serious character of certain features of the economic situation, but contended that purely local remedies were unavailing for the cure of conditions created by a depression whose causes and scope were world-wide, and that any

The Government and Its Critics

adequate solution must await concerted international action at the forthcoming World Conference, which he hoped would secure a relaxation of exchange controls and other abnormal restrictions upon trade, stabilise currencies and stimulate a rise in the world level of commodity prices.

Discussing the monetary problem, Mr. Rhodes pronounced definitely against schemes either for currency inflation or for linking the Canadian dollar with sterling, and asserted that the Government's policy of letting the Canadian dollar find its own level had resulted in a not unsatisfactory compromise between the ideas of such interests as desired close relations with sterling and those which dreaded the consequences of a heavy and fluctuating exchange premium against the Canadian dollar in New York. But he also intimated that the Government was not wedded to any hard and fast monetary theory, and that it had decided to appoint a Royal Commission on the lines of the Macmillan Committee in Great Britain, with instructions to undertake an investigation of the whole range of Canada's banking and monetary problems, and to frame in its report recommendations which would be a useful guide both to the Ministry and Parliament in the decennial revision of the Bank Act that was due to take place this session, but has been postponed until the results of the World Conference are disclosed. He likewise intimated that the Government favoured the reduction of interest rates on bank loans, mortgages and long-term bonds and, as an incentive to such action, proposed to reduce the rate of interest of post office savings deposits, an example which has since induced the Canadian banks to reduce their interest rates on deposits from 3 to 2½ per cent. Another interesting announcement was to the effect that a few days previously the Government had decided to extend the wheat bonus of 5 cents per bushel paid for the crop of 1931 to the crop of 1932.

For the fiscal year 1933-34 Mr. Rhodes estimated a

Canada

revenue yield of 287 million dollars on the existing basis of taxation, against estimated expenditures of 369 million dollars, and then proceeded to explain that the Government aspired to fill this gap by reducing controllable expenditure by about 14 million dollars and levying new taxation calculated to yield 70 million dollars; he claimed, therefore, the prospect of a small surplus of 2 million dollars on ordinary account. The new taxation included substantial increases in the personal and corporation income taxes, a tax of 5 per cent. on all interest or dividends received by Canadian debtors, if cashed in a currency which is at a premium over the Canadian dollar, and a tax of 5 per cent. on all dividends or interest paid by Canadian debtors to non-residents of Canada. Provision was also made in the budget to close certain loopholes whereby the holders of bearer securities have been able in the past to dodge the income tax, to the substantial loss of the Treasury. The sales tax was maintained at its existing level of 6 per cent., but complete or partial exemptions which had been conceded to different commodities were wiped out. The tariff changes of the budget were relatively few, being confined to some 60 items, and any alterations which will adversely affect British trade are more or less balanced by concessions which will help it. But the most surprising item in the budget was a plan for the creation of an Agricultural Stabilisation Fund designed to assist primary producers who are exporting to the British market and to offset the unsettling effects of fluctuating exchanges. From this fund there will be paid on a variety of exports, which include livestock, meat, bacon, poultry, fresh and canned fish, tobacco, cheese, milk products, canned fruits and vegetables, eggs and honey, a bonus representing the difference between the price actually received and what it would be, if sterling had in Canada a value of \$4.60.

The budget made no provision for extraordinary expenditures like the Canadian National Railways deficit, which cannot fail again to be very heavy, but it showed a

The Government and Its Critics

determination on the part of the Government to achieve a balance on what are now regarded as the ordinary accounts. It was the subject of debate which, lasting till April 12, was marked by the usual partisan controversy about tariff policy and other matters, but produced few interesting speeches and was notable for the fact that, for the first time for many years, both the Premier and the Leader of the Opposition abstained from participation in it. The Liberal line of criticism was that the budget's contents furnished convincing proof of the incompetent stewardship of the Ministry, that the taxation changes bore more heavily upon the poorer than the richer classes, that the Agricultural Stabilisation Fund was a foolish and wasteful adventure, and that the Government's persistence in a policy of rigorous protectionism stood condemned by the progressive shrinkage of Canada's foreign trade and the deplorable plight of all the basic natural industries. The agrarian representatives in the Co-operative Commonwealth Federation group directed their chief fire against the ministerial devotion to monetary orthodoxy, and the Labourites to its mishandling of the unemployment situation.

The Conservative defence was that the budget represented an honest and courageous effort to cope with abnormal circumstances, and that Canada would court a grave crisis, if her economic bosom was bared any further to world competition by the tariff reductions which the Liberals urged. In the course of the debate, however, the Government was compelled to make concessions which will probably wipe out the anticipated surplus; protests from organisations of ex-service men forced it to withdraw a proposal that war veterans who held posts in the civil service should lose their pensions, and the hostile attitude of the London Stock Exchange to the projected levy on dividends and interest paid to non-residents of Canada induced Mr. Rhodes to announce that it would be modified to exempt bonds guaranteed by the Canadian Government

Canada

from it. Eventually, after a Liberal amendment, which was a general arraignment of the Government's policy and amounted to a vote of no-confidence, had been defeated by 119 votes to 63, and a Co-operative Commonwealth Federation amendment, which urged immediate inflation of the currency and correlated changes in financial policy, had shared the same fate by 171 votes to 13, the Government got its budget passed on April 12 by 107 votes to 72; it had the support of one solitary western agrarian, but the rest of the Opposition groups voted solidly against the budget.

The Railway Bill, which embodied most of the recommendations of the Duff Commission on transportation, had been expected to provide the sharpest controversies of the session, for some of its terms were notoriously unpalatable to the Canadian Pacific Railway, which from the moment of its production embarked upon a vigorous campaign of propaganda against it. When it was submitted to the Senate last autumn, the political friends of this corporation made strenuous efforts to secure amendment which would at least eliminate the plan for compulsory arbitration of points in dispute between the two great railway systems, but the Government stood firm against any but minor amendments. When the Bill reached the Commons, rigid party discipline was applied to prevent any insurgency in the Ministerial ranks on behalf of the C.P.R., and a division of opinion was found to exist in the ranks of the Opposition. The great majority of the Liberal party, while willing to accept the general principles of the Bill, objected to the Government's abandonment of all responsibility for a great national property to a Board of Trustees, and feared that its real objective was to pave the way for merger of the two systems under C.P.R. control, but a substantial element in the party and most of the Independents thought that the proposed legislation was worth a trial, and so the Government, although it has not yet secured a passage for the Bill, has been able successfully to resist all amendments.

The Government and Its Critics

Apart from the railway legislation, the most important measures before Parliament were a Redistribution Bill and a Bill to amend the Canada Shipping Act. The Redistribution Bill was turned over to a special Committee of the Commons, and in the course of its deliberations there were the usual bouts of partisan squabbling about the readjustment of electoral divisions, necessitated by changes in the balance of population revealed by the last census. Urban members on the Conservative side tried without much success to get the discrepancy between the population quota for urban and rural divisions, which has always been much smaller for the latter, lessened, and representatives of Nova Scotia put up a heroic but unavailing fight against the province's loss of two Federal members which the result of the census decreed. On most of the disputed points acceptable compromises were reached, but on others no agreement could be achieved and, in view of the plans for an early prorogation, it seems altogether probable that the passage of the Redistribution Bill will have to be postponed till next session. A similar fate probably awaits the new Shipping Bill, which is a very voluminous measure of some 800 sections and aims at giving Canada full control of her own shipping in conformity with the new constitutional régime created by the passage of the Statute of Westminster in all the parliaments of the Commonwealth.

An interesting development of the session was the re-emergence of the old and thorny problem of trade relations with the United States. Utterances of Mr. Roosevelt during the recent American election had made it reasonably clear that he was ready and anxious to negotiate a reciprocity treaty with Canada, and when Mr. Duff, a Liberal from Nova Scotia, moved a resolution advocating that, in view of the manifold benefits which would accrue from a fair reciprocity treaty, the Canadian Government should lose no time in opening negotiations, Mr. Bennett, who had been one of the most vehement

Canada

opponents of the Taft-Fielding pact in 1911, somewhat surprised both the country and his party by acknowledging that freer trade relations with the United States would be very valuable to Canada, and intimating that the Government could not refuse to examine any reasonable offer of trade reciprocity, provided that there was a guarantee of some permanence for any treaty that might be arranged. Mr. Mackenzie King and other Liberals indulged in satirical commendations of the conversion of a Conservative Ministry to the merits of the traditional Liberal policy of reciprocity with the United States, but argued that, desirable as an equitable reciprocity treaty was, it was unattainable by a high protectionist administration in Canada, and that its commitments in the Ottawa agreements were an insuperable obstacle to a treaty of any value. Since this debate officials of both countries have been engaged in exploring the possibilities of a trade bargain, and Mr. Bennett during his recent visit to Washington discussed the problems involved with Mr. Roosevelt, but the negotiations are still in the embryo stage and will be held in suspense until the World Conference has taken place. In the debate Conservative speakers followed Mr. Bennett's lead and gave a guarded approval to the idea of negotiations, but Conservative papers like the *Montreal Gazette* had been manifesting some disquietude about the idea of a reciprocity treaty and asserting that it is unwise for a Conservative Ministry *infandum renovare dolorem*.

II. CANADA AND THE FAR EAST

THAT Canada is a Pacific Power is only gradually being realised in the central and eastern provinces of the Dominion. Once one comes east from British Columbia and the prairies to Ontario, Quebec and the maritime provinces, the Far East becomes ever more remote. In western Canada public opinion on political and economic

Canada and the Far East

questions may be fashioned to some extent by consideration of the effects of certain policies on our relations with Pacific countries, but in eastern Canada almost no weight is given to this consideration. It is significant that during the Sino-Japanese crisis the eastern Canadian press has on the whole tended to be pro-Japanese, the western press pro-Chinese. Perhaps the holding of the fifth Conference of the Institute of Pacific Relations at Banff in August this year may help eastern Canada to realise that the Dominion is a Pacific Power and that this fact affects her trade and the domestic and foreign policy of her government. The remarks that follow are concerned only with Canada's relations with China and Japan, since her relations with the Soviet Union complicate the problem too greatly to permit of treatment in a short space.

It is comparatively simple to study the past development of Canadian trade with China and Japan, but it is not at all easy to gauge future possibilities. Canadian exports to Japan increased in the period from 1920 to 1929 from a total of about \$7 million to one of \$42 million; while our exports to China nearly quadrupled in the same period, amounting to about \$24 million in 1929. But even when Canadian exports to China, Japan and Hong-Kong were at their height in 1929, they constituted only about 5 per cent. of all Canadian exports, and only about 3 per cent. of the total Japanese imports and 1 per cent. of the total Chinese imports. Our visible imports from the Far East did not show any particular increase in this period. The imports from Japan even showed a slight decrease from 1920 to 1929. In the latter year they stood at about \$13 million. From China, Canadian imports increased, but even in 1929 they were only about \$3 million. During the first year of the depression Canada's exports to Japan shrank less rapidly than her exports to Germany and the Netherlands, so that Japan instead of being Canada's fifth best customer became her third best customer. This sounded magnificent in orations about the possibilities of.

Canada

Canadian trade with Japan, but Japan came a pretty poor third—Canada's exports to the United States being seventeen times as valuable as her exports to Japan, and her exports to the United Kingdom being over nine times as valuable. From 1930 to 1933 Canadian trade with the Far East has shrunk even more than her trade as a whole.

This decrease in Canadian trade with the Far East should not blind us to the possibilities of its development in the future—if international trade has any future. The Canadian Chamber of Commerce sent a trade mission to the orient in the autumn of 1930. In the words of its chairman, it returned confident that "Japan, China and Hong-Kong constitute Canada's richest potential market." The delegation argued that Japan offered an expanding market for three groups of Canada's primary or semi-manufactured products: wheat and flour, lumber and wood products, and minerals. China, they thought, was a potential market not only for such products but also for fully manufactured goods. The delegation laid special stress on the large potential market for wheat in the orient, should the standard of living of the population rise.

The delegation did not suggest how exports from Japan and China to Canada could be increased. They contented themselves with recommending that an attempt should be made to import directly to Canada from the orient, rather than through other countries, as this would improve the visible trade balance. The truth of the matter is, probably, as Professor H. F. Angus has written, that

the future purchasing power of China and Japan is not likely to be derived from sales to Canada, and (Canadian) trade with the orient is likely to be dependent upon some very elaborate three, four, or five cornered exchange, which brings back the price of our lumber and our grain in the form of English woollens or in the extinction of past indebtedness.*

The expansion of Canadian trade in the Far East is therefore dependent not only upon the establishment of

* *Economic Problems in British Columbia*. (Contributions to Canadian Economics. Vol. II, 1929, p. 48.) By H. F. Angus.

Canada and the Far East

order in the Far East, and a rise in the standard of living there, but also upon a restoration of international trade in general so that the five-cornered exchange may be possible.

It is, of course, dependent also upon good feeling between the Far East and Canada. The deadly weapon of a boycott might wipe out most of our trade with China, even if the world manages to fight its way to stability and prosperity. Bad feeling between Canada and the two great oriental Powers has in the past arisen in the main from Canada's restrictions upon oriental immigration and from her treatment of orientals within Canada. As almost all the Japanese and the majority of the Chinese in Canada live in British Columbia, that province has been the scene of most of the legislation directed against orientals in the last sixty years.

Popular feeling against the Chinese and Japanese in British Columbia reached its height about 1907 when anti-Japanese riots occurred in Vancouver. This resulted in Mr. Mackenzie King being appointed a government commissioner to investigate the affair, and in Mr. Rodolphe Lemieux being sent to Japan to arrange a "gentleman's agreement." Under this "gentleman's agreement" the Japanese government itself undertook to limit qualitatively and quantitatively Japanese emigration to Canada. Japanese immigration into Canada has, as a result, been cut down to a mere trickle—only about 350 Japanese a year entering in the period from 1925 to 1929. So far, therefore, as the treatment of Japanese immigration is concerned the relations between Canada and Japan are quite harmonious; certainly much more harmonious than the relations between Japan and the United States since 1924, when the United States cancelled their "gentleman's agreement."

The reverse is, however, true of the relations between Canada and China. Starting in 1885 a head tax was imposed on all Chinese entering the Dominion. It was \$50 to begin with and had increased to \$500 by 1904. It resulted in 80,000 Chinese paying Canada \$18 million

Canada

for the privilege of entering the country. In 1923 the head tax was abolished and a Chinese Immigration Act passed which might more properly have been called a Chinese Exclusion Act. As a result of its provisions only four Chinese immigrants were admitted to Canada in the five-year period from 1925 to 1930. What is offensive to China in this Act is that she is singled out by Canada for arbitrary treatment. If she does not get at least the same treatment as that accorded to Japan, she may, as soon as she can afford the luxury of quarrelling with western nations, boycott Canadian goods. It is indeed possible that Canadian goods would have been boycotted by now had not the Japanese come to Canada's assistance by creating a diversion in Manchuria.

So much for the Canadian laws on the immigration of orientals to Canada. What of their treatment when once admitted? What happens when the culture of the Far East comes into contact with the culture of the West?

Although taking the Dominion as a whole, persons of Chinese or Japanese origin and descent constitute less than 1 per cent. of the population; in British Columbia they are numerically quite important. According to the 1931 census there were in that province 27,000 Chinese and 22,000 Japanese out of a total population of about 700,000. The Chinese and Japanese constituted, that is, about 7 per cent. of the population. There is no reason for believing that the Chinese population of the province, or of Canada, will increase. In the first place, out of 47,000 Chinese in Canada, only 3,500 are females. Secondly, no immigration is permitted. Thirdly, hundreds of Chinese every year are now relinquishing their right to live in Canada. Probably in twenty years' time only a small Chinese community will remain. There is, on the other hand, reason to believe that the Japanese population will increase, since the Japanese are allowed to bring their wives into the country and their birthrate is high.

In any event, whatever the future possibilities may be,

Canada and the Far East

the British Columbians think that orientals should be discouraged from living in Canada, and, aided by the Federal government, they have passed legislation, discriminating against them, regardless of whether or not they are Canadian citizens by birth or naturalisation. British subjects of Asiatic race are excluded from the professions of law and pharmacy. They are not given the municipal, provincial or federal franchise in British Columbia unless they served in the Canadian forces during the great war. With that exception they are excluded from election to the provincial legislature, from municipal office and from jury service. How long this policy of racial discrimination will persist in Canada it is impossible to say. An acquaintance with its more unpleasant features is recommended to anyone wishing to prick the bubble of the self-esteem of a Canadian prating about the way in which Canada has led the world by her treatment of racial minorities.

Canada's contacts with the Far East are not only in trade and immigration, but in many other ways as well. The Gest Research Library at McGill University is said to be the most outstanding and comprehensive Chinese library on the continent. McGill has also appointed recently a professor of Chinese language and literature. In Toronto, the Royal Ontario Museum has concentrated its attention upon building up a Far Eastern art collection, the Chinese section of which is internationally famous. The churches in Canada have also an intimate contact with the life of the Far East, about two-thirds of the foreign mission efforts of the Protestant churches being directed towards China, Japan, Korea and Formosa.

The most important of all the ways, however, in which the Far East has influenced Canada since the war has been by its effect upon her foreign policy. Canada's foreign policy with regard to the Far East must be determined in part by the desire of her exporters to the orient for a stable market. She consequently desires, as we have seen, stability in the Far East and, of course, the "open door,"

Canada

and also an ordered international society. Her policy will necessarily be affected too by her desire for freedom from entangling alliances; by her political attachment to the British Commonwealth; by her economic and geographical attachment to the United States; and by her membership of the League of Nations. It is the fact of her economic attachment to the United States and her political attachment to the British Commonwealth which makes it essential for her that there should be no fundamental divergence in foreign policy between the United States and the United Kingdom. It is her position on the North American continent and her growing interest in the Pacific which make her foreign policy on Far Eastern questions usually identical with that of the United States. Thus in 1921 she opposed a continuance of the Anglo-Japanese Alliance, for she was well aware of the growing tension between the United States and Japan which had followed the war, and of the consequent possibilities of Anglo-American ill-will were the treaty renewed. It is curious, therefore, that when a similar divergence between the policies of the United States and of the United Kingdom governments arose in 1931, and a similar tension was created between the United States and Japan, Canada did not play once more the rôle of 1921. Instead, her representative at Geneva, the Secretary of State, Mr. Cahan, delivered on December 8, 1932, the most pro-Japanese speech that was made in the special Assembly by a non-Japanese speaker. Rumour has it that the American representatives at Geneva were up in arms over this desertion of the North American position.

That this speech constituted only a temporary and unauthorised aberration in Canadian foreign policy can be shown fairly conclusively from an examination of its text, and from certain events which have subsequently taken place. A perusal of the text suggests that this speech had two authors: the author of the first part being Mr. Cahan, and the author of the second part, the Department of

Canada and the Far East

External Affairs. The second part was good League doctrine. The first part was unexpectedly pro-Japanese. The first part so overwhelmed its hearers in the Assembly that they did not take in the second part. Yet, it was this unnoticed second part and not the sensational first part which represented the policy of the Canadian Government. Further evidence of this is furnished by the speech of the permanent Canadian advisory officer at Geneva, delivered some two months later before the Assembly. This speech of Dr. Riddell's, the text of which had been cabled to him from Ottawa, constituted, if one reads between the lines, a virtual retraction by the Canadian government of what Mr. Cahan had said. Thus Canada has once more returned to that traditional policy in Far Eastern affairs which is dictated by her position on the North American continent.

The strain put upon the relations between Canada and the United Kingdom because of the divergence of policy between the governments of the United States and the United Kingdom on the Sino-Japanese dispute has not yet had time to show its full effects. It may be that Sir John Simon has thrown Canada into the arms of the United States, as Professor Arnold Toynbee asserted at Chatham House in February last year. Be that as it may, the events of the last two years have shown how difficult it is for Canada and the United Kingdom to co-operate on foreign policy in matters concerning the Far East, because of the fact that the foreign policy of the United Kingdom is at present dominated by European considerations, whereas the interests of Canada will in future be bound up more closely with Far Eastern than with European developments. But only a few Canadians are at present giving any consideration to the effect of Far Eastern affairs on Canada's future relations with the United Kingdom. Most of us are fervent believers in the doctrine of *solvitur ambulando*.

Canada.

May, 1933.

AUSTRALIA

I. THE REFORM OF THE LEGISLATIVE COUNCIL IN NEW SOUTH WALES

BY the constitution of New South Wales it is provided that the Legislative Council shall not be abolished, nor can its constitutional powers be altered, except in certain immaterial respects, unless the Bill intended to bring about the abolition or alteration has been approved by a majority of the electors after having been passed by both Houses of the Legislature, and by the same section the requirement of a referendum is made to apply to any Bill for the repeal or amendment of this section. This section was introduced into the State constitution by amendment in 1929, and its validity has since been upheld by majorities of the Supreme Court of the State and of the High Court and by the Privy Council. Bills for the abolition of the Legislative Council and for the repeal of this section were passed by both Houses under the Lang Government, but as they were not submitted to a referendum they were of no effect.

A Bill to alter the constitution and powers of the Council was passed through both Houses by the Stevens Government, and is to be submitted to a referendum on May 8. The Bill provides for the establishment of a House of sixty members and for a system of indirect election. Any person entitled to vote at a parliamentary election may be a candidate, but the only electors to the reconstituted Council are to be the members of the House of Assembly and of the Legislative Council of the State, and they alone will be entitled to nominate candidates for election. At the election the two Houses will vote as one constituency with separate polling places, and the voting will be on the proportional system. At the first election it will be necessary to elect sixty members, but at subsequent elections, fifteen only. Of the sixty first elected the fifteen who obtain the highest number of votes will retain their

Reform of the Legislative Council in N.S.W.

seats for twelve years, the second fifteen for nine years, the third for six and the last fifteen for three years, the period of the life of the Legislative Assembly.

The reconstituted Council can amend or reject all Bills except the annual appropriation Bills. If it delays an appropriation Bill for more than one month after it has passed the Assembly the Bill may be presented for the Royal Assent, but if the Bill contains provisions which do not properly belong to an appropriation Bill they may subsequently be declared invalid by the Court. With the exception mentioned, the historic distinction between money Bills and ordinary Bills is not maintained.

The Council will have power to amend or reject all Bills other than appropriation Bills, but only for a limited time. If the Legislative Assembly persists in its support of the amended or rejected Bill, and negotiations, either in the form of conferences between the Houses or through managers, prove fruitless, the Government, after an interval of seven months from the first rejection, may submit the rejected Bill to a referendum to be held either at a general election or at some earlier date. If at this referendum the Bill is approved by a majority of the electors, it may become law without the assent of the Legislative Council.

The section of the constitution quoted above provides that "the Bill" must be submitted to the electors. It follows that at the referendum the electors will not vote on the abolition of the Council, nor will they be offered a choice between different forms of franchise, or differently constituted electorates. The only choice will be between the Council as proposed in the Bill and the continuance of the existing nominee system.

The critics of the Bill may be divided into three classes, those who claim that there should be no second Chamber, those who maintain that the nominee system should be preserved, though with some modification, and a third class who favour a directly elective Council, though without detailed exposition of its franchise or constituencies.

Australia

The present scheme was not adopted until after a thorough examination of possible alternatives. It was suggested by the Bryce report, and it is thought to have fewer disadvantages than any of its rivals. A franchise based on age or property might not have been acceptable to those electors who would be asked to disfranchise themselves. Constituencies made up of a number of State or Federal electorates would have imposed great expense on candidates, would almost certainly have involved some form of payment of members by the State and would have increased the power of the party machine. The conditions essential for the satisfactory working of the nominee system had ceased to exist. One of the chief advantages claimed for that system was that it offered an opportunity for parliamentary service to men of experience and ability who could not, or would not, take part in a general election with its expensive preliminaries. But party spirit has been so far developed in New South Wales that Ministers, when advising the Governor, are bound to place obedience to the Whips before these other qualities. Again, in former times, the position of a Governor was such that he could resist an attempt to swamp the Council unless it could be shown him that he was resisting a mandate of the electors. To-day, it is at least doubtful how far a Governor could or would resist the demands of his Ministers, however arbitrary, provided only that they had a majority of one in the elected House. The result is that a Governor must either treat the Council as if it had no power to restrain legislation, or expose himself to the charge of partisanship. The continuance of the nominee system might suggest a means of destroying the Council by a *reductio ad absurdum*; it can no longer provide a House which will protect the electorate either against itself or against its leaders.

The powers of the reconstituted Council, though limited, will be very considerable. It cannot finally prevent the passage into law of any measure which is approved by the considered judgment of a majority of the electors, but

Reform of the Legislative Council in N.S.W.

it can delay the enactment of any proposed law, and it can force a Government to submit any of its proposals, other than those for current expenditure, to the expensive process of a referendum. It is not to be anticipated that this power will be used indiscriminately. The present nominee Council has almost invariably taken the view that it is its duty to pass legislation which is backed by a clear electoral mandate, and the new Council will, in all probability, do the same. But the new Council will be in a position to act without the fear of being swamped, and it may be expected to exercise its powers to the full if it believes that the Government of the day has lost the confidence of a majority of the electors.

The most novel feature of the Bill is the introduction of the referendum as a means of settling differences between the two Houses. In the constitution of the Commonwealth alterations can be made only if approved by a majority of the electors voting at a referendum, and by a majority of the States. In the States the referendum has been used as an occasional device to relieve Parliament, or Ministers, of responsibility, but hitherto it has never been regarded as a normal method of settling differences between the two branches of the legislature. In those States in which the Upper Houses are elected the only method is by conference. In New South Wales, which at present is the only State with a nominee Council, a government which finds itself in a minority must either ask, or threaten to ask, the Governor for new appointments, or endeavour to obtain the moral authority of an express mandate at a general election.

The referendum has, its supporters claim, unquestionable advantages over any other alternative. It places the amended constitution on a democratic foundation. The new Council can reject measures brought forward by the Government, but it cannot prevent any change being made if the electors, after an opportunity for full consideration, desire it, and if the Government is willing to risk invoking

Australia

their decision. It will have power to protect the people against a government which infringes its electoral pledges, but it cannot protect a minority against a majority.

Another novel feature of the Bill is that it gives a Minister who holds a seat in the House of Assembly the right to address the Council on a Bill of which he has charge, a feature which was once proposed for the Commonwealth Senate, but has not hitherto been adopted.

A third feature, as already mentioned, is that the reformed constitution, except in the case of appropriation Bills, abolishes the traditional distinction between money Bills and ordinary Bills. In some of the Australian States the Upper House is given by statute certain powers of amending money Bills. In the proposed new constitution it is recognised that a Bill, nominally imposing taxation, may be a means of bringing about fundamental social changes, and the distinction is abolished, so that the very difficult problem of interpreting the definition of a money Bill, which is assigned to Mr. Speaker under the Parliament Act in Great Britain, is avoided.

The proposal will meet with formidable opposition, for which some of the reasons have already been suggested. The electors will have to approve, or disapprove, of the Bill as a whole, and many will vote "No," because they do not understand, or do not approve of, one or more of its clauses; others will do so because, although they approve of the reform of the Council, they prefer a popular election on a restricted franchise. But the two main arguments of the Opposition are that there should be no second Chamber at all, and that under the proposed system of election, as the Houses are at present constituted, a majority in opposition to Labour is assured for some years to come. The abolition of the Council is advocated by both branches of the Labour party in New South Wales, and has twice been attempted by Mr. Lang, to be defeated on the first occasion by the secession of some of his pledged supporters, and on the second by the constitutional amendment referred to above.

Reform of the Legislative Council in N.S.W.

It is claimed, possibly without giving sufficient weight to the changes which have taken place in recent years in the rigidity of party discipline and in the relative positions of Parliament and the Executive, that the only democratic form of government is by a single chamber elected on a universal franchise. The second ground of opposition is founded on the size of the Government majority in the House of Assembly. It is claimed that, even under a system of proportional representation, the present Government will be able to insure that its nominees will maintain a majority in the Council for at least nine years, and that no Labour legislation can be passed without being put to a referendum.

The argument appeals to those opponents of Labour who regard politics as a sport, and would have additional force if supporters of the Government could be counted upon to adhere to a party ticket as faithfully as their Labour opponents; but it can be said for the sponsors of the Bill that they advocated the same system of election when they had no majority, and it remains to be seen whether those who rely on this argument will be converted when they realise that a majority in the Lower House can at any time bring about a referendum on the question whether the Council should be abolished or its constitution altered.

It is scarcely questioned, except by a very few, that the nominee Council has done very valuable work in the past. It has included men of experience, ability and independence, whose services to New South Wales, more particularly in recent years, have been inestimable. It has seldom, if ever, resisted a measure which has been approved at a general election, but it has protected the people against measures which are clearly outside the mandate of the Government, and against a Government which, like the recent Lang Government, seeks to bring about radical changes without popular approval. There can be little doubt, however, that the nominee system has ceased to be practicable. The Council now consists of 122 members. Of these, 22 were nominated on the advice of the present

Australia

Premier, Mr. Stevens, 25 by Mr. Lang when last in office, and 25 by Mr. Lang in his previous term for the express purpose of abolishing the Council. If a Labour Minister were to succeed Mr. Stevens he would probably claim that still more appointments were necessary to enable him to carry his policy into effect.

The Council, as at present constituted, has shown the value of a revising chamber and of independent criticism even when the Government has a majority, and it probably contains more knowledge of the problems of urban and rural industry than any other Parliamentary Assembly in Australia; but the nominee system depends on conditions which no longer exist, and have not existed for some time past. It must give way to an elective system, either to the system of indirect election proposed by the Bill, or to some form of direct election with the disadvantage of adding one more to the troubles of an already harassed electorate. But the effective existence of the Council is not really compatible with the existence of theories of government which would convert Parliament into a machine for registering the decisions of a dictatorship constituted either by the Executive or by an outside organisation which controls the Executive.*

II. THE POLITICAL CHRONICLE

A PART from the Test Matches, with their rather extravagant reverberations, and from some important decisions made at the Loan Council in February, the quarter under review has been one of preparation rather than one of achievement. Forces have been shaping themselves for a new phase in Australian politics. The last phase was dominated by the Premiers' Plan of June, 1931, and the Plan will doubtless be the foundation of Australian political life for some time to come. But the country is coming to the end of the first phase of its influence. We are now

* The referendum has now taken place. The figures were: For the Government's Bill, 643,716; against it, 622,774.

The Political Chronicle

nearing the end of the second year of the Plan's operation, and apart from unforeseeable developments it is now possible to say that it has to a considerable extent succeeded in its main objective—to check the drift in governmental finance and to restore budgetary equilibrium. It is out of this success of the Plan that the policies and objectives of the next phase in Australian politics will grow; their partially obscure beginnings have been discernible in the period now under review.

On the one hand, the Labour party, disrupted by the Plan, has been seeking some fresh basis of unity. Three Labour Ministries accepted the Plan—Mr. Scullin's in the Commonwealth, Mr. Hogan's in Victoria, and Mr. Hill's in South Australia. All of them were vigorously assailed, both in Parliament and in the party organisation outside, as having betrayed Labour principles by imposing, in return for a reduction of interest rates on the internal public debt, salary and wage reductions throughout the public services. In some cases, members who had supported the Plan have actually been expelled from the party. In Victoria, unity was achieved by "dropping" the two leaders—Messrs. Hogan and Jones—who refused to abandon the Plan in preparation for the State elections last May. Mr. Hill, as his own State elections approached, found the Labour party organisations outside Parliament so hostile that he was fain to approach the Liberal Opposition some few months ago with offers of a coalition; but this was repudiated by his own supporters in Parliament, and he was fortunate to be able to beat a strategic retreat to the Agent-Generalship for South Australia in London. His party, under the leadership of Mr. Richards, is now going to the country in support of the Plan, but has been quite unable to consolidate on this basis the Labour forces in the constituencies. In Queensland the Labour Government in office also supports the Plan, though with some modifications and to the accompaniment of a good deal of criticism outside Parliament. In the Commonwealth Parliament

Australia

Mr. Scullin's diminutive band appears to be still evading the issue; but otherwise all the Labour Oppositions are now agreed in denouncing that part of the Plan which provides for reductions in public service salaries and wages and in social services. Indeed, the Labour party organisations in the constituencies have been so hostile to this part of the Plan that its acceptance by any section of the party can only be temporary and precarious.

It is not merely along these purely negative lines, however, that the Labour party is seeking unity. The proper and just way to balance budgets and banish unemployment is not, says Mr. Scullin, to reduce salaries and wages and pensions, because that only reduces the spending power of the masses; it is to restore the price level of 1929 by the provision of credit and to keep out imports. He claims that when he was in office himself he did keep out imports; that but for the Senate he would have raised the price level too by increasing the fiduciary note issue; and that even then the same result could have been reached but for the "selfish" and "greedy" and "restrictive" policy of the banks. In vain the banks point to the assistance rendered by them in providing gold and foreign exchange reserves for meeting external obligations, and the great extension of credit represented by the issue, under the authority of the Commonwealth Bank, of Treasury bills for the internal floating debt of £52,000,000. "You might have done ever so much more," is the reply. A return to the Scullin-Theodore policy of 1930 thus becomes the starting point for Labour's new policies. To begin with, banking and credit must be nationalised ("socialised" is the current term). And since imports must be reduced, and the Ottawa agreements, if duly implemented, must necessarily involve larger imports from Great Britain, the Ottawa agreements must be opposed too. Here are the issues which are being formulated for the next Commonwealth elections, still over eighteen months ahead—the "socialisation of credit" and the Ottawa agreements.

The Political Chronicle

The strongly urban Labour organisations in New South Wales and Victoria (particularly the former) have swung still further to the left. This was one of the inevitable results of the downfall of the party in both Commonwealth and State elections. In their defeat they have been flung back once more on the things the party stands for, and researches into the "platform" have resulted in a fresh emphasis on the "socialisation" plank at the recent summer conferences. Socialisation of industry as a whole was declared to be the objective in both Victoria and New South Wales. Mr. Lang, indeed, was heard in an unfamiliar rôle—begging a metropolitan conference in Sydney not to adopt wild resolutions but to concentrate for the present on one moderate objective alone—the socialisation of credit. This plan was presumably put forward as a basis on which some unity might be restored within the party. But the conference in Sydney swept it aside, and declared uncompromisingly for socialisation entire, though this declaration is not binding on the whole movement, and may even be revised at a forthcoming State conference. Socialisation is not—for some years at any rate—an election-winning programme, and it does not seem very likely to make much of an appeal to primary producers. But a party which declares for an idea is a party to be watched.

The non-Labour parties—the "parties of resistance"—cannot sum up their future in any simple and attractive slogan to compare with "socialisation," and the very success of the Premiers' Plan really raises serious problems for them. For it tends to induce a too-confident belief that Australia's recovery is now assured, and that the country has "said good-bye to depression"—with the inference, of course, that further talk of economies and reductions and stringency and effort is all rather tiresome and unnecessary. For this reason the repetition in February of the now familiar conflict between the Loan Council's desire on the one hand to get from the Common-

Australia

wealth Bank further credits to finance public works for the relief of unemployment, and the Bank's desire on the other to prevent the continuance of the period of treasury bill finance, has had a useful effect on the public mind. When the Loan Council met, the Bank gave way, as before, and agreed to make £4 million available for works in the current year. But the Council for its part agreed to finance loan works during the coming year by means of public loans only, and to apply to the funding of the floating debt any surplus moneys raised. This agreement will, in the present state of the market, impose some check on loan expenditure. So far, too, as concerns expenditure from revenue, the figures supplied to the Council showed that the estimated deficits for the current year are actually below those provided for in the Plan. This represents a really remarkable change in the financial position of the governments, and offers substantial hope that, with the continuance of good seasons, budgets will be balanced by June 30, 1934, as originally contemplated in the Plan.

The non-Labour parties are pledged to attempt the restoration of prosperity within the framework of existing institutions, and they will get the credit for a notable improvement in business conditions within recent months. That improvement has been based partly on the way in which Australian monetary policy has sustained the internal price level, and partly on the bounty of Nature, which through successive good seasons throughout the crisis has enabled the producers, with hard work, to maintain and even increase the volume of exports.

This maintenance of the volume of exports has in fact preserved Australia from default on her overseas debts. But it gives rise to two exceedingly pressing problems. One is the maintenance, and if possible the extension, of markets abroad. Hence the Ottawa agreements are a vital part of the present Commonwealth Government's policy. (But the Ottawa agreements themselves in turn raise further problems for the Commonwealth Govern-

The Political Chronicle

ment, because the protectionist forces within the United Australia party are strong enough seriously to threaten its unity if the implementing of the Australian obligations under the agreements appears to sacrifice Australian manufacturing interests too much. The real fight over the Ottawa agreements has in fact still to come in the Commonwealth Parliament, and is due to begin in the new session in March.) The other problem affecting the volume of exports is climatic. A bad season or two is by no means beyond the range of present possibility, and bad seasons would attack Australia's present stability at its very foundation. Indeed, even the present position of Australian primary industry is such as to give continued cause for anxiety. Prices remain low, or even fall lower; there has been a drastic decline in the price of butter, resulting in attempts to persuade the producers to reduce by 6 per cent. the amount to be exported in the ensuing year. These factors make the Commonwealth Government very anxious to lighten as soon as possible the demands made upon the export surplus for service of the overseas debt. The satisfactory progress of the Premiers' Plan affords favourable conditions, at this end, for conversion operations. It may be added that a reduction of overseas interest should, if present prices continue, make possible a higher level of imports, and so should in effect increase the Australian market for British goods.

Both the Labour Government in South Australia and the United Australia party Government in Western Australia are to face the electors on April 8.* Perhaps more important than the actual result of either election is the State referendum to be held in conjunction with the Western Australian election on the secession issue. The result of the poll will be known before these pages are read,

* The results of the elections were as follows :—*South Australia* : Liberal and Country parties, 28 ; Labour party, 10 ; Independents, 4 (four returns not included). *Western Australia* : Nationalist party, 8 ; Country party, 12 ; Labour party, 30.

Australia

but it may perhaps be useful to include here some discussion of the issues in the secession campaign. The electors are to be asked two questions :

(1) Are you in favour of the State of Western Australia withdrawing from the Commonwealth ?

(2) Are you in favour of a convention of representatives of equal number from each of the Australian States being summoned for the purpose of proposing such alterations in the constitution of the Commonwealth as may appear to such convention to be necessary ?

The better opinion among lawyers appears to be that even a unanimous affirmative answer could not in either case have any legal effect. Some leaders of the secessionist movement in the west profess the hope that, while a vote in favour of secession would not suffice to amend the Commonwealth constitution, nevertheless a vote sufficiently strong would induce the Imperial Parliament to exercise its paramount legislative power and sever Western Australia from the Commonwealth by an Imperial Act, regardless of the wishes of the Commonwealth and of the other States. There appears to be no foundation whatever for such a hope. Nevertheless, a strong affirmative vote, on the secession question at any rate, would be a more important thing than is commonly supposed in the eastern States, where the whole campaign has been generally either ignored, or too summarily dismissed as mere disgruntled vapouring.

The fact that the movement is supported by Sir James Mitchell, the present Premier—though he pushed secession into the background in his recent policy speech—and by other prominent citizens of the State, including Sir Hal Colebatch, the new Agent-General, is sufficient reason for paying some serious attention to the campaign. There are indeed hot-heads in the west who declare that if Western Australia cannot withdraw legally, she will withdraw illegally. Such declarations may be discounted. The overseas investor need scarcely fear for the stability of constitutional government in Australia, even if an affirmative vote is given in answer to both questions on April 8. Nevertheless an affirmative vote (which appears to be likely) is bound to have

The Political Chronicle

important consequences. The secession campaign, in the minds of many Western Australians, is not so much a means of breaking up the Commonwealth as a means of expressing a widespread feeling in the State that federation has produced unfair results in Western Australia, and that the State has grievances which have become intolerable. In other words, the secession campaign may fairly be regarded as an instrument for forcing on the notice of the eastern States some important aspects of federal policy—in particular, the incidence of the tariff and the Navigation Act and the continuous expansion of Commonwealth expenditure. Hence the second question propounded to the electors. An overwhelming vote in favour of a convention for revising the constitution may probably be expected ; indeed, the Prime Minister of the Commonwealth has promised in advance to summon such a convention. When the convention meets, Western Australia will almost certainly have the support both of Tasmania and of South Australia and possibly of Queensland as well. The secession issue may thus from one point of view be regarded as to some extent unreal, even in Western Australia. But the energy with which the campaign is being waged in the west presages a very serious attempt in the future to compel the reconsideration of some of the main lines of Australian policy.*

Public opinion in Australia has been extraordinarily confused and not very vocal about the developments in the Far East. The general attitude of the Government has been that it has been in close touch with the British Government, that it has supported the British Government in the

* The result of the secession referendum was as follows : A majority of nearly two to one gave an affirmative reply to the first question in favour of secession from the Commonwealth. The second question was answered in the negative by 119,131 votes to 88,175 against the holding of a convention. The Labour party, which is against secession, won the Western Australian election, as a previous note shows, by a majority of ten seats. (*The Times*, April 10 and May 4, 1933.)

The disabilities of the least-populous States have already been discussed in *THE ROUND TABLE*: Western Australia's in No. 66, March, 1927 ; South Australia's in No. 67, June, 1927 ; Tasmania's in No. 71, June, 1928.

Australia

efforts it was making for conciliation, and that in general the less said in public the better. The Government's policy itself has no doubt been a sound one, and the fact that Mr. Bruce is in London as Resident Minister has afforded the best possible conditions for effective consultation between the two Governments. There was a great deal to be said for the view, expressed by the Minister of External Affairs during the progress of the Shanghai attack, that it was undesirable to discuss publicly in Australia the possibilities of further aggression by Japan in the East. It had been said in the House of Commons that "Japanese aggression in the Far East might become a grave danger to Australia." The Minister promptly deprecated the discussion taking such a turn. It is in fact precisely out of such discussions that international ill-will and suspicion are often manufactured. But it is significant of the present state of Australian opinion on external affairs, that in no ministerial statement since the Sino-Japanese dispute began has there been any discussion either of the possible lines of action prescribed in, or permissible under, the new system of international engagements contracted since the war, and still less discussion of the interest that the Australian people have in the maintenance of a stable international order in the Pacific. The public has become vaguely uneasy, but has been content to follow its cricket matches, and leave *Weltpolitik* to the strong.

Australia.

March 29, 1933.

SOUTH AFRICA

I. THE HERTZOG-SMUTS ALLIANCE

EX Africa semper aliquid novi, which may be translated to-day, "South Africa always makes good copy."

Last quarter's record of the course of political events in the Union ended on a note of interrogation. Was there to be a coalition of some kind strong enough to handle firmly the problems that were pressing on the country, or was there to be a continuation of the drift towards a furious general election some time before June 1934, in which the Afrikaner folk were to be called upon to close ranks against the intruding Englishmen and the multitudinous Bantu?

The position in the middle of January was that the Nationalist ministry with a remnant of Labour support had a reduced but still working majority in Parliament. It had, however, been weakened by the loss of prestige that had followed its sudden and unwilling departure from the gold standard at Christmas time, by recent South African party successes at parliamentary and provincial bye-elections, and by a growing realisation of the fact that it could not win the coming elections single-handed. The South African party had polled some 30,000 votes more than it had done at the last election in 1929, and, as General Hertzog has since frankly confessed, most of the Labour men and nearly all the floating electorate that had put the Nationalists into office then and in 1924 were now hostile to them. Finally, the ministry had been shaken by the descent of Mr. Tielman Roos from the appellate bench into the political arena and the rallying of more than one Nationalist member to his coalition banner.

Mr. Roos had first tried to arrange a coalition with the South African party. He had proposed a cabinet of five Nationalists, five South African party men, and one Labourite, under a Nationalist premier, obviously himself.

South Africa

The South African party in turn had suggested seven of their own number and four Nationalists, with Mr. Roos as second-in-command and, equally obviously, General Smuts as premier. Mr. Roos had unexpectedly and brusquely broken off *pourparlers* and announced that he would collect followers whence he could.

As a result perhaps of a rude reception by excited Nationalists at some of his Free State meetings, Mr. Roos had then threatened to break the Nationalist party and General Hertzog, whom he claimed to have made politically. On the other hand he gave warning that his supporters would not vote for the motion of "No Confidence" which General Smuts was proposing to table.

The scene shifted to Cape Town. General Smuts met with a great popular reception there and prophesied, amid incredulous comment from even friendly newspapers, that there would be a national* government more or less on the British model sooner than most people thought. Mr. Roos had a reception almost as enthusiastic and put forward his vague programme of "no more gold" (which had already been achieved) and "no more racialism" to a crowded gathering in the City Hall.

The Houses assembled in strength on January 20 to face an almost certainly fiery session and a full legislative programme. The first ten days were occupied mainly by General Smuts's motion. It was not formally a motion of "No Confidence," since the Roosites would not vote for that. It was rather a studiously moderate demand for a national government to take the place of a failing ministry which was, willy-nilly, keeping racialism alive by its mere existence, and which was being called upon to reorganise the currency on a non-gold basis after having declared repeatedly that it would never depart from the gold standard.

The Prime Minister, in reply, at once asked for a vote

* Small letters have been used for the "national government" throughout to distinguish it from the National party, commonly called the Nationalists.

The Hertzog-Smuts Alliance

of confidence and explained that he had always meant that his ministry would never go off gold voluntarily, that it had been pushed off, as was indeed the fact, and that it meant to stay in office to minimise the evil effects of that lapse from economic rectitude. As for coalition, he declared roundly that a national government would "drag our people further in the way of dissension and bitterness."

The debate certainly became bitter. Behind that bitterness were those personal differences between leaders which have always counted for too much in South Africa—Nationalist fears of the extreme British wing in Natal and elsewhere, whose influence they probably overrated but which they nevertheless dreaded, and Nationalist suspicion of the money power. That last is a fear which the American Middle West would understand. It has run right through South Africa's politics since diamonds were first discovered about the time of the Franco-German war. The fear had been inflamed by the departure from gold which had been resented as a blow to autarchy and an opportunity for speculators and mine owners to benefit by the exchange and the premium on gold at the expense of the man in the street, or rather the man on the farm. Nationalists said openly that they would see to it that the State got much of these fortuitous gains, and that they were certain that their political opponents would deal with the beneficiaries far too gently.

One Nationalist member, son of an ex-President of the Free State, had already been drummed out of the party. Now another, also a son of an ex-President of the old republic, moved over to the cross-benches amid uproar and insult. But the little group of Roosites, and Dr. Steenkamp, an Independent and a power in diamondiferous and drought-stricken Namaqualand, refused to vote for the motion unless General Smuts came to terms with Mr. Roos.

During the later stages of the debate the Roosite members approached the South African party caucus. They sug-

South Africa

gested a cabinet of seven South African party men and four of their own number under the leadership of their champion, or at the very least of one of his men. The South African party caucus, after consideration, rejected the offer. Frankly, it was not good enough. Mr. Roos's past had been stormy and his programme was still vague in the extreme. There was no guarantee that the Roosites could swing enough votes in the House to unseat the ministry. And supposing they were able? What would be the use of a narrow victory that would simply consolidate the Nationalist phalanx and leave it with the feeling that it had been bounced out of office by an alliance of renegades and political foes? That was the consideration which governed all that followed.

On the day following the breakdown of these negotiations General Hertzog got his vote of confidence. Of the 148 members of the House of Assembly, 146 voted, 66 of them for General Smuts's motion and 80 against, including the Roosites, Independents and two Labour men.

Apparently that finished it. But it was not so. During the debates General Smuts had offered to accept General Hertzog as chief of a national ministry, and before the debates were over the whisper had gone round that the leaders of the two big parties were drawing together.

The situation was, however, very confused during the early days of February. Officially the two main parties glared at one another, and other parties began to take shape dimly. The Roosites accused General Smuts of having ruined a promising scheme by his insistence on the premiership, and began to organise a Coalition Union party with the slogan, "Country before Party," and the intention of getting Mr. Roos in as Prime Minister, dealing with national interests in a non-party spirit, and securing the representation of those interests by men specially qualified to handle them. That last stipulation may have been a protest against the domination of Parliament by lawyers. If it was so, it was emphasised by another programme that

The Hertzog-Smuts Alliance

was put forward, this time by a body of business men in Cape Town who sought to mobilise the Chambers of Commerce throughout the Union in favour of a national administration, an end to racialism, and the election of business men irrespective of party.

These two quite separate programmes reflected the widespread popular disgust with existing party feuds and, above all, with the stale and paralysing racial controversy. Meanwhile negotiations were going on behind the scenes between the responsible heads of the two main parties. Perhaps their progress towards an accommodation was hastened by the untimely and universally regretted death of Mr. C. W. Malan, Minister of Railways, and one of General Hertzog's staunchest Cape supporters. Be that as it may, on February 10, to nearly everyone's surprise, the Prime Minister published what was virtually an offer of coalition. Forthwith the construction of cabinets became a popular amusement and a subject for newspaper competitions.

A few days later General Hertzog announced his eight points. The Union must be maintained as a national unit on the basis of the sovereign independence that had been guaranteed to it by the Statute of Westminster; the unitary, as distinct from a federal framework of the constitution, must be preserved; the national flag and equality of language rights must be upheld. Further, agriculture was to be cherished and a "civilised labour policy" pursued; the Joint Select Committee, which had been ruminating over the ministry's Native Bills for the past year or two, must be spurred on so that these measures could be carried speedily, and, lastly, the Union's money values, capital assets and sources of capital must be protected.

Negotiations were undertaken at once on that basis by the "Big Four," the Prime Minister and Mr. Havenga, Minister of Finance and his chief's right-hand man in the cabinet and the Free State, on the one hand and, on the other, General Smuts and Mr. Patrick Duncan, one of the

South Africa

few survivors in South Africa of Lord Milner's young men and an ex-Minister. There was little difficulty about most of the points. Everyone took for granted the Statute of Westminster, the flag, and equality of language rights. Neither party could do anything but support civilised, that is in effect white, labour, and agriculture. General Smuts, opponent-in-chief to the federal idea at the National Convention of 1908 which made the Union, could hardly envisage any serious weakening of the unitary constitution. But it was an open secret that there was difficulty over two major points: the relations of the four provinces to the Union, and the Native Bills. On the first head, many of General Smuts's followers, and the Natal men in particular, were set upon something much nearer federation than anything that exists at present. On the latter, the South African party was notoriously divided, one influential section holding on grimly to all that is still possible of the old Cape Colony's liberal policy towards non-Europeans, the other, probably the majority, holding views differing in nothing from those of the Nationalists.

In the end these two obstacles to co-operation were overcome. The Native Bills were practically shelved. They were "not necessarily to be proceeded with" during the life of the next Parliament. Provincial relations, which mean in essence financial relations, were to be taken out of the hands of the Committee which had for some time past been trying to disentangle them with its hands tied, and were to be reconsidered with a favourable eye to increased local powers "within the framework of the South Africa Act."

Finally, there was to be a cabinet, not as at present of eleven members, but of twelve, six drawn from each of the two main parties, with General Hertzog as premier and General Smuts as deputy-head. The session was to be cut short, the coalition scheme laid before the Nationalist provincial congresses, and, if they approved of it, a general election held in May.

The Hertzog-Smuts Alliance

The South African party caucus accepted the scheme unanimously, but the Nationalist caucus was divided, 41 members voting for the scheme, and the rest, "members who have no feeling for coalition," abstaining. That was a most diplomatic description of the feelings of some of the abstainers. From the moment that the Prime Minister published his eight points, Dr. D. F. Malan, leader of the Cape Nationalists and one of the ablest men in the Cabinet, had openly displayed his hostility to the idea of coalition, and another Minister, Mr. A. J. P. Fourie, also a Cape man, had made no secret of his disapproval. Dr. Malan now complained that General Hertzog had not even shown his programme to all his colleagues before it was published, but had gone straight ahead and had then confronted the caucus with the hard choice of accepting his plan or rejecting his leadership.

Suspicion breeds suspicion. Dr. Malan's condemnation of coalition was answered in kind from the other political pole. Part of the Natal press warned its readers of the Greeks and the gifts they bore. But, presently, Dr. Malan modified his views sufficiently to declare his readiness to support a national government, but "only as far as it violates or ignores no principle of the National party." He called upon his followers to guard "the party and national interests . . . during the period of danger," which, it is not uncharitable to believe, meant the duration of the coalition. At this stage, on March 2, Parliament adjourned and Mr. Roos announced that now that the two generals had after all taken his advice, he would retire from politics till he was wanted again.

Three of the Nationalist provincial congresses, in the Free State, the Transvaal and Natal, adopted the scheme unanimously. Not so the Cape Congress. There, Dr. Malan got most of what he wanted to safeguard the pure doctrines of nationalism. The Congress accepted the scheme without approving of it, and pledged Cape Nationalists, whether they were pro- or anti-coalitionists,

South Africa

to support the coming ministry so long as it upheld National party principles. It also accepted General Hertzog's promise to recognise even anti-coalitionists as national party candidates and to leave them free to exercise "the usual rights of a member to withhold support."

That lukewarm resolution has caused, and is causing, heart-searchings. The coming election is to be a coupon election. The agreement between the two big parties, General Hertzog has been careful to explain, is not a coalition but a pact similar to the Nationalist-Labour Pact which has kept him in office since 1924. The South African party and the National party are respectively to hold the seats they hold at present, subject to such casualties as may be caused in either camp by the raids of Roosites and Independents and Labour men. In many constituencies the election is being decided at the nominations, which in some cases have been fought with all the vigour of American primaries. But the Premier's arrangement with the Cape Congress means that Malanites are to get the Pact coupon and then be free to go against the ministry without being morally bound to face their electors. It may work out better than it sounds. After all, faith and hope are not to be excluded from politics, and it must always be remembered that a straight South African party victory at the polls would simply have driven the Nationalists in upon themselves. But there is no denying that the arrangement may work grievous harm to the new ministry. Already there are bitter complaints from many quarters that electors are being obliged to vote for, or at the very least to abstain from voting against, Malanites in whom they have not the slightest confidence. Meanwhile Independent candidates have come forward in such numbers that the two generals have had to issue an appeal to their followers to vote on the Pact ticket, irrespective of persons; seven devolutionists (home rulers) have been nominated in Natal, and Mr. Roos is forming a United Coalition party to force real amalgamation on the Pact, which has, in his eyes, been moribund since birth. Roosites are to contest most of

The Hertzog-Smuts Alliance

the seats in the Transvaal, where their leader was for many years Nationalist chief.

It may be that, as his opponents assert, General Hertzog has not shrunk from autocratic methods, that he has bidden his followers "take this or lose me." But that is only what most South African Presidents used to do in times of crisis, and the fact remains that the vast majority of his followers have taken what he offered. As for General Smuts, his party had given him *carte blanche* in advance. And when all is said and done, this national ministry springs from the popular will.

Democracy has its faults, God wot, but its defenders can take comfort from the thought that on great occasions the popular will does get itself expressed somehow and often wills the necessary thing. There is certainly need now for a national government. Neither of the two generals has minced his words on that score. The Prime Minister has explained to a nervous Free State audience in his own constituency that, apart from all other considerations, the economic situation was so bad that united action was essential, and that to have rejected General Smuts's overtures would have driven the Afrikaner South African party men away from their own flesh and blood finally, and would have swung the whole of the party over to an extreme of opposition to nationalism. General Smuts, speaking at Stellenbosch University, a perennial spring of Nationalist opinion, declared that politics were becoming a source of danger to the country and that, unless there were to be more tolerance and compromise, white South Africa would be heading straight for national suicide. He called for a united effort to set the Union's house in order and pointed the lesson from an appalling report on the poor whites that has been issued recently.* Next day our newspapers recorded the collapse of credit in the United States.

Three days later General Smuts repeated his warning in Cape Town. The new ministry would ask for "a doctor's

* See page 605.

South Africa

mandate" in the economic sphere. "Within a few months," he concluded, "events may occur in the outer world which will make South Africa bless the day that it had a united Government at the helm."* Altogether reminiscent of the late President Steyn's warning to the National Convention that political union must be achieved before war broke out between England and Germany.

It all comes down to this. A Pact ministry, even though it may not endure for long, is of its nature independent enough to carry unpopular but necessary measures; all it needs is courage. There is one measure that no one has suggested but which is perhaps worth thinking about, for it would go far to cure some of South Africa's political ills. That measure is the institution of substantial educational and economic qualifications for the franchise irrespective of colour, creed or sex. That would do away with the fear of the rapidly growing non-European electorate that haunts so many folk, and reduce the political power of the increasing army of poor whites that perturbs others. There are good South African precedents for it. Away back in the eighteen-forties the Natal republicans proposed such a franchise just after their country had been annexed by Great Britain. Rhodes and Hofmeyr, a pact if ever there was one, actually effected the change in the Cape Colony in 1892 with general approval and good results. Perhaps, also, there is something to be said for raising the age limit to twenty-five.

All that, however, is pure speculation. We shall see what we shall see. The elections are to take place in May and Parliament is to meet in the last week of that month. Meanwhile the national ministry has been in the saddle since March 31. General J. B. M. Hertzog is Prime Minister and Minister for External Affairs; General J. C. Smuts is second in command and Minister of Justice. Inevitably and rightly, Mr. N. C. Havenga is once more Minister of Finance, Mr. P. Duncan takes Mines, Mr.

* As the mail closes, the news has reached South Africa that the United States has abandoned the gold standard (April 20, 1933).

The Work of the Session

P. G. W. Grobler, Native Affairs, and Mr. O. Pirow, Railways and Harbours, to which Defence is appropriately joined; General J. C. G. Kemp is Minister of Agriculture; Mr. A. P. J. Fourie, his opposition to co-operation overcome, is Minister of Labour, and Colonel Deneys Reitz, son of ex-President Reitz, of the Free State, is Minister of Lands; Mr. J. H. Hofmeyr, nephew of the old Cape leader, an ex-Rhodes scholar and sometime Administrator of the Transvaal, takes charge of Interior, Education and Public Health; Senator C. F. Clarkson, of Natal, takes Posts, Telegraphs and Public Works, and Mr. R. Stuttaford, who embodies the hopes of the business community, is Minister without portfolio.

It is an interesting combination and looks like being a strong one if it can win the necessary public support. Nine of the twelve have held office under the Crown before, some of them for long periods, and those who are new to the work are good men. For the first time since Union the traditional respect for provincial susceptibilities has been in great measure disregarded. Seven of the twelve are Transvaalers; the Cape and the Free State have only two representatives apiece and Natal one. But this departure from the provincial basis is sound enough in an avowedly national administration of a legislative union and, since the Rand gold mines are at present carrying South Africa on their backs, it is only fitting that Transvaalers should call the tune.

II. THE WORK OF THE SESSION

THE prolonged political crisis has tended to overshadow the work that Parliament did during its curtailed session. Finance naturally loomed large. At the New Year money was more plentiful than it had been at any time since England went off gold; in fact, people did not know what to do with it. Much of it went into town property, a good deal into government stocks, a great deal into gold shares while the Kaffir boom of January lasted;

South Africa

but not much went into industry and hardly any into farm bonds.

Mr. Havenga at once promised the civil service restitution of the cuts that had been made in their salaries a year before and abolished the surcharge of 20 per cent. on ocean-freight rates on imported goods. But he has continued to pay the export subsidies on the plea that, in spite of the depreciation of our pound to sterling levels, prices have not yet risen high enough to rescue primary producers. On the other hand, he resisted great pressure from all sides of the House to reduce interest on agricultural bonds or to allow the Land Bank to depart from business principles. The most he would agree to was that the Land Bank should increase the amount of specific advances beyond the statutory level.

The Ottawa agreements were implemented readily, and a short Bill was also carried which gave the Reserve Bank power to make such investments as would prevent our paper pound from drifting too far away from sterling. The career of a highly controversial Liquor Amendment Bill was cut short with the session, but useful measures were passed dealing with industrial conciliation, weights and measures, fuel research and the Veterinary Acts. Finally, another Bill, which in the early fiery days of the session caused some trouble, was passed at last amicably enough. This was a Bill permitting the Potchefstroom University College, at which Calvinist views predominate, to insert the word "Christian" into its title. The Opposition would only agree to that on condition that the "conscience clause," which forbids institutions that draw State grants to penalise staff or students for their religious beliefs, was specially safeguarded. So it was done and the session ended. Not an exciting record of legislation perhaps, but sustaining . . . "boiled beef with plenty of carrots."

South Africa.

April 19, 1933.

696

NEW ZEALAND IN THE DEPRESSION

RECENT New Zealand history is of general interest as an illustration of the effects of the world depression upon countries whose economic life depends mainly upon agricultural and pastoral production. Optimists who insist that, compared with other countries, New Zealand is still relatively well off no doubt have, however vaguely, in their minds the fact that our average standard of production is still comparatively high, but if the effects of the depression are measured by the difference between the standards of to-day and the standards of prosperity, New Zealand must be included among the countries which have suffered most severely.

There is much truth in the commonly expressed view that New Zealand's whole prosperity is wrapped up with the prosperity of her so-called primary industries. Partly on account of her small size and the rather narrow range of her natural resources, a high proportion, probably as much as 40 per cent., of her aggregate production is exported, and the pastoral industries, of which wool, frozen meat, butter and cheese are the most important, have in every year since 1919 accounted for more than 91 per cent. of her total exports. New Zealand public opinion indeed exaggerates the significance of exports, tending to overlook the fact that more than half her national income is both produced and consumed at home. Sir James Parr, for example, the leader of the Legislative Council, declared early this year that "last year the farmers of New Zealand brought in a cheque of £36 million to the country for the sale of products in Britain. In the final result all New Zealand lived on this cheque of £36 million for a year." But fallacious as such statements are, New Zealand's dependence on the outside world is a fundamental fact in her economic life.

New Zealand in the Depression

I. SYMPTOMS AND CAUSES

THE statistical indicators of depression in New Zealand are similar to those recorded elsewhere. The export price index number had fallen at the end of 1931 by 45 per cent. as compared with 1929, and during 1932 it fell another 8 per cent. The aggregate value of exports has fallen considerably, and imports had to be reduced to at least a corresponding degree. An expert report has estimated the national income in 1928-9 at £150 million, in 1930-1 at £120 million and in 1931-2 at £110 million, with prospects of still further decline. The results of falling prices, deducible from general currency theory, have shown themselves on a considerable scale. The burden of debts in many cases became intolerable; the burden of fixed charges diminished or destroyed profits, so that production was drastically reduced in many industries, and the number of unemployed men rapidly increased, until during 1932 the number of men on the unemployment register of the Labour Department often exceeded 56,000 (out of a population of 1½ million). This figure excluded about 16,000 men in full-time employment whose remuneration came, either wholly or partly, from the funds of the Unemployment Board. The share price index fell 32 per cent. between 1926 and the end of 1932, and government budgets have shown considerable deficits which have had to be met by drawing upon reserves.

In addition to the general causes of depression, New Zealand has also been affected by the two main sets of special influences which, in greater or less degree, have been operative in all "new" countries. The first is the long-established practice of borrowing capital abroad, in the case of New Zealand mainly in Great Britain. The gross indebtedness of the national government in March 1930 was £267 million, of which more than half had been borrowed in London, and though about one quarter of the total was

Symptoms and Causes

incurred in connection with the great war, the greater part had been borrowed for public works, notably railways, roads, hydro-electric schemes and land settlement, as well as more than £30 million re-lent by the Government to farmers and workers. The net indebtedness of local governing bodies exceeded £61 million, of which more than one third had been borrowed outside New Zealand, mainly also for various public utilities. Since 1920 the National Debt had increased by about £66 million, with a further increase between 1930 and 1932 of more than £14 million, and the local body debt had more than doubled. The policy of borrowing abroad reacted on general economic organisation, first by keying the economic life of the country, so to speak, to a distribution of labour between different kinds of work which could be maintained only so long as external loans of considerable magnitude were available every year, and secondly, by necessitating a volume of exports to cover interest payments which, if for any reason prices fell, it might be difficult to maintain.

In her external borrowing New Zealand has for the most part avoided the extravagances so justly condemned by Sir Arthur Salter. The practice of borrowing abroad is not in itself vicious, and those who talk about its complete abandonment have an insufficient appreciation of the effects upon production standards which such a check on the free movement of capital would impose. Apart from the other more fundamental causes of the depression, it is widely thought that the payment of interest required by the debt would have imposed an intolerable burden. Nevertheless the borrowing powers of public bodies have probably sometimes been abused, and some of the capital raised was wasted. The development of railways, roads and harbours, for example, was pushed forward simultaneously at a rate which would have been excessive even if continuous prosperity had been assured. Nor was over-capitalisation confined to government work. Farming and its adjuncts had been over-

New Zealand in the Depression

capitalised during the boom which followed the war, and though the effects of this had to some extent disappeared by 1929, enough remained to make serious complications in the adjustment of falling price-levels which then became necessary. Government control of public utilities, moreover, desirable and necessary as it was from other points of view, made the burden of depression more intractable than in countries where a bad year for the railways, for example, meant merely low dividends for railway shareholders. A bad year for the New Zealand railways did not involve any reduction in the interest payable to those who had provided the original capital. The interest on railway capital was a fixed charge, like interest on other government borrowings, and any deficit had to be made good by some other means, often with far-reaching effects on the whole economic structure. Similarly, though the policy of acting as middleman for advances to farmers had stimulated New Zealand's development, it too brought special difficulties in times of depression. A farmer overburdened by a private debt could sometimes make an arrangement with his creditor, which would ease the burden, or at the worst his title would be forfeited, his debt extinguished, and his creditor have the responsibility of managing his farm. No such arrangement, however, was possible between farmers who had borrowed money through the Advances to Settlers Department and the English investor who had advanced the money, and if default led to the abandonment of a farm, the liability for interest still had to be met somehow.

The full significance of the second special set of influences, the striking improvements which have occurred everywhere in the technique of agricultural and pastoral production, is less widely understood. The application of science to agriculture has been probably the most important influence in recent years in raising average production levels everywhere. New Zealand has played a worthy part in this movement. There are still many New Zealand farmers whose efficiency falls below the 100 per cent. level, but on

Symptoms and Causes

the whole the efficiency of New Zealand farming, of the production per head of the farming population, has considerably increased in recent years. It may be argued that the most important event in New Zealand twentieth-century history has been the rapid extension of the use of artificial fertilisers, especially in dairying. This development more than doubled New Zealand's butter exports between 1921 and 1930, while exports of cheese increased by 32 per cent. During this period the estimated annual yield per cow, measured in butter-fat production, increased from 154 to 218 lbs.

Admirable as these improvements were, their inevitable effects upon prices were seldom well understood. Similar changes were going on everywhere, and as the improvement in standards of living, which had taken place especially in the more advanced countries where the rate of population increase was declining, made it unlikely that large additional quantities of food would be purchased at the old prices, a considerable fall in agricultural and pastoral prices might have been anticipated. Far from predicting any such fall, authorities continued to represent to the farmers that there was a practically unlimited market for their produce, so that when prices did fall practically no attention was paid to increased efficiency as an explanation. The case of wheat illustrates the confusion in popular thought. Considerable trouble and expense have been incurred in scientific research for improving the standard of wheat production, but the same government which finances this research also maintains a sliding scale tariff designed to ensure to farmers a stable price for wheat. So far as this aim is realised, the consumer is prevented from enjoying any benefits from scientific research, while the gains for the farmer himself are by no means certain, as the guaranteed price is likely to stimulate further production which cannot be marketed except at a sacrifice.

The inevitable consequences of more efficient primary production in diminishing the relative importance of

New Zealand in the Depression

primary industries as sources of employment were equally misunderstood. The so-called drift to the towns was almost universally deplored, and one Minister of Education made it his special mission to give the school curriculum an "agricultural bias" to induce larger numbers of boys to seek employment on the land. The state of mind revealed by these misunderstandings has been a powerful influence in retarding recovery. At a coalition caucus meeting in January, both Mr. Forbes, the Prime Minister, and Mr. Coates (leader of the Reform section of the Coalition party, and now Minister of Finance) were reported to have "emphasised the necessity of maintaining the volume of primary production," and this view, sometimes with the emphatic addendum, "at all costs," is almost universally approved. The question is never seriously considered whether the maintenance of the volume of primary production at its old level may not in itself be an important barrier to recovery.

As always, the burden of the depression was felt most acutely through the increased real value of fixed interest charges. Falling export prices reduced the volume of funds available in London for financing imports and meeting the annual interest claims. As the latter were, by their nature, fixed, the relative contraction of imports had to be greater than the shrinkage in the value of exports. Adjustments of this kind were not easy and pressure on the London exchange rate began early. New Zealand abandoned the gold standard in the middle of 1929, when the exchange rate began to move upward, until by the end of January, 1931, the New Zealand pound was depreciated 10 per cent. in terms of sterling.

A further consequence of the depression was a check imposed upon the flow of loan funds. Prudent as it was to avoid the creation of new liabilities, and reluctant as investors abroad were to subscribe to new loans, this policy called for a drastic redistribution of the labour supply which could no longer be employed on public works.

Remedial Efforts

This redistribution would at any time have been difficult, and the difficulties were enormously increased by the generally depressed condition of industry. When England abandoned the gold standard, New Zealand currency was kept "tied" to sterling, but even this further relief against the pressure of the downward trend of prices was insufficient to restore equilibrium, and towards the end of 1931 the pressure placed upon the exchange by fixed interest charges was so great that the Government felt itself obliged to control exchange transactions, and for some months New Zealand trade was under a régime comparable to that which has prevailed recently in many European countries. Even when control was removed in the middle of 1932, there was a doubt whether the removal was not to some extent formal, dependent on an implicit understanding that the banks would voluntarily impose control, at least over capital transfers, similar to that which would have been compulsory if the government restrictions had remained.

II. REMEDIAL EFFORTS

DURING 1931 unemployment increased and the position of the farmers became more difficult. A strong movement developed, under the pressure of farming interests, with the support of the Bank of New South Wales and several academic economists, aiming at further depreciation of the London exchange. Early in 1932 an expert committee recommended an increase in the exchange rate combined with a reduction in fixed charges, interest and rent, of 20 per cent., and in wages and salaries of 10 per cent. The salaries of government servants had already been reduced by 10 per cent. during 1931, and private wage contracts had been widely revised in a similar way. The fundamental problem was interpreted as that of adjusting a level of income and costs in New Zealand, which had lost touch with the falling price levels else-

New Zealand in the Depression

where, and the problem was to be solved in part by a reduction of incomes and costs, and in part by an exchange policy to check the downward trend of prices and thereby avoid an even more drastic reduction of money incomes. The Government rejected the suggestion of a higher exchange rate, but adopted with modifications the other recommendations. Civil service salaries were subjected to a second cut, graduated from 5 per cent. to 12½ per cent., and to facilitate similar reductions generally, the Arbitration Court, which for nearly forty years had been a dominating influence in wage policy, was shorn of most of its powers of compulsion. The significance of the Arbitration Court as a factor imposing rigidity upon the industrial structure was often exaggerated by its critics, but it was regarded, however unreasonably, by many farmers as a symbol of the forces which they believed to be massed against them, and when hard times stimulated a general feeling that "something must be done," a government and parliament dominated by farming interests naturally turned against the Arbitration Court. More important was the compulsory reduction of interest and rent by roughly 20 per cent. Machinery was also created for additional relief for financially embarrassed mortgagors. There was an obvious rough justice about such measures which, when wages were falling rapidly, seemed at least an approximation to "equality of sacrifice." But it meant an unprecedented interference with the terms of contracts, and the ultimate effects upon willingness to lend cannot yet be foreseen. The attempt to apply to a wide variety of individual cases the general rules laid down in the Act prescribing these reductions has led to many anomalies for which supplementary legislation has been necessary, and this experience has shown again how difficult it is to stop halfway in government control of the terms of business contracts. The compulsory interest reductions have done nothing to diminish reluctance to risk money in permanent capital investments, and fixed deposits which used to form less

Remedial Efforts

than 40 per cent. of total bank deposits now amount to between 60 per cent. and 70 per cent. In New Zealand, as in Germany, it often seems that some of the institutions of the capitalist system are in process of being destroyed by people who profess and believe themselves to be its most ardent supporters. It does not follow of course that the destruction of these institutions is a bad thing, but it is always, especially in times of crisis, useful for people to understand what they are doing.

The Depreciation of the Exchange

The pressure of farming interests for a higher exchange rate was resumed later in 1932, but resisted by the Government, Mr. Forbes declaring that exchange was a matter for the banks alone. Most of the banks believed that a change was unnecessary and undesirable, but the Government, desperate for some means of relieving the difficulties of farmers, eventually succumbed on January 20, 1933, to the pressure of the high exchange interests; the Associated Banks announced that "they had been reluctantly compelled to raise" the London rate to 25 per cent., and the Government promised a guarantee against any loss incurred. Mr. Downie Stewart, the Minister of Finance, who had always been opposed to exchange inflation, resigned, and was succeeded by Mr. Coates, who was believed to be the most powerful influence inside the Cabinet in favour of the new policy. Mr. Forbes declared, in a rather unhappy metaphor, "I consider it my duty to remain on deck, and if necessary, go down with the ship." The changed policy proved at least the falsity of the charge that the Government was controlled by the banks. The position was rather the reverse of this, and it did not escape notice that a policy of interference which would have met with severe condemnation if practised by a Labour Government was by many cheerfully accepted when promulgated by a Ministry of a different colour.

New Zealand, indeed, like most countries to-day, suffers

New Zealand in the Depression

from the scarcity of political leaders who combine a wide view of world affairs with a sense for practical politics and an ability to lead, and not merely to echo, popular prejudices. Our leaders have not indeed shirked the difficult and unprecedented tasks which have suddenly confronted them, and have often displayed both courage and patriotism. Unfortunately in the midst of the world crisis these things are not enough. The adjective most commonly used to describe the Prime Minister is "honest." It is his forte to tell the country bluntly how it stands, and not to endeavour to cloak unpleasant realities. But though honesty is not, in his case at least, merely a euphemism to indicate the absence of other more statesman-like qualities, Mr. Forbes's most enthusiastic admirers have never pretended that he had any profound knowledge of financial or political principles in the wide sense. It is not many years since, when in the freedom of opposition he found it convenient to criticise the Government of the day for excessive borrowing, he refused to be fobbed off with any sophistries about changes in the value of money, insisting stoutly that "a pound's a pound." His colleague, Mr. Coates, a former Prime Minister and leader of the Reform section of the Coalition, has much more drive and initiative. The slogan, "the man who gets things done," which was used to win an election for him some years ago, had more truth in it than such slogans usually have, but whether the things which he gets done are wise or well considered is a different question. He is a typical New Zealander in that when once convinced that "something must be done" he is impatient of critics who point out defects in the policy which at the moment is attractive to him, and his critics charge him with undue extravagance. Mr. Downie Stewart has much wider knowledge and insight into political principles, and only a physical disability, a legacy of the war, which would have incapacitated most men, has prevented him from becoming leader of the Reform party. He is nearly alone among members of Par-

Remedial Efforts

liament in delivering speeches almost entirely free from mere party claptrap. Even in making definite party points, he shows a freshness and originality of mind which places him well above his former ministerial colleagues. Mr. Stewart has been an able politician in balancing opposing interests, in sensing the quarters from which opposition is likely, and taking steps to meet it. It is doubtful, however, if he possesses those very rare qualities which times of unusual difficulty demand from a great leader. He is quite prepared for personal sacrifice where his interpretation of his duty demands it, but his temperament seems better suited to the more negative rôle of critic than to the positive part of a creative statesman. In fact, one is almost inclined to say that he displays in the present crisis, largely, no doubt, in consequence of his physical handicap, defects similar to those which were alleged, perhaps unjustly, to diminish Mr. Asquith's fitness as Prime Minister in time of war.

The high exchange rate met with the approval of most of the farmers, though the most important competitive advantage which dairy farmers might have anticipated disappeared when the Danish exchange rate was also depreciated by practically 25 per cent.; but city interests were almost unanimous in opposition, and the controversy encouraged the unfortunate tendency towards a political cleavage in which town and country interests were ranged on opposite sides. The Labour party opposed the high exchange, but the intellectual foundations of its opposition seemed somewhat confused, as Labour currency policy, while more radical than the Government's, could scarcely have avoided exactly the same kind of exchange consequences as were now condemned. Most of the Independent members were also in opposition, and a Labour no-confidence motion based upon the high exchange decision was supported by four members of the Government party as well. In the crucial division on the Bill guaranteeing the banks against loss, the Opposition was joined by another

New Zealand in the Depression

four Government members, and the voting was 43 to 35, a striking contrast to the normal Government majority of 20. As one member of the Opposition was absent abroad, and at least two Government members voted for the Bill though opposed to its principles, the margin on which the Government was depending was extremely slender. In view of this, Mr. Coates' declaration less than three weeks after the decision had been announced that "it was high time that the controversy and agitation were allowed to drop" seemed somewhat naïve.

The New Zealand pegged exchange policy differs from most pegged exchanges in that it aims at keeping the exchange rate above and not below the "natural" level. This fact necessitates guaranteeing the banks against loss. With £100 sterling exchanging for £125 in New Zealand currency, the banks may be compelled to buy more sterling than they can sell to persons with sterling debts to meet, and the Government has therefore guaranteed the banks against loss incurred through such accumulation of funds. Any policy which would make the "natural" rate conform to the new pegged rate—and perhaps this is the same thing as saying any policy likely to realise the ends for which the high exchange was designed—must provide for some internal credit expansion which would raise prices and stimulate demand for the funds whose accumulation is otherwise threatened. At the time the exchange rate was raised, it was doubtful whether the way in which the maintenance of the exchange was connected with lower rates of interest was widely appreciated, but the further drastic steps to meet what Mr. Coates described as "our fundamental problem of narrowing the gap between internal costs and export prices," which were initiated on February 28, when the Government announced a scheme for the conversion of that part of the public debt (£115,320,000) which is held in New Zealand, together with a reduction of bank overdraft rates from 6 per cent. to 5 per cent., were a move likely to harmonise more closely the "natural" and the

Remedial Efforts

pegged exchange rates. The large deficit anticipated for the coming year had been increased by nearly £4 millions on account of the exchange rate, in consequence of reduction in customs revenue, increased cost of remittances abroad and the indemnity to the banks. A sales tax of 5 per cent., from which, however, many articles of common use are exempt, was insufficient to fill the gap, and the Treasury sought further relief by a reduction of the burden of fixed interest charges.

The conversion scheme involved an all-round reduction by one-fifth in the interest due on public debt, with the proviso that in no case was the rate to fall below 4 per cent. On the large bloc of so-called "tax-free" securities (more than £32 million), the full reduction of one-fifth was, however, to be imposed, but the privilege of freedom from taxation until the date of maturity was to be maintained. It was proposed to make the nominal return on the whole of the internal debt 4 per cent., with the exception of the tax-free section, where it was to be $3\frac{1}{2}$ per cent., by asking bondholders to accept in exchange for existing securities new securities of a nominal face value upon which a return of 4 per cent. would yield an income equivalent to four-fifths of the return on the original securities. Of the whole internal debt, more than £45 millions is held by the Post Office and other public departments. A considerable part of the debt held by the public had been borrowed at $5\frac{1}{2}$ per cent. or 5 per cent., and it was anticipated that the net annual budgetary gain from the conversion would be £570,000.

In introducing the scheme Mr. Coates said that "bondholders who convert will be free from any other special taxation on interest that may be proposed," and the repetition of this statement made it quite clear that pressure would be applied to bondholders who were reluctant to convert. Mr. Downie Stewart argued that the conversion should be purely voluntary, and the Government spokesmen repeatedly compared it to the recent

New Zealand in the Depression

successful English conversion. But a few days later it became clear that the Government had ignored Mr. Stewart's advice, for a proviso was introduced whereby dissenters would be liable to a special tax reducing their interest receipts by one-third. A bondholder who gave no formal indication of his intentions was presumed to have assented to the conversion proposals. There were thus three courses open to a bondholder. He might do nothing, in which case his interest was reduced by one-fifth; he might formally assent to the conversion offer, with an equivalent reduction in his interest; or he might formally dissent, whereupon his interest would be reduced by one-third.

In spite of formal similarities, it is clear that the conversion schemes of the New Zealand and the British Governments differ in quite fundamental respects. At the time the scheme was announced, the market price of $4\frac{1}{2}$ per cent. bonds was well below par, and it has never been pretended that the Government could pay off dissenting bondholders in full. The only provision made for repayment of capital is designed to meet the needs of small bondholders on whom a drastic reduction of one-fifth in their income from government stock might impose undue hardship. The date of maturity of the new securities is also several years later than the date of maturity of the old. Provision has been made for similar treatment of local body debt held in New Zealand, the basic rate here being fixed at $4\frac{1}{2}$ per cent., and the separate conversion schemes of the numerous local governing bodies requiring the approval of the Local Government Loans Board.

Whether such a set of proposals deserves the name conversion, usually hitherto reserved for operations such as those associated with the names of Goschen and Neville Chamberlain, may be doubted, but, on the whole, the proposals have not aroused much vocal hostility. The Government has been criticised a good deal for pretending that the conversion was voluntary, but there was no

Remedial Efforts

organised parliamentary opposition. The Labour party in general has approved of the scheme, though Mr. Savage, the deputy-leader of the party, while believing that "the Bill provided an orderly means of bringing down interest rates, instead of allowing them to crash as the result of default," complained that there was "no attempt at graduation or exemption." The Government had no doubt received assurances beforehand from financial authorities of a favourable reception for the scheme, and Mr. Coates, in introducing it, was able to announce that holders of £16½ million had already agreed to convert. Less than three weeks later (by March 17) this figure had been raised to more than £38 million, exclusive of the debt held by public departments, or more than 55 per cent. of the private holdings of debt.

The conversion of the public debt was the more spectacular part of the Government's newest proposals, and involved the most drastic breach with the traditional institutions of a capitalist economy, but it is probable that the more important step on the road to recovery was the reduction of bank overdraft rates with which have been associated parallel interest reductions elsewhere. In the absence of a highly organised money market, New Zealand reactions to lowered interest rates are likely to be sluggish, but some change of this kind appears to be an essential precondition for the revival of business activity. The Government seemed indeed a little confused about the purpose of the lower interest rate. "If we can cheapen the price of money," said Mr. Coates, "it will lead to cheaper prices for many other things," whereas the more reasonable view seems to be that easier money rates were likely to encourage business activity and raise prices so that internal conditions might approximate more closely to the requirements of the artificially pegged exchange rate. It has been argued for some time in certain quarters that the state of affairs disclosed by the continuous accumulation of fixed deposits already justified a lower interest rate, and

ccc

New Zealand in the Depression

to that extent the change to which the banks have now agreed merely registers after some delay corresponding changes which have already occurred in the financial structure of the country. The lowering of the overdraft rate will not be effective until May 1, and it will then be seen whether the shocks which have been administered to business have been too severe to enable it to take advantage of the opportunities for expansion which the lower rate is designed to afford.

With a falling national income the revenue from taxation has also inevitably declined, and in addition to salary cuts, the Government has enforced drastic economies in many directions, including cuts in pensions. Careful economy is always desirable, but those who believed that the social services of New Zealand were an expression of a wider realisation of the true relative values of things have been disappointed at the complacency with which some sections of opinion have accepted the reduction of these services. Especially in connection with education, it has become unhappily clear that many politicians and business men still fail to appreciate fully the value to the whole community of liberal investment in this field.

New Zealand has never had a system of unemployment insurance, opinion on this subject being unduly influenced by the interpretation of British experience current in the less balanced sections of the British press, and the Government has therefore been compelled to meet an unusual unemployment problem with improvised measures, whose consequences have seldom been entirely satisfactory. The Government endeavours to associate the provision of relief with the performance of work, Mr. Forbes having asserted the Government policy to be "no work, no pay," but much of the work which is organised on this principle either cannot be regarded by those who perform it as much better than killing time, or is unsuitable for the men required to carry it out. In addition to other increases in taxation, a flat rate tax of 1s. in the £ is imposed on all incomes,

The Reaction to the Depression

practically without exemptions, and the proceeds administered by an Unemployment Board, which organises various types of relief work. Both through the Unemployment Board and otherwise the Government has endeavoured to counter unemployment by encouraging productive work. The industries to which most attention has been given are farming and gold-mining, the opinion being widespread that an appropriate way to diminish the profound economic distress of the farming population is to induce more people to submit themselves to the same risks.

III. THE REACTION TO THE DEPRESSION

IT is difficult to make accurate generalisations about the outlook even of a country which, like New Zealand, has a population both small and unusually homogeneous. New Zealand thought upon the depression may nevertheless be classified according as it emphasises dependence on world conditions or the possibility of recovery by purely internal action. The importance of world conditions is now a well-established article of faith in many quarters, and there has been much discussion of the evil effects of war debts, tariff barriers and the other factors familiar to students elsewhere. But there is little understanding of the way in which these factors operate, or of the most appropriate methods for their removal, and there is no sense whatever of responsibility on the part of New Zealand for world conditions as a whole. As Mr. Forbes observed in June last year, "it is a matter of general agreement that tariff barriers, rising higher as they have since the war, are a cause of trade dislocation and depression," but while New Zealand is agreed about the folly of tariff barriers in general, she displays little eagerness to lower her own. The concessions granted at the Ottawa Conference were gratefully accepted, but preparations for the corresponding concessions promised to Great Britain are being made in a leisurely fashion which indicates no lively sense of the

New Zealand in the Depression

urgency of the situation. The manufacturers indeed are engaged in propaganda to show that tariff reductions are undesirable, and the Labour party is much disposed to use protectionist sentiment as a weapon against the Government. Mr. Ransom, the Minister of Lands, indeed, when the Government was charged last October with having sacrificed the manufacturers at Ottawa, hurriedly replied that the Ottawa agreements merely provided, in relation to tariff revision, "that the matter should be the subject of inquiry and investigation." The suggestion that any immediate action might be taken seemed almost to startle him. The farmer, traditionally in favour of low tariffs, is not, however, in a strong position to counter manufacturing propaganda. He showed himself curiously insensitive to the obvious charge that further exchange depreciation strengthened the barriers checking trade, and was difficult to reconcile with at least the spirit of the Ottawa agreements, and in special cases like wheat, where his own interests are affected, he showed himself as susceptible to the influence of protectionist sophistries as any manufacturer ever was. In fact, the most important change in tariff policy since the conclusion of the Ottawa agreements has been the placing of an embargo on Australian fruit.*

If New Zealand has no clear notion of the real foundations on which the economic interdependence of the parts of the Empire rests, much less is there any real understanding, translating itself into effective action, of the fact of world interdependence. As late as February 8 the Prime Minister confessed that the Government had no plan for the coming World Economic Conference, and that the question of representation at the Conference had not been considered. In the present state of governmental and public opinion it is to be feared that the official representatives of New Zealand at such conferences may be more

* Negotiations between Mr. Coates and an Australian Minister for a thorough overhaul of trading relations are, however, now (March 20) in train.

The Reaction to the Depression

concerned with "defending New Zealand's interests" in the narrowest sense of that phrase than with any effort to grasp the world situation as a whole, or with considering whether a narrow interpretation of New Zealand's interests might, in no very long run, not prove damaging to the very interests which it was designed to protect.

Alongside the recognition of the importance of external factors, and often in the minds of the same people, the feeling is also strong that New Zealand's economic condition is the result mainly of her own internal policy. This belief expresses itself in two quite divergent ways. One section constantly emphasises the necessity for internal economy and stresses the evil effects of excessive borrowing and extravagant government expenditure. These influences have certainly had some effect, but the emphasis placed upon them is exaggerated, and when combined with the irrational but widespread view that we cannot reasonably expect ever to return to the high economic standards of recent years, this exaggeration may give New Zealand public policy a definitely reactionary twist. At the other extreme, failure to appreciate the importance of world conditions has led others to suppose that recovery inside New Zealand would be possible merely as a result of changes in credit policy. This error, shared in varying degrees by many sections of the community, still further delays appreciation of the character of the fundamental world adjustments which are necessary everywhere if the depression is to be ended.

New Zealand indeed suffers from the error so common in all groups of human society of supposing that the future can be planned on the assumption that the conditions of the past will be indefinitely perpetuated. Her short history began when population throughout the world was rapidly increasing, and there was still a vast untouched potential demand for foodstuffs and raw materials. In those days it was to the interest of individual New Zealanders, and to the advantage of the rest of the world, to stimulate without

New Zealand in the Depression

limit the production of the commodities suitable to New Zealand's climate and other natural characteristics. Many of the fundamental conditions of this happy epoch have now altered, and New Zealand has not yet realised that a change in the fundamental conditions necessitates a corresponding change in general outlook and public policy. There is still of course a considerable unsatisfied potential demand for products such as New Zealand specialises in, but the conversion of potentiality into actuality depends upon improvements in the productivity of poorer countries and upon willingness to trade with them on the part of wealthier countries, which at the best can show their effects only slowly. The rate of population growth in the more industrialised areas throughout the world has now greatly diminished, the standard of efficiency in food production has been enormously improved, and standards of living have been so raised that the demand for foodstuffs and raw materials is much less elastic than it was, so that an increase of output is more likely to lead to a glut. The implications of the changed outlook are by no means easy to trace even in bare outline. Popular ideas on migration, on the economic value of the so-called luxury trades, and on many other subjects will probably have to undergo drastic revision, and the problems of adjustment may be insoluble except by international co-operation of a closer type than any with which we have hitherto experimented. Certainly failure to appreciate the character of these changed conditions and as yet to discover the adjustments which are called for in consequence is among the most important of the influences retarding the recovery of New Zealand and other primary producing countries.

New Zealand.

March 20, 1933.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
The Fruits of Anarchy	717
A Policy for the Pound	722
I. <i>The World Conference.</i> II. <i>The American Experiment.</i> III. <i>A Plan for Sterling.</i> IV. <i>Currencies and Nationalism.</i>	
A Commonwealth Tribunal	742
I. <i>The Existing Judicial Machinery.</i> II. <i>A Permanent Court.</i>	
The Honeymoon of the New Deal	757
I. <i>Introductory.</i> II. <i>Schools of Economic Thought.</i> III. <i>A Planned Economy.</i> IV. <i>Nira.</i>	
An Australian View of the World Conference	771
I. <i>Introductory.</i> II. <i>The Monetary Cleavage.</i> III. <i>Restriction.</i> IV. <i>The Empire Declaration.</i> Appendix I: <i>Restriction of Production.</i> Appendix II: <i>The Empire Declaration.</i>	
Capitalism and Communism	787
I. <i>Competition and Co-operation.</i> II. <i>Communism in Russia.</i> III. <i>Capitalism in the United States.</i> IV. <i>Reasons given for the Slump in the United States.</i> V. <i>Living on Capital.</i> VI. <i>The Breakdown of Distribution.</i> VII. <i>Trade under both Systems.</i> VIII. <i>The Conflict between Individualism and Protection.</i> IX. <i>International Loans.</i> X. <i>Over-production under Capitalism.</i> XI. <i>The Strength and Weakness of Communism.</i> XII. <i>The Monetary Problem.</i>	

(Continued on next page.)

Nº 92. SEPTEMBER MCMXXXIII Price 5/-

London: MACMILLAN & CO., LTD.

Entered as second class matter March 15th, 1929, at the Post Office at Boston, Mass., under the Act of March 3rd, 1879 (Sec. 397, P.L. and R).

CONTENTS (*continued*)

India : Mr. Gandhi Again	PAGE 807
I. <i>The Fast.</i> II. <i>The Civil Disobedience Movement.</i> III. <i>The Reactions to the Poona Pact.</i> IV. <i>The Joint Select Committee.</i>	
Trade Prospects	823
I. <i>Japanese Competition.</i> II. <i>The Internal Industrial Situation.</i>	
Shipping Subsidies	836
I. <i>The Problem.</i> II. <i>Possible Solutions.</i>	
Great Britain : The Government's Record	849
I. <i>The Break-up of the Conference.</i> II. <i>The Problems Before the Government.</i> III. <i>The Achievements of the Government.</i> IV. <i>The Position of Parties.</i>	
The Irish Free State : Ourselves Alone	866
I. <i>The Budget.</i> II. <i>National Self-Sufficiency.</i> III. <i>Republican Designs and Dissensions.</i>	
Canada : Public Administration	883
I. <i>The Civil Services.</i> II. <i>Local Administration.</i>	
Australia :	895
I. <i>Australia's Response to the Ottawa Agreement.</i> II. <i>Appeals to the People.</i> III. <i>Public Finance and the Loan Council.</i>	
South Africa :	915
I. <i>The Coalition.</i> II. <i>The Tax on the Gold Premium.</i> III. <i>The Amalgamation Movement.</i>	
New Zealand	925
I. <i>Finance.</i> II. <i>Loan Conversion.</i> III. <i>Ottawa Obligations.</i> IV. <i>The Restriction Proposals.</i>	

CONTENTS OF Nos. 90 and 91

No. 90. MARCH 1933		PAGE
War Debts and World Recovery		245
The Opportunity at Washington		270
The Victory of Mr. de Valera		286
Japan and the League		307
The Future Government of India		322
The United States : The New Deal		335
A Glance at Trade and Industry		348
Foreign Law in the British Empire		362
Great Britain : <i>The Social Policy of the Government—The Attitude of the Country</i>		383
Canada : <i>Politics and Parties—Canadian-American Relations</i>		401
Australia : <i>The Federal Chronicle—The Political Parties To-day</i>		420
South Africa : <i>The Political Situation—The Ottawa Agreements—The Departure from the Gold Standard</i>		438
New Zealand : <i>The Ottawa Agreement—The Budget—The National Expenditure Commission</i>		459
No. 91. JUNE 1933		PAGE
The Recoil from Freedom		477
President Roosevelt's Program for Recovery		497
Nazi Germany		512
World Debts and the Economic Conference		535
The Reception of the Indian White Paper		548
China after the Loss of Manchuria		568
Treaty Revision		584
The Poor White in South Africa : The Carnegie Commission's Report		605
Great Britain : <i>The Budget—The Trade Agreements—The Home Front—Trade and Unemployment</i>		619
The Irish Free State : <i>Political Developments—Trade and Transport Troubles</i>		634
Canada : <i>The Government and Its Critics—Canada and the Far East</i>		652
Australia : <i>The Reform of the Legislative Council in New South Wales—The Political Chronicle</i>		670
South Africa : <i>The Hertzog-Smuts Alliance—The Work of the Session</i>		685
New Zealand in the Depression		697

THE ROUND TABLE

can be obtained through any bookseller or any of the following :

GREAT BRITAIN AND IRELAND

Messrs. Macmillan & Co., Ltd., St. Martin's Street,
London, W.C.2.

CANADA

The Macmillan Co. of Canada, Ltd., 70 Bond Street, Toronto.

AUSTRALIA

Messrs. Macmillan & Co., Ltd., 32 Flinders Street,
Melbourne.

SOUTH AFRICA

J. Tyndall, Esq., 126 Corporation Buildings, Johannesburg.

NEW ZEALAND

The Secretary, THE ROUND TABLE, c/o Messrs. McKay and
Little, A.M.P. Building, Wellington.

INDIA

Messrs. Macmillan & Co., Ltd., Bombay, Calcutta and
Madras.

UNITED STATES

The Macmillan Co., 60 Fifth Avenue, New York.

EGYPT

The Express Book and Stationery Store, near Shepheard's
Hotel, Cairo.

CHINA (AND STRAITS SETTLEMENTS)

Messrs. Kelly & Walsh, Shanghai, Hong-Kong and Singapore.

JAPAN

The Maruzen Company, Ltd., 14-16, Nihonbashi Tori
Sancho, Tokyo.

Should information be required or difficulty experienced in obtaining a copy of THE ROUND TABLE, application should be made to THE ROUND TABLE, 2 Paper Buildings, Temple, London, E.C.4, or to the above mentioned, or in Australia to Professor T. Laby, F.R.S., The University, Melbourne.

The price of THE ROUND TABLE is 5s. or \$1.00 per copy, and the annual subscription (including postage) 20s., in U.S.A. and Canada \$4, or in India Rs.15.

Covers for binding volumes, 3s. 6d. each, and back numbers, price 5s. (except three or four out of print), can also be obtained from Messrs. Macmillan & Co., Ltd., London.

THE FRUITS OF ANARCHY

"If Hopes were Dupes, Fears may be Liars"

THE world is in the grip of reaction. The great international conferences which, it was hoped, were going to solve our problems have come to little. The pulse of the Disarmament Conference is beating feebly, despite Mr. Henderson's tour of the European capitals. The World Economic Conference has failed to reduce the obstructions to international trade or to make even a tentative approach to agreement upon a solution of the world's monetary problems, though it doubtless produced much mutual education and parted in an atmosphere of good-will. The Nazi régime in Germany is to all outward appearances utterly triumphant and moving daily to new prodigies of violence and brutality against any possible internal opponents. Japan is steadily consolidating her position in the Far East. The United States is rebuilding her navy, as a by-product of a gigantic economic experiment in planned recovery, the issue of which no one can foretell. The Assembly of the League of Nations will probably attract less attention this September than in any year since its inception, for at the moment public opinion is tired and sceptical of the efficacy of international gatherings.

The pessimists, therefore, have ample ground for their forebodings. The tremendous effort which has been made since 1919 to overcome international anarchy seems to be failing. Self-centred nationalism appears once more to be in the saddle. Democracy is in retreat and is giving place, not to restored dynastic autocracies, but to dictatorship by parties, which are based on class-consciousness, racialism or some other mass emotion, and are utterly ruthless and regardless of individual rights and justice in enforcing their absolute domination. If this process continues unchecked, it is only a question of time until a reckless competition both in armaments and in economic

The Fruits of Anarchy

obstruction sets in, until military alliances replace covenants for the pacific settlement of international disputes, and until a war breaks out, either in Europe or the Far East, quite as universal and far more destructive than that of 1914.

And in such a war the position of both Great Britain and the Dominions would be far less secure than it was in the last war, partly because Great Britain is now vulnerable from the air, partly because the prevailing nationalism has left the Empire much less closely knit than it used to be, and partly because the Navy no longer holds the predominant position on the sea that it used to hold when the United States was wholly isolationist, and when the Powers of both Europe and the Far East were either preoccupied with local problems or indifferent to world affairs.

Despite the lowering skies, however, we do not take the pessimistic view. It is certainly true that the wave of internationalism, which on the whole predominated during the ten years after 1918, has now been replaced by a wave of extreme nationalism. But human progress seldom moves straight towards its goal. Like a yacht, humanity is always tacking first to one side and then to the other. Yet the central problem of our time for all nations remains unchanged. Unless we can overcome international anarchy, it will be impossible for any nation to obtain lasting peace, prosperity or security in our shrinking world. The problem of dealing with international anarchy has really been long with us. But the effects of anarchy were temporarily obscured during the nineteenth century by the twin facts that Great Britain herself could almost guarantee world peace owing to her unchallenged command of the sea, and that on the whole the world was free-trade. These conditions have now disappeared through the rise of other naval Powers, through the increasing interest of almost all nations in international affairs, and through the growth of economic nationalism. We are now being forced, therefore, to realise, as never before, the inevitable consequences of

The Fruits of Anarchy

anarchy in a world which is still rapidly contracting in terms of time and space.

Try as they may, the nations will be unable to escape the consequences of anarchy, so long as anarchy remains. The more nationalist they become in armaments or economics, the more difficult become their internal problems, the more dangerous their external situation and the more urgent and frequent the necessity for international negotiation, whether by diplomacy or conference. The outward signs of anarchy, both in theory and in experience, are violence, tyranny, revolution and war, with their concomitants, poverty and the disappearance of individual liberty. These are precisely the symptoms of the present age, and they now extend throughout the world.

The present wave of anarchic nationalism, therefore, will certainly be followed sooner or later by a renewed attempt to solve the troubles that have been brought upon us by anarchy, by removing their ultimate cause. For the fundamental characteristic of civilised man is his determination and his capacity to replace chaos by order and the reign of law. The real question is the form that this renewed attempt should take. Hitherto the movement towards world order and world peace has centred round the Covenant of the League of Nations and the Kellogg Pact. These instruments attempt to induce all nations, of whatever type and stage of civilisation, to meet together regularly for the purpose of consultation about world affairs, and to use certain machinery for the pacific settlement of international disputes and the prevention of resort to war. This system, excellent as it has proved in promoting international understanding, and many as have been its practical achievements, has failed so far to give its members that security against military or economic attack, without which they will not disarm either militarily or economically and live in mutual peace and confidence with one another. And it has been this insecurity which has in large measure led to the present reaction. It may well

The Fruits of Anarchy

be that the next phase of the struggle to overcome anarchy and to deal with the problem of security will depend almost entirely on the more liberal and democratic Powers, acting within the general system of the Covenant of the League and the Kellogg Pact, and its corollary, the Stimson declaration. They at any rate are concerned with defending the ideals for which they fought in the Great War and with making effective, at any rate in their own case, those guarantees against aggression and war which these international instruments create. The attitude of the rest of the world to these ends is, for the moment, uncertain. Most of the vast area lying between the Rhine and the Pacific has, for the time being, accepted dictatorship, and can only be held to be hostile to liberalism and democracy, and lukewarm towards the methods of attacking international anarchy which have prevailed hitherto. Nobody can yet tell what the ultimate outcome of the Hitlerite revolution may be, or its effects on Continental Europe. What is clear, however, is that the prospects of any successful attack on international anarchy through the League and the Kellogg Pact, and their own security against a possible aggressive policy on the part of the dictatorships will depend upon a close co-operation of what may perhaps be called the liberal Powers. What is equally clear is that Great Britain should firmly resist all suggestions for further entanglement in the internal affairs of Europe. We shall get nowhere by trying to form part of a new European Balance of Powers. The basis of British policy must remain the Covenant and the Kellogg Pact. They are the true foundation for the attack on international anarchy, and therefore for obtaining a tolerable world in which to live. They are equally the foundation for the unity of the British Commonwealth and for Anglo-American relations.

It is a curious fact, not always realised, that it is the Covenant of the League of Nations, rather than any agreement about foreign policy, which has largely dispelled

The Fruits of Anarchy

the old problem of how the nations of the British Commonwealth are to deal with the question of war and peace when it arise. Under the Covenant, and to a less extent the Kellogg Pact, the Dominions and Great Britain approach every threat of war in any part of the globe bound, in association with other members of the League, to adopt the same procedure, and to accept the same general obligation under Articles 10, 11, 15 and 16 of the Covenant, in dealing with it. They may differ in their interpretation of these Articles and of the procedure to be followed thereafter, but in the early stage of an international crisis, at any rate, the Covenant has removed the old dilemma between belligerency and secession, just as the old problem of neutrality and of the freedom of the seas has largely disappeared for the United States under the Kellogg Pact.

It is obvious that this autumn a new stock-taking of our position and policy will have to begin, both on its political and economic side, in the light of the tremendous events of the last twelve months. That stock-taking, we are convinced, will lead once more to the fundamental conclusion that international anarchy is the root of our troubles, and that a return to nationalism in foreign policy, armaments or economics can not only not solve our problems but must inevitably intensify them. Indeed, there are many who are beginning to doubt whether international co-operation in any form can ever end the evils of anarchy, and to wonder whether the answer to the present reaction is not to face boldly the fact that, both in theory and in experience, the only way of ending war is the pooling of sovereignty, in the creation of a common government for common purposes. That, however, is a question which raises issues too large to be susceptible of treatment in an article of this kind. We may, however, return to it in the future.

A POLICY FOR THE POUND

I. THE WORLD CONFERENCE

LET us weep no futile tears beside the deserted grave of the World Economic Conference in the cemetery of vain hopes; but, since an autopsy may yield scientific information, let us investigate briefly the manner of its puny life and the circumstances of its untimely death. In May, 1932, conversations between the British Ambassador at Washington and the State Department resulted in general agreement that a world conference on monetary problems should be called in London. The statesmen who drew up the Final Act of the Lausanne Conference, comfortable in the feeling that they had settled one economic problem, were thus led to believe that the United States would join them in settling the rest. They planned a world-wide investigation into the causes of the depression and the international remedies required. The indirect association of the proposal with the issue of reparations and war debts, and the high-protectionism of the American Administration, at first rendered the expected co-operation rather luke-warm. Later, however, the election of Mr. Roosevelt, the simultaneous success of a party whose express policy was to conclude reciprocal engagements for the reduction of tariffs, and the generally favourable outcome of the Roosevelt-MacDonald and Roosevelt-Herriot talks, restored the hope that America would be able to join Europe and the rest of the world in a whole-hearted common endeavour to end the depression. In a broadcast message to the world on May 16, Mr. Roosevelt said:

The World Economic Conference . . . must establish order in place of the present chaos by the stabilisation of currencies, the freeing of the flow of world trade, and international action to raise price levels. It must supplement individual domestic programmes for economic recovery by wise, considered international action.

The problems mentioned by the President had been

The World Conference

considered by a preparatory commission of experts, who drew up an annotated agenda to which the participating Governments presumably gave careful study. Yet it was apparent that no plan of campaign or coherent and ordered set of policies to be promoted at the Conference had been thought out by either the preparatory commission, the British Government who were acting as hosts, or any other leading Government. This obvious lack of plan was the principal cause of the widespread public scepticism that attended the opening of the Conference. Opinion was generally agreed, however, that the two great tasks were the liberation of international trade and the raising of the general price level; and that currency stabilisation (at least of an experimental kind), being demanded as a condition of the former, was incidental to the latter also. The belief that this was not incompatible with the official American view was encouraged by Senator Pittman's submission of a resolution which began with the following words:

That it is in the interests of all concerned that stability in the international monetary field be attained as quickly as practicable; That gold should be re-established as the international measure of exchange values.

The false foundation of these hopes was soon to be exposed. It was false because the universal agreement as to the ultimate goal masked a basic difference of opinion as to the order of immediate measures. Must currency stabilisation precede (as the French insisted) the reduction of tariff barriers, or (as British Ministers declared) could the restoration of the gold standard be contemplated only when world trade had been liberated? Indeed, was even temporary stabilisation consonant with a domestic programme of raising prices which was already under way? Was the view of most of the debtor States of Europe, that international debts must be readjusted so as to clear the decks for economic recovery and a rise of prices, sounder than the view of the British Dominions and India, that a

A Policy for the Pound

rise of prices was the only possible and complete solution of the debt problem? Above all, was international co-operation in the economic sphere to be regarded as a condition of, or an addendum to, domestic efforts towards recovery?

The growing nationalism of American policy had all along caused uneasiness, which the reaction of United States opinion to the war debt compromise did nothing to allay. There was, indeed, no settlement of that problem, only a procrastinatory agreement by the President to wink at Great Britain's partial default, and an unforgiven repetition of complete default by France and certain other debtors. On or before December 15, we shall have to face the issue all over again. The turning point of the Conference, however, proved to be President Roosevelt's refusal to endorse the agreement upon the experimental stabilisation of the pound, the dollar and the franc, which had been reached by representatives of the central banks. This was followed by an announcement by the American delegation to the effect that their Government regarded temporary stabilisation as untimely,

because the American Government feels that its efforts to raise prices are the most important contribution it can make, and that anything that would interfere with those efforts and possibly cause a violent price recession would harm the Conference more than the lack of an immediate agreement for temporary stabilisation.

A compromise resolution was then devised, based almost word for word on the Pittman proposal and adding only a general undertaking by the signatories to limit exchange speculation. It was met by a tartly worded rejoinder from the President, reproving his interlocutors for "a singular lack of proportion and a failure to remember the larger purposes for which the Economic Conference originally was called together."

In face of insistence by the gold standard countries that nothing useful could be done without some assurance of

The World Conference

exchange stability, the Conference was kept in being for another three weeks by the votes of the "sterling bloc," allied with the United States and a number of oversea debtor countries. But the remainder of its activities—with the chief exceptions of an agreement on silver and the efforts of the British Government to promote its programme of restricting the production of primary products—were mainly a process of winding-up. The most notable incident was a blunt attack on the policy of public works, as an international or even as a national expedient for economic recovery, by the President of the Board of Trade—an attack which was more than half repudiated by the Prime Minister in his final speech to the Conference. The positive achievements of the Conference do not make a very imposing list.

1. An agreement on the international sale of silver, between the chief holders and the chief producers thereof.
2. Steps (not amounting to accepted plans) towards the regulation of the production or export of certain commodities.
3. A valuable understanding on the future working of the gold standard, based on the vital principle that gold reserves exist not to meet internal drains but to make up temporary deficits in the international balance of payments, and including a suggestion that 25 per cent. is a proper minimum reserve ratio.
4. A resolution on international indebtedness which contains no practical plan save the universal formation of creditors' organisations.

On the broad and fundamental question of the best policy for securing a reduction of tariffs no general agreement was attained. There was a sharp division of opinion between those who, like the British Government, pin their faith to the most-favoured-nation clause, and those who would like to modify the application of the clause, so as to allow the formation of groups within which tariffs would be mutually reduced, possibly on the lines of the Belgo-Dutch Convention.

It may, from some points of view, be reckoned an achievement of the Conference that it laid bare the basic division

A Policy for the Pound

of policy between three broad monetary groups. First, there were the gold standard countries and those debtor States which had secured, by exchange restriction and like devices, an artificial external stability of their currencies against gold. The second group comprised the United States and such countries as follow in its train; and the third, Great Britain, the Dominions, and the other members of a rather nebulous sterling bloc. The attitude of the gold group is dominated by fear of uncontrollable inflation (such as many of its members have already experienced), and of a general collapse of the credit system. To them, either external or internal depreciation of their currencies is a fearful danger signal. These feelings are reinforced, in France at least, by the existence of a very diffuse and politically powerful creditor class having an adverse interest in a rise in prices. All of them adopt the argument that in a regime of fluctuating currency ratios it is impossible to stabilise tariffs or to sacrifice any other weapon of economic defence.

The American attitude is of course dominated by immediate circumstances. Bullish expectations, based on the general recovery programme, drove up commodity prices, and this naturally had a depressing effect on the exchanges. At the same time, the powers given to the President to devalue the dollar, and his refusal to endorse the bankers' stabilisation plans, caused speculators to gamble on a fall in the value of the dollar on a limited market. The resultant depreciation of the exchange, in turn, enhanced the internal prices of commodities commanding a world market. Hence, both in reality, and—what is more important—in the minds of the public, a two-way connection was established between the falling exchange and rising prices. The Administration, having staked everything on a rise in prices, was ready to sacrifice any hindrance—exchange stabilisation or a liberal tariff policy.

The attitude of Great Britain is harder to define. Over and over again—not least emphatically in the joint declara-

The American Experiment

tion of policy issued by the delegations of the Dominions and the United Kingdom at the end of the Conference*—the Government has asserted that to secure a rise of prices is its leading aim, and that without such a rise we cannot fix the pound in relation to gold. This would seem to agree precisely with American policy. Yet, apart from the maintenance of cheap money, and the attempt to restrict the production of certain articles, the Government has not done anything towards carrying out its own avowed policy. In fact, the pound has been kept for several months at a fixed figure in relation to gold. Our inaction made the remainder of the sterling bloc very restive, though they warmly welcomed the vitally important joint declaration of British policy which has been mentioned above. The signatory delegations considered "that the Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established."

II. THE AMERICAN EXPERIMENT

THE development of the American situation thus exerted a critical influence on the fate of the World Economic Conference. Enough has been recorded to prove that, although the successive restatements of American policy may have been verbally compatible with one another, they changed so much in emphasis within the space of a few weeks that European statesmen naturally felt both disappointed and aggrieved. During the two months that followed the Roosevelt-MacDonald conversations, indeed, important changes had occurred in the United States. Though the President's personal popularity was in no way dimmed, Congress was beginning to resent his autocratic mode of government, and caused him

* See page 783.

A Policy for the Pound

some difficulty in securing the passage of his budgetary reforms before the adjournment. Hence, lacking the assured Congressional support which an overwhelming party victory might have been expected to give him, Mr. Roosevelt dared not adopt any policy running counter to the prejudice of the masses of the population, and was forced to court the dangers of excess rather than prejudice the evidence of seeming achievement. That evidence, indeed, had become very obvious. The Administration's policy of economic recovery promised to the farming community such a rise of primary prices as would make tolerable the burden of debts, leaving a good margin of profit besides; and to the industrial and business community an increase of turnover involving the reduction of unemployment, the renewal of profits and an advancing stock market. Every one of these aims was being partially achieved by the end of June.

The powers which the President took in the Farm and Industrial Recovery Acts were enormous. Provision was made for the almost unlimited expansion of the currency, and for its possible devaluation by 50 per cent. against gold. As much as \$3,300 million (nearly £700 million at par) was appropriated for public works. Farm mortgages were to be taken over wholesale by the State. A "guaranteed price," corresponding to the average level of 1909-14, was to be secured for a long list of agricultural products, by means of taxes on consumption and a reduction of output. The Industrial Recovery Act enabled the Administration to impose on any industry, or upon industry as a whole, codes of wages, hours and conditions of labour, and of prices, too, by the ostensible means of agreement and persuasion, which thinly hid the mailed fist of ultimate compulsion. The rise of prices and the industrial improvement that took place during the first five months of the President's rule might well be taken to prove the efficacy of these gigantic weapons. Strangely, however, not one of them had yet been effectively used. The curren-

The American Experiment

circulation was not expanding. Quite trivial sums had been spent on public works. The restriction of the supply of wheat and other primary commodities could not be expected to take effect until another crop-year was past. The industrial codes remained a threat, or a promise. What, then, had happened?

To begin with, there were certain fortuitous circumstances, like prospects of a poor world wheat crop, which would have helped in any case to procure a rise of prices. Next, the violent purge which the banking system underwent in March renewed the confidence of the public in the credit system and released much of the currency that had been hoarded during the preceding three years. A later factor has already been mentioned, namely, the speculative depreciation of the exchange with its inflationary effect on the prices of goods commanding a world market. But the most important consideration of all was the public knowledge that the Administration meant business, and the public belief that the measures taken to raise prices would eventually be successful. There was a rush to get in on the ground floor. The process (typical of the downward phase of a business cycle) of throwing back the burden of holding stocks from the consumers' to the producers' end of the commercial chain was sharply reversed. Manufacturers made haste to augment their production, even without the prospect of an immediate market, lest increases of wages and of raw material costs should destroy their opportunity.

There was only one threat to the spiral process of rising prices. Statistics of retail trade suggested that consumers' purchasing power was not keeping pace with the expansion of prices, and that unless it was stimulated the speculative bubble might burst and trade recede to a lower level even than before. Hence the Administration hurried on its public works policy (\$1,000 million had been provisionally allotted by the end of July), and put into immediate operation a "blanket code" enjoining minimum wages and

A Policy for the Pound

conditions of labour upon the whole of industry, subject to adjustment for individual industries when the latter should have put forward schemes agreeable to the Administration. The world will watch with eager interest the progress of this experiment in raising prices by raising wages—the boldest measure of socialism yet attempted in Western countries. To raise wages is to raise costs and to cut still further into profits. But to raise wages is also to raise consumers' purchasing power, to expand the turnover of trade and industry, and thus to restore profits once more. The success of the American plan is, therefore, conditional upon three things. If, in anticipation of rising costs, manufacturers immediately inflate their output, only to cut down again when the code comes into full operation, they will defeat the whole purpose of the plan. On the contrary, they must believe with conviction in the plan's eventual success, and thus be ready (with their bankers' co-operation) to submit to lower profits or greater deficits during the interval between the increase of wages and its emergence in expanding demand. Finally, the higher wages must not be lost, in any significant degree, in the thirsty quicksands of debt repayment, for to that extent they will not immediately reappear as purchasing power. Beyond these theoretical considerations prophecy is impossible.

The success or failure of particular measures taken under the Farm Act or the Industrial Recovery Act will doubtless have a profound influence on policy in this country; but, besides, from two points of view we have a general interest in the progress of price-raising in America. Were that experiment to fail, we, with the rest of the world, would be farther away than ever from the promised escape from the slump. Though we may adopt more conservative policies, the American aim of raising prices to a level which will give normal profits to the primary producer is ours also, and if they fail we must fail too, so great would be the shock to the world's economic structure. It follows

A Plan for Sterling

that anything we do which might undermine the success of the American experiment is to our own grave disadvantage. Second, the course of American prices and the sterling value of the dollar are intimately connected. An *expectation* of rising prices causes an *expectation* of a fall in the exchange, which itself causes an *actual* fall beyond the rate justified by the *actual* level of prices. This is what has happened in the United States. Commentators like Mr. Lippmann claim that the dollar is not undervalued, but, in basing their argument on the most sensitive indices of wholesale prices of raw and semi-manufactured commodities, they make the same mistake as was made in 1925 by those who justified our return to the gold standard by reference to wholesale price indices instead of to indices of wages and retail prices. We have already noted how retail turnover has lagged behind rising commodity prices in the United States, and the lag between the exchange rate and internal prices, which is illustrated in the following table, is of the same fundamental character.

RATIO OF DOLLAR TO STERLING PRICES

	(1932 average=100)					
	Jan.	Feb.	Mar.	April	May	June
Wholesale Price Ratio	95.2	94.6	96.5	97.2	98.7	100.0
Retail Price Ratio ..	96.2	95.4	96.4	96.8	97.6	97.1
Exchange Rate ..	95.9	97.7	98.0	102.1	112.2	118.0

The dollar is undervalued, and it would, therefore, be as dangerous for us permanently to link the pound to the dollar at the present exchange rates as to link the pound to gold at the present level of prices.

III. A PLAN FOR STERLING

EVER since we left the gold standard in September, 1931, British monetary policy has been guided by two aims which at times have been conflicting—a rise of prices and exchange stability. The departure of the United States from the gold standard in April last added a new

A Policy for the Pound

element to the problem, for if the dollar was to fluctuate in gold value the pound could not be simultaneously stable against gold and against the dollar. At the opening of the World Economic Conference we hoped to do away with that complication and to reconcile our two aims by securing experimental stabilisation between the pound, the dollar and the franc (with all the other currencies that move in their respective trains), as the basis of a programme of tariff reduction and the raising of prices throughout the world. When these hopes were dashed by the American refusal to stabilise, the problem of combining our two aims was restored in all its complexity.

Exchange stability is an important element in the confidence on which international trade must be founded, and the key to the general liberation of trade by the removal at least of emergency restrictions. Our interest in it as a great trading nation is augmented by our position as the leading financial market of the world. If, however, it does not include the dollar it is not a practical policy for us. Were the pound attached to the gold currencies at something like the present levels, we could not face the immediate consequences in competitive trade of a possible future low devaluation of the dollar in terms of gold. That would depend, it may be argued, on the relative price levels of Great Britain, the United States, and the gold countries; but present circumstances indicate with considerable certainty that the revaluation of the dollar would be an under-valuation, comparable with the under-valuation of the franc in 1928. At all events, our hands must be free.

Moreover, a rise of prices emphatically is and must remain a cardinal principle of our policy. The excessive burden of fixed money charges, which with every fall of prices take an increased share of the total product of industry and trade and thus leave an ever declining margin for profits, is a primary cause of continued depression. The present debt structure, indeed, may collapse—

A Plan for Sterling

perhaps to the accompaniment of political and social revolutions—unless it is relieved either by general cuts in service-charges or by a rise of prices. The former alternative is not only extremely difficult in practice, especially for a country with an advanced and complicated credit system like our own; it threatens the whole foundation of credit, the confidence of the lender coupled with the responsibility of the borrower. The rise in prices required to make the existing debt structure altogether tolerable, it may be argued, is impracticably large. That is true; and it is true moreover that a rise in prices, if too rapid or too prolonged, creates as inequitable a redistribution of real income as does a sudden fall. But a moderate and controlled rise of prices, which would avoid the latter evil, would effect at least a partial solution of the debt problem. It would, furthermore, make possible those conditions of freely moving trade under which alone a complete solution can be evolved.

A fall of prices strikes most sharply at debtor countries, and at primary producers, like the Dominions; but it swiftly recoils upon manufacturing creditor countries like ourselves, through the impoverishment of our markets and the frequent failure of our debtors to pay their debts. A rentier dependent on interest from abroad may be a drone, but his income, as purchasing power, creates as much employment as do wages or salaries. Hence the criticism of our failure to implement our expressed aim of raising prices, which are offered by an overseas contributor in a later article* (especially our reliance on the restriction of production, which may raise the prices of individual commodities but can only have a depressing effect on the general range of commodity values) could be levied with equal cogency from a selfish national point of view. This is not to deny that restriction of output may be required as part of the technical reorganisation of certain manufacturing industries.

* See p. 777.

A Policy for the Pound

Prices, indeed, are rising—slowly—and trade is expanding. Cheap money has had some effect. This might be taken, as it seems to be taken by the Government, as a reason for sitting back and doing nothing, whereas on the contrary it is our opportunity for striking out on an independent policy. Attachment to gold, which has been maintained in practice for the past six months, was valuable as a basis of commercial security so long as the dollar had a more or less fixed relation to gold. Now, however, with the dollar at liberty and American prices rising, the attachment to gold is bound to prove a brake on our progress. For there is no disguising the fact that the gold standard countries are far from enthusiastic about a rise of prices. Sooner or later, if we are to implement our avowed price policy, our path and theirs must diverge. A large or sudden depreciation of the exchange against gold is not required, but every day by which *de facto* stabilisation is prolonged enhances the difficulty of eventually depreciating should our price policy demand it.

The vital point is not that a deliberate depreciation of the exchange would automatically enhance the sterling prices of commodities entering into international trade, for that might be a temporary, and would certainly be only a partial, alleviation. What is wanted is a spontaneous heightening of prices within the sterling area brought about through a more rapid flow of purchasing power. Now, apart from budgetary deficits, which undo their direct inflationary effect by the deflationary consequences of the loss of public confidence, there are two ways by which internal purchasing power can be increased. One is the way of the American experiment in wage inflation, which requires two conditions, neither of which we possess—a popular Government with dictatorial powers, and a persistent and enthusiastic confidence, on the part of the enterprising class, in the efficacy of that Government's programme. The other way is an increase of real investment, in the form either of the creation of new

A Plan for Sterling

capital goods or of the purchase of commodities for stock.

Cheap money is having its slow and mild effect in encouraging private investment; but more than that is required. A moderate policy of public works is called for, not as a direct means of absorbing unemployment, but as part of an acknowledged programme of price-raising. There are three ways of looking at a policy of public works: first, its capacity to afford increased employment, both directly and in the manufacture of the raw materials required; second, the value of the works to the community, which may be much higher than the monetary return, and which in any case must take account of any saving of unemployment benefit; third, the new purchasing power involved, which is multiplied by being passed on from spender to spender. Though they may be expensive according to the first test, there are many opportunities for public works which come well enough out of the second to justify their experimental submission to the test of their effect in stimulating purchasing power.

Such governmental intervention may be necessary in order to start the upward spiral, but the process must be strengthened and maintained by more normal forces of investment. Investment in capital works, and more particularly in commodities, would be stimulated by belief in the probability of a rise of prices, based on the obvious detachment of sterling from gold. The pegging of the sterling-franc exchange is seriously detrimental to that necessary faith. One of its results has been the inflow of a large volume of short-term funds seeking a safe refuge, and this is bad money, prejudicial to our commercial interests, because it may be violently withdrawn. Further depreciation of the pound against gold would probably cause the outflow of that unwanted money. Another possible result is that, in spite of the solidarity of the gold bloc, the activities of speculators, coupled with the threat of commercial consequences, might drive other countries

A Policy for the Pound

(Holland and Switzerland, for instance) off gold. In any case, the gold countries, in an effort to protect themselves, might be expected to erect further economic defences, in the shape of quotas and other devices as well as tariffs, against countries with depreciated currencies. That this would be a serious handicap to our trade with such countries cannot be denied, though the loss might be cancelled by our enhanced competitive capacity in outside markets. The relative importance of the internal and the external trading of the different currency groups of the world is illustrated in the following table.

WORLD EXPORTS,* 1930

In millions of £'s

<i>From</i>	To Gold Group (a)	Sterling Group (b)	American Group (c)	Russia	Far East (d)	Other Countries (e)	Total
Gold Group	882	471	128	31	40	257	1,809
Sterling Group	359	578	136	14	60	249	1,396
American Group	208	331	252	23	71	140	1,025
Russia ..	43	34	5	—	6	21	109
Far East	25	34	64	8	46	53	230
World (including other countries)	..	..	..	..	..	..	5,431

* *Statistical Note.*—The figures on which the table is based have been taken from League publications. In a few cases where the figures of exports from certain countries to others have not been available, the corresponding percentage for 1929, or occasionally an earlier year, has been applied to the total exports for 1930. As the countries concerned are all small, any resultant error in the aggregates would be negligible. The figures for Australia relate to the year ending June 30, 1930.

(a) Austria, Belgium, Czechoslovakia, France, Germany, Hungary, Italy, Netherlands, Poland, Roumania, Switzerland, Dutch East Indies. Austria has been included, in spite of the fact that her exchange is effectively depreciated against gold and that she gave general support to the sterling group at the World Conference, because the closeness of her trade relations with her neighbours binds her economic future inevitably to theirs. The group contains two elements; the gold standard countries proper (France,

A Plan for Sterling

Owing to the omissions from the various groups (especially the sterling group) which have had to be made for want of available statistics, the table—striking as it is—does not bring out with full force the comparative importance of trade within the different groups. In 1930, for instance, the exports of the United Kingdom totalled £571 million, divided as follows: British Empire, excluding Canada, £219 million; rest of sterling group (including only Argentina from the American continents), £99 million; Canada and United States, £59 million; gold group proper, £99 million; artificial gold standard countries, £38 million; China and Japan, £17 million; and the rest of the world (mostly Latin America), £40 million.

There is no denying that the curtailment of the trade of the sterling group with the gold group, even though partly counterbalanced by increased trade with the United States and other outside countries, would be a serious matter. But we are threatened with far worse dangers by the pursuance of our present course. The necessity of paying their debts has forced the Dominions to restrict their imports and to expand their exports. The former

Belgium, Holland, Switzerland, Italy, Poland, and the Dutch East Indies), with exports totalling £992 million, or 18·3 per cent. of world exports in 1930; and those countries whose exchanges have been maintained at a nominal parity with gold by means of foreign exchange control.

(b) Denmark, Greece, Norway, Spain, Sweden, United Kingdom, Argentina, Australia, Egypt, India, and the Union of South Africa. For want of available statistical material, a number of important "sterling" countries have had to be omitted from the group, including British Malaya, Irish Free State, New Zealand, Ceylon, Portugal, and British colonies in Africa, whose combined exports alone exceeded £200 million in 1930.

(c) The United States, Canada and Brazil. The last is, of course, only representative of a large group of Latin American countries which follow the dollar rather than sterling. Canada has subscribed to the declaration of the British delegations to the World Conference, pledging them to maintain exchange stability among themselves as far as possible, but she has not been placed in the sterling group because she is clearly within the American economic orbit.

(d) China and Japan.

(e) This category includes, of course, a great many countries which should be classified in one or other of the first three groups, were the figures available.

A Policy for the Pound

necessity made it extremely difficult for them to offer valuable concessions at Ottawa, while the latter has caused some critics to complain that the Dominions are violating the spirit of the Ottawa agreements by flooding this country with cheap agricultural products. The counter-demand that the Dominions should restrict the export of these products evokes the even more vociferous cry that Great Britain is thus herself violating the spirit of the Ottawa agreements. From this trouble, which with its mutual recriminations weakens the whole fabric of the British Commonwealth, there is no escape save in a considerable rise of prices. We may pay lip-service to that ideal as much as we please; we shall get no nearer to it while our currency is pegged to a fundamentally deflationary system. Once the start is made, moderation and control will be needed, but we have the capacity for both.

IV. CURRENCIES AND NATIONALISM

THERE is a broader angle from which the monetary problem may be regarded. Undoubtedly the present crisis has been brought about by excessive nationalism in the field of currency as well as in that of trade. So long as each country on the gold standard was attempting to pursue its own independent monetary policy, the international standard must sooner or later have broken down, even if tariff barriers had been far lower than they were. On the other hand, the most ably managed international standard must eventually have proved incompatible with a régime of tariff nationalism, which obstructed the necessary adjustments of commodity trade to meet financial fluctuations. For all the fine words of statesmen at South Kensington, nationalism, economic as well as political, is a very vital force, and the likelihood of a great change of heart, such as would bring down tariffs to a moderate level, is very remote indeed. A certain measure of tariff nationalism having been forced even on ourselves, we must now

Currencies and Nationalism

face the question whether monetary internationalism is fundamentally compatible with commercial protectionism. Certainly to return now to the gold standard without first securing some liberation of trade would be to condemn the standard to a repetition of the breakdown of the last two years.

A purely negative independence, on the other hand, is worse than valueless. Our commercial policy must be directed towards tempering nationalism by more liberal policies within certain groups which are predisposed towards mutual concessions. That was, at any rate, the aim of the United Kingdom at Ottawa—to secure freer trade within the British Commonwealth as an offset to high protectionism elsewhere. In precisely the same way, under existing circumstances, a group policy in monetary matters, assuring stability of exchanges within the group on the essential basis of a common policy in respect of price levels, is the only practical alternative to complete chaos in international exchanges. This was precisely the theme of the announcement of monetary policy made by the British delegations to the World Conference. That declaration may well inaugurate an entirely new régime in monetary relations, primarily within the British Commonwealth, but also, perhaps, among foreign countries of like mind, to whom the declaration offered an open invitation to subscribe to its principles. But action as well as intention is required if the group policy is to be a reality. It is no good asserting that a rise of prices is our primary object, and that we have no commitments linking our currency to that of any other country or group, when in practice we maintain complete stability against a group in which the policy of raising prices is, to say the least, suspect. With a rise of prices, moreover, the reduction of tariffs within the group becomes practical policy, because then, and then only, can the debtor members pay their obligations without cutting their imports to a minimum and promoting exports which compete ruinously with agriculture at home.

A Policy for the

The wider the group the better. Many other countries off the gold standard are prepared to stabilise their currencies against sterling if sterling prices rise adequately but not otherwise. They, too, ask for deeds as well as words. Several of them have public works programmes whose chance of success in inflating prices would be greatly improved, if for none other than psychological reasons, by the pursuance of a similar policy here, co-ordinated with theirs. If we can secure their adhesion, we shall have produced a far greater measure of monetary stability than is involved in a fixed relation between the pound and gold; for the latter course opens the prospect of defection by any and every currency now in the sterling bloc. Australia, New Zealand and Denmark, though they have joined the pound again at a lower exchange rate, have already been compelled to depreciate their currencies against sterling. We must choose, it seems, one group or the other. The gold group, large as it is, includes a number of countries practising exchange control, with whom stability of exchange rates is a farce, and some like Germany who have adopted *autarkie* as their economic ideal. The sterling group, on the other hand, is one with which we possess the closest political and racial as well as commercial ties. Hence there can be no doubt which group we must choose.

These economic considerations have a political aspect too. The Nazi revolution, and the disturbed state of European politics, have forced us to reconsider our attitude towards the Continent. The Dominions are frankly suspicious of our European entanglements, and the United States, we may be sure, will wash her hands of any European quarrel. The sterling group is a group of pacific democracies, connected by ties of common culture and political ideals to the United States, and through her to the other American republics. To bind ourselves to gold is to disappoint the Dominions, and to repudiate the chance of a fresh monetary and economic *entente* with

Currencies and Nationalism

America. The economic isolationism of the United States marches with its political isolationism; hence what we may do to encourage the one furthers the other also. Just as Anglo-American co-operation and friendship are, more than ever before, the soundest basis of world peace, so Anglo-American co-operation in a policy of raising commodity prices, and thereby making possible a mutual liberation of trade, is the soundest basis of world prosperity.

Nevertheless, we must by no means forsake the pursuit of world-wide political concord, nor need economic co-operation within the Empire circumscribe the ultimate goal of British commercial policy. By the same token, the ultimate goal of British monetary policy must be the restoration throughout the world of an international currency standard, made possible by a liberation of trade following a general rise of prices. It may or may not be the gold standard, but if it is then gold must be the instrument and subject, not the lord and master, of the international system. The independence of the various States in monetary policy must be limited by the need for maintaining, by international management, stability in the purchasing power of gold. If they are not ready for such a curtailment of their monetary sovereignty then the time is not ripe for the restoration of the gold standard. The only alternative to international co-operation is a repetition of the conditions of the period from 1926 to 1931, when the gold-hoarding of this country, or the speculative inflationism of that, prevented other Powers from adapting their monetary policies to their industrial requirements, and eventually drove them off the gold standard. Experience of international monetary co-operation within the sterling area, which is foreshadowed by the declaration of the Dominions and the United Kingdom, will stand us in good stead when eventually we attain the ideal of an international managed standard.

A COMMONWEALTH TRIBUNAL

IN September, 1929, when His Majesty's Governments in the United Kingdom, Canada, Australia, South Africa, New Zealand and India, accepted as compulsory the jurisdiction of the Permanent Court of International Justice under the so-called "optional" clause of Article 36 of the Statute of the Court, they excluded from their declaration of acceptance certain classes of disputes, one of which was "disputes with the government of any other member of the League which is a member of the British Commonwealth of Nations." "All of which disputes," they went on to say in identical terms, "shall be settled in such manner as the parties have agreed or shall agree." A few days earlier the Government of the Irish Free State had accepted the clause without this reservation, but so long as it is maintained by the other members of the Commonwealth* there is no means whereby a dispute between any two of them can be brought before the Permanent Court under the clause.

The reasons for this reservation by the majority of the members of the Commonwealth are well understood. Sentiment doubtless enters into them, but it is not an unworthy sentiment; and in any case there are reasons for it other than sentimental reasons. It implies no lack of appreciation whatever of the invaluable services which the Permanent Court has already rendered, and no lack of confidence in its future, to hold that for *inter-imperial* disputes a world tribunal is not the most appropriate that can be devised. Whether we prefer to describe the relations between members of the Commonwealth as constitutional, or as quasi-international, or even as international, it is clear that the "common allegiance" and "free association" which all members of the Commonwealth accepted in the Balfour Report give those relations a

* The Dominion of Newfoundland is not a separate member of the League or of the Permanent Court.

A Commonwealth Tribunal

special character. The Commonwealth is a league within the larger League, and it was the conditions of the larger League, and not those of the Commonwealth, that determined the constitution of the Permanent Court. In all international organisation one of the most fundamental difficulties is the lack of homogeneity among the nations whose needs the organisation has to serve, and in particular the very limited sense in which all the nations of the world taken together can be regarded as forming a true *community* on the basis of which common institutions can be well and truly founded. It is unwise from any point of view, even from that of the larger group, to neglect the advantages for organisation that are afforded by a degree of community already existing among a group of nations, such as does already exist, in spite of real and important differences, between the members of the Commonwealth.

This is at least as true of the problems of judicial as it is of those of political or economic organisation. For the judicial function demands other qualities besides those of learning and impartiality; it can never be reduced to the mere logical application of pre-existing rules to situations of fact; it is necessarily formative in its tendency, and it is best entrusted to judges whose own minds have been formed in the *milieu* within which the disputes with which they have to deal will arise, rather than to those who, though they may be equally competent, are unfamiliar with that *milieu*. From the nature of the case only a small minority of the judges of the Permanent Court can ever have experience of the special problems of the Commonwealth. But the exclusion of inter-imperial disputes from the jurisdiction of the Permanent Court is a merely negative event, and the members of the Commonwealth have hitherto not addressed themselves very seriously to the positive side of the problem of the method by which their disputes are to be settled.

A Commonwealth Tribunal

I. THE EXISTING JUDICIAL MACHINERY

IN 1930 the Imperial Conference, taking up a rather jejune reference to the problem in the Report of the Conference of 1929 on the Operation of Dominion Legislation, declared that "some machinery for the solution of disputes which may arise between the members of the British Commonwealth is desirable." It was agreed, however, "in order to avoid too much rigidity, not to recommend the constitution of a permanent court, but to seek a solution along the line 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." Doubtless the statement of the reasons for this decision, the fear of "rigidity," whatever that may mean, and the need for allowing for the growth of "confidence," was not altogether candid, but when we remember that a few months earlier all the members had had sufficient "confidence" to submit their disputes with foreign nations to the very system which they regarded as too advanced for their disputes *inter se*, a permanent court with compulsory jurisdiction, the language does not seem very happily chosen.

A few further details of the proposed system of "arbitration" were added. "In the absence of general consent to an obligatory system it was decided to recommend the adoption of a *voluntary system*." The competence of the arbitration tribunals was to be *limited to differences between governments*, and to such differences only as are *justiciable*. A tribunal was to be constituted *ad hoc* for each dispute, and to consist of five members, none of whom was to be drawn from outside the Commonwealth. Two members were to be selected by each party, one of whom must be drawn from a member of the Commonwealth not a party to the dispute, and the members so chosen were to select

The Existing Judicial Machinery

another as chairman. Assessors with special knowledge and experience in regard to the case to be brought before the tribunal were to be admitted if the parties so desired. The expenses of the tribunal were to be borne equally by the parties, each party bearing the expense of presenting its own case.

So far as it goes this scheme was apparently modelled on the scheme of arbitration devised at the first Hague Conference of 1899 and revised at the second Conference of 1907. But it omitted many of the features which, at that time, made the Hague scheme, imperfect though it was, a valuable advance in international organisation. The submission of a dispute to arbitration requires the agreement of the parties on a number of points relating to the constitution and the procedure of the Court, which are not in themselves controversial, but are apt to become so if agreement has to be reached when feelings may have become embittered by the outbreak of a dispute. One of the merits of the Hague scheme was that it included a code of arbitration procedure, regulating these details, though subject to variation by agreement between the parties. Another of its merits was that it went some way towards mitigating the evil of leaving the choice of arbitrators to be made *ad hoc* after a dispute has arisen by creating a standing panel of qualified persons from whom the arbitrators were to be chosen. Neither of these features was reproduced in the scheme of the Imperial Conference, which must probably be regarded as little more than a recognition that the problem of the method of settling disputes between members of the Commonwealth is one that awaits solution. It is significant that on the occasion of the one serious dispute since 1930, that between the United Kingdom and the Irish Free State over the land annuities*, it proved impossible to apply the Conference scheme.

Prior to the scheme of the Imperial Conference, the only constitutional machinery available for the settlement of

* See THE ROUND TABLE, No. 88, September 1932, p. 747.

A Commonwealth Tribunal

inter-imperial disputes of a legal character has been the system of "special references" to the Judicial Committee of the Privy Council. This jurisdiction must not be confused with the ordinary appellate jurisdiction exercised when the Committee sits to hear the complaint of a private litigant against the determination of some subordinate court. The jurisdiction by way of "special reference" arises under Section IV of the Judicial Committee Act, 1833, the terms of which provide that "it shall be lawful for His Majesty to refer to the said Judicial Committee for hearing or consideration any such other matters (*sc.* other than the "appeals" mentioned in the preceding section) whatsoever as His Majesty shall think fit, and such committee shall thereupon hear or consider the same, and shall advise His Majesty thereon in manner aforesaid." Since the war the "special reference" has been used in four cases. In 1919 the Committee was asked to advise on the ownership of certain lands in Northern Rhodesia on the taking over of that territory by the Crown from the British South Africa Company; in 1924 on the situation produced in law by the refusal of the Government of Northern Ireland to appoint a member to the Irish Boundary Commission; in 1927, on the petition of the Governments of Canada and Newfoundland, on the boundary between the two Dominions in Labrador; and in 1929, in somewhat curious circumstances not relevant here, on the rights of compensation of retired Irish civil servants. In the Labrador case the judicial character of the "special reference" was emphasised by the Lord Chancellor, who pointed out that the Committee's duty was to consider, not where "the boundary might wisely or conveniently be drawn, but only where, under the documents of title brought to its notice, that boundary is actually to be found," and the case was treated in all respects as though it had been, as in substance though not in form it was, a contentious litigation between the two Dominions.

It will be observed, however, that of the four recent

The Existing Judicial Machinery

cases mentioned above, only one, that of the Labrador boundary, related strictly to a difference between members of the Commonwealth, and in fact the "special reference," though it has been useful as a method of settling such differences, has never been specialised to that purpose. There is no statutory limitation of the subject matters on which His Majesty may require the advice of the Committee, and those on which it has been sought from time to time have been very miscellaneous in character. They include questions as to the removal from office of colonial judges, formerly a rather frequent subject of reference; disputes as to the respective jurisdiction of the bishops of Capetown and Natal, and as to the relative rights of the Legislative Council and the Legislative Assembly of Queensland; and (at the request of a Select Committee of the House of Commons) the question whether a Member of Parliament (Sir Stuart Samuel) had become disqualified from sitting in the House.

The variety of the uses to which the procedure by way of "special reference" can be adapted is perhaps in itself a disadvantage when its suitability as a method of settling disputes between members of the Commonwealth is under consideration. The instances cited above show that while the procedure can be used judicially, as in the Labrador boundary case, it is not necessarily so used, for the Committee may equally well be called upon to give its legal advice when the Crown is acting in a capacity other than its judicial. In such cases the advice does not necessarily take the form of a judgment delivered in open Court, and may be tendered confidentially to the Crown. But apart from this objection it would probably be unfortunate to link up the question of a Commonwealth tribunal with the controversy over the maintenance or otherwise of the ordinary appeal from the Dominions to the Privy Council, with which it has no necessary connection. Yet it is obvious that whatever objections are felt in certain parts of the Commonwealth to the practice of appeals

A Commonwealth Tribunal

would apply with equal force to the system of special references. The special reference is initiated by an Order in Council, that is to say, by His Majesty acting on the advice of the Privy Council in the United Kingdom. The Judicial Committee itself exists under imperial statutes, and though judges from the Dominions may be members of it and do occasionally take their seats, as they did in the Irish boundary case, its personnel is predominantly drawn from the Bench of the United Kingdom. These are in a sense merely formal difficulties, but the recent history of the Commonwealth shows a trend, which no one desires to reverse, away from even a formal difference of status between its parts. On the other hand, with the single exception of the monarchy itself, the Privy Council is the most venerable part of the constitution of the Empire, and it should be possible, in the interests of historical continuity and of the immediate prestige of a new Commonwealth tribunal, to build upon it as a foundation. The tribunal might, if it were so desired, be constituted as a new Committee of the Council, its constitution and procedure being of course determined by agreement between the members of the Commonwealth.

II. A PERMANENT COURT

THE Conference of 1930 gave no reasons for its opinion that some machinery for the solution of disputes between members of the Commonwealth is desirable, perhaps because the reasons are obvious. Differences of opinion between them are inevitable from time to time; but such differences need not be embittering, and the surest way to secure that they shall not be so, is that there should always be ready to their hands a means of resolving them, to which resort can be had in a proper case as a normal and friendly step in their relations. The statesmen of all parts of the Commonwealth have traditionally

A Permanent Court

distrusted the hardening influence of law, and have generally preferred to allow their relations to be moulded by political conventions rather than by rule. On the whole this policy has been a wise one; but even so there have been occasions in the past where they have found it necessary to resort to a legal determination of their respective rights, and it seems not unlikely, especially in view of the policy of complicated agreements which has now been introduced at the Ottawa Conference, that these occasions will be more numerous in the future. It is not suggested by the advocates of a Commonwealth tribunal that the members of the Commonwealth should rush into litigation at the first disagreement; such a danger is purely imaginary. But it is not the part of wisdom, as the present controversy over the Irish land annuities only too clearly shows, to be unprovided with any means whereby a disagreement, which friendly discussion has failed to dissipate, may be resolved in the last resort.

There is another possibility of usefulness in a Commonwealth tribunal, on which it is not necessary to enlarge but which should not be lost sight of. It is still uncertain how far the Statute of Westminster may prove to have affected the position of the King, but it is at least possible that he may, in some future contingency, be placed in a difficult position. It might be of inestimable importance to the whole Commonwealth that, in so far as his difficulty was a legal one, it should be possible for him to refer for advice to a tribunal of the highest prestige, whose right to speak in the name of the whole Commonwealth would be beyond dispute.

In nothing were the recommendations of the Conference more disappointing than in their preference for a system of *ad hoc* arbitration rather than a permanent court of justice. An arbitral award is, or at any rate ought to be, a judicial decision, that is to say, it is a decision arrived at by the application of legal principles and not by way of compromise. But a mere court of arbitration can attract

A Commonwealth Tribunal

no prestige, can build up no continuity of tradition, and can only in a slight degree influence the consistent development of the law. Moreover the special constitution proposed by the Conference was a particularly bad one. Of the five members of the Court which it recommended, four were to be nominees of the parties, appointed after the outbreak of the dispute on which they would adjudicate, that is to say, appointed in circumstances in which the maintenance of a truly judicial attitude is particularly difficult. The Hague Conferences were unable to advance beyond the stage of *ad hoc* arbitration tribunals because it proved impossible at that time for fifty odd nations to agree on a method of electing permanent judges which each nation could regard as fair to itself, but the Conferences definitely regarded their work as a *pis aller*, and it is now twelve years since the problem of finding an acceptable method of appointing the judges was solved in the international community by the establishment of the Permanent Court. In the Commonwealth, owing to the small number of its members, the same problem can hardly be said to exist. Apart from details, once the decision to make the Court a permanent institution has been taken, its constitution almost settles itself. There should clearly be a judge appointed by each of the governments of the eight units of the Commonwealth, not necessarily from its own Bench or Bar but at any rate from within the Commonwealth. As a fairly large quorum, say nine, would be desirable in view of the magnitude of the issues with which the Court would have to deal, it might be advisable that there should be some additional judges, co-opted perhaps from any part of the Commonwealth, in the first place by the judges nominated by the governments, and subsequently by all the members of the Court. It would not be difficult to define the technical qualifications for appointment to the Court, if it were thought necessary to do so. The essential point would be that the term of appointment should be a long one, say, nine years, and that during the

A Permanent Court

term the tenure of a judge should be absolutely secure. If the total number of the judges were fixed at fifteen, and the term of office at nine years, the continuity of the Court might conveniently be maintained by a system under which five judges would retire every three years, but would be eligible for re-appointment. Payment should probably take the form of a nominal salary as a retaining fee with an adequate honorarium for the periods during which the Court was sitting, both being made payable out of a central fund and not by individual governments. The Court would naturally make its own rules of procedure. It might be desirable to provide that during his term of office a judge should not hold any public office other than of a high judicial character. The Court would naturally sit in any part of the Commonwealth according to convenience, and members of any of the Bars of the Commonwealth would be entitled to appear before it.

Under the general heading of the "competence" of the proposed tribunal, several important questions would have to be determined. The first is that of the parties to whom it should be open. On this the Conference of 1930 reached unanimous agreement; the Report tells us that "no doubt was entertained" that only differences between governments should come before the Court, and the limitation is clearly a sound one. It is indeed implied in the whole purpose of the Court, which is the solution of differences which may arise between members of the Commonwealth. But the limitation should certainly be subject to an understanding similar to that which is accepted in the international sphere, where the practice of diplomatic protection allows a government to espouse the cause of one of its subjects. The circumstances which in international law give rise to a claim for damages for injury to a subject are, on the whole, fairly well settled, or at least it is unlikely that there would be any serious difference of opinion about them among the nations of the Commonwealth; there is no reason why they should not

A Commonwealth Tribunal

be equally applicable to inter-imperial relations. At present indeed there is no mode by which the government of one part of the Commonwealth can prefer a claim for compensation against the government of another, with the result, as Professor Keith* has pointed out, that a British subject has less effective protection against an act of illegality suffered by him in a part of the Commonwealth other than his own than he would if it had occurred in a foreign country. The position is even less creditable to the Commonwealth in view of the improvements in the machinery for preferring claims of this kind which have been made recently in the international field; nothing like the action of the Permanent Court in the controversy with France over the Tunis nationality decrees, or like that of the Council of the League in the controversy with Persia over the Anglo-Persian Oil Company concession, is at present possible within the Commonwealth.

Assuming then that the parties before the Court should be governments, the question arises what kinds of inter-governmental disputes ought to be referred to it. On this the Report of the Conference is singularly unhelpful. The Conference was of opinion that the *differences should only be such as are justiciable*. Now "justiciable" is a word which has unfortunately fixed itself in the vocabulary of international law and its record there is one of almost unrelieved confusion. It means, like Humpty Dumpty's words, "just what we choose it to mean, neither more nor less." It certainly implies that disputes are of two distinct kinds, those which are intrinsically susceptible of settlement by the application of law and those which are not, but it leaves undefined the quality which would assign a particular dispute to one class or the other. The casual reader of the Conference Report would naturally assume that "justiciable" is a word with a scientifically ascertainable meaning, that the quality which makes a dispute susceptible of legal settlement is something objective in the

* *Imperial Unity and the Dominions*, p. 163.

A Permanent Court

dispute which can be easily recognised at any rate by a lawyer. But the truth is that there is no technical difficulty in deciding *any* dispute by the application of legal principles. Neither any inherent incapacity of the judicial process as such, nor the immaturity of a particular legal system such as the international system, creates any formal obstacle, and that for a very simple reason. The reason is that in any legal process the complainant party, if he is to succeed, must be able to formulate his complaint in the form of a "cause of action," and if he cannot show a cause of action which is well founded in law, the decision of the law will be against him; *semper praesumitur pro negante*.

Every dispute therefore is "justiciable" in the sense that it *can* be settled on the basis of law, but of course it is not the case that a legal settlement is always the best form of settlement or the most likely to be durable. Within the organisation of a State we compel the individual to accept a legal settlement of his grievance unless and until the law is changed, but the position as between nations is less simple. "*Il est ridicule*," said Montesquieu, "*de prétendre décider des droits des royaumes par les mêmes maximes sur lesquelles on décide entre particuliers d'un droit pour une gouttière*." Law is not a panacea, and its vitality depends on its general acceptability to those whose relations it controls, and that again on its capacity of adaptation to changing circumstances. The difficulty of changing the existing legal *status quo* is a serious limitation on the usefulness of law as a regulating force in the international field, but in this respect the Commonwealth has great advantages. For it has the advantage of a constitution which, as recent events have amply shown, is extremely flexible, and the further advantage that the most embittering causes of international disputes, frontier questions, minority questions, and the like, either do not exist in it at all or where they do are far less acute.

The answer to the problem of defining the disputes which should be submitted to an inter-imperial tribunal really

A Commonwealth Tribunal

depends upon the answer to the question whether submission is to be voluntary or compulsory. If it is to be voluntary, there is no need to specify the disputes which may be submitted; the parties will certainly not agree to submit a dispute unless both are prepared to accept a settlement of it on the basis of their legal rights, and in determining these the tribunal, being a court of law, would, for the reasons just given, find no difficulty at all other than those which a court must always be prepared to overcome in a complicated legal controversy. It would be sufficient that the agreement establishing the Court should declare, in the terms used in Article 36 of the Statute of the Permanent Court, that "the jurisdiction of the Court comprises all cases which the parties refer to it."

But if the members of the Commonwealth feel too little confidence in one another to accept as compulsory the jurisdiction of the tribunal, it is doubtful whether, except perhaps as a provisional measure, it would be worth while to establish the Court at all. The strongest, perhaps the only, argument for a voluntary system is the risk that in certain disputes a declaration of legal rights may be an unsatisfactory settlement, and that if it is so it may be impossible to effect a change in the law. The risk is incomparably greater in the international field, and yet in that field all the members of the Commonwealth have decided to disregard it. The only reason given for the recommendation of the voluntary system by the Imperial Conference is "the absence of general consent to an obligatory system," but is "general consent" indispensable? Does not the system of the Permanent Court, where the jurisdiction is in principle voluntary but can be made compulsory for those who are willing to go so far by acceptance of the "optional" clause, suggest a way out of the difficulty? The pace of development ought not indefinitely to be regulated for all the members of the Commonwealth by the pace at which the slowest member is prepared to move, and there would be nothing invidious

A Permanent Court

in an absence of uniformity in the obligations undertaken towards the Court when each would be free to determine the extent of its own.

The existing Optional Clause of the Permanent Court, which ignores the pseudo-scientific classification of disputes as justiciable or non-justiciable, offers a model which might easily be adapted to the jurisdiction of a Commonwealth tribunal. By this the members of the League declare that

they recognise as compulsory *ipso facto* and without special agreement, in relation to any other Member or State accepting the same obligation, the jurisdiction of the Court in all or any of the classes of legal disputes concerning :—

- (a) the interpretation of a treaty;
- (b) any question of international law;
- (c) the existence of any fact which, if established, would constitute a breach of an international obligation;
- (d) the nature or extent of the reparation to be made for the breach of an international obligation.

This clause has been microscopically examined time and again since it took effect in 1921, and certain minor alterations in the drafting might well be introduced in adapting the terminology to an imperial tribunal. Here it is sufficient to suggest in general terms that the jurisdiction of that tribunal should be declared to cover, for those members who are prepared to accept it as compulsory, disputes between the governments of the Commonwealth concerning the interpretation of their mutual agreements, concerning any question of law, concerning the existence of disputed facts, and concerning the nature and extent of any reparation due for the breach of their obligations *inter se*.

No difficulty need be anticipated in regard to the legal principles which a Commonwealth tribunal would apply. If the experience of the Permanent Court is any guide—and in this respect it is probably a safe one—by far the most common class of differences with which it would have to deal would relate to the interpretation of written instruments, and on this the practice of the various judicatures existing

A Commonwealth Tribunal

in the Commonwealth is already fairly uniform and would afford an adequate guide. In other cases the Court would naturally apply the law and custom of the constitution of the Commonwealth, and where, as is often the case, the relations between its members are quasi-international, it would apply international law, the interpretation of which in the different parts of the Commonwealth is again fortunately uniform. The practice of the Court in itself would gradually create precedents which it would tend to follow in similar cases, but it would probably be desirable that it should follow the practice of the Judicial Committee, the Supreme Court of the United States, and the Permanent Court, in which precedents are not treated as absolutely binding, rather than that of the House of Lords, in which they are so treated. In a court from which there is no appeal there are obvious objections to the latter practice, but the point is, after all, one of detail. What is important is that it should be realised that while the Court would necessarily and rightly exercise a formative influence on the development of the Commonwealth constitution, it would not be tempted by any dearth or uncertainty of the legal principles available for application to arrogate to itself a quasi-legislative or political authority. Such a result is not only highly improbable in itself but also, if it did occur, it would not be difficult to correct. The Commonwealth, it is true, has no formal legislative organ for effecting changes in the law regarding the relations of its members *inter se*; if it had, such changes might perhaps be more difficult of introduction than in fact they are. The fear of a permanently stabilised constitution need not for a moment deter the members of the Commonwealth from establishing a tribunal, if on other grounds they believe such a policy to be wise.

THE HONEYMOON OF THE NEW DEAL

"The only hope for improving present conditions, restoring employment, affording permanent relief to the people, and bringing the nation back to its former proud position of domestic happiness and of financial, industrial, agricultural, and commercial leadership in the world lies in a drastic change in economic and governmental policies."

THE quotation is from the prospectus of the New Deal, the platform of the Democratic party adopted in Chicago in June, 1932.* The most hardened cynic cannot say that the new Democratic President is hedging on this solemn affirmation of his party. We are getting "a drastic change in economic and governmental policies." For the time being at least deflation is at an end. Nearly all commodity prices in terms of dollars are higher than a year ago. Wheat, corn and oats have more than doubled. Nearly all the indices of business activity are higher than a year ago. The steel industry is operating at approximately 50 per cent. capacity as against a low of 15 per cent. Carloadings and electric power production each week exceed the corresponding figures for 1932. Stock prices have more than doubled. Bond prices have increased in some cases five-fold and ten-fold. The downward spiral has been interrupted. The circle of fate is no longer whirling viciously. On the contrary its revolutions seem to be beneficent.

What caused the change? How long is to be this respite from disaster? Have we really entered on the long ascent to prosperity?

The classic theory used to be that a depression was an economic disease of what the doctors call a "self-limiting" character. That is, it had a certain fixed course or "run." People lost "money" and jobs. Corporations went into

* See THE ROUND TABLE, No. 88, September 1932, pp. 800, 801.

The Honeymoon of the New Deal

receivership or bankruptcy. Property changed hands. But the patient invariably recovered and the recovery was achieved by normal recuperative processes. The inevitable necessity for replacements and renewals, the irresistible temptation of low prices to potential buyers, the unfailing operations of the law of supply and demand, brought in the end revival and the return of confidence.

A student of psychiatry has traced in detail and very instructively the analogy between the so-called business cycle and the course of maniac depressive insanity. The comparison may not be flattering to our industrial system, and the analogy may not be complete. But the main point for the observer of our present spectacle is that, in economics as in nature, there is observed a law of action and reaction, of expansion and contraction, of ebb and flow, each movement automatically generating in course of time a corresponding reverse movement. Under this view of economic disturbances, business and industrial structures must be founded as solidly as possible to resist the buffets of economic storms, but the orthodox economists knew no incantations for changing the direction of economic gales or abating their fury. The wind remained in the storm quarter until it was ready to change. There was not much good in playing King Canute to a depression.

Observers of the present depression in America believed at first almost unanimously that the ebb tide must ultimately of its own accord turn to flood. They said that "liquidation must run its course," that stocks would reach "a firm base from which a sustained advance could begin," that the "business upturn was soon due." But as the years wore on faith wavered. Still Mr. Hoover and the Republican Administration were slow to lose confidence in natural processes. It was not until England quit the gold standard that Mr. Hoover got the National Credit Corporation under way. Then early in 1932 came the Reconstruction Finance Corporation with the avowed plan of stopping liquidation and tiding over banks, railways and insurance companies

The Honeymoon of the New Deal

to better times. The Glass-Steagall Bill, enlarging the classifications of paper eligible for rediscount, and the vigorous policy which led to open market purchases of a billion dollars' worth of government bonds by the Federal Reserve Banks in the spring and summer of 1932, were also frankly inflationary.

It may be that the vigorous response of the markets in July, 1932, to the adjournment of Congress, the American adherence to the gold standard, and the results at Lausanne, vindicated the classic theory of spontaneous recovery from deflation in the natural operation of economic laws, notably our old friends Supply and Demand. This is not easy to say. By September, 1932, it became apparent from the election of a Democratic Governor in the solidly Republican State of Maine, and from other highly indicative straws, that public patience was exhausted. The long misery of deflation had been too much. The prospect of a change, of a New Deal, was too tempting. The defeat of Herbert Hoover in November ended the hope for the success of his policies. For four months we drifted without leadership. Financial improvement in the first weeks of 1933 proved shortlived. And inauguration day (March 4) found us with every bank in the country closed. Deflation had gone a long way, and with the subsequent impounding of something like 10 per cent. of all our bank deposits in banks which remained closed, it was apparent that it had to go further.

Thus the new Administration began at the bottom. Under such circumstances it was not remarkable that the temper of the new Congress was desperate. Congressmen of both branches were willing to end deflation at almost any price. Millions believed that no change could impair their fortunes.

So the impetus to inflation was sharpened. In April came the Thomas farm inflation Bill and the departure from the gold standard. From then on the outlines of the New Deal began to emerge. The President surrounded

The Honeymoon of the New Deal

himself with a group of young dons from Columbia and elsewhere, and the press acclaimed his "Brain Trust." Congress, with amazing and unwonted tractability, passed anything the President wanted and cried for more. There emerged at least two pieces of legislation of a character truly revolutionary—the new Banking Bill (also called the Glass-Steagall Act) and the National Industrial Recovery Act which as Nira is likely to become as famous as her elder sisters, the English Dora and the Soviet's Nep.

Then we went in for a stabilized dollar, for a higher price structure, for a colossal program of public works, for the double budget. And so to the London Conference.

II. SCHOOLS OF ECONOMIC THOUGHT

THIS is not the place to descant at length upon the lines drawn between the orthodox and the Keynesian economists, between the gold school and the managed currency school, between the deflationary advocates of budget balancing with public economy and the inflationary advocates of public works erected on government borrowings. Suffice it to say that the President has gone Keynesian. Policies may change before this article sees print. Time moves fast. The President is a nimble politician and any day we may see a new brain trust of other convictions and policies. But just now we appear to have forsaken gold and taken up with a managed currency. And we are to spend three billion three hundred million dollars on public works.

As far as budget balancing goes we have a "regular" budget, which by rigid economies is brought to balance, and an extraordinary, emergency or capital expenditure budget which doesn't pretend to balance but simply inflates federal credit, which is of course akin to inflating federal currency. Is this sound? The Administration says yes, and instances the analogy of the operating and capital

Schools of Economic Thought

accounts of a public utility. Orthodox economists and their disciples say no. A budget either balances or it doesn't, and the President's doesn't. They point to the absurdity of sacking thousands of tried and useful federal employees while the Government drafts raw and unskilled recruits for a Civilian Conservation Corps, to perform expensive works of doubtful advantage. There is probably no one in the country who has not remarked instances of drastic governmental economies existing side by side with apparently unjustified governmental extravagance. It has been caustically observed that if the two budget systems do not produce satisfactory results, "the advanced economists who shape our national finances may favor us with a three budget system of keeping the nation's books." In the year ending June 30, 1933, the national debt increased by a little more than three billion. It will certainly increase further in the next fiscal year.

What about a managed currency? Mr. Walter Lippmann, the gifted writer in the *New York Herald-Tribune*, who appears latterly to have entered his appearance for the New Deal, points out that gold currencies are none the less managed currencies despite their metallic base. The management consists in adjustments of the rediscount rates in various nations, in movements of gold from nation to nation, and ear markings for foreign account. But people like Mr. Anderson, the economist of the Chase Bank, whose writings are widely read and persuasive, still say that they have no confidence in the possibility of a managed paper currency divorced from gold. Probably most of the economists are with him. But on the whole, in economics as in religion and the arts, the dissenters attract more attention than the conformists. And the ordinary man in the street—without a job—learns about as much from these economic controversies as he does from reading the theories of eminent scientists about the origin of the universe. There are too many nebular hypotheses in the science of economics. To the layman they are very pro-

The Honeymoon of the New Deal

voking. The only way to test theories is by costly experiment.

We hear a great deal about stabilizing the dollar. What does this mean? Obviously it may mean stabilizing it in terms of gold or in terms of other gold currencies like the French franc. But, say the advocates of a managed currency, it is no less logical to say that a stabilized dollar is a dollar stable in terms of purchasing power and debt paying capacity. What the average American wants to know is what his bread is going to cost him and how many bushels of wheat he will have to sell to raise the mortgage on the old farm. He is not interested in buying francs or sovereigns. Merely to state these clashes of opinion discloses considerable superficiality in popular thinking, but no picture of contemporary America can be just which does not show us rushing about in a bewildered way, being told by one group of eminent gentlemen that a certain course leads to perdition, while another group of gentlemen equally eminent assures us that by the same course and no other shall we attain salvation.

What does the President intend to do about the currency? The farm inflation Bill authorizes the purchase by the Federal Reserve Banks of three billion dollars' worth of government securities. It authorizes the President to issue a like amount of new paper currency with certain sinking fund provisions, and it authorizes him to cut the gold content of the dollar to 50 per cent. of its present weight and fineness.*

Actually, at the time of writing, the only power that has been exercised is the least drastic one of open market purchases of government bonds by the Reserve Banks. This move may be unwise or ineffective or both, but the consequences can hardly be as disastrous as the issue of fiat money or the devaluation of the dollar. Actually, currency in circulation has declined. Money has come back from hoarding. There has been no fiat money.

* See THE ROUND TABLE, No. 91, June 1933, p. 506.

Schools of Economic Thought

But, oddly enough, we learn from London more about the domestic policies of the New Deal. It is consecrated to raising prices and getting men to work. Prices are to be brought to some suitable level not precisely defined, and kept there. President Roosevelt's message to the London Conference probably surprised his countrymen as much as it surprised the delegates. It will bear repeating:—

The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations. . . . Old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a *continuing purchasing power which does not greatly vary in terms of the commodities and needs of modern civilization*. Let me be frank in saying that the United States seeks the *kind of a dollar which a generation hence will have the same purchasing power and debt paying power as the dollar value we hope to attain in the near future*.*

If this means what it appears to mean, it goes to say that we are not going back to the fixed gold standard, at least while Mr. Roosevelt has anything to say about it. Of course, prices never have stayed within a fixed range for a generation. Under the fixed gold standard, prices of other commodities in terms of gold constantly and necessarily fluctuate. The hardship imposed upon the salaried and *rentier* class by rising prices is a commonplace of commentators on the operation of the gold standard. On the other hand, falling prices are disastrous to the merchant and to labor. If these genuine and sometimes calamitous hardships can be removed from our economic system, there is a chance of ameliorating enormously the ordinary lot of man. Mr. Roosevelt is apparently ready to try the experiment. Just how he proposes to manage currency has not been announced, but it is known that his advisers are advocating "management" through a dollar of varying gold content depending on the fluctuation of prices. If commodity prices start to slip, debase the gold content of

* The italics are the writer's.

The Honeymoon of the New Deal

the dollar ; if they seem to be rising too rapidly, season the dollar more heavily with gold. Make your gold mixture of a richness to suit the occasion. Then prices will be stabilized and men can look with confidence to the future.

Obviously the experiment is of far-reaching importance. It may be comparable in range and import to the communist experiment in Russia. But will it work ? Or will it end, as so many predict, in a loss of confidence in the managers of our currency and in the currency itself ? Mother Earth may be capricious and even niggardly in yielding up her supply of metals, but at least she is honest and plays no favorites. If the new managed currency is not managed any better than credit was managed in 1927, 1928 and 1929, public confidence will fall as low as it has fallen at any time during the depression. And the competitive devaluation of national currencies may become a sport at the Olympic games.

This is not the place to comment on the international repercussions of the President's currency policy as notified to the London Conference. The antipathy of the gold-standard nations is readily enough intelligible. Americans are not so much disturbed about the popularity or unpopularity of their policies abroad. Our natural distrust of all international gatherings, which was so influential in preventing American adherence to the League of Nations, has, if anything, become more acute since 1919. There was little popular interest here in the London Conference. The allusions to it in the press were often somewhat disrespectful. That is partly perhaps due to insularity, but more to our ignorance and despair. What the true-blooded American wants is prosperity. He does not know how to get it, or whom to follow or to trust. If President Roosevelt can produce it by manipulating national currency or credit, all right. If not, all wrong. Prove his policy ineffective, and the honeymoon of the New Deal will end in bickering and acerbity, possibly in divorce by 1936.

A Planned Economy

III. A PLANNED ECONOMY

FROM time to time in the affairs of men there appear phrases which exercise an almost magic power over the human mind. Thus in the eighteenth century we had the "Law of Nature" and the "Inalienable Rights of Man." In the Wilsonian era, many of us can remember how solemnly the ancient hills and immemorial valleys of Europe reverberated to the "Right of Self-Determination."

To-day we have a new phrase that may become no less potent. We must have a "Planned Economy." We have discovered that our capacity for producing shoes or structural steel or newsprint or almost anything else one can think of is far and away ahead of our capacity to wear shoes or to put structural steel into buildings or to get the newsprint into papers, or any of the other things into the normal channels of consumption. Industrial freedom, *laissez faire*, predatory capitalism—call it what you will—has produced a plethora of everything, a crazy surplus with no thought of the consumer. Competition, which in 1890, when we passed the Sherman Anti-Trust law, seemed to be our salvation from corporate wickedness, has turned out to be wasteful and costly. The little fellow who would not be regimented or bullied is no longer sacred. The days of the piratical price cutter are to be numbered. The "larger combinations must in any society prevail." This is what Mr. Rexford Tugwell, the Assistant Secretary of Agriculture, says, and he is in the Brain Trust and reputedly very influential. So the Government must be a senior partner in every business. It must plan. It must blueprint. It must allay the excesses of our ancient freedom.

If we had a "stabilized dollar" and a "planned economy" we should have no depressions. Our production would be constantly geared to our consumption. Our consumer would know what he could afford, and whether and to what

The Honeymoon of the New Deal

extent he could prudently go in debt for the sake of getting it. Credit would be intelligent and a controlled wage policy would enormously increase consumptive capacity, which, of course, would justify more production. Thus we should raise the living standards of the nation, and erect a society more orderly, more disciplined, more socialized, immune from exploitation and the greed of profit seekers. It is a tempting picture, even if not altogether a new one. A world motivated more by love and less by greed is worth working for.

And yet a planned economy will not bear examination much more closely than the right of self-determination or the rights of man or the law of nature. In the first place, economic planning must in many commodities and manufactured products be not on a national, but on a world scale, unless, of course, we are going in for self-containment, which no one imagines can ever be anything more than relative self-containment. In the second place, economic planning as generally portrayed would imply a board of superplanners with a capacity for foresight and appraisal beyond all human experience. Could we rely on the President to discover these men and appoint them, or would our electorate choose them at the polls along with sheriffs, county commissioners, and registers of probate? Once chosen, would the planners be above all temptation as well as above error? Or would they do more logrolling than planning?

As a matter of fact is not the economic world most healthy when it is operating least self-consciously? If one were to sit down after breakfast to plan the next twenty-four hours, with their 24,000 distinct acts of inhaling air into the lungs and then expelling it, with their 100,000 heart beats, and the innumerable muscular movements indispensable to life, would our physiology be expected to improve or not? To a layman it looks as if automatic control in spite of all its failures would be as likely to work as planning. Furthermore, we are apt to forget that to the

Nira

extent that we have now a planned economy it has functioned only in the most fallible way. The Interstate Commerce Commission has not been much more successful in planning our railroad solutions than the railroads. If the unbridled energies of our great industrialists are to blame for our present plight, as in part they doubtless are, it must certainly be said that nothing was more influential in creating the present situation than the shocking maladministration of credit, which is planned by our Federal Reserve Banks and in subordination to them by our bankers, who in 1929 and previous years were supposed to be experienced and able. Just now they are less esteemed.

But Mr. Lippmann says that "modern industrial economy does not 'co-ordinate' itself by the action of supply and demand. At a thousand vital points the system has become rigid through contracts, gentlemen's agreements, virtual monopolies, trade union rules and other devices for interfering with the law of supply and demand. Had that not been the case, the 'markets' might have co-ordinated as rapidly and successfully to a new and lower price level, and we should have made our recovery by completing the deflation."

So Mr. Lippmann concludes we shall have planning, but not centralized planning, in Washington. Presumably it must be industrial planning, each industry to itself as ordained by Nira. We shall see. Planned Economy, like self-determination, addresses itself to genuine difficulties and real injustices. But as a principle of national organization its application is doubtful.

IV. NIRA

NOW as to Nira, the National Industrial Recovery Act signed by the President on June 16, 1933, effective for two years unless sooner repealed or terminated by presidential proclamation. It begins with the recital of an emergency and a long declaration of legislative pur-

The Honeymoon of the New Deal

poses, which includes the purpose "to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and conserve natural resources." The President is authorized to "establish such agencies, to accept and utilize such voluntary and uncompensated services, to appoint, without regard to the provisions of the civil service laws, such officers and employees, and to utilise such federal officers and employees, and, with the consent of the State, such State and local officers and employees, as he may find necessary, to prescribe their authorities, duties, responsibilities and tenure, and without regard to the Classification Act of 1923, as amended, to fix the compensation of any officers and employees so appointed."

It would be hard to find broader powers conferred upon an executive in time of peace unless it were in the farm inflation Bill.

On application to the President by one or more trade or industrial associations or groups, the President may approve a code or codes of fair competition for such industry or group, if he finds that such associations or groups impose no inequitable restrictions on admission to membership and are truly representative, that such code or codes are not designed to promote monopolies, or to eliminate or oppress small enterprises. "The President may, as a condition of his approval of any such code, impose such conditions (including requirements for the making of reports and the keeping of accounts) for the protection of consumers, competitors, employees and others, and in furtherance of the public interest, and may provide such exceptions to and exemptions from the provisions of such code as the President in his discretion deems necessary to effectuate the policy herein declared."

How far have we not travelled in the twelve years which have elapsed since we sent a man to the White House on a slogan of "More Business in Government and less Government in Business"!

Nira

Then the President, of his own motion or on complaint by a labor or trade organization, may cause an immediate investigation by the Tariff Commission, if he finds that articles are being imported into the United States "in substantial quantities or increasing ratio to domestic production of any competitive article . . . and on such terms or under such conditions as to render ineffective or seriously to endanger the maintenance of any code or agreement under this title . . . In order to enforce any limitations imposed on the total quantity of imports, in any specified period or periods, of any article or articles under this subsection, the President may forbid the importation of such article or articles unless the importer shall have first obtained from the Secretary of the Treasury a licence pursuant to such regulations as the President may prescribe . . . The decision of the President as to facts shall be conclusive."

The Act is very long. It contains provisions for oil regulation, a public works program, highway improvement and additional taxation. All contracts let for highway construction under the Act shall contain provisions insuring that no individual employed on any highway project otherwise than as an executive shall be permitted to work more than thirty hours in any one week. A more extended consideration of the terms of the Act is impracticable, but it is certainly as striking a piece of legislation as ever emerged from an American legislature. The newspapers are now full of codes passed by trade or industrial organizations. Mostly they provide for shorter working hours and a minimum wage. Wages are being raised in nearly all industries to increase purchasing power. Even the Government confesses to some anxiety whether increased business activity will support the new wage scales.

The long path from status to contract, so familiar to readers of Sir Henry Maine, seems to have reached its turning, and we are now on our way from contract back to status. Students of the mediæval system of industrial

The Honeymoon of the New Deal

organization by regulated monopolies and trade codes are struck by this contemporary reversion to mediæval methods. Some people are even quite distressed about it. But Professor Tugwell is delightfully bland. "The old bogies of bureaucracy and red tape frighten no one any more," he tells us. "Business men know that government is quite as well administered as their own concerns." "There is no choice," says Donald Richberg, general counsel of the National Recovery Administration, "between intelligently planned and controlled industrial operations and a return to the gold-plated anarchy that masqueraded as 'rugged individualism.'" Under the circumstances Al Smith's remark seems rather dissonant. He says, "this plan goes beyond anything my imagination can follow . . . I can't understand how it can possibly work." But Mr. Smith is not in the Brain Trust. The deficiencies of his formal education have often been remarked.

* * * *

The New Deal is a revolution, and a curious revolution, accomplished without bloodshed in a nation almost too dazed to comprehend. The insubstantial pageant of our pre-depression world has faded. But is it not a little odd that as the old liberty is snatched away from our misbehaving industrial organizations, we are making very little fuss about liquidating that great experiment in unfreedom, so noble in motive, so disappointing in accomplishment—the eighteenth amendment to the federal constitution? It is just barely possible that the New Deal is not the last word, and that even in industry some one may yet raise the battle cry of freedom against that sweet phrase, a Planned Economy. History might make us some interesting suggestions on this score. But history is bunk. There is nothing left now but economics.

The United States of America.
July 24, 1933.

AN AUSTRALIAN VIEW OF THE WORLD CONFERENCE

WHEN on April 26 Mr. MacDonald and President Roosevelt agreed upon June 12 as the date for convening the Monetary and Economic Conference, they issued a *communiqué* from Washington. In it they declared that "the necessity for an increase in the general level of commodity prices was recognised as primary and fundamental." They suggested also that "action in both the economic and monetary field" was necessary for attaining their objective. This declaration gave some authority to the view prevailing in primary producing countries that the raising of prices was the real task of the Conference. That view was confirmed by the speeches at the opening plenary sessions, when many delegates emphasised the disastrous effects of the fall in prices upon both national and world economics. The Conference, especially the representatives of the overseas countries, accordingly welcomed Mr. Neville Chamberlain's early declaration that "first it was essential to bring about a recovery in the world level of wholesale commodity prices sufficient to yield an economic return to producers of primary commodities and to restore equilibrium between costs and prices of production generally."

The facts of the fall in world prices are so well known as to require no further mention here. The consequences of the fall are perhaps not as fully realised as they might be. At first the fall was concentrated upon the foodstuffs and raw materials of international commerce. Contemporaneously there was a decline of international investment in countries exporting these commodities. This set in motion forces which unbalanced budgets, dislocated the balances of payments, and threw into disorder the internal economy of the raw material and food exporting countries. Soon the repercussions on industrial countries were severe, and the same symptoms of economic dis-

An Australian View of the World Conference equilibrium were apparent in these countries. Deflation was in full swing, and each country—industrial or primary producing—took what measures it could to safeguard its budget and its balance of payments. But these measures were largely deflationary—heavy cuts in government expenditure, reductions in wages, higher tariffs, quotas and acute exchange restrictions. They were also competitive in character and had little chance of overtaking the fall in prices. In the mass they reduced spending power in the world, cut deeply into the volume of international trade, and, in many countries, brought the credit structure to the verge of collapse. Economic nationalism, so strongly entrenched after the war, passed swiftly into what has been rightly styled “economic barbarism.”

The nations were indeed engaged in an economic war which might if unchecked destroy the fabric of international finance and commerce, force down standards of living, and leave each nation with an appalling unemployment problem. To draw again from Mr. Chamberlain's important opening speech: “A reduction in costs would produce further deflationary effects on prices, and costs and prices would follow one another downwards without ever reaching equilibrium.”

II. THE MONETARY CLEAVAGE

NO one who had watched closely the trend of economic policy since the war could fail to detect many weaknesses in the international economic structure. But the overwhelming weakness when the Conference met was the low level of commodity prices. Action to reduce tariffs, modify quotas, remove exchange restrictions and eliminate special subsidies to uneconomic production could not be taken until prices rose, or other means of relieving debtor countries were devised. In the absence of a rise in commodity prices the only means available for giving the relief were a resumption of international lending and a scaling

The Monetary Cleavage

down of existing debts. There was no plan before the Conference for the first form of relief, and no enthusiasm for the second. It may be doubted whether strong debtor countries would welcome either form of relief as a solution of their difficulties. They preferred a rise in prices as the quickest and most satisfactory way out. Since the fall in prices was the proximate cause of existing difficulties, a renewal of the price movement would offer the speediest means of recovery. This at least was the point of view of all the British Dominions, of the Scandinavian countries, of the United States, of the Far East, and of most of the American republics. A writing down of international debts would strike a damaging blow at confidence without giving sufficient relief to the internal economy of the debtor nations. An increase in lending without a rise in prices, if it were practicable, would only make the debt structure more top-heavy. Attention was accordingly fastened upon the steps necessary to raise prices.

The method of attack on this problem was enunciated in the discussions at the opening plenary sessions. Three types of action were suggested by delegates—cheap money resulting from central bank policy, increased expenditure on public works, and the regulation of supply to “the real possibilities of consumption,” as the French Prime Minister put it. But France and the gold countries in general showed no enthusiasm for central bank policy. They preferred, again in the words of the French Prime Minister, “to put an end to the currency war and restore to trade the essential guarantee of monetary security.” Though the Conference proceeded to appoint two main commissions—monetary and economic—and these commissions proceeded in turn to allot work to sub-commissions, the problem of “monetary security” soon became the centre of interest.

On the eve of the Conference discussions on currency stabilisation were in progress in London among central bankers, including representatives of the Bank of England,

An Australian View of the World Conference
the Bank of France and the Federal Reserve Board of the United States. The mere suggestion that the dollar might be stabilised caused a reaction in the commodity and security markets of the United States. President Roosevelt then announced that he had no plans for stabilisation. This announcement not only rendered the bankers' discussion ineffective. It suspended serious monetary discussions at the Conference while the representatives of the gold bloc, the United Kingdom and the United States, canvassed the possibilities of securing an agreement on the stabilisation of currencies.*

It is not possible in this article to deal in detail with these discussions. Though conducted "outside" the Conference, they had a devastating effect on the work of the Conference. Suffice it to say that a declaration agreed to by the gold bloc and the United Kingdom affirming the desirability of attaining "stability in the international monetary field" as quickly as possible, and favouring the ultimate re-establishment of the international gold standard, but leaving countries off gold to choose the time and parity at which they could return, was bluntly rejected by President Roosevelt. From that moment the gold bloc sought to prevent further discussions on monetary problems in the Conference. The British Empire delegations, and those of most other countries outside Europe, together with Austria and the Scandinavian countries, were anxious to proceed with all the problems on the Conference agenda. They were defeated. The only monetary matters that were seriously considered after the "stabilisation crisis" were silver and indebtedness. Even the main work of the Second Monetary Sub-Commission (the re-establishment of an international monetary standard) was virtually suspended. The discussions on silver were confined to means for raising the price of silver, while those on indebtedness ended with a resolution that emphasised the duty of debtors to meet their obligations as far as practicable.

* For a description of the respective attitudes of the three parties see p. 726.

Restriction

When default was inevitable, there should be recourse to direct discussions between debtors and creditors, but nothing should be done to impair confidence. No new ground was broken on this problem. Though a commencement was made in setting out the conditions of the successful working of an international gold standard, no progress was made in evolving monetary plans that would raise prices in the immediate future.

The Conference was thrown back on the work of the Economic Commission. But the discussions of three out of four of the sub-commissions, namely, those dealing with (a) commercial policy, (b) bounties and subsidies, etc., (c) export bonuses, marks of origin, etc., were also seriously affected by "the stabilisation crisis." It was argued that currency fluctuations prevented any agreement upon tariffs, subsidies and bounties. Currency depreciation would quickly upset policy on these matters, and effective international plans to deal with the many barriers to international trade could not be laid until the exchange value of currencies was stable. No doubt on these matters the experts gained more information. At least it may be said that those who came from overseas became much more apprehensive concerning both the evils of trade barriers and the possibility of their removal in the near future. In particular, the protective measures for European agriculture presented a depressing problem to the overseas countries. The finding of the Sub-Commission on Commercial Policy that "the need and urgency of reducing excessive customs tariffs were unanimously admitted" may, however, provide a basis upon which useful discussions may proceed later.

III. RESTRICTION

THERE remained the work of Sub-Commission III A of the Economic Commission. This sub-commission was charged with the task of dealing with the problem of

An Australian View of the World Conference

"the co-ordination of production and marketing." There was much enthusiasm for the work of this sub-commission among members of the gold bloc, and most other European nations, including the United Kingdom. Some overseas delegations, notably those of Cuba and Brazil, were also eager to secure an agreement on plans for regulating the supply of particular commodities. The sub-commission commenced its discussions on the conditions that should be observed in formulating co-ordinating schemes. In view of the importance attached at the Conference to the problem of co-ordinating production and marketing, these conditions as finally approved by the sub-commission and embodied in the Conference report are reproduced in the Appendix to this article. There was but one dissentient voice, that of Mr. Bruce, representing Australia. Later, when individual commodities came up for special consideration in sub-committees, the difficulties of working out satisfactory schemes became more and more apparent, and the Conference ended without reaching agreement on any scheme except that on silver. A scheme for silver, the cynics might say, was possible because it was worked out in the Monetary Commission untrammelled by any special conditions. Be it noted, however, that the silver agreement was confined to the release of stocks and the purchase of equivalent quantities by governments in certain producing countries. No control of annual production was envisaged.

The objective of the discussions on the co-ordination of production and marketing was "to restore the purchasing power of producers and consumers and thus to increase demand."* Detailed consideration of plans covered a wide range of commodities—dairy produce, sugar, wine, coffee, cocoa, timber, tin, coal and copper. At the same time discussions on wheat were proceeding outside the Conference. In reporting to the Conference the chairman of the sub-commission (M. le Breton) remarked that "within

* See clause 2 of the report of the Sub-Commission on the Co-ordination of Production and Marketing set out in the Appendix.

Restriction

the Conference such attempts (to organise special branches of production) are considered as so many parts of a concerted scheme intended to give fresh impetus to economic life." But there was no "concerted scheme" evolved at the Conference. Those who objected to plans for regulation of supply, notably Mr. Bruce on behalf of Australia, were prepared to enter into temporary arrangements for liquidating stocks of some commodities when stocks were a menace to the market. But even in these cases it was recognised that action was to be taken only as part of a general plan for raising prices and increasing general spending power. When it became evident that no general plan of this nature was possible, and that the main work of the Conference was the initiation of schemes for restriction (or, as advocates prefer to say, regulation) of production, Mr. Bruce was much more outspoken in his criticism. He deplored the concentration of effort upon this problem, contested the view that restriction schemes could raise general prices, and drew attention to the ensuing growth of "collectivism" that would follow a widespread adoption of regulation of production.

There is much in these criticisms that will find favour in all the Dominions, and in other overseas primary producing countries. That restriction schemes—and in present circumstances all plans for regulation are plans for restriction—cannot increase spending power and raise general prices is self-evident. They merely transfer spending power from one group of producers to another, and they may actually retard investment because the falling prices of unrestricted goods, and the unused capacity in industries producing restricted goods, offer little scope for new investment. Apart from the great practical difficulties of their operation, they offer small comfort to primary producing countries which have incurred heavy debts for the purpose of expanding their production. It was indeed a gospel of despair that these countries were asked to accept. With no prospects of monetary action

An Australian View of the World Conference

to increase spending power and raise prices, and no prospects of a reduction of the many barriers in the way of imports of foodstuffs and raw materials into European consuming countries, the overseas exporting countries were in effect asked to shoulder still more of the burdens of the economic crisis. Prices of many agricultural products in Europe are much higher than the prices in the exporting countries. Yet the latter with much more efficient production were to reduce output in order to bring world prices up to the uneconomic cost level of European agriculture.

To the Dominions it appeared regrettable that Great Britain should associate herself with these proposals, and at the same time shelter the gold currencies of countries which eagerly pressed for limitation of production and sternly refused to embark upon an expansionist banking policy. Great Britain made no effective protest against the gold bloc's ultimate veto on monetary discussions, and was unable to offer the Conference any evidence that action would be taken to develop an independent sterling policy, for which the Dominions were pressing. She showed much enthusiasm for restriction plans and little appreciation of the special difficulties that these plans would create in the Dominions. Her representatives at the Conference could plead that a rise in the world prices of primary products would assist the Dominions, but they overlooked the two-fold objection that the rise could be accomplished only by restriction of production in *the exporting countries*, and that high sheltered prices encouraging production in *the importing countries* would be maintained. It is true that the British policy was to stabilise domestic production, but this could not be said of other importing countries.

These differences in policy between the Dominions and the United Kingdom were acute, though they were rarely obtruded into the Conference. But for the moment Great Britain seemed to have slipped back into the position of a European country and to have linked herself with the

The Empire Declaration

gold bloc, which, under the leadership of France, had nothing to offer the Conference but an intensification of deflation. Perhaps under more favourable circumstances, with France less fearful of currency depreciation and America no longer apprehensive of stabilising the dollar, Great Britain will be able once again to assume her place of leadership in international monetary policy, and through the British Commonwealth of Nations to offer the world a plan that will mobilise the forces of recovery.

IV. THE EMPIRE DECLARATION

FORTUNATELY the discussions among the members of the Commonwealth of Nations during the Conference brought this end appreciably nearer. The declaration on monetary and economic policy issued by the Empire at the close of the Conference* indicates that on fundamental matters of monetary policy the interests of Great Britain and the overseas Dominions and India are identical. The declaration was noteworthy for its emphasis on monetary policy. It referred pointedly to the economic hindrances to rising prices and to the necessity for international action to remove these hindrances. Further, the members of the Empire expressed a keen desire that the reduction of tariffs within the Empire contemplated at Ottawa should be realised.

Of much greater importance is the monetary policy embodied in the declaration. To some extent it is in contrast to the attitude taken up by Great Britain during the critical days of the Conference. It is, however, consistent with the policy initiated at Ottawa and urged upon Great Britain by the Dominions during the Conference. In particular, the Dominions will welcome the sympathetic reference to recent United States policy as providing a favourable atmosphere in which the Ottawa monetary

* See Appendix II.

An Australian View of the World Conference

policy might bring about a rise in sterling prices. The definition of the price level to which sterling policy is directed will be not less pleasing to the overseas members of the Empire. "Any price level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonises the burden of debts and fixed charges with economic capacity." This is a comprehensive definition of the relief expected from the desired rise in prices—desired, that is, by debtor and primary producing countries. Of even greater importance is the assertion later in the declaration that "the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect." This statement offers some guarantee that central bank policy will not be directed to maintaining stability of sterling with the franc or any other gold currency. Should sterling move further from gold, and, in doing so, raise prices of primary products and help to restore a balanced price structure in the Dominions, there will be less need for alterations in exchange rates for Dominion currencies based on sterling. The creation of a wide area of currency stability will be a valuable contribution towards economic recovery. Moreover, this policy should attract other countries, such as Scandinavia, Austria, the Far East and some of the South American republics, to enter the sterling area and maintain stability of exchange with sterling. There is, indeed, in the declaration an invitation to these countries to pursue a policy of stability with sterling, and thus to make possible "the attainment and maintenance of exchange stability over a still wider area."

References to public works expenditure in the declaration indicate perhaps some difference of opinion among the members of the Empire, and strengthen the view recently expressed by Mr. Runciman at the Conference that Great Britain does not intend to embark upon ambitious pro-

The Empire Declaration

grammes of public works. No doubt the Dominions are less concerned about this aspect of British monetary policy than they are about the freedom of sterling from any close ties with other currencies. From the point of view of the Dominions, too, the declaration will be highly satisfactory in another respect. There is no reference to co-ordination of production and marketing or to restriction schemes, for which British Ministers at the Conference had shown singular enthusiasm. It is true that Mr. Chamberlain, in his closing speech, referred to the Economic Commission as having done "very valuable work in the field of regulation and production." Committee work dealing with this aspect of economic policy will doubtless be continued during the recess. In the absence of general debate, there will be ample opportunity for nations which desire to pursue policies of restriction to test their principles by applying them to specific commodities. The Dominions would deplore concentration upon this aspect of the work in the subsequent discussions, as they deplored it in the discussions held during the Conference. They will feel, however, that British monetary policy is likely to be more constructive than was at first thought possible. Provided that the policy so satisfactorily enunciated is put into practical effect, the Dominions will feel much more disposed to accept some measure of regulation, as part of a co-ordinated plan of economic recovery through a rise in prices. The declaration by the British Commonwealth of Nations thus provides a basis upon which the work of the Monetary and Economic Conference may be continued with hope of success. For the Empire, furthermore, the declaration removes misunderstandings on high policy that were seriously prejudicing discussions on the Ottawa agreements.

London.

July 29, 1933.

An Australian View of the World Conference

APPENDIX I

RESTRICTION OF PRODUCTION

*(Part of the Report of the Sub-Commission on the Co-ordination of Production and Marketing.)**

The sub-commission had before it a proposal by the French delegation which had asked the Conference to examine the possibility of agreements between Governments on certain products for which the intervention of the latter appeared to be necessary.

It was therefore confronted with a vast plan of action and, in order to prepare the ground, it was anxious to begin by a discussion of the general principles which should govern the agreements to be concluded with a view to a readjustment of supply and demand. Extreme caution is necessary in regard to such matters: any mistake in application might bring about the opposite results to those desired.

A plan submitted by the United Kingdom delegation defined the conditions which all schemes of this nature should fulfil, all of them resting on the fundamental idea of the necessity of obtaining a carefully balanced proportion. It was exhaustively discussed and the sub-commission, taking into account the observations made by various delegations, arrived at the following test, which in view of its importance is reproduced in full:

1. In order to assist in the restoration of world prosperity, it is essential to increase the purchasing power of the producers of primary products by raising the wholesale prices of such products to a reasonable level.

2. In the exceptional conditions of the present world crisis, concerted action is required for this purpose. Apart from any other measures that may be taken to restore the purchasing power of producers and consumers and thus to increase demand, it is desirable that plans should be adopted for co-ordinating the production and marketing of certain commodities.

3. Any agreements to give effect to such plans should conform generally to the following conditions:—

(a) The commodity must be one of great importance for international trade in which there is such an excess of production or stocks as to call for special concerted action.

(b) The agreement should be comprehensive as regards the commodities to be regulated, that is, it should not be so narrowly

* League of Nations, C. 435, M. 220, 1933, II. (Report of the Bureau to the Conference, July 27, 1933.)

Appendix

drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.

(c) It should be comprehensive as regards producers, that is:

(i) it should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves:

(ii) where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.

(d) It should be fair to all parties, both producers and consumers, it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing co-operation of consuming interests in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices.

(e) It should be administratively practicable, that is, the machinery established for its administration must be workable, and the individual Governments concerned must have the power and the will to enforce it in their respective territories.

(f) It should be of adequate duration, that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.

(g) It should be flexible, that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.

(h) Due regard should be had in each country to the desirability of encouraging efficient production.

APPENDIX II

THE EMPIRE DECLARATION

The following declaration was issued on July 27 over the signatures of Mr. Neville Chamberlain (United Kingdom), Mr. R. B. Bennett (Canada), Mr. S. M. Bruce (Australia), Mr. G. W. Forbes (New Zealand), General J. C. Smuts (South Africa), and Sir Henry Strakosch (India). The declaration was not signed by the representative of the Irish Free State, who referred the matter to his Government.

1. Now that the World Economic and Monetary Conference has adjourned, the undersigned delegations of the British Commonwealth consider it appropriate to put on record their views on some of the more important matters of financial and monetary policy which were raised, but not decided, at the Conference. During the course of the Conference they have had the opportunity of consulting

An Australian View of the World Conference

together and reviewing, in the light of present-day conditions, the conclusions arrived at at their meeting at Ottawa a year ago, in so far as they had reference to the issues before the Conference.

ECONOMIC POLICY

2. The undersigned delegations are satisfied that the Ottawa Agreements have already had beneficial effects on many branches of inter-Imperial trade and that this process is likely to continue as the purchasing power of the various countries concerned increases. While there has not yet been sufficient time to give full effect to the various agreements made, they are convinced that the general principles agreed upon are sound. The undersigned delegations reaffirm their conviction that the lowering or removal of barriers between the countries of the Empire provided for in the Ottawa Agreements will not only facilitate the flow of goods between them, but will stimulate and increase the trade of the world.

3. The delegations now desire to draw attention to the principles of monetary and financial policy which have emerged from the work of both the Ottawa and World Conferences, and which are of the utmost importance for the countries within the British Commonwealth. The following paragraphs embody their views as to the principles of policy which they consider desirable for their countries.

MONETARY AND FINANCIAL POLICY

I. PRICE LEVELS

4. At the Ottawa Conference the Governments represented declared their view that a rise throughout the world in the general level of wholesale prices was in the highest degree desirable, and stated that they were anxious to co-operate with other nations in any practicable measures for raising wholesale prices. They agreed that a rise in prices could not be effected by monetary action alone, since various other factors which combined to bring about the present depression must also be modified or removed before a remedy is assured.

It was indicated that international action would be needed to remove the various non-monetary factors which were depressing the level of prices.

In the monetary sphere the primary line of action towards a rise in prices was stated to be the creation and maintenance within the limits of sound finance of such conditions as would assist in the revival of enterprise and trade, including low rates of interest and an abundance of short-term money. The inflationary creation of additional means of payment to finance public expenditure was deprecated, and an orderly monetary policy was demanded with safeguards to limit the scope of violent speculative movements of commodities and securities.

Appendix

5. Since then the policy of the British Commonwealth has been directed to raising prices. The undersigned delegations note with satisfaction that this policy has been attended with an encouraging measure of success. For some months indeed it had to encounter obstacles arising from the continuance of a downward trend of gold prices, and during that period the results achieved were in the main limited to raising prices in Empire currencies relatively to gold prices. In the last few months the persistent adherence of the United Kingdom to the policy of cheap and plentiful money has been increasingly effective under the more favourable conditions that have been created for the time being by the change of policy of the United States, and by the halt in the fall of gold prices.

Taking the whole period from June 29, 1932, just before the assembly of the Ottawa Conference, a rise in sterling wholesale prices had taken place of 12 per cent. according to the *Economist* index. The rise in the sterling prices of primary products during the same period has been much more substantial, being in the neighbourhood of 20 per cent.

6. The undersigned delegations are of opinion that the views they expressed at Ottawa as to the necessity of a rise in the price level still hold good, and that it is of the greatest importance that this rise which has begun should continue. As to the ultimate level to be aimed at they do not consider it practicable to state this in precise terms. Any price level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonises the burden of debts and fixed charges with economic capacity. It is important that the rise in prices should not be carried to such a pitch as to produce an inflated scale of profits and threaten a disturbance of equilibrium in the opposite direction. They therefore consider that the Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established, and that thereupon they should take whatever measures are possible to stabilise the position thus attained.

7. With reference to the proposal which has been made from time to time for the expansion of Government programmes of capital outlay, the British Commonwealth delegations consider that this is a matter which must be dealt with by each Government in the light of its own experience and of its own conditions.

II. EXCHANGE STABILITY

8. The Ottawa Conference declared that the ultimate aim of monetary policy must be the restoration of a satisfactory international monetary standard, having in mind, not merely stable exchange rates

An Australian View of the World Conference

between all countries, but the deliberate management of the international standard in such a manner as to ensure the smooth and efficient working of international trade and finance. The principal conditions precedent to the re-establishment of any international monetary standard were stated, particularly a rise in the general level of commodity prices in the various countries to a height more in keeping with the level of costs, including the burden of debts and other fixed and semi-fixed charges, and the Conference expressed its sense of the importance of securing and maintaining international co-operation with a view to avoiding, so far as may be found practicable, wide fluctuations in the purchasing power of the standard of value.

9. The undersigned delegations now reaffirm their view that the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard under which international co-operation would be secured and maintained with a view to avoiding, so far as may be found practicable, undue fluctuations in the purchasing power of gold. The problem with which the world is faced is to reconcile the stability of exchange rates with a reasonable measure of stability, not merely in the price level of a particular country, but in world prices. Effective action in this matter must largely depend on international co-operation, and in any further sessions of the World Economic and Monetary Conference this subject must have special prominence.

10. In the meantime the undersigned delegations recognise the importance of stability of exchange rates between the countries of the Empire in the interests of trade. This objective will be constantly kept in mind in determining their monetary policy, and its achievement will be aided by the pursuit of a common policy of raising price levels. Inter-Imperial stability of exchange rates is facilitated by the fact that the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect. The adherence of other countries to a policy on similar lines would make possible the attainment and maintenance of exchange stability over a still wider area.

11. Among the factors working for the economic recovery of the countries of the Commonwealth, special importance attaches to the decline in the rate of interest on long-term loans. The undersigned delegations note with satisfaction the progress which has been made in that direction as well as in the resumption of oversea lending by the London market. They agree that further advances on these lines will be beneficial as and when they can be made.

12. The undersigned delegations have agreed that they will recommend their Governments to consult with one another from time to time on monetary and economic policy with a view to establishing their common purpose and to the framing of such measures as may conduce towards its achievement.

CAPITALISM AND COMMUNISM

I.

CAPITALISM and communism are convenient names for two different systems of economic life. The first is based on the idea of competition between individuals both in the production and distribution of goods, with rewards varying according to success. The second is based on the idea of co-operation between all members of the community in the production and distribution of goods, with rewards divided equally among them.

The distinction goes back to the earliest times of human history and indeed beyond. The commonwealth of the bees, as far as we can understand it, is an almost perfect case of communism. Lions on the other hand live on the individualist system which is the foundation of capitalism. Mankind in its savage state shows rudimentary examples of both kinds of organisation. But those sections of it which followed communism have remained savage through the ages. The development of what is called civilisation has been carried out by peoples organised on the individualist system.

Up to a hundred years ago the economic side of life was not foremost in men's minds. In the matter of production and distribution of goods men lived mainly by routine and custom. For the most part they lived hardly. But the processes of production and distribution both received a great impetus from the discovery of steam. Later on this was accelerated by other inventions; until now it may be said that man is, or can be, victorious in the long struggle to wrest the materials of subsistence and comfort from a reluctant earth.

This development of material wealth took place under the capitalist system and was naturally considered as its fruit. The system itself was expanded and refined from the elementary stage in which it had hitherto existed into the complex organism that we know. A gospel was

Capitalism and Communism

written for it by the political economists of the nineteenth century. But the propagation of this gospel soon raised heretics. The glaring inequalities in the distribution of wealth and comfort which followed on the application of the doctrine of competition in an undiluted form were disturbing to the minds of many thinkers. A counter-doctrine began to be formulated and preached. It took several shapes, but the purest is that which we call the theory of communism.

II.

FOR several generations communism remained only a theory as far as the civilised world was concerned. Capitalism held the field in practice. But within the last fifteen years communism has been adopted as a working system by a great nation—the greatest in the world in point of territory, the second greatest in point of population. Up to the present it can only be regarded as an experiment which is still going on. We do not yet know whether it will be able to sustain itself against the individualist tendencies which are present to a greater or less extent in most races of men. Nor do we yet know whether it will succeed in maintaining or improving material comfort among the people who follow it. The great objection which has always been urged against communism—or against any form of State socialism—on its economic side is that the production of material wealth, on which the comfort of the people depends, will be checked and even recede if the incentive of competition and of reward proportioned according to success is removed. The result of such minor experiments in State socialism as have been made by other countries have tended to support this objection. But these experiments have only been partial. Russia is the first example of communism on a grand scale, and we cannot yet tell how it is going to turn out on the economic side. While observers differ, this much seems to be certain. Firstly that the standard of luxurious living which was

Capitalism and Communism

enjoyed by a small number in Russia under the former system—as it is by the rich in all countries—has entirely disappeared. Secondly, that the standard of material comfort among the mass of the population in Russia is still lower than it is in nearly all western countries. On the other hand it is contended that this was always the case and that the living standard of 90 per cent. of the Russian population was lower still under the old system; in other words that some improvement has already taken place and that this is continuing. It is on the extent of this improvement and the probability of its continuance that observers differ.

On the side of production, therefore, all that can be said is that the theoretic arguments are against communism and that in practice it has not yet proved itself. On the side of distribution communism has a stronger case. The difficulty, which at present besets capitalist nations, of getting goods into consumption after they have been produced, does not appear to exist in Russia, and in theory at any rate would appear unlikely to arise under their system. Work is found for all, and all have their share of the goods produced whatever they may be.

III.

LET us turn now to the economic results of the old-established capitalist system as they appear at present. The best example to take is the United States of America. In that country the capitalist system might be expected to reach its highest development. The great extent and natural richness of the country; its freedom from foreign complications or the danger of them; the numbers and vigour and diversity of its population; their aptitude for manufacture and trade; all these are favourable conditions. Working in these surroundings the capitalist system should be, if anywhere, a success. And, in fact, it did succeed in the United States in establishing, not only a high standard of luxurious living for an unusually large minority, but also

Capitalism and Communism

a level of material well-being and comfort for the mass of its people which has never been reached elsewhere since the world began.

Taking the United States as it stood in 1929, it might have been said that as far as production is concerned capitalism had proved its case. It had shown that it was capable of taking advantage of all the discoveries which have given man a completer mastery over nature for the purpose of producing the materials of subsistence and comfort and adornment. It had shown that it could increase these materials easily, rapidly, and almost without limit. The United States might have been pointed to at that time as a shining example of the success of capitalism.

But a little later the picture was entirely changed. Prosperity had given way to depression. Three years after it had been boasted that poverty had been definitely abolished in the United States a considerable part of the population was living on public or private charity. There is no general agreement about the causes of the change. But this much is certain; that the fault must either have been in the system itself or in those who controlled it. It cannot be imputed to natural and unavoidable causes. In history there have been periods of poverty and distress in different parts of the earth by reason of flood or famine or war or pestilence, which have destroyed or impaired the means of production. There was no such cause here. The productive capacity of the world in general and of the United States in particular, if it was impaired by the Great War, had long since been restored and stood at a higher point than ever before. The capacity to produce goods was there. It was the ability to distribute them that seemed to be lacking.

IV.

ONE excuse which has been given for the change in the United States is that the poverty of the outside world made it unable to buy American goods or to give anything

Capitalism and Communism

in exchange, and that the fall in prosperity was thus caused by the falling off in foreign trade. But this excuse will not bear examination. In the first place, the productive capacity of foreign countries was not impaired any more than that of the United States. They were still able and willing to supply in superabundance any of the goods and materials which the United States could not supply for itself, and to take American products in exchange.

In the second place, if we examine the figures of trade between the United States and foreign countries we shall find that in the nine years 1922 to 1930 inclusive the balance in favour of the United States was 6,477 million dollars; in other words during those nine years the United States sold to foreign nations more goods than it bought from them to the extent of 6½ billion dollars.

But during the same nine years foreign bond and share issues subscribed in the United States totalled 8,875 million dollars. For these issues the United States took pieces of paper which, whatever their future value, were certainly of no use for consumption. The people of the United States could not use them for food or for building houses or as a material of manufacture.

It follows from this that the excess exports of the United States during the period of prosperity did not play any part in supplying its population with the necessities or luxuries of life. They were merely a surplus which the United States exchanged for an acknowledgment of indebtedness, not for any articles of present use. The American people maintained their living standard during these years on what they produced themselves plus a certain amount of foreign produce for which they gave goods in exchange. They had still a surplus of their own products which they sent abroad, taking paper in exchange. The shrinkage or even the entire disappearance of these surplus exports, however it might affect the living standard of other nations, which had got consumable goods in exchange for

Capitalism and Communism

paper, should not directly affect the living standard of the nation which had merely got paper for goods.

V.

ANOTHER explanation which has been offered is that during the good years the United States was living on its capital. This explanation also is plainly untenable. A nation can live on its capital in three ways. Firstly, if it owns a great volume of foreign investments, it may gradually realise the principal of these, drawing it back in the form of goods and using these goods to maintain the living standard of its people. It was alleged, and it may be true, that Great Britain entered on this course or was in danger of entering on it a short time ago.

Secondly it can borrow abroad, again taking the proceeds in the form of goods and using these for immediate consumption to maintain or improve its standard of living, instead of for reproductive purposes. To do this is in a sense to live on capital. This was the process which, for instance, brought about the difficulties of Australia.

There is a third way in which a nation can live on its capital. That is by allowing its fixed plant and equipment to run down and using too much of what it produces for keeping up its standard of living and too little for what may be called maintenance and repairs. If this is done the time naturally comes when a larger part of the national production has to be devoted to making good the work which has been neglected, and there is less left for day to day consumption.

But certainly the United States did not in its years of prosperity live on its capital in any of these three senses. It was not reducing its foreign investments but on the contrary was increasing them. It was not borrowing abroad. Nor was it allowing its fixed plant and equipment to run down but, on the contrary, was extending and improving it on an enormous scale. Not only manu-

Capitalism and Communism

facturing plants and machinery but also houses and buildings of every kind, roads and all sorts of public works were improved and added to in every direction.

VI.

WE had then this position in the United States at the beginning of this year. Productive capacity had not been impaired: yet production had been cut down. This was not because the wants of the people were fully supplied; for the vast majority of the people were denying themselves something, and many were suffering actual distress. The automobile factories were idle because the farmer could not afford automobiles; the farmers were destroying food because the factory workers could not buy it. Evidently the machinery set up by capitalism for the exchange of goods had broken down. Capitalism, it may be, had solved the problem of production; it had failed to solve that of distribution. And the failure was spectacular. For it did not arise out of the old problem of the few getting too much and the many getting too little. In this case there was plenty for all. But though they could produce the goods they could not get them into consumption.

Such a failure may not prove fatal to capitalism so long as it can allege that the rival system of communism fails in production. For production comes first. It is no good having a perfect system for distributing goods if you do not produce enough to go round. But if communism in Russia should show itself able—it has not done so up to now—to produce goods as abundantly or nearly as abundantly as capitalism, then capitalism will be in danger unless in the meantime it can remedy its present liability to break down in the matter of distribution. For on the economic side it will then appear definitely inferior to communism. There are many reasons other than economic for preferring individualism to communism. But it is to be feared that these will weigh little if the majority once

Capitalism and Communism

come to believe that they will be better off, materially speaking, under a communist than under a capitalist régime.

VII.

LET us now consider the probable working of the two rival systems in relation to some major economic problems. The first of these is that of international trade. The original individualist gospel applied its dogma of unrestricted competition to this sphere as well as to others. It held that the trade of goods between one country and another was wholly desirable and should be subject to no restriction. This was the doctrine of free trade. Its argument was that relative cheapness of production should determine where goods should be produced, and that this would happen if no barriers were set up in the way of tariffs.

This theory has broken down in practice because it does not take into account the impracticability of shifting labour and capital from one industry to another, or indeed any other factors in the unemployment problem. The free trade doctrinaire will reply that the issue does not arise in this connection because, lending and borrowing aside, exports will always balance imports. But, as things work out in practice, this truism does not justify—given the existence of nations as separate entities—the assumption that the employment of a labourer in Lyons is as good as the employment of a labourer in Manchester, and that the employment of a labourer in Shanghai is as good as either. It is not true, from the point of view of a nation regarded by itself, that the development of an industry somewhere else compensates for the decay of an industry at home, or that the employment of its own citizens in production is no more beneficial than the employment of the citizens of some other country. Consequently the doctrine of free trade has made little headway except in countries like Great Britain, to whose peculiar circumstances

Capitalism and Communism

it happened to be suited. Nor is it likely to be generally adopted so long as nationalism subsists.

There is no reason to suppose that the barriers in the way of international trade would disappear or be lessened in a world organised on a communist instead of on a capitalist basis—assuming, that is, that separate nationalities remained. Each nation would still regard its own interest as coming first, and, as far as its natural resources put it in a position to become self-sufficing, it would desire to use them for that purpose. Russia has shown no inclination to turn to the production of food-stuffs and raw materials, and to leave the supply of manufactured goods to nations whose factories are already at work. On the contrary she has started to build up industries of every kind with the avowed intention of supplying all the wants of her people for every kind of product. If the communist system were universal, international exchange of goods would no doubt still be carried on, but it would be governed by tariffs and quotas and so forth to at least as great an extent as it is now and probably more so. It would be carried on not by individuals but by government organisations and would be largely a matter of bargain and barter. For example, Russia might offer to take so much rubber from Malaya or the Dutch East Indies provided they took a corresponding value of Russian products—wheat or timber or oil. But assuming that her own factories were developed she would not take sewing machines from America or electrical machinery from Great Britain on any terms at all. The doctrine of free trade, namely, that products of all kinds should compete in all markets, would be still less likely to be carried out or even to be professed than it is to-day.

VIII.

BUT even if the doctrine of protection still held, it might be applied with more moderation than at present. Under the individualist system there are always individuals

Capitalism and Communism

ready to start a new industry, however unsuited to the conditions of the country, if they can get sufficient protection in the way of tariff. And often they can. The result is that a great deal of the world's production is done on uneconomic lines. The area of Europe excluding Russia is less than that of the United States. It is divided into twenty-four different countries, the trade between which is restricted by tariffs based on the principle of protecting national production. Let any American imagine a situation in the United States where the State of New York tried to produce all its own food-stuffs and the State of Wyoming all its own manufactures and other States similarly, and where inter-State tariffs were set up to bring about this result. How far would the economic progress of the United States have gone under such conditions?

The truth is that the doctrine of individualism and the doctrine of protection are mutually contradictory. They belong to different lines of thought. Individualism logically calls for free trade. Protection logically calls for government control of international if not of internal trade. And it may be that the logic of facts, more powerful than that of ideas, will ultimately force this conclusion on the world. The growing disruption of international trade through tariffs, and even more through the difficulties of monetary exchange, acts in this direction. The appearance on the scene of a communist nation, conducting its international trade on communist principles, tends the same way. It is already beginning to be recognized that individual traders cannot compete in the international field with a government institution like the Russian *Amtorg*,* which has not to consider questions of profit and loss. If the Russian surplus available for export grows into great dimensions, Amtorg will be able to ruin all its individual competitors. Other countries will either have to refuse to trade with Russia at all or will have to

* Amtorg is the official corporation which carries on trade with America in everything except cotton and wool.

Capitalism and Communism

conduct their trade with Russia through some organization similar to Amtorg. If they do the latter, but not otherwise, they will be able to protect their home markets against demoralization by price cutting, and will also be able to drive a bargain to the effect that if they buy from Russia, Russia will buy from them. As long as they carry on their international trade on the individualist system while Russia carries on hers on the communist system they can do neither of these things effectively.

If this practice were once begun it would spread and international trade would become a kind of glorified barter between the amtorgs of different nations.

In such an event, while the doctrines of national self-sufficiency and the development of national production would still prevail, their application might be tempered by economic expediency. One amtorg might make a long-term bargain with another to supply, let us say, a certain amount of food-stuffs or raw materials in exchange for a certain amount of manufactured goods, or some class of manufactured goods in exchange for another, or some class of raw material in exchange for another, instead of all countries trying to produce the same things at the same time. Whether the advantage resulting from the ability to make bargains of this sort would balance the disadvantages which might be expected from the disappearance of the competitive spirit in international trade is another question.

IX.

THE second problem which we may consider is that of international loans. Under the individualist system capital for the development of backward countries has been supplied by private investors in the developed countries, that is countries which have a surplus production beyond their own needs for immediate consumption. There has been little plan or order in the lending. When savings are plentiful in the lending countries loans are

Capitalism and Communism

offered freely without much regard to the question of their productive employment. They may be productively applied, but there is no direction in the matter. Trade depression comes, savings fall off, the lending stops. Then the borrower, like a private trader whose bank has stopped supplies, is often unable to fulfil his obligations, even if he has not wasted the money lent but has employed it productively. The lenders become naturally unwilling to lend any more on any reasonable terms even if their power to lend revives. The whole process of using the resources of advanced countries to develop those of backward ones is checked.

If the world were divided into communist States there would be no such thing as private investment. All international lending would be by government to government. The country having a surplus would have to determine in the first place whether it would be more advantageous to divide it amongst its own population or to lend it abroad. It might be that the surplus production would be of such a nature that there would be no particular benefit in using it at home. For instance the United States might have a great surplus capacity for producing steel rails and railway equipment. It could use this to build more railways at home or to build them abroad. But it might need no more railways at home. In that case the United States would have to determine whether it was better to let its surplus productive capacity in this direction lie idle—assuming the capacity could not be diverted to another line of production—and so give its population more leisure, or, as an alternative, to employ the surplus production abroad in the hope of getting some future return on it. The decision would not be governed, as at present, by the belief of private investors that the borrowing country would be able to pay a certain rate of interest (generally too high) on the capital lent. It would be governed by the decision of the lending country as to whether it would be more desirable not to turn out the

Capitalism and Communism

surplus production at all or to turn it out and use it abroad in the hope of some future return.

Under such a system the actual business of international loans would probably be carried out more rationally and with fewer disappointments than at present. But here again two questions arise. Firstly, whether, the stimulus of competition being removed, surplus production in any country would be likely to accumulate as fast as it has done under the individualist system, conditions being favourable. Secondly, whether governments which had a surplus at their disposal would be likely to use it for the immediate benefit of other nations, on the uncertain prospect of a future return, instead of for the more popular purpose of increasing the immediate amenities or leisure of their own people. It may well be that the misguided faith of the private investor, which is the governing factor under the present system, has resulted in a greater amount of capital being applied to the development of backward countries—and thus ultimately in a greater increase of the world's productiveness as a whole—than would have come from a more rational system from which the motive of private gain was absent.

Moreover, there is no reason why the capitalist system should not improve its present methods of international lending, possibly to such an extent as would remove many of the disadvantages under which they now lie. To do so would require an organisation for international borrowing and lending quite different from any which exists to-day. The business in each lending country would have to be centralised, and some measure of co-operation would have to be introduced between the different lending countries, *i.e.*, those having a surplus production.

X.

THE third problem is that of the over-production of one class of materials or goods as compared with other classes. The theory of the individualist doctrine is

Capitalism and Communism

that this is always corrected by the working of supply and demand. When the supply of any article exceeds the demand for it, say the orthodox political economists, its price falls. Its production becomes unprofitable, and capital and labour give up producing it and turn to some other field until the supply is so reduced that the price rises again.

This theory sounds rational. But experience has shown that in many cases it does not work out in practice, or at any rate only works out slowly and imperfectly and with a great deal of friction and loss. This is especially so in the case of raw materials. Take rubber as an example. In the period immediately after the war the supply of rubber had for the time being outstripped the demand, and the price fell to about 6d. a pound. The rubber companies declared that they could not live and earn even a modest return on the capital invested unless an average price of 1s. 6d. a pound could be obtained. A scheme for restricting production was formulated and applied to the British East Asian territories, which were then responsible for the greater part of the output. The price thereupon began to rise and soon reached the figure of 1s. 6d. a pound. But it did not stop there. The growth of the automobile industry, particularly in the United States, caused an increase in demand for rubber concurrently with the restriction of output, and the price at one time went as high as 4s. a pound, although the restriction had in the meantime been removed. The rise in price led to greatly increased production in the Dutch East Indies, which had refused to take any part in the restriction scheme. Supply soon became greater than demand; the price of rubber fell again rapidly, and has for some years been lower than ever before, having at one time gone to less than 2d. a pound. Although at this price the majority of the plantations must be working at a loss, there does not seem to be any marked falling off in production. Many planters, no doubt, go on because the only alternative is to abandon their pro-

Capitalism and Communism

perties altogether, since to maintain them in a non-producing condition would cost more than the loss on working. Another factor in the situation is that much of the production is in the hands of native growers who will work for any return they can get, and take no account of return on capital, or even of wage costs, since they do the work themselves.

Putting the annual rubber production of the world at about 700,000 tons, the rubber growers, when the price was 1s. 6d., received £105 million sterling for their product. At present they receive about one-ninth of this, say, between £11 and £12 million. They are £93 million a year worse off. It may be answered that the makers of automobile tires and other consumers of rubber are £93 million better off, and so on balance there is no disadvantage. But that is not a complete statement of the case. When the rubber growers received £105 million they had that amount of purchasing power. Their power of consuming goods has been cut down accordingly. Eventually no doubt the production of rubber will be decreased and the price rise to some extent. But if the production of rubber is diverted from the European to the native grower, as seems likely, it will mean that whatever purchasing power is represented by the sale of rubber will be transferred from a class of people who consume European goods to a class of people who consume practically nothing but what they produce themselves.

What has happened in the case of rubber has happened with variations in the case of many other raw materials and primary products. The price has fallen to a point which leaves the producers little or no purchasing power for anything beyond the bare materials of subsistence. This reacts on the manufacturing and other industries which previously supplied them. In the result, there is not only a diminution in the production of the raw material which was being produced in excess, but also a corresponding diminution in the production of manufactured goods

Capitalism and Communism

for which there is an almost unlimited capacity of consumption. The growers of raw materials would like to consume manufactured goods, but cannot because they have not the purchasing power. The manufacturers in turn, as their sales fall off, have to reduce the numbers or the wages of their employees. They cannot cut down very much on their overhead or fixed charges. Through the diminished purchasing power of the workers the general demand for goods is again reduced. In the end production is cut down all round, which means that the standard of material comfort is lowered.

XI.

WHAT would happen under the communist system? In this case money values do not enter into the matter. The whole production of rubber, for example, would be distributed *pro rata* among the users. On the other hand, the rubber producers would receive their own *pro rata* share of whatever other goods were produced. They would not be liable to have their power of consuming other goods cut down if they produced more rubber than was required, for as long as other goods were produced they would get their share of them. The worst that could happen would be that the quantity of rubber produced in excess of that which could be used would be wasted. Presumably in such a case the directing body of a communist State would call off a certain number of its rubber growers and put them to some other work. In theory, at any rate, overproduction of any article would be less likely to take place than at present, since production would be made according to plan and on an estimate of the requirements. When it was apparent that these were filled production would be stopped. Under the individualist system production is not determined on any plan but by an estimate of the profits to be obtained. When these estimates are faulty—as they often are—the producers suffer. Then

Capitalism and Communism

their consuming power disappears and the production of other goods suffers also.

Thus the communist system would appear to have an advantage in dealing with the maladjustment of production and consumption which is one of the chief diseases of the capitalist system as it is worked at present. On the other hand, it may be questioned whether high production would be reached when the motive of industrial gain was removed. Here as elsewhere we come back to the position that the communist system seems to have the advantage over the capitalist system, as the latter is worked at present, in the matter of getting goods into consumption. On the other hand, the capitalist system has proved its capacity for increasing production and the communist system has not. The overproduction of goods under capitalism is mainly caused by its incapacity for getting the goods produced into consumption. On the communist system goods could be consumed as fast as they were produced, but it is not certain that they would be produced.

XII.

LAST of all comes the monetary problem. Under the capitalist system money rules everything in the economic sphere. Production is governed by profits; profits by prices; and prices by purchasing power, *i.e.*, the volume of money. The distribution of goods again is regulated by the distribution of money. And money decides whether a capacity for increased production, arising out of improvement in machinery and methods, shall be applied to the purpose of increasing the machinery of production still further, or to the purpose of adding to the immediate comforts and amenities of the people, or shall not be used at all, but simply run to waste.

It is evident from the recent example of the United States that capitalism has so far failed to solve the monetary problem. Money, which was devised as a convenient means

Capitalism and Communism

of facilitating the exchange of goods, has become the master instead of the servant of production and distribution.

The creation of money was originally the prerogative of governments. It is still so in name. But, in fact, under the capitalist régime this prerogative has been transferred to the banks through the development of the credit system. Under this system the exchange of goods is mainly carried out not by the actual transfer of money but through entries in bank ledgers. And banks have been either unable or unwilling to regulate the flow of money in accordance with the flow of production.

A properly regulated monetary system would aim, generally speaking, at securing stability of prices, since this is necessary for steadiness in the production and distribution of goods. No system could altogether prevent price fluctuation in the case of particular classes of goods, of which there might be a temporary dearth or glut. But in the general price level it would aim at stability by varying the supply of money in accordance with the amount of business to be done.

In certain circumstances it might aim at a gradual rise of prices as a corrective to the tendency of capital to demand and obtain a higher return than its employment actually earns. This tendency seems to be inherent in the capitalist system. It arises perhaps from the natural optimism of mankind. It leads from time to time to capital absorbing as the rent for its use too great a share of production, and this can only be corrected by an increase in the price level of goods.

The banks of the United States did maintain a comparative stability of prices for a few years by creating a huge volume of new credit money. But when confidence was shaken they proceeded to destroy this credit money as rapidly as they had created it, with the result that prices fell disastrously, and both production and consumption were checked to a degree without precedent.

This may not have been wholly the fault of the banks.

Capitalism and Communism

The power of creating legal tender money is one of the few things in this sphere which has been retained by Government. The banks, being without this power, can only create money by the aid of public confidence which accepts their credits as good. During the years that the banks were expanding these credits the Federal Government and the Federal Reserve System were avowedly pursuing a policy of deflation, that is, they were endeavouring to decrease the volume of money. They could not prevent the banks from enlarging the volume of credit money, but they could and did prevent any enlargement of the volume of legal tender money which credit money represents and has for its basis. When public confidence was once shaken, the banks for their own protection were obliged to call in and destroy the greater part of the credit money they had created, there being only a small foundation of real money behind it.

But, however the blame may be distributed, the fact remains that there was a breakdown of the monetary system which resulted in an enormous decrease of purchasing power in the United States and in the consequent restriction of both production and consumption on a disastrous scale.

Under the communist system, production takes place without reference to profit, and distribution takes place without reference to purchasing power. Consequently under communism a monetary system, if it exists at all, will only occupy a subordinate place in the economic sphere and will have little influence on production and distribution. A failure in the working of the monetary system either would not happen in a communist State, or if it happened would not be of importance. Capitalism, on the other hand, cannot do without a fully developed monetary system, as it is by this mechanism only that the apportioning of material reward to success in production, which lies at the basis of capitalism, can be carried out at all. Mr. Ford has shown that he can make more and cheaper automobiles than almost anyone else. He could not get

Capitalism and Communism

the reward for this if he had to exchange them forthwith into other goods and could not convert them into terms of money. Under capitalism a failure of the monetary system disorganises the whole machinery. It remains to be seen whether such failures can be avoided in future or whether capitalism necessarily involves a succession of monetary crises which set back the process of increasing material well-being which is the whole purpose of economic life; just as it remains to be seen whether communism can get rid of the handicap which the absence of the motive of individual gain imposes on its efforts to increase production. Whichever system is the first to overcome its existing drawbacks will have a great advantage over the other in the minds of the mass of the people to whom the satisfaction of their material needs is, and for a long time must remain, the first consideration.

Those of us who believe that individualism is preferable to communism on other than economic grounds must hope that it will be the first successfully to surmount its obstacles in the economic race.

For this reason we must watch with an anxious interest the bold efforts that the present Government of the United States is making to cure the economic evils which have distressed that country during the last four years. To many these efforts seem to be a shocking departure from the most cherished tenets of the individualist capitalist system, as they have been preached in the past. But reform is better than revolution, and if the new policy succeeds the world in general will not worry whether it is orthodox or not. In that case the present economic system of the Western World—excluding Russia—will gain a new lease of life, and its rulers will have the time, if they have the inclination, to devote some thought to the problem of avoiding future breakdowns. If, on the other hand, the new policy fails and the doctrine of *laissez-faire* resumes its reign, the individualist capitalist system may continue to exist, but it will do so on a precarious tenure, and it may be doubted if it will be for long.

INDIA : MR. GANDHI AGAIN

DURING the period covered by the last article, political interest affecting India might be described as concentrated rather than dispersed, general rather than individual, and centred in England rather than in India. The White Paper and its proposals, first in speculation, then in realisation and discussion, lay in the foreground and served as a focus for argument, anticipation and condemnation alike. It may seem that the period now under review offers a total change, with the early entry of a familiar individual figure on the stage and his more or less constant presence near the footlights, a great variety of incident, and in general a play of interest widely diversified, not to say kaleidoscopic. Actually, however, the connection between the two is organic and close. The latest Gandhian ebullience, the Congress fissures, the newspaper kites, cannot be regarded in true perspective apart from the White Paper. It may be said that the latter has receded from the foreground. True, but only to swell into a background against which all later incident must be thrown, its colour and appearance profoundly influenced by that background. The observer of the varied Indian scene is apt to be misled by its episodic abundance. It is true that there is something tangential in Indian politics, but tangents after all arise and derive their importance from the curves they touch, and when considering the Indian political picture it is the curve and not the tangents we must seek.

Congress hotheads and a good many others would perhaps deny that any essential importance attaches to the White Paper proposals; a not uncommon Congress attitude is to admit their interest and importance, but to claim that these features are isolated from the essentials of the Indian political problem. Actually, however, it is the emergence of these proposals, their nature, and their discussion in London which to a large extent have governed even the most apparently individual and Indian contri-

India : Mr. Gandhi Again

bution to our political drama of the last three months, namely, Mr. Gandhi's 21 days' fast in May.

I. THE FAST

EVEN at this stage, nearly three months afterwards, it is not possible to pronounce with any confidence on the real origin of this remarkable performance. On May 1 the Government of India received from Mr. Gandhi a telegram announcing his intention to fast. It began: "For reasons wholly unconnected with Government and solely connected with the Harijan* movement, and in obedience to a peremptory call from within received about midnight. . . ." The telegram went on to say that the fast might have begun immediately but for Mr. Gandhi's desire not to embarrass the Government more than was necessary. The Government of India took the decision, generally anticipated and appreciated, to release Mr. Gandhi unconditionally, which was done on the evening of May 8, the fast having begun at noon on that day. The order for release opened by saying: "In view of the nature and objects of the fast . . . and the attitude of mind it discloses. . . ." The presumption was that Mr. Gandhi's objects were solely connected with the movement against untouchability with which he had of late months been associating himself. There were obvious humanitarian and practical reasons for the Government's action. Since the fast was declared to be solely connected with the anti-untouchability movement, it was both more humane and more convenient that it should be conducted outside a government jail.

Mr. Gandhi's decision took everyone by surprise, and embarrassment was not least perhaps in certain nationalist circles. His anti-untouchability activities have never

* The name coined to describe the agitation on behalf of the Depressed Classes.

The Fast

secured general Hindu support, though prominent individuals have taken them up with some enthusiasm. These activities, being social or religious rather than political in object, were unlikely to arouse much enthusiasm in the average Congress Hindu, and the great bulk of Congressmen are Hindus. The Hindu Mahasabha, an organisation of much power and influence which in the past has been indirectly a tower of strength to the Congress movement, had never accepted Mr. Gandhi's operations against untouchability. His apparent obsession with it seemed likely to defer still further any consideration by him of the urgent problems awaiting decision. Between the intimation of the fast and its actual beginning, therefore, the Indian press contained a good deal of adverse comment on this latest Gandhi departure. A prominent Congress daily remarked that the decision had caused not so much surprise as consternation. A notable pronouncement was made on May 4 by Mr. Kelkar, who described Mr. Gandhi's conduct as "irrational and unfair" and "amounting practically to coercion," a view which found many supporters. The first reaction in Hindu circles may not unfairly be said to have been one of resentment.

Discussion took a new turn with Mr. Gandhi's statement issued immediately on his release. In this he took occasion to declare that his views about civil disobedience had undergone no change whatsoever. He went on to propose the suspension of the movement for a month or six weeks, apparently on the ground that during his fast all civil resisters would be "in a state of terrible suspense." The next sentence constituted an appeal to Government to acknowledge this concession and unconditionally discharge all "civil resisters" in jail. Other pronouncements were that civil disobedience could not be withdrawn so long as so many civil resisters were in prison, and that no settlement could be arrived at so long as Messrs. Vallabhai Patel, Abdul Ghafur Khan and Jawaharlal Nehru in particular were "buried alive."

India : Mr. Gandhi Again

How a statement of this kind was to be reconciled with the opening words of his telegram to the Government of India which we have already quoted, only Mr. Gandhi perhaps can say. If words mean anything, he seems open to the charge of having been disingenuous. Perhaps the most significant item in the whole statement was his expressed hope that he would be able to "tender advice to Congress leaders and to Government," and to "take up the thread at the point where it was interrupted on my return from England."

Whatever the original doubts entertained in Congress circles regarding the fast, they were quick to seize upon the statement as a weapon in argument. It was proclaimed as a generous and statesmanlike gesture which had fundamentally altered the whole situation; the suspension of civil disobedience was declared an eirenicon which no government could disregard. It is probable that hopes were entertained that a few days' campaign to this effect would produce such reactions in the United Kingdom and in India that the Government would find it impossible not to enter into some kind of negotiation with Mr. Gandhi. In that event the prestige of the Congress would have been restored. The prompt appearance, however, of a brief government *communiqué* referring the public to the Home Member's statement in the Legislative Assembly as still representing the government attitude came as an effective douche to any such hopes. The following sentence from the Home Member's statement sums up the Government's position: "There can be no co-operation under the menace of a revival of civil disobedience."

A government holding such views was obviously wise in publishing them at the earliest possible moment before expectation and rumour had time to grow. The statement appeared in some papers that the government *communiqué* had forestalled a reference from London which would have led to further discussion. This was promptly denied from London and its publication seems at best to have been a

The Fast

case of the wish being father to the thought, but more probably a deliberate attempt to play off in a familiar fashion London against Simla. The intemperance with which the nationalist press condemned the Government's attitude is perhaps a measure of the hopes they had entertained, which that attitude so rudely shattered.

The actual circumstances of the fast might fairly be described as bizarre. A proclaimed ascetic, revered as such, embarks on a fast in aid of the untouchables to whom he has devoted his activities, but that fast is carried out amid every incident of publicity and luxury, with an array of doctors, nurses, appliances and comforts far beyond the range of possibility open to any but a millionaire. This aspect of the situation did not go without comment in any branch of the press, but Moslem organs were by far the most outspoken and pungent. A Calcutta journal applied the blunt word "megalomania" to Mr. Gandhi, and a Frontier paper, after praising his "unparalleled skill as a bluffer," went on to suggest that after his fast he should retire from political work and try to live "as Sadhus and Sanyasis ought to live," in self-imposed and unpretentious obscurity.

Mr. Gandhi declares his fast the result of a peremptory call from within. This does not, however, render invalid the suspicion that the peremptory call may have been the result, possibly unconscious, of long pondering on his own and the Congress position in the country. At any rate, even admitting no such derivation, it is incontestable that he was prompt to use his decision for the furtherance of Congress ends. The chief ambition of Mr. Gandhi and his associates is his restoration to the position he occupied two years ago, when with Lord Irwin he filled the Indian political stage. Had he succeeded he would undoubtedly have ascended to heights of popularity and influence approaching those which he enjoyed before. By his failure, on the other hand, he has dealt his own and the Congress position a severe blow. Indian parties dislike

India : Mr. Gandhi Again

leaders who fail, and a notable feature of the press in recent weeks has been an amount of personal criticism of Mr. Gandhi such as has never hitherto occurred. The denunciation by Mr. Patel and Mr. Bose may perhaps be put on one side, as that of admitted extremists. But all over the country Hindu opinion has become alive to the errors and weaknesses of their once revered leader. One prominent Indian politician complained that the fast system and a single individual's "monopoly of God" produced total suspension of judgment, paralysis of reason and the emergence of abject credulity. The leading article in Mr. Chintamani's paper of July 29 remarks: "Mr. Gandhi is truly a Mahatma, but he demonstrates more and more that he is a misfit in politics."

II. THE CIVIL DISOBEDIENCE MOVEMENT

THE civil disobedience movement has retained its prominence during the period under review, but with a difference. Formerly its importance was that of a threat to the whole system of government; during the past weeks it has commanded interest from the differences among its previous supporters over its projected abandonment. As has already been remarked, whatever the actual origins of Mr. Gandhi's fast, it quickly developed a close connection with the survival of civil disobedience as an organised method of Congress effort.

Civil disobedience, as we have seen, was suspended during Mr. Gandhi's fast. On its expiry, as a result of his slow recovery, the suspension was continued till July 31. The first suspension had been accepted generally. The second was freely questioned, a Bombay journal describing it as cowardice and betrayal. On the other hand, the second suspension seemed to inspire to a hitherto unprecedented boldness and clearness of statement that section of Congress opinion which favoured the abandonment of civil dis-

The Civil Disobedience Movement

obedience without condition, as a proved failure. On this issue wide divergences became quickly apparent. Perhaps the chief contribution to the discussion was an open letter published on June 24 by Mr. Asaf Ali, an influential Moslem Congressman of Delhi. He declared the Gandhi programme, which had been before the country for fourteen years, to be a virtual failure and said that for Congressmen the time had come to take stock. The Congress needed a new enthusiasm for a new objective, and this, he said "should be the ballot-box front."

His letter, which ran to considerable length, was really a searching criticism of the whole Gandhi theory and its supporters, but was far from an abandonment of the general aspirations of the Congress. His suggestion was that the Congress should make it clear that they meant to take the fullest advantage of the constitutional machinery to advance their aims and aspirations. If the amendments they desired in the constitution were carried out in the right spirit they should work it with a will, otherwise pursue a fighting programme from within. There was far more urgent constructive work for the Congress to do than the revival of civil disobedience in order to maintain a principle, and he concluded by saying that a clear offer of co-operation for five years as a test period would shift the onus on to the shoulders of the British.

This important and interesting letter produced a great volume of criticism and discussion, and undoubtedly forced attention to the issue with which it dealt. Clearly, too, it encouraged many who otherwise might have equivocated or kept silent to express their opinions. So marked became the volume of criticism that a meeting of Congress leaders fixed for July 12 at Poona had to be expanded into a large conference. From this conference emerged another of those solo performances of which Mr. Gandhi is so fond. The proceedings of the conference were kept secret, but it is clear that a large body of opinion was in favour of the unconditional withdrawal of civil disobedience. To

India : Mr. Gandhi Again

this, however, Mr. Gandhi was resolutely opposed, and the final decision was that he should get into touch with the Viceroy in order to secure an interview, if possible, to discuss the position. In the event of failure, civil disobedience was apparently to be resumed. The result, of course, was what might have been expected. Mr. Gandhi's second communication, professing surprise that the Viceroy should have apparently listened to unauthorised reports of confidential proceedings, came strangely from his pen, and carried little conviction, although the Congress press was loud in denunciation of the Viceroy's "obstinacy" and "obsession with prestige."

No observer could fail to note a certain hollowness in all this comment, and indeed it is doubtful if anyone in India ever expected any other issue. In interviews and speeches at the time of the Poona discussions, Mr. Gandhi had declared himself absolutely unconvinced of the advisability of an unconditional withdrawal of civil disobedience, which, he declared, would be "nothing short of absolute surrender and the end of all Congress ambitions." He would, he said, prefer the movement to continue as long as a single honest worker remained. With such expressions on his lips he could hardly be surprised at the result of his application for an interview.

The position became even more involved after this correspondence, but the current in favour of abandonment was clearly strengthening. The next stage was the promulgation on July 23 of certain instructions regarding Congress work by Mr. Aney, the acting President. The chief items in that manifesto were that mass civil disobedience, including no-tax and no-rent campaigns, should be discontinued; that all Congress organisations should for the time being cease to exist, provided that dictators were continued; that all persons able and willing to offer individual civil disobedience on their own responsibility were expected to do so, but they should not look for any help from Congress organisations; while the concluding

The Civil Disobedience Movement

item declared that all Congressmen unable to offer civil resistance were expected to carry on any constructive activities for which they were fitted. The contents of this peculiar document had been foreshadowed in a press interview with Mr. Gandhi a short time before, and the general belief, which has not been contradicted, is that the document was inspired or, as one paper had it, "dictated" by Mr. Gandhi himself. The position it discloses is peculiar, and, in some respects, incomprehensible. Civil disobedience is not to be unconditionally withdrawn, but the other provisions seem to amount to little short of such withdrawal. The statement has come in for severe condemnation on all sides, even from papers such as the *Tribune* and the *Leader*, which have for long steadily questioned the advisability of continuing the civil disobedience campaign. Their criticisms are based rather on the ineptitude of the document as a guide and on its arrogance in abolishing Congress organisations, which, remarks the *Tribune*, can, like the British Parliament, be dissolved only by themselves, not by dictators, whether their names be Aney, Gandhi or Cromwell.

On July 27 Mr. Gandhi issued a long statement giving reasons for the Aney manifesto. He admitted that Congress as an organization was finding it increasingly difficult to render mass activity effective. He declared himself filled with joy at the progress made, but unable to disregard the danger of a sudden outburst of violence so long as "violence of heart" was not eradicated. All the experiences of western nations, he said, went to warn India that the way to peace and happiness did not lie through violence. He invited Congressmen's attention to constructive activities such as Harijan service, communal unity, khadi, prohibition, boycott of foreign goods, development of village industries and so on; in fact no branch of national activity need be left untouched. Regarding Council entry, he declared that to think of working the reforms was, in his opinion, altogether premature, since no one knew what they would be nor when

India : Mr. Gandhi Again

they would come, if at all. It would be better to wait till reforms came before anyone committed himself to working them.

The attack on this statement and the attitude it reveals is gathering momentum daily. The *Leader* of July 29 complains that "there is no recognition anywhere (in Mr. Gandhi's statement) of the colossal failure of direct action in existing circumstances in India," while the *Tribune* shows by a searching analysis that his latest position points straight to political chaos and anarchy at a time when the crying need is for disciplined practical effort.

Our period closes, therefore, with an apparent chaos within the Congress movement and gulfs wide and deep between its various sections and principals. The Government's attitude towards the actual civil disobedience movement has played a large part in producing this state of affairs. The importance of the consistent application of any policy in India has received marked confirmation. It would be a mistake, however, to attribute the present not unpromising position only, or perhaps even primarily, to administrative action. The publication of the White Paper, the gathering of a Joint Select Committee and the inception of its discussions have brought home to all sections of political India that the changes sponsored by His Majesty's Government are in fact on their way. Whatever their demerits, whatever the irritation they cause or the censure they invite, there they are as concrete indications of intention. A large mass introduced into a chaos of discrete particles acts as a centre of attraction tending to produce either amalgamation or, at any rate, regular motion with reference to the centre of attraction. This physical parallel might perhaps be applied to the appearance of the proposals of His Majesty's Government in this shifting Indian world of conjecture, allegation and aspiration. It has truly been said that the later policy of the Government has been twofold, i.e., to put down lawlessness with one hand, and to frame constitutional proposals with the other. It would

The Reactions to the Poona Pact

be difficult to attribute priority in importance; it may certainly be said, however, that it is only the operation *pari passu* of both sides of the Government's policy that has produced the state of affairs we see to-day. It is thus that the idea of the White Paper as the true background will be realised.

III. THE REACTIONS TO THE POONA PACT

REFERENCE has been made to Mr. Gandhi's anti-untouchability campaign and to the doubts, hesitations and suspicions it provoked among Hindus of varying classes. Though on a first glance this might seem to be a purely social matter, it has for many, and not only for Hindus, a strong political significance. There must be many in India now convinced that haste is unwise in other compacts than matrimony. From both Depressed Classes and Hindus clamour has been rising against the provisions of the Poona Pact,* concluded last September in such dramatic circumstances and acclaimed so loudly at the time as a proof that Indians could solve their own differences.

The chief effect of the Pact, it will be remembered, was to give the Depressed Classes by reservation in the joint electorates 148 seats as against the 71 accorded to them by the Communal Decision under separate electorates. Dr. Ambedkar, the leader of the Depressed Classes and their chief representative in the negotiations which produced the Pact, shortly before his departure for England as one of the Indian associates of the Joint Select Committee, had an interview with Mr. Gandhi on the subject of a desiderated modification of the Pact from the Depressed Classes' side. This modification related to the provision in the Pact for the primary election by Depressed Class voters of a panel of four candidates, from which the general electorate should choose the incumbent of the reserved seat. Dr. Ambedkar's desire was to get rid of this

* See THE ROUND TABLE, No. 89, December 1932, p. 155.

India : Mr. Gandhi Again

primary election and have a single election by the general electorate with a proviso that no Depressed Class candidate should be elected who did not secure a certain fixed proportion of the votes of that community. When asked why he had originally assented to this provision in the Pact, Dr. Ambedkar pleaded the hurried nature of the negotiations. Mr. Gandhi gave him little encouragement and declared that he would not readily accept the proposed change.

The hesitation of the Depressed Classes with regard to the panel system is based mainly on grounds of expense, and clearly there is something anomalous in the poorest section of the electorate being required to face a double set of elections. Other considerations, however, are also present. It is clear that Mr. Gandhi and those with him think it quite likely that there may not be any need for a primary election at all. If, for example, nominations numbered only four there could be no election, and it seems to be assumed that the language of the Pact does not make it essential that there shall be a primary election. Yet from the Depressed Classes' standpoint the only guarantee that they will themselves be able effectively to control the selection of their representatives is that a primary election should take place. In its absence outside influences could almost certainly arrange that one at least of the persons nominated would be an individual likely to be amenable to Hindu or other persuasion. Any such individual would of course count on the full strength of the Hindu vote and would almost certainly be elected. Hence, it may be, Mr. Gandhi's objection to the alternative proposal put forward by Dr. Ambedkar ; the requirement of a minimum proportion of Depressed Class votes would impede the free exercise of Hindu predominance in the general electorate. It is not, it is suggested, unfair to detect in Mr. Gandhi's opposition some consideration of Hindu advantage, and not only solicitude for the true interests of the Harijans. Nor is there any reason why Mr. Gandhi should not study

The Reactions to the Poona Pact

the interests of those whose leader he considers himself to be. The *Tribune* of Lahore, a paper usually notable for independence of view, has given qualified support to Dr. Ambedkar's proposal, but on the whole Hindu opinion is adverse.

It might be expected that Moslems would take little interest in this question. They are, however, suspicious of Hindu negotiations with regard to it, and feel that their object is by manipulation of the Depressed Classes' vote and representation to add to effective Hindu influence in the legislatures. The general Moslem preference might be said to favour a smaller number of Depressed Class seats elected by a separate electorate rather than a larger number derived from a joint electorate, on the grounds that the smaller number would be more homogeneous and individual, whereas the larger might as easily become a mere reinforcement of the ordinary Hindu representation. Hence a good deal of acrid Moslem comment. The *Eastern Times* of Lahore dismisses Mr. Gandhi's attitude as "sheer despotism." It declares the Poona Pact to be "the fruit of this quite illegitimate pressure," and suggests that in view of all the circumstances "it is quite time that this Pact, to which no one adheres, was abrogated."

The chief opposition to the Pact on the Hindu side comes from Bengal and has been brought to the notice of the Joint Select Committee. There is at first sight something anomalous in the position which the Pact accords to the caste Hindus in this province. They predominate in education, wealth and general influence, but in the Legislative Council they will have only about a fourth of the total membership. Hitherto their efforts have been concentrated on memorials and representations with the object of obtaining some modification of the distribution embodied in Appendix III to the White Paper. His Majesty's Government have adhered to their attitude of advocating no change in this document which is not demanded by the interests concerned. What the Joint Select Committee

India : Mr. Gandhi Again

will advise is a matter for the future. But if the distribution stands in its present form, it is not likely that Bengal Hindus will accept the decision with a good grace.

One line of attack is to allege that the number of seats given to the Depressed Classes in Bengal grossly exceeds the proportion of these classes to the population, an excess which is due to an erroneous classification of communities under this head. Indications have already appeared in the Press and elsewhere of a disposition to attack this classification. The Franchise Committee's Report will suffice to show the divergent views entertained on the question of what constitutes the Depressed Classes, and political Hindu opinion would favour a restriction to the untouchability criterion. The whole problem bristles with difficulties; we have not by any means heard the end of this particular issue, and the enunciation of a Joint Select Committee recommendation will not of itself close the discussion. The allegation that the Depressed Classes will be over-represented in the councils, although most often heard in Bengal, is frequently made in other provinces also, e.g., in the United Provinces and the Punjab.

Presuming that the present allocations stand, and the actual system contemplated comes into force, it is not unlikely that it will be in Bengal, where the Depressed Classes have outwardly the most advantageous position, that their actual representatives will be most under the control of Hindu interests. The panel system is not in itself a complete guarantee that the Depressed Class occupants of reserved seats will in fact be independent representatives of these classes.

IV. THE JOINT SELECT COMMITTEE

THOUGH comment on the White Paper has not been absent during the quarter, there has inevitably been a marked decline in its volume since the spate in March and

The Joint Select Committee

April. As the last day fixed by the Joint Select Committee for the receipt of applications to give evidence approached, it became clear that the would-be witnesses were many. Whatever denunciations may have greeted the proposals, Hindu opinion had clearly decided that this at least was no occasion for a boycott. The change of view was most noticeable among Punjab Hindus, on whose behalf Pandit Nanak Chand departed to testify before the Committee. The Hindu Mahasabha at an early date decided to give evidence, and at the end of May Dr. Moonje took occasion in a speech at Saugor to declare roundly that, as regards the Joint Parliamentary Committee, the Mahasabha "never had any faith in the kind of non-co-operation Mr. Gandhi has been preaching and practising" but believed in "responsive co-operation." "Whatever the constitution of the legislatures," he said, "they should never be boycotted but worked to the best advantage of the country." In pursuance of these views, the Mahasabha intended to give evidence, if invited—as of course it was.

The absence of published proceedings has naturally tended to restrict the amount of comment devoted to the proceedings before the Joint Parliamentary Committee, but none of the main features has gone unnoticed and one cabled report produced a minor storm. The apparent delay, the nature of the first evidence, the strength of the Conservative opposition, or at least hesitation, all tended to produce a certain depression here. It was noticeable, however, that the extreme attitude of the Lloyd-Churchill school found little approval even among Europeans.

The minor storm referred to is of interest not so much for the actual incident which occasioned it as for the light it sheds on political ideas and ambitions in India. The Secretary of State and Sir Malcolm Hailey were reported in messages to have expressed themselves in favour of granting Governors' private secretaries in future the status of Executive Councillors, of non-elected Ministers, of police legislation and rules being reserved for the Governor, and

India : Mr. Gandhi Again

of provincial second chambers. The reaction was immediate, and provincial Ministers, who happened to be in Simla at the time for a departmental conference, sought and obtained an interview with the Viceroy on July 15 in which they protested against this apparent "whittling down of provincial autonomy." The following day a *communiqué* was issued declaring that no such positive recommendations had been made, though the points had come up in the course of the evidence and tentative opinions had been offered, and in one case a purely personal preference expressed. The Secretary of State's appeal, supported by Sir T. B. Sapro, Sir Austen Chamberlain and Mr. Zafrulla Khan, that his evidence should be considered as a whole was accepted here as reasonable, and there seems to be a growing tendency to admit both his courage and his difficulties.

The quickness of the reaction was significant and if, as was said, the proposal to seek an interview with the Viceroy prevailed with difficulty over a proposal to issue an immediate manifesto of protest, the strength of the feeling aroused becomes apparent. Moslems, particularly in the Punjab, reacted most of all. This incident illustrates how strongly the provincial view appeals to this community. At the centre it can never look forward to predominance, therefore, say its spokesmen, let us ensure the maximum of scope for provincial units, in some of which ours will be the chief voice. Hence a general touchiness on the part of Moslems to anything calculated to detract from such autonomy as the White Paper proposals concede to the provinces. On anything affecting this issue it would be wise to walk warily.

India.

July 29, 1933.

TRADE PROSPECTS

THE break-up of the Economic Conference has had fewer immediate psychological effects than might have been expected after the sombre prophecies with which it opened. The shock—if it could be called a shock—was the less disturbing because already in most countries there have been for the last six months (or longer) some encouraging symptoms of internal recovery, and a general hope that, even if President Roosevelt's economic revolution achieves only half of what it aims at, the American contribution to the rise in prices will be lasting. The manner of the Conference's dying made it a subject for ironic jest, but, while cynicism about international remedies has much to feed on, it would be a misreading of the temper of British industry to assume that a conscious plunge into national self-sufficiency, such as Mr. Keynes and Mr. Lloyd George in their various ways have advocated, finds much support. The prevailing mood was fairly reflected by Mr. Chamberlain in one of the last debates before Parliament adjourned, when he spoke with some cheerfulness of the encouraging trends in industry and employment but insisted that international co-operation remained essential for full recovery.

The instinct for making the best of things led to a good deal of optimism over the June employment returns, which showed an increase of half a million at work since January, and over the picture they presented of improvement in most branches of industry. The better tone persisted in iron and steel, in most branches of engineering, the electrical industry, most textiles, boots and shoes, pottery and chemicals. As a set-off, the June trade returns were not too promising, and figures of railway goods traffic, bank advances and retail trading did not exhibit an upward trend. Most evidences suggest, however, that there has been no real check to the slow upward climb begun nine or twelve months ago. The July unemployment returns showed an apparent small increase, but, if holiday regis-

Trade Prospects

trations in Scotland, Lancashire and Yorkshire were allowed for, they were encouraging; most manufacturing industries again showed expansion of activity. The July trade returns were better than those of June. The *Economist's* analysis of industrial profits for the June quarter shows the first quarterly increase for three years, and supports the conclusion that some measure of equilibrium has been reached in the finances of British industrial undertakings. That journal's new index of business activity shows "unmistakable signs of the beginning of an upward movement," and suggests that deterioration was checked in 1931, and that since the end of that year the position has been held. The improvement in employment since January compares favourably with that in other countries, even the United States and Germany (for in the latter case the figures must be looked upon with suspicion on account of the large volume of seasonal employment anticipated by the early harvest). But while all this is good as far as it goes it is not a sufficient foundation for the belief that things will come right of themselves, or, at worst, that the process will be long and hesitant. Most people would probably assent to Mr. Dennis Robertson's dictum at the Liberal Summer School:

The trade cycle, for mysterious reasons of its own, started on the upstroke in the middle of last year, and I do not believe that the feather-headedness of the United States Government, nor the swelled-headedness of the German Government, nor the flat-headedness of the British Government can stop it.

But wrong-headedness can do much to hamper it.

The recovery, such as it is, is so far too much a matter of internal and not of external trade, and the future of our exporting interests is almost as doubtful as ever. The gains from the series of bilateral agreements on which the Government is relying are bound to remain too limited to form a substitute for the general freeing of the channels of trade. Among other causes of disquiet one need

Japanese Competition

instance only the growing fears of Japanese competition and the apprehensions—since the depreciation of the dollar—of American inroads into markets like Canada and South America in which sterling depreciation had previously given us an advantage.

I. JAPANESE COMPETITION

THE first of these, Japanese competition, is creating a special problem of commercial and political diplomacy. Its first appearance as a menace to British export trade was in rayon, one of the newest of industries, and in cotton textiles, one of the oldest; but the Federation of British Industries now instances as within the range of severe competition heavy chemicals, electric lamps, cycles, buttons, zip fasteners, cement, and rubber boots and shoes. Pottery may be added. There is indeed no reason why any limit should be set to Japan's capacity to enter successfully into competition in most ranges of manufactures.

So far, however, the problem has been presented mainly as one of cotton piece goods and rayon, which, apart from silk, are much the largest of Japan's exports. Although, on the recommendation of the Import Duties Advisory Committee, the British Government has imposed extremely high specific duties on imported rubber boots and shoes—aimed clearly at Japanese goods—the demand for fiscal defence has expressed itself in relation less to the home market than to the Empire, and especially to the tropical and Eastern colonies and dependencies. Earlier phases of the movement for action against Japan were described in a previous number.* As expressed in the resolution of the Manchester Chamber of Commerce in December, the modest request was (1) that India's fiscal autonomy should be subordinated to the interests of Lancashire producers, and (2) that high preferences for British goods

* THE ROUND TABLE, No. 90, March 1933, p. 354.

Trade Prospects

against foreign competitors, Japan in particular, should be granted in all the non-self-governing colonies. This policy of imperialist domination was not taken up by the Government for pretty obvious reasons, and die-hardism in Lancashire has now fortunately given place to saner counsels. The Manchester Chamber of Commerce, which in December was threatening to wreck an Indian settlement if the Government would not make India take Lancashire goods, was in July preparing to co-operate with the Indian cotton industry, and admitting the Indian premise that opposition to India's claims for self-government should be withdrawn. The explanation perhaps represents less a victory for reason than one for the hard facts of Japanese competition.

In recent years the grievance of British producers against India has been that their goods have been pushed out of the market by the rising tariff imposed in the interests of Indian producers and by the boycott employed as a means of nationalist agitation. Hence the persistence of the demand for interference from Whitehall and for a firm hand with Indian politicians. A straight answer was given by Mr. Baldwin in a speech at Manchester on June 29.

Anybody who tells you that you are free to go back on it [the Fiscal Autonomy Convention], or that you can go back on it, is telling you something that is not the case. . . . No British Government can do, or will do anything of the kind, of whatever party it may be. . . . Whatever safeguards we have, the real safeguard is the maintenance of goodwill. If there is not a basis of goodwill your trade will eventually wither away. . . . Whatever a Government may do you cannot prevent a population nowadays, especially an oriental . . . population, if it considers that it has been unjustly treated, from expressing its feelings by refusing to buy goods. . . . You cannot sell goods in India by hanging cotton streamers on the point of the bayonet.

But since Japan's descent into currency depreciation—in which she followed Great Britain after a few months—the issue has been no longer between Lancashire and the Indian mills, but between both of them and Japan. In

Japanese Competition

1930 and 1931 Japan exported to India an annual average of 404,000,000 square yards of cotton piece goods; in 1932 she exported 644,000,000.* She undersold the Indian mills, notwithstanding their cheap labour and their high tariff protection. It was to meet this domestic crisis that the Indian Government opened the offensive against Japan. In April, six months' notice was given to end the Indo-Japanese commercial treaty, which accorded most-favoured-nation treatment, the intention of the Indian Government being to clear the way for the imposition of exchange dumping duties against Japan. This was commonly regarded in Japan—where the constitutional niceties of the imperial connection are scarcely appreciated—as a blow dictated from Lancashire, the last thing that could be said of it. On the British side, Mr. Runciman then made the first move by proposing that British and Japanese industrialists should meet in London to discuss the problem of competition in all markets. As a hint of the seriousness with which he viewed the matter, this was followed by the giving of twelve months' notice to withdraw West Africa from the scope of the most-favoured-nation treatment accorded by the Anglo-Japanese commercial treaty, and by the imposition of higher duties on foreign cotton goods in Malaya and East Africa. While the Japanese Government and industrialists were disputing with the British Government about the conditions of the London meeting, the Indian Government stepped in with a crushing blow. The duties on non-British cloth were raised from 50 to 75 per cent. This incidentally gave Lancashire the windfall of a greatly increased preference. Japanese opinion was whipped into fury and reacted with threats of a boycott of Indian cotton, of which Japan is the chief user. Indo-Japanese negotiations for a new treaty became inevitable; neither country could afford to sacrifice its valuable trade. But, equally, direct British-Japanese dis-

* See "Factors in Japanese Competition," a report of the Joint Committee of Cotton Trade Organisations, p. 6.

Trade Prospects

cussions could not be of much use, for the British could not speak for India and the Japanese put India before everything else. The only solution so far advanced is the British proposal of July 20, that tripartite discussions should take place in India between textile representatives of India, Great Britain and Japan, on competition in those markets in which the Indian cotton industry is interested (*e.g.*, India, Ceylon, Malaya and East Africa), and that conversations between Great Britain and Japan about other markets should follow in London later.

Japan's acceptance has yet to be notified; it may not be readily given. But the procedure suggested obviously represents on our part an important extension of the Ottawa principles. It presupposes agreement between India and Lancashire as to the place to be filled by British goods in the Indian market. The discussions are to be held in India, so that there will be no derogation of Indian status. British industrialists will be associated with the negotiations for an Indo-Japanese treaty. An agreement on cotton must almost of necessity involve a more general interchange of preferences between the two countries. The underlying conditions were stated by Mr. Mody, the spokesman of the Indian cotton industry, in a speech at Manchester on July 21, in which he offered co-operation with Lancashire, "if it were felt in my country that Lancashire interests could be relied upon to lend their support to a solution of the political problems of India which would be in harmony with the views held in every responsible Indian quarter, and if, moreover, it was made clear that Lancashire really acknowledged the right of India to frame her policy, whether in regard to tariffs or to any other measures, with reference to her own needs."

The discussions in India next month will show whether it is possible to agree upon a division of markets between Japan and her competitors as a possible alternative to a disastrous war of tariffs and prohibitions. Agreement as

Japanese Competition

to the division of markets assumes the existence of quotas, regulated exports and possibly price arrangements. Can these devices hold against the pressure in Japan to expand production and export? Japan's case as presented in her recent propaganda is simple enough. It is that she must export to live, that her industries have been built up on efficiency of production, that the charges brought against her of sweated labour are grossly untrue, and that her competitors are envious only because their industries are not efficient and their labour costs high. The advantages of exchange depreciation are admitted, but are brushed aside as transient, for Japan professes herself as anxious for exchange stabilisation and a return to gold as any other country.

A recent important report, "Factors in Japanese Competition, 1924-32," issued by the Joint Committee of Cotton Trade Organisations, gives good reasons for thinking that the advantages of the depreciation of the yen may not be quickly lost; a rapid compensating rise in wages and in the internal price level cannot be relied on in a country which depends so little on imported foodstuffs. But, as the report points out, "although the fall of the yen is sufficient to account for the additional severity of Japanese price competition during the last few months, it does not explain the previous spread of Japanese exports or the relatively low prices at which Japanese goods were sold while the exchange was normal."

When the exchange factor has been disposed of (the report adds), Japan will be left with the advantages in cost of production which she possessed before her departure from the gold standard. Up to 1930 a large part of Japan's improvement in costs arose from bringing her industry up to European standards of efficiency. Any further advantage she may gain from new inventions or improved methods will be equally open to her competitors. The sole advantage left, therefore, is that of labour cost. The experience of European nations has been that as industrialisation proceeds, wages and standards of living rise, and it is probable that the same process will be followed in Japan. Progress in this direction, however, can

Trade Prospects

only be slow, and any important change is unlikely until world trade conditions improve.

The advantage for the present lies all on the side of Japan. The background of her technical progress has been too little appreciated in this country. Thus in the cotton trade the number of active spindles per spinning operative has been nearly doubled, and the number of active looms per operative has been exactly doubled between 1926 and 1932. The production of cloth per operative has more than doubled. Meanwhile the actual earnings of operatives have been reduced. Even allowing for Japan's relative backwardness a few years ago, no such comparable advance has occurred in this country, and as the Japanese industry possesses in addition a closely knit organisation, it will not be easy to bring Japan to a compromise which will satisfy her belief in her industrial destiny. If she gave up something temporarily, who can set bounds to her future ambitions?

There are, however, practical difficulties in the way of even a temporary accommodation. The rationing of markets, which is assumed in the Runciman proposal, in the Indian negotiations and in the proposed alliance between the Lancashire and Dutch cotton industries in Dutch colonial markets, involves a certain degree of exploitation of the consumer. Ceylon has already objected to a preference for Lancashire against Japan; there is criticism in West Africa of the denunciation of the treaty. It may seem natural to the British producer that he should have a monopoly or an assured share of trade, but it does not seem so natural to the colonist, who has found Japan's cheap goods more of a blessing than a curse in the present depression. A good deal more assurance is needed that the high cost countries are straining every nerve to reduce their costs by improved technical efficiency and internal organisation and selling methods. In these respects Japan has set an example which can be profitably studied.

The Internal Industrial Situation

II. THE INTERNAL INDUSTRIAL SITUATION

IF one turns from these speculative questions to look at the internal industrial situation, there is little fresh to record. Labour is quiescent, occupied mainly by internal discussions on the future of fascism in Great Britain, and by half-hearted agitations in favour of the 40-hour week (with some isolated experimental attempts to spread work at the price of reduced earnings). This month's Trade Union Congress will again lack a positive domestic policy. Two points should, however, be noted—the position in the coal industry, and the curious situation in the cotton weaving trade.

This summer has passed without a national coal crisis. On July 8 the gentlemen's agreement for the maintenance of wages expired, but the miners' fear that the withdrawal of protection would be followed by district wage cutting was not justified. The Secretary for Mines was able to give an assurance that the owners in no district intend to reduce wages so long as present conditions continue. This, of course, is not an effective guarantee, and Mr. Brown admitted that he had not been able to bridge the gap between the miners' demand for a national settlement and the owners' insistence on district settlements. The Government, instead, could only work for some form of voluntary agreement to promote peace. But the Government is not prepared to go beyond admonitions, and there was a certain amount of logic in the protest of the Miners' Federation, at its conference in July, "against the attitude adopted by the Government, which, having embodied in legislation the principle of the national regulation of production and prices, refuses to extend the same principle to the regulation of wages, and refuses to bring pressure upon the coal owners to keep faith with the miners." The Federation gave its executive "power to take any

Trade Prospects

action, including the calling of a national stoppage, should wages be attacked in any district in the meantime." This has a menacing sound but cannot be taken at its face value. The present leadership of the Federation is not rash and will not precipitate trouble. Moreover, a national stoppage could only be enforced by breaking a number of district agreements; before the Federation is in a position to employ its full strength it will have to possess the power to end all district agreements simultaneously.

The Federation had no part in the stoppage of the Welsh anthracite coalfield which began on August 15. The cause was a series of local grievances, and an unfortunate feature of the dispute was the men's decision to strike before the investigation of the grievances, to which both parties were agreeable, was begun.

The main difficulties of the coal industry are not, however, on its labour side. There is still no progress to report in the long discussions among the owners for the amendment of the marketing schemes. It was an unfortunate omission from the Labour Government's Act of 1930 that no simple process for the initiation of needed reforms was put in the hands of the Mines Department, which stands above the conflicting interests among the owners. On the side of amalgamation more can be said. The Coal Mines Reorganisation Commission is pressing on with its schemes of amalgamation in the smaller coalfields, but still has some stiff legal warfare in front of it. In its external trade the industry has gained something from the treaties with the Scandinavian countries. It may also look forward to some slight assistance from the subsidy for the production of motor spirit from coal. The subsidy was announced in July—but this expensive new industry is unlikely for some time to come to take more than the production of a single medium-sized colliery.

The cotton industry unfortunately retains its interest for the student of the pathology of industrial relations. After three years of contention over the question of in-

The Internal Industrial Situation

creasing the number of looms worked by each weaver, an agreement for the gradual extension of this labour-saving device was reached last December. Under the new system the weaver, instead of running four looms, runs six with the assistance of subsidiary labour; the rate of earnings per loom is lower, but the total earnings are higher, and a minimum wage is provided. No sooner, however, had the plain cloth districts begun to change over to the system, with its accompanying displacement of labour, than its whole basis became undermined. The trade unions were prepared to pay the price of the displacement of 30 per cent. of the labour—they had fought their battle against it and had lost. But it is not a price that all the operatives are willing to pay. Low as are weavers' earnings, men and women in some of the districts were ready to take lower wages all round rather than see comrades thrown out of work. In these districts bargains have been struck between the employers (mostly non-federated) and their weavers (union members defying their unions) under which the operatives will continue to run four looms, but will receive only the six loom rate for each loom, a stiff reduction of something like 25 per cent., leaving the weaver only 30s. or less for a full week's work. By this means the whole basis of collective agreements in the industry has been shaken. The low wage employer reduces his weaving costs and competes favourably with both the six loom system, which has to meet the additional cost of subsidiary labour and also of more slowly running machinery, and the ordinary four loom system which works under a higher wage scale.

Both the organised employers and the trade unions recognised the evil as a serious one, and the last few months have witnessed the spectacle of employers and operatives in an industry, which was once the classical example of the common rule, appealing to the Government to coerce minorities of employers and operatives to raise the labour costs of the one and the wages of the other. The industry

Trade Prospects

itself is powerless. The employers' organisation has no weapon against groups of firms which are prepared to stand out; on the other hand, it is exposed to the danger of a sympathetic stampede among its own members. There is no common conscience among buyers of cloth to insist on a "fair wages clause." The operatives have only the weapon of expulsion from membership; they are too weak to do more than protest; calls to strike would be ignored.

For six months now, both the employers' and operatives' organisations have been denouncing the recalcitrants and appealing to the Government to step in. The Ministry of Labour, not unnaturally, has been shy. To begin with, what does the industry want? Some of the employers' leaders would go the whole hog and ask for a statutory control board which would license only mills paying fair wages. (The powers of Mr. Roosevelt's Industrial Recovery Act would suit them admirably.) The operatives would like this, but would also be content with simpler measures—the legalisation of existing agreements, either by an ingenious amendment of the "particulars" clause in the Factory Act, or by the passage of one of the various Bills that have been presented to Parliament for the statutory enforcement of industrial council agreements. Any one of these courses assumes legislation, and this is hardly the Government to hasten to introduce the thin end of the wedge of State control into any large industry—except agriculture. One can hardly doubt that State intervention to assist reorganisation in the cotton industry will at some time become inevitable; it is overdue. But State intervention for the maintenance of wage rates is another matter, and it is not surprising that employers in other industries should look sceptically on the cotton industry's claim for special measures and that the other trade unions should have doubts about the transfer of their functions to the State.

In the meantime the Ministry of Labour has been conducting an investigation into weaving trade wages on the results of which a new approach should be possible.

The Internal Industrial Situation

It may be that some adaptation of the trade board system to the cotton industry would best meet the needs of the case, and that statutory intervention might start out from the point of a minimum rate of earnings rather than from the formal continuance of an antiquated wages list. It may strike the outsider as curious that the cotton industry, which is trying to avert further deterioration in its wages standards, should have as its chief competitor an industry—the Japanese cotton industry—whose labour costs are almost two-thirds less!

Among some of the industries which have benefited most from the protection of the home market there are signs of a movement for higher wages. In the woollen and worsted industry, which has been helped by the exclusion of competition, the employers have refused even to consider the question. But until there is some change in the cost of living the trade unions are hardly likely to become importunate. They are still on the defensive.

SHIPPING SUBSIDIES

AT the instance of the British delegation, the sub-committee of the World Economic Conference, which was dealing with the question of government subsidies, placed subsidies on ship construction and ship operation at the head of its agenda. The reason claimed for this priority was that shipping subsidies upset the whole machinery of international trade by depriving it of competitive efficiency in an essential service. On the other hand, several delegations argued that all forms of State assistance to industry, agriculture and trade were interdependent and could not be discussed separately. The result of the sub-committee's deliberations, in any case, was nugatory. An absolute conflict of opinion emerged from the discussion of shipping subsidies. The necessity of explicitly recording failure to agree upon any international action was obviated only by the tacit application of the French thesis that "the restoration of monetary stability was an essential condition precedent to any practical reduction of the amount of bounties and subsidies."

I. THE PROBLEM

THE adjournment of the World Conference destroyed the best opportunity that has yet occurred of solving this problem by the only possible means—multilateral action among the chief maritime nations. Shipping subsidies are largely a product of post-war economic nationalism. They are associated, partly as cause and partly as consequence, with the slump in shipping freights and profits which has persisted with varying gravity since 1921. To them is to be ascribed in no small measure the existence of an enormous excess capacity in the ocean carrying trade. Between 1913 and 1931 there was an increase of 58 per cent. in the tonnage employed in the world's international

The Problem

sea-borne trade, but owing to the greater average speed of the vessels, and the more economical type of construction, the carrying capacity had increased by 75 per cent. The trade to be borne is at the present time only one-half what it was in 1913. There are at the moment 52 million tons of shipping available for international trade, and employment for only about one-third of that tonnage. It is, however, misleading to judge a long-term phenomenon on the basis of conditions ruling in the trough of a world depression. But even if world trade had increased from 1924 at the rate at which it increased from 1904 to 1913 the tonnage now required would be only about 40 million tons.*

Owing to the competition of surplus shipping, tramp freights fell by 7 per cent. in 1932, and were then on the average about 20 per cent. below their pre-war level. Working costs, on the other hand, stood at well over pre-war rates. In spite of cuts which had been recently enforced, seamen's wages were still 60 per cent. above the pre-war level.† Even some of the greatest shipping concerns, under these circumstances, have been brought to bankruptcy, and the shipbuilding industry is almost at a standstill. That the problem is essentially a world-wide one, not confined to a few countries which have failed to stand the pace, is shown by the distribution of idle tonnage. The only country which came near to employing all its ships (and it must be remembered that ships in service may be using only a small part of their carrying capacity) was Japan. In her case, the operations in Manchuria and northern China were absorbing, directly or indirectly, a great part of her otherwise idle tonnage. The other principal countries whose governments have resorted to shipping subsidies—the United States, France, Germany

* The figures in the above paragraph are taken from a report of the British National Committee of the International Chamber of Commerce.

† These figures are given in the latest annual report of the Chamber of Shipping of the United Kingdom.

Shipping Subsidies

IDLE TONNAGE, END OF 1932.*

(In millions of tons.)

		Shipping owned.	Laid up.	Per cent.
United Kingdom	..	19.6	3.2	16
United States	.. ..	12.7	3.8	30
France	.. ..	3.5	1.0	29
Germany	.. ..	4.1	0.9	22
Holland	.. ..	3.0	0.8	26
Norway	.. ..	4.2	0.7	17
Italy	.. ..	3.3	0.6	19
Sweden	.. ..	1.7	0.3	17
Spain	.. ..	1.2	0.3	20
Greece	.. ..	1.5	0.2	16
Japan	.. ..	4.3	0.2	5
Denmark	.. ..	1.2	0.2	16
Other countries	..	8.1	1.2(est.)	15
		68.4	13.4	20

and Italy—all showed a high proportion of tonnage laid up. The worst offender, the United States, had the highest percentage of all. These are facts to which it is worth while calling the attention both of the delinquents and of their competitors.

The problem presented by this surplus shipping is three-fold. First, some equitable means must be devised for getting rid of some of the surplus. Second, agreement should be reached, in cases where rivalry on liner routes is excessive, for the avoidance of ruinous competition and the "rationalisation" of the service. Finally, fair conditions of competition must be maintained by the abolition of government subsidies.

Several countries have already adopted governmental measures to assist in the scrapping of redundant tonnage. Last year the German Government set aside Rm. 12 million (£600,000 gold) for the allotment of non-interest-bearing loans as a compensation for scrapping, at the rate of Rm. 30 per ton scrapped. The maximum tonnage affected would

* *The Times*, February 22, 1933.

The Problem

therefore be 400,000 tons. Under a decree of October, 1931, a credit of 10 million yen (about £1 million at par) was furnished in the Japanese budget for the combined purpose of scrapping old tonnage and building new, in the proportion of two tons scrapped to one ton built. The rate of bonus on new building varied from 45 yen to 54 yen per gross ton. The vessels to be scrapped totalled 400,000 tons, and the replacement vessels 200,000 tons. In Italy, under decrees of 1931 and 1932, funds have been provided for the payment of a bonus of 25 lire per gross ton on the scrapping of 400,000 tons. The net reduction of tonnage involved in these three plans is thus one million tons.

A special committee of the Chamber of Shipping of the United Kingdom, reporting in June last, came to the conclusion that, as several countries had already adopted scrapping schemes, scrapping could be undertaken with advantage by each country on a national basis, but that any scheme for laying-up, in order to be effective, must be international in the sense that agreement to operate it must be reached in a sufficient number of countries. The committee submitted two draft schemes for consideration by shipowners—a national scrapping scheme and an international laying-up scheme. In order to finance the first, uniform tonnage dues would be collected compulsorily through government machinery on all ships under the British flag entering United Kingdom ports with cargo. Otherwise there would be no government intervention. A board, representative of owners, would be responsible for purchasing ships for breaking up. The international laying-up scheme was generally similar, but uniform tonnage dues would be collected compulsorily from ships of all flags in each country adopting the scheme, and the fund would be administered by an international representative committee. The committee would determine from time to time the amount of tonnage which should be laid up, and for how long, in order to maintain equilibrium between

Shipping Subsidies

supply and demand. Compensation would be paid in proportion to the amount laid up.

These schemes have encountered a certain amount of adverse criticism from British shipowners. This is no place to discuss the merits and disadvantages of their particular provisions. The vital point is that the only alternative to national or international schemes along generally similar lines is the process of elimination by bankruptcy or dereliction. This is a particularly protracted process in the shipping industry, for a number of reasons. One is that tonnage sold as valuable only in the breaker's yard is often bought by foreign tramp owners and used on competitive routes, under national flags which do not entail such a high standard of seaworthiness as the Board of Trade prescribes.

The rationalisation of traffic on liner routes is largely a French proposition. The French delegation to the World Economic Conference pointed out

that on the great international steamship routes there had sprung up a ruinous and futile struggle between national flags which took the form of a constantly increasing competition in tonnage and speed and of a dangerous rate war which was a menace to the budgets of both shipowners and States.

It proposed that the Conference :

(1) Should advise States urgently to invite the shipowners of the countries concerned to conclude international agreements for the operation of the great ocean routes under multi-lateral contract and to limit the tonnage of future construction, the governments reserving the right to supervise the execution of such agreements ;

(2) Should suggest the joint operation, subject to the retention of the national flags, of the vessels mentioned in the agreements and the determination of routes, time-tables and international rates, regard being had to the tonnage, speed and comfort of the boats named in the contract ;

(3) Should point out that the best practical method of control was to introduce a joint account covering the whole of the working receipts and expenses.

The two main objections to this kind of proposal are, first, that it is futile so long as fair competition between the

The Problem

different liner companies is prevented by the subsidisation of some of them by their governments ; and, second, that it is put forward by the country which, in the Atlantic " war " at any rate, has not held its own, and is naturally anxious to make peace with its opponents. The first criticism is a sound one, and our great liner companies would be wise to insist upon the abolition of government subsidies on the routes concerned as the prior condition of their participating in such a scheme. But whether they can count on the continuance of their present comparative success on certain routes is altogether another matter. Even if they can, success can be advanced and maintained only at the expense of a prolongation of present cut-throat conditions, under which even the best placed concerns can do little more than pare down their losses. International rationalisation, in our own interest, must come eventually.

All the expedients, however, which have been proposed for dealing with the problem of surplus tonnage are futile so long as the policy of government subsidies on ship construction or ship operation continues. Otherwise, the stream silts up as fast as the dredges clear it. Even this country's past record is not entirely spotless, since the loans made for shipbuilding under the Trade Facilities Acts bore a rate of interest—5 per cent.—which was perhaps 2 per cent. below the market rate ruling at the time for that class of security. Such loans totalled £30,750,000 for the construction of British ships, £6,120,000 for the construction of ships under foreign flags, and £2,020,000 for shipbuilding plant. The application of the Acts to shipping and shipbuilding ceased in March, 1927. Mail contracts are made as far as possible on a commercial basis.

In 1931, subsidies by the Japanese Government to ships carrying the mails amounted to 2,650,000 yen (£260,000 at par). From 1920 to 1932 they aggregated 155 million yen (£15 million at par). Between 1913 and the current year

Shipping Subsidies

the Japanese mercantile marine has increased from 1,708,000 tons to 4,258,000 tons. Since 1928 the German mercantile marine has been subsidised by the grant of preferential railway rates. Last year the Reich Government intervened in the reorganisation of the principal shipping lines, guaranteeing loans of Rm. 77 million (£3,800,000 gold) at a maximum interest rate of 7½ per cent. Altogether, direct loans of Government money, guaranteed loans and grants for shipbuilding or the operation of ships have amounted to about £12 million at par. The Norddeutscher Lloyd and Hamburg-Amerika lines are now practically government concerns. In Italy, operating subsidies, chiefly in the form of mail contracts, reached an estimated total of 2,529 million lire (over £27 million gold) during the period from 1920 to 1932. Between 1927 and 1932, furthermore, the sum of 632 million lire (£7 million) was advanced for new construction or for purchases of vessels. The French budget for 1931-32 provided 196 million francs (£1,600,000 gold) for subsidising the costs of ocean mail services, principally those to the Far East, Australia, New Caledonia, the African coast and the eastern Mediterranean, and to Brazil and the Argentine. The aggregate excess of mail contract awards over the commercial value of the service has been estimated at 775 million francs (about £6½ million) for the period from 1927 to 1932. Guarantees on the building and purchase of ships have been given, from time to time, to the total of 1,300 million francs (£10½ million gold), and lately a further sum of 1,000 million francs (£8 million) has been advanced to shipping companies in difficulties.

But the worst culprit is undoubtedly the United States. The outlay of the American Government upon ship construction and operation through the United States Shipping Board, from 1916 to June 30, 1931, less repayments, was \$3,615 million (£743 million at par). This does not include expenditure for similar purposes by other departments. The total loss on shipping ventures incurred by the United

The Problem

States Government has been independently estimated at £1,000 million.* Ten-year mail contracts involving a total guaranteed compensation of some \$300 million (£60 million) have been awarded to private companies under the terms of the Merchant Marine Act of 1928. Compensation is based, not upon the volume of mail carried, but upon the size and speed of the vessels used and the length of the route served. The net operating subsidy on mail contracts—that is to say, the amount by which the compensation exceeded the commercial value of the services—has been estimated at \$37.3 million (£7½ million) down to June 30, 1932. In 1913 the United States had only 2,017,000 tons of merchant shipping. Now she has 10,088,000 tons.

The policy of subsidies has been accompanied by other nationalistic shipping legislation. The reservation of coastal trade for ships under the national flag is recognised in international law as a legitimate exception to equality of treatment between foreign and home shipping. The formerly accepted interpretation, however, of "coastal trade" was what is known as "cabotage," namely, cape-to-cape sailing. This is not the interpretation favoured by the United States Government, which reserves for ships under the national flag the trade between the mainland and outlying or island territories like Alaska or Hawaii. The state of affairs on the liner routes between America and Australasia may be cited as an example. There, the Matson line, subsidised both in construction and in operation, competes with two indirect subsidiaries of the P. and O. group, the Union Royal Mail and the Canadian-Australasian lines. In point of speed and modernity, the Matson liners come easily first, though experienced travellers remark upon the compensating advantages of the British ships. Probably every line is running just now at a loss, the Matson line no less than the others.

* By Sir Norman Hill in an address at the Royal Institute of International Affairs, March 14, 1933.

Shipping Subsidies

Now the legislation of the United States debars the Union line from taking passengers or freight between Honolulu and San Francisco or Los Angeles, except as part of a through passage to or from another port outside United States territory. At the other end, Australian legislation lays down a like prohibition with regard to transport between one Australian port and another (say, between Sydney and Melbourne). This prohibition applies, it must be observed, to all non-Australian tonnage, whether British or not, and it therefore affects equally the Matson line and its competitors, who are on the New Zealand register. What is really comparable with the Honolulu-California traffic is the passage between Australia and New Zealand, which is open to competition by ships of any flag without discrimination. There has been considerable agitation in New Zealand for the conclusion of an Empire agreement for the reservation of trade between certain ports of the Commonwealth in different Dominions for British ships. At the same time, many interests in Australia are pressing for the modification of the coastal shipping laws in favour of all ships under British flags. Such a measure would be strongly opposed by Labour.

II. POSSIBLE SOLUTIONS

THE problem, however, is too wide to be solved by local expedients or unorganised retaliation. At the World Economic Conference, the delegations of Norway and the Netherlands, supported by the other Scandinavian countries, jointly proposed that

a definite agreement be concluded providing for the abolition, at the earliest moment, of all shipbuilding and shipping subsidies other than such as may be necessary to a State for the maintenance of its sea communications on particular routes and the promotion of particular trades in which the State has special interests.

The exceptions thus allowed would render the agreement altogether valueless. There is scarcely any of the present

Possible Solutions

subsidies which could not be justified in accordance with the above terms, since in the last resort the individual State must be the sole judge of what is necessary for the maintenance of its sea communications or in what trades it has special interests. The proposal of the United Kingdom delegation was more inclusive. They submitted:

(1) That State subsidies for the construction of shipping for, or its maintenance on, competitive routes are uneconomic, can only lead to the granting of similar subsidies by other countries and/or protective measures in respect of shipping, which would deprive world trade of the economic and efficient sea transport it has so far enjoyed, disorganise the world freight market, increase the burdens on national budgets and lessen the power of maritime countries to pay in services for imports and loans.

(2) In these circumstances the countries concerned should move as rapidly as possible towards the diminution and ultimate abolition of State assistance to shipbuilding and ship operation on competitive routes.

The United Kingdom memorandum received a good deal of support, including that of Norway and the Netherlands. The French delegation was of opinion that special cases exist in which national protection of a mercantile marine may be justified and must be regarded as legitimate, but that it cannot be justifiable to practise a policy of "uneconomic" bounties and subsidies.

The representative of the United States made considerable play with the question, what is an "uneconomic" subsidy. He poured scorn on the suggestion that government subsidies were responsible for the loss of equilibrium between world tonnage and traffic. He repudiated the British hint that the policy of subsidies might be regarded as a breach of treaties foreswearing discrimination against foreign vessels. United States policy, on the contrary, was directed towards securing equality for American ships, and no more. Congress had had in mind "an equalisation of the costs of constructing and operating American ships and such costs in respect of foreign ships, so that vessels in the United States can compete for both cargo and pas-

Shipping Subsidies

sengers on substantially equal terms with other maritime nations." There could be no clearer admission of the competitive inferiority of the American shipping industry, which has to be heavily subsidised in order to put it on a footing of equality with its competitors. The United States delegate made no bones about it. "The United States," he said, "intends to have a merchant marine."

It is clear, therefore, that world-wide agreement for the reduction and eventual abolition of subsidies is prevented by the intransigent attitude of the United States. That leaves two general courses open to us. The first is to adopt a policy of subsidies ourselves. Nothing could be more foolish. We own nearly twice as much tonnage in service as does the United States. With our far smaller governmental resources, to enter into a campaign of competitive subsidies would be financially disastrous, and could only result in a great increase of the present excess tonnage. The other course is to adopt, in concert with other maritime countries, an international convention which shall interpret the term "discrimination" as it appears in treaties governing shipping legislation. The purpose would be to leave the signatories free to take, if necessary, common or independent action against subsidised shipping, by prohibitions, differential port dues, or other means. It must be emphasised that for us to adopt such a defensive policy without securing the co-operation of other countries would be to cut our own throats. The widest flung merchant marine must also be the most vulnerable. How many countries we could bring in with us it is impossible to say.

Here is a matter, above all things, in which a common Empire policy would be invaluable. The united voice of the whole British Commonwealth is much more likely to be heard than that of the United Kingdom alone. The practical co-operation of a group of nations scattered among the four oceans and possessing nearly one-third of the world's merchant fleets would be an almost certain

Possible Solutions

assurance of success on an issue concerning the terms of traffic by sea. At present, as the reference to the trans-Pacific services has indicated, co-operation is very little and common policy nil. If the nations of the Commonwealth cannot join together on a matter which so vitally affects them all as does the future of the world's mercantile marine, there is little hope of their successful collaboration on political or economic matters which less immediately touch their interests.

There is, moreover, another aspect of the problem which is of critical importance for the whole Commonwealth. Our mercantile marine is an essential part of our defensive equipment. In wartime, our lines of supply are the main artery of our system. The navy itself, which defends our merchant fleet, could not carry on without an adequate supply of merchantmen to furnish it with provisions and bunkers. In the first year of the war, 20 per cent. of British tramp tonnage was placed under direct requisition by the Government, for the transport of troops and the conveyance of military and naval supplies. By 1916 the proportion had risen to 30 per cent. At the end of the war, British ocean-going tonnage amounted to about 18 million tons deadweight, of which 1.8 millions was serving the navy, 2.2 millions the army, and 1.5 millions the military forces of the rest of the Empire. Over 800,000 tons were absorbed in carrying American troops or on other military service for the United States. After allowing for further tonnage not available for importing work (*e.g.*, under repair), there remained 10.3 million tons deadweight which had to supply these islands, and to a large extent our allies as well, with the imported necessities of life.*

These figures are sufficient to show the extreme importance of merchant fleets as an auxiliary to naval and, indeed, all armed forces. In our case, the conclusion is reinforced by the island situation of Great Britain, by the

* *Allied Shipping Control*, by Sir Arthur Salter, pp. 48 and 345.

Shipping Subsidies

great distances that separate her from the Dominions and other parts of the Empire, and by the reliance of her civilian population upon oversea supplies. The pursuit of economic self-sufficiency might therefore diminish rather than enlarge our ocean strength. The facts demand that we should treat shipping subsidies, which constitute so acute a menace to our mercantile marine, as an urgent problem for the whole Commonwealth. Our own position, on the other hand, will help us to understand that of the United States and other naval Powers. The solution of the problem cannot be pursued in the economic field alone.

GREAT BRITAIN : THE GOVERNMENT'S RECORD

I. THE BREAK-UP OF THE CONFERENCE

THE eagerly awaited World Conference has come and gone. For all the doubtless sincere expectations of the Prime Minister that the Conference will reassemble before long and crown its actual endeavours with ultimate success, there is no doubt that the general feeling is one of disappointment. The delegates of the sixty-six nations of the world, assembled in the Geological Museum, have dispersed without achieving the purpose for which they assembled.

Is the British Government to blame? It is argued that, once President Roosevelt had rejected the bankers' stabilisation scheme, the Conference was virtually over. The President's utterances certainly came as a surprise to public opinion in this country. A month earlier he had stated, with all the authority of a presidential broadcast declaration, that exchange stabilisation was one of the Conference's three great objectives. Yet here he was describing immediate exchange stabilisation as "an old fetish of so-called international bankers," and announcing by implication that the United States was indefinitely wedded to "the managed dollar," and that exchange stability depended on the extent to which the rest of the world was prepared to keep step with the price levels of the United States. Little came of the long and laboured attempts made by the American delegates over the transatlantic telephone to extract a modified statement. The President expressed an aspiration for "friendly co-operation"; but that did not alter the fact that "the countries on the gold standard found themselves obliged to declare that, for the time being at any rate, it was impossible for them to take part in any discussion of monetary questions."

But whether the British Government should have accepted the situation as passively as it did has been widely

Great Britain

questioned. Was it for or against the American experiment? Its spokesmen, the critics point out, had said in the clearest possible terms that the Government was working for a rise in prices. This was wholly in accord with the wishes of what Mr. Churchill has christened "the sterling convoy"—the Dominions, the Scandinavian countries, and others—who are wholeheartedly in favour of an active policy to raise prices. How, then, did the Government propose to carry out such a policy? It did not augur well for its endeavours that, in practice, monetary policy has been directed towards stability against the continental gold bloc, with its fundamentally deflationist tendencies. The declaration of monetary and economic policy signed by the Empire delegations to the Conference* was, therefore, warmly welcomed not only within the British Commonwealth but also throughout the sterling group. It atoned in part for the failure of the Conference, since it formed a possible basis for a wider measure of economic co-operation than the declaration itself contemplated as an immediate measure. The co-operation on monetary affairs to which the Dominions and the United Kingdom are now pledged is itself of very great importance. The success of the Canadian Government loan, the first to be floated on the London market since before the war, and the satisfactory conversion of a considerable block of Australia's sterling debt, are notable tokens of the new course that events are taking.

One of the chief lines of criticism of the Government's behaviour at the Conference is to the effect that, in pursuit of its declared policy of price raising, it might have developed plans for international public works on the lines of the MacDonald-Roosevelt manifesto. Instead it seemed to favour the opposite line. It is worth setting down in actual quotations the change in the Government's attitude. At Washington on April 26, Mr. MacDonald and Mr. Roosevelt jointly declared that "enterprise must be stimulated

* See p. 783.

The Break-up of the Conference

by creating conditions favourable to business recovery, and Governments can contribute by the development of appropriate programmes of public expenditure." Mr. Runciman announced at the Conference on July 13, apropos of the Government's public works schemes, "that we shall not reopen those schemes, no matter what may be done elsewhere"; and he asserted that public works, whether in Great Britain or elsewhere, were "the most unremunerative way of dealing with the unemployment problem." It astonished people all the more, therefore, when Mr. MacDonald included in his final presidential speech to the Conference some almost enthusiastic remarks about international policies of public works. He said that a discussion on how the policy of public works could be used

would not only stimulate each nation to do what it can as regards such a policy, but might lead to action regarding large schemes which might benefit groups of nations. . . . Where this policy can be pursued in a businesslike and scientific way, and not merely as uneconomical relief work, it has undoubtedly the advantage of improving prices in the very best possible way—namely, by stimulating consumption.

In a debate in the House of Commons a few days earlier, any suggestion that the Government was divided on this subject was vehemently repudiated, but the clash, in spirit at any rate, between the statements of Mr. MacDonald and Mr. Runciman hardly has the air of complete unanimity.

It is argued that the Government's policy has been not merely inconsistent but weak as well. Whether Great Britain approves or disapproves of the theory of the American experiment, its inception is far the most important event since the beginning of the world slump. Upon its success or failure may well depend the future of society as at present constituted. If it were to fail, the patience of the industrial unemployed and bankrupt primary producers might well give way to some form of reckless direct action. It was of the utmost importance that we should accord the experiment, once launched, every assistance in our power. Great

Great Britain

Britain could have demonstrated that she wished it well while maintaining for her own part an inherently more cautious policy. Instead, it is alleged, the attitude on this side of the ocean has been slightly contemptuous, certainly sceptical, and vaguely discouraging. So argue the malcontents, who are by no means confined to the elements in opposition to the National Government. The last debate of the session on the Economic Conference disclosed that this critical view was shared by a number of the younger Conservatives.

Defenders of the Government against the accusation of weakness argue, on the other hand, that Mr. Roosevelt, by banning stabilisation, prevented an agreement for a general lowering of tariffs. The combination of stabilisation and tariff reduction would undoubtedly have produced a general rise in prices. As to the demand for an alternative policy of price raising by national action, there was patently no need for it. Whether as a result of American action or for other reasons, prices were already rising. Without any specific government action, trade was beginning to improve. Why in the name of common sense, asked people of this way of thinking, interfere with its course just at the moment when the channels were deepening?*

Wherever the fault lies, public opinion will no doubt lay some blame at the door of the Government. The Prime Minister was so very emphatic in his opening statement that the Conference "must not fail." For months the country had looked forward to it as the throwing of a life-line to shipwrecked humanity. It has failed. Rescue has not been effected. The life-line may be thrown again. It is possible that the Conference will reassemble later. That will depend in part on our own policy, in part on the course of world events in the meantime, especially in the United States. In any case, it remains to be seen whether there can be the same determination and enthusiasm behind

* For the view of THE ROUND TABLE on this matter, see p. 731.

The Break-up of the Conference

a later meeting. It is difficult to do these things twice. The National Government was sent back in its overwhelming strength with no less a mandate than to salvage capitalism. The summoning of the World Conference was the grand scale effort to carry out the trust. It will not be surprising if the industrial districts judge by the meagre results of that effort and swing over, so far as the present organisation of industry is concerned, from defence to attack.

The real test of this Government, however, as we have said ever since its inception, is the state of unemployment. The state of trade is examined more particularly elsewhere,* but the improvement mentioned in our last issue undoubtedly has been maintained—otherwise the result of the Economic Conference might not have been taken so calmly. Apart from the decline in unemployment figures, the improvement is evident in a variety of facets of our national life. There was, for instance, a surplus of £688,000 for the month of June on the unemployment insurance fund; in April it was £102,000. The Post Office receipts have always been regarded as a reliable barometer of prosperity. Sir Kingsley Wood forecast in the House of Commons debate on July 24 that the surplus on postal services would show an increase from £10,869,000 to £11,100,000. The unemployment returns continue to make more cheerful reading. Some commentators argue that this improvement is only temporary, being the final harvest of our decision to leave the gold standard in 1931; and that the American inflation will initiate a new drive against British trade. Time will show what truth there is in this contention, but it ignores the importance of the psychological factor in restoring prosperity.

* See p. 823.

Great Britain

II. THE PROBLEMS BEFORE THE GOVERNMENT

NEVERTHELESS the magnitude of the problems with which the Government is faced shows few signs of lessening. As regards the American war debt, it was relieved of its immediate anxieties about the June instalment, but the problem is by no means settled yet. Whatever Mr. Roosevelt's own attitude may be, he has still to persuade an unwilling Congress to agree to terms which Great Britain, France and Italy can accept. In the meantime, while discussions proceed at Washington, with Great Britain in the rôle of debtor, negotiations will have to be opened in Europe with Great Britain in the rôle of creditor.

Again, Ottawa has been causing some disappointment. A strong view has manifested itself in both Houses of Parliament that the Dominions are not carrying out the spirit of the Ottawa Agreements. Complaint is made that the Australian and Canadian tariff boards* have brought about no important reductions of tariffs, whereas dairy produce has been dumped by the Dominions on the United Kingdom market at less than its cost of production. Though Mr. Thomas was able to report an increase of trade with the Dominions, notably with Canada, he did not allay the general feeling of dissatisfaction. Of course, it will not be possible for at least a year to form a decisive opinion about the practical results of the Ottawa conference. Still, it was disquieting to note Mr. Thomas's admission that no actual results had been obtained as yet from any single application made by British manufacturers to the Australian and Canadian tariff boards. On the other hand the government policy of quotas, directed with such assiduity by the Minister of Agriculture, is arousing across the seas similar recriminations about breaches of faith on our part.

* An account of the Australian position will be found on page 895.

The Problems before the Government

One result of Ottawa has been the demise of the Empire Marketing Board. The Government having notified the Dominions that it could no longer bear the whole cost of the Board's work, a representative Imperial Committee on Economic Consultation and Co-operation was set up to consider the whole position.* Their report,† which is regarded by a large body of opinion in this country as somewhat narrowly conceived, recommended the abolition of the Empire Marketing Board, coupled with the transference of most of its activities in the way of scientific research to other bodies, and an extension of the powers of the Imperial Economic Committee. The report has been accepted by the United Kingdom Government, after consultation with the Dominions, and on September 30 the Board is to disappear. The widespread appreciation of its work is shown by the many protests against its destruction. The Trades Union Congress and the Federation of British Industries addressed a memorial to the Prime Minister, expressing their belief

that from the point of view of United Kingdom producers, of producers in the Colonies and in certain Dominions, the work of the Board should be continued and developed on its present lines, any Dominion which was prepared to co-operate being, of course, very welcome.

The Anglo-Irish dispute seems to be as far from a settlement as ever—rumour connected Mr. Havenga's recent visit to Dublin with this question.

With regard to India, though the situation seems tranquil for the moment and the White Paper policy has not received any open reverse in this country, the Government is not yet over the last ditch. The opponents of the White Paper, under the leadership of Mr. Churchill and Lord Lloyd, have been extremely active on the platform and in the press. They have excited the apprehensions of Lancashire, and they seem to have drawn a considerable

* See THE ROUND TABLE, No. 87, June 1932, p. 469.

† Cmd. 4335.

Great Britain

body of Conservative opinion to them. They attempted to force the issue at the meeting of the Union of Conservative Associations in July, but the Government spokesmen pleaded for a reservation of judgment until the Joint Select Committee should have reported. By thus diverting the argument from the direct issue of policy, Mr. Baldwin secured a two to one majority. No doubt this was a victory for the Government, but it was not an endorsement of the White Paper. In submitting their case to the country, the Government are handicapped at the moment by their own proper reticence. The publication of the Committee's report will, however, remove that disability. If it is unanimous, or if the dissent is of a minor character, the Government need have no fears. But if there were to be a very substantial Conservative minority then there is the possibility that the whole party alignment might change. Meanwhile the introduction of the new constitution has been brought a stage nearer by the issue of the report of the Committee which considered the question of a central bank for India. It will be recalled that the first Round Table Conference declared the establishment of a central bank free from political control to be one of the conditions of the grant of responsible government at the centre. A plan has now been put forward.

The menace of Japanese competition, particularly in the textile trade, confronts the Government with another grave problem, though one which need not be discussed here, as it is dealt with elsewhere.* Then there is the problem of unemployment insurance. A temporary measure was passed last June, but that was merely to enable the Government to carry on the present system until its permanent proposals were ready. Their preparation has taken longer than was expected, and they will not be available to Members of Parliament until November 7; they are likely to form the most important constructive measure

* See p. 825.

The Problems before the Government

of the next session. As long ago as April the Government accepted the principle that it should be responsible for assisting all the able-bodied unemployed who need assistance, but it remains to be seen to what extent the scheme will involve a centralised bureaucratic administration, and how far use will be made of local bodies, and what discretion will be left to them. We have so far only been told that it will be one of the functions of the new law "to establish and define the functions of local authorities and the central government in relation to assistance from public funds, whether the funds of local authorities or the funds of the Exchequer." As regards finance, the present block grant paid every year to the local authorities will be readjusted, "since the local authorities will be relieved of a liability to which they have hitherto been subject." The forward-looking Conservatives are most anxious that the Bill should be not merely a reassessment of the dole, but a real reconstruction of the principle of relief. They want, for instance, attendance at instructional centres for young persons in receipt of State relief, and are ready to go a long way in making physical training or attendance at an allotment or some task of that kind obligatory on the unemployed. It is widely felt that, though the element of compulsion would be unpopular at first, the unemployed would in six months begin to realise the benefits of constructive occupation. It is a mental attitude far more than under-nourishment that is sapping the manhood of the nation. It is, at all events, clear from the statement of the Minister of Health on April 12 that the need for protecting the unemployed against the ill-effects of idleness by training, occupation or recreation has not been overlooked.

The Government also proposes in its new measure to make some allowance on a regular basis for the special necessities of the distressed areas—an interim grant of £500,000 was made to them early in July in relief of the rates.

Great Britain

III. THE ACHIEVEMENTS OF THE GOVERNMENT

BUT these are the constructive tasks of the future. What has the summer session to show in actual achievement? It is a record that is respectable if unexciting. First to take external affairs. The Four Power Pact is regarded by most informed observers as a step in the right direction. After the Nazi revolution there was a real danger of Europe's drifting back into the old system of two armed hostile camps. The present Austro-German crisis has put a heavy strain upon the Pact, but, if this difficulty can be overcome, it should at least ensure the maintenance of touch between the four great Powers, and touch counts for a good deal in such an atmosphere as exists at present in Europe. It may even lead to improved relations between Italy and France, and prevent Franco-German relations from getting worse.

The Russian quarrel has also been made up. It may be, as their critics say, that if the Government had waited a day or two last April, the sentences on Mr. Thornton and Mr. Macdonald, the two Metropolitan-Vickers engineers, would have been revised, and that it was at all events worth while waiting before imposing the embargo. However that may be, the matter has now been settled; the engineers are home again and the negotiations for a commercial treaty with Russia have been once again renewed. In the matter of disarmament the Government can claim the credit for putting forward a scheme which kept the Conference from drifting towards a breakdown, and which may still form the basis for an agreement, though alarm was created in all parties by the endeavour of our representatives at Geneva to keep alive our right to use bombing aeroplanes for police purposes in the outposts of the Empire, in spite of the fact that our own scheme proposed to abolish bombing from the air in warfare

The Achievements of the Government

generally. Sir Austen Chamberlain, who has increased his prestige as a friendly critic of the Government, made a powerful plea for the reconsideration of this attitude, and Captain Eden gave an explicit assurance that the Government would not allow a disarmament convention for the abolition of aerial warfare to be wrecked by this reservation. Before leaving external affairs, we may mention that the tariff truce made at the commencement of the World Conference still continues, and the Government is adhering to it, in spite of the clamour of the extreme protectionists.

In domestic affairs there has been some useful legislation. In the teeth of strong opposition from heavily entrenched interests, the Road and Rail Traffic Bill has been successfully piloted through to the Statute Book, and a London Passenger Traffic Bill has also passed into law. Practically all the London tramways, omnibuses and underground railways are now merged in a single public corporation, under a board of which Lord Ashfield is chairman. Then there has been the reorganisation of the police force following on the lines of Lord Trenchard's report. It is designed to make promotion quicker and it paves the way for the creation of an officer class. The proposal to restrict the term of enlistment to 10 years, though it has obvious advantages in the way of pension economies, has been the target of much hostile criticism. It is felt by some that the shorter period of service will expose men, who at thirty will be thrown upon an inhospitable labour market, to temptations to corruption.

More important constructive proposals have relation to housing and agricultural marketing.

The Government's policy on housing was stated by the Minister of Health to be "the stimulus of private enterprise and the restoration of the normal forces of supply, thereby securing an increase of the small houses to be let, coupled with a great direct attack on the crying evil of the slums." It will be remembered that, although the

Great Britain

"Wheatley" subsidy to local authorities for the building of class C houses (the better class of workman's house) has been abolished under the Government's Housing Act, they have retained the rehousing subsidy of £15 per annum payable under the "Greenwood" Act of 1930 in connection with slum clearance schemes. Encouragement has also been given to local authorities to borrow money for rehousing purposes. The principle of the Government's policy is that, as costs in the building trade have fallen low enough for unassisted private enterprise to supply the deficiency of class C houses—a point which has been questioned by commentators like Mr. Rowntree and Sir E. D. Simon—the energies and finances of local and national governments can be concentrated on a direct attack on the slum problem. So far, however, the "drive" for slum clearance, which is supported by all parties, has existed only on paper. The local authorities have to submit their plans for a five-year programme by the end of September, and not until then will the extent of the response be known. But plans already notified to the Ministry have led the latter to estimate that next year the rate of clearance will be 24,000 houses a year, against a present rate of 12,500 a year.

In the meantime, Lord Moyne's departmental committee on housing has made some far-reaching proposals with regard to the reconditioning of semi-slum houses. The Committee was appointed to consider what further steps should be taken to maintain a proper standard of fitness in working class houses, which are not in an area suitable for clearance and demolition under the 1930 Housing Act; it was further to advise what should be done "to promote the supply of working class houses without public charge, through the agency of public utility societies or other bodies." The Committee recommends a grant of compulsory powers to local authorities to acquire houses of this kind provided that they have a prospective life of 20 years, at the price or value at which they last changed hands. They would then be handed over to local public utility

The Achievements of the Government

societies to recondition and manage on Octavia Hill lines, women being, wherever possible, employed as housing estate managers. Social service in business was the spirit underlying Miss Octavia Hill's principles, and applied to housing estate management it meant personal touch with the occupant, and the development of an atmosphere of good will and co-operation. If there is no local public utility society, the houses acquired are, under the Committee's scheme, to be leased to House Management Commissioners, or, if there are no Commissioners, they are to be held, repaired and managed by the local authority itself. Over this local machinery there is to be established a central public utility council. According to the Committee's proposals the Minister of Health would be authorised not only to advance the whole of the purchase price and the cost of reconditioning, but also to endow the public utility societies with the powers of local authorities, should the latter delay or decline to acquire unfit houses for the societies. It is further suggested that rehousing subsidies of £12 and £5 a year respectively for 60 years should be provided for tenements and new accommodation, subject to conditions with regard to rent and to the reduction of the subsidies in certain circumstances. The cost of providing accommodation to obviate overcrowding would also be advanced—normally the advance would be limited to 90 per cent., and the balance of 10 per cent. raised by issuing shares with a maximum yield of 5 per cent.

The Committee did not adopt the proposal that a National Housing Corporation should be created to deal with the question of building new houses.* For one thing, it considered that the terms of reference did not cover this question. It is impossible here to deal with the arguments in favour of such a corporation, or the reasons which made

* It has been estimated by Mr. B. S. Rowntree that there is a present shortage of 750,000 houses, which would be raised to 1,500,000 if bad or insanitary dwellings were included.

Great Britain

the Committee dubious about its advantages. It is, however, worth noticing that the Committee itself has applied the principle of centralisation to a particular side of the work—reconditioning. Doubts have been expressed about the fairness of the proposed basis of compensation on the ground that it favours the owner who has neglected his property.

The Ministry of Agriculture has been very active of late. Major Elliot is a firm believer in "the economics of glut," and is busy enforcing the restriction of supplies in order to restore agricultural prices to profitable levels. The principle of regulation of supplies is now to be applied not merely to wheat and meat, but also to hops, bacon, other pig products and fish. In the closing week of the session, the Minister of Agriculture obtained powers to impose similar regulation upon the milk industry. Under any scheme framed under the Agricultural Marketing Act, upon representations being made by the Minister, the Board of Trade can issue an order for the curtailment of imports. The first step in each case under the Act, which received a third reading on May 30, is that the farmers whom the scheme is designed to benefit must ask the Minister to prepare a scheme or themselves place a marketing scheme before him. Next, a public inquiry is held, on the basis of which the Minister submits a revised scheme for affirmative approval by Parliament; and the scheme has further to pass the test of a poll of those affected. These conditions fulfilled, however, the Minister has very wide powers of issuing orders and decrees within the terms of the scheme and of the Act.

These powers have been denounced as equivalent to dictatorship. It should, however, be mentioned that a modification of the Minister's powers now enables an order to be challenged within 25 days of its issue. But the position still is that thereafter, whatever blemishes may reveal themselves, there will be no legal right of challenge.

Whatever may be said, however, of Major Elliot's ways,

The Position of Parties

no one has ever accused the Cabinet of Hitlerism. The defect, indeed, most commonly imputed to the National Government, especially since the Economic Conference, is a lack of the quality of leadership—irresolution, after all, is the besetting sin of coalitions. This one will be closely watched in the coming year.

IV. THE POSITION OF PARTIES

IT is indicative of the trend of opinion in the Labour party that this symptom of incipient dictatorship called forth no protest from the official Opposition. Sir Stafford Cripps, indeed, in his enthusiasm for bringing the Socialist State into being by emergency decree on the lines of the Nazi régime in Germany, is gleefully marking every occasion when the National Government resorts to orders in council. But the opposition of the trade union element to this point of view is growing. The Nazi revolution has had a deep effect upon Labour here. There is as great a hatred of dictatorship, as now established in Germany, as ever there was in pre-war days of the autocracy of the Tsar. There is also a definite fear of the electoral consequences of the cry, which the opponents of the Cripps group will be able to raise, that liberty is in danger. It is a struggle between the old radicalism of the working classes and the new socialism of the intellectuals for the soul of the Labour movement. The election of Mr. Arthur Henderson at the forthcoming Clay Cross by-election, which, judging from the electoral history of this Derbyshire mining division, should be as certain as anything can be in politics, would strengthen the liberalising influences in the Parliamentary Labour party. Perhaps it will also give renewed energy to the international standpoint, though, in contradistinction to what has happened in France, this has not been greatly weakened here by the events in Germany and the failure of the World Conference.

Great Britain

It is upon Mr. Lloyd George that the new nationalism has apparently had the profoundest effect. The sensation of the debate on the results of the Economic Conference was the speech in which he admitted that the method of international conference had failed, that the era of international trade was over, and that we must contrive to live for a time at any rate on our home market. His remedy was a concentration on agricultural revival, to be achieved by revising the Ottawa Agreements so as to protect the British farmers against the ruinous competition of the Dominions, and a land colonisation scheme, involving the settlement of half a million families on the land. It was a remarkable utterance coming from a man who, both at the election and since, has declared himself an unrepentant free trader and has taunted his Liberal friends with the compromise that they have made with protection by remaining in the Government after the introduction of the Import Duties Act and not going into definite opposition after Ottawa. Perhaps the most significant portion of his speech—in the effect that it may have on the future fortunes of parties—was the minute that he gave to the Indian problem. Quite incidentally he remarked in the course of his general criticism of the conference method :

I am not satisfied with the Conferences about India. I view them with considerable dubiety and anxiety, and I do not believe that that is the best method of settling that question ; but that is by the way.

This passage has been taken to mean that although Mr. Lloyd George, as he himself declares, has not adopted the Churchill point of view, he has gone a considerable way in that direction. It has certainly made a bridge possible between himself and the dissident Conservatives, and the whole speech may have a profound effect on the future alignment of parties. The idea of a second coalition emerging out of this National Government, with a triumvirate of "strong men," Mr. Churchill, Sir Robert Horne, and Mr. Lloyd George, at its head, has always been a bare

The Position of Parties

possibility. It may be found that Mr. Lloyd George's speech has put it further on the map.

The gulf in the Conservative party on the India question, which was described in our last issue, does not grow narrower. The annual conference of the Conservative party in Birmingham in the first week in October will afford another opportunity for a frontal attack on the policy of the Government.

An open split in the Conservative forces might bring the younger Conservatives, who are enthusiasts for national reconstruction, into the same camp as the Liberals. The latter are still racked with dissensions, though the conversion of Mr. Lloyd George to economic nationalism removes one disruptive influence in the free trade ranks. A coalition of the forces of the left centre has been with most of them a long cherished hope.

But these are speculations about the future. For the moment party alignments to the outward eye show little sign of substantial alteration, either in the House of Commons or the country. The figures of the Altrincham by-election in June, where the Government candidate, Sir Edward Grigg, triumphed by 8,000 votes, show very little change in the balance of parties since the seat was last contested. The fact is that the Government's record, though it has inspired no particular enthusiasm, has not produced any deep resentment.

But the third year of its life is now opening. It is then that Governments are expected to produce their most important constructive work.

THE IRISH FREE STATE : OURSELVES ALONE

I. THE BUDGET

MR. MACENTEE'S second budget, which he introduced in the Dail on May 10, agreeably surprised the taxpayer, and the pessimists, who had prophesied, amongst other misfortunes, an increase in the income tax and surtax and a special tax on British dividends, were confounded. But in other directions it gave no grounds for hope or satisfaction. Indirect taxation was increased by a further crop of new tariffs, to the periodical arrival of which we have now become accustomed, if not reconciled. These include a tariff of two-fifths of a penny on imported daily newspapers, which is a sop to obscurantism, and will not only produce revenue but tax information; a 50 per cent. tariff on mineral hydro-carbon oil; a 60 per cent. tariff on women's coats, wraps and costumes made from woven tissues of wool or worsted; tariffs on certain imported fruits which are home-grown, and on a large and miscellaneous list of articles, ranging from teapots to footballs and feeding bottles. For some mysterious reason, imperial preference is still conceded. The complete remission of the duty on home-grown tobacco, which was granted by the Government last year in order to encourage its cultivation in the Free State, has proved so successful that if not checked the indispensable revenue from that source would, as Mr. MacEntee humorously explained, end in Irish tobacco smoke. He consequently re-imposed an excise duty of 6s. 8d. a pound on all Irish-grown tobacco from January 1, 1934.

In his review of the year he said that in some respects conditions in the Free State had been as bad as elsewhere, in some they had been better, but they had been worse in none. Alone among States, the Free State had been able to extinguish its floating debt, and to reduce substantially the volume of unemployment. Furthermore, although the

The Budget

year had been filled with difficulties, there had been an extraordinary expansion in their domestic commerce. The figures he disclosed do not, however, justify any kind of optimism, for they show a widening gap between income and expenditure. Last year the total national expenditure was £28,849,739; this year it will be £31,529,220. Last year's revenue came to £29,990,935; this year it will not exceed £26,440,000. In other words, the unfortunate taxpayer will be hit both ways, because expenditure will be increased by £2,679,481 and revenue decreased by £3,550,935. Last year there was an actual surplus of £1,141,196, which, of course, included the land annuities and other payments withheld from Great Britain, amounting to approximately £5,000,000; this year, even after again appropriating these withheld payments, Mr. MacEntee budgets for a deficiency of £5,089,220. This he proposes to meet by taking last year's surplus, £1,141,000, by borrowing £3,166,000, by making an allowance of £388,220 for over-estimation, by cuts of £270,000 in civil service salaries, and by using the proceeds of new tariffs, £140,000, leaving him a modest estimated surplus of £16,000. £1,225,000 of the proposed loan is to be used to defray one-half of the cost of the export bounties arising out of the dispute with Great Britain, and the balance, £1,941,000, to meet the cost of other services. As against this loan Mr. MacEntee stated that certain undefined assets had been created, presumably the payments withheld from Great Britain, and he apparently considers that future generations must bear some portion of the cost of the "economic war," even though these assets may prove illusory.

No doubt the Government will be able to raise the amount required, as there is still plenty of cheap money in the Irish banks, and the immediate success of the loans raised recently by the Dublin and Cork corporations proves that it can be borrowed on advantageous terms. But the figures given above of national revenue and expenditure do not make cheerful reading, and cannot be reconciled with

The Irish Free State

the promises made by the Fianna Fail party when in opposition that they would reduce taxation by not less than £2 million a year. They have, in fact, increased it by nearly £4 million. This inconsistency will, no doubt, be forgotten and forgiven by their more irresponsible followers, who will benefit by the following amounts: £450,000 to provide for the relief of unemployment, £150,000 for the development of bogs and the organisation of the peat industry, £100,000 for milk for necessitous children and £25,000 for free fuel in necessitous homes. These grants are, of course, designed to placate the Labour party, although, indeed, Mr. MacEntee declared that it had always been the policy of his party, within the limits necessarily set by the resources of the community, that the government of a Christian State ought to provide maintenance for all citizens who might be in want by reason of the State's inability so to order its life as to make work available for all who were willing and able to do it. These sentiments, admirable in themselves, would hardly seem to bear application in a situation in which the Government deliberately creates economic disturbance and unemployment, such as have arisen out of the "economic war" with Great Britain, and then seeks to remedy its own wrong-doing by increased taxation, which the taxpayer can meet only by reducing his expenditure and so further increasing unemployment. This is merely a vicious circle which can only end in national disaster.

Mr. MacEntee disclosed the fact that the special retaliatory emergency duties, which had been imposed on British products such as coal and cement, had yielded £326,000, and that the other protective duties imposed last year had realised less than half the sum estimated. Revenue during the year had, in almost every other item, exceeded the estimate. In regard to excess profits duty, he announced that the Government proposed to take further steps to collect it from all persons who were liable and had succeeded in avoiding payment. This process has already

National Self-Sufficiency

begun, and is not likely to increase the Government's popularity amongst the business community. Winding up the budget debate, Mr. de Valera said that the conflict with Great Britain had driven the Free State Government along the road of national self-sufficiency rather faster than it would have gone otherwise, but that there was a consciousness that it was being driven along the right road. How much further we can go along that road we must apparently wait for next year's budget to find out, for this year's certainly envisages no end to the disastrous expedition.

II. NATIONAL SELF-SUFFICIENCY

DR. SCHACHT, the president of the German Reichsbank, recently stated in New York that there were two ways out of the present world crisis. One was the separation of nations from each other, leading to lower standards of living, the other was international co-operation in opening up new markets. There was the choice: separation and poverty or co-operation and prosperity. There can be no doubt as to the way Mr. de Valera has chosen. His whole policy aims at national self-sufficiency and separation. Neither can there be any doubt as to the result. The trade figures recently published show that for the year ending in May, 1933, the total commerce of the Free State has fallen by £26 million. In proportion to the total volume of trade, which is little more than two-thirds of what it was in the preceding year, the adverse balance has risen by about 30 per cent. In the first five months of this year, as compared with the corresponding period of last year, exports of live animals fell from nearly £6 million in value to just over £3 million. In the month of May alone their value fell by half. For every form of live stock there has been a ruinous fall of price. In dry cattle alone the Free State farmer has suffered an estimated capital loss of £10 million, and in income a loss of at least £7½ million.

The Irish Free State

Lecturing at University College, Dublin, on April 19, Mr. J. Maynard Keynes, who had taken as his subject "National Self-Sufficiency," and who spoke in the presence of Mr. de Valera, ventured to give his views on Free State conditions. If he were an Irishman, he said, he would find much to attract him in the Government's striving after greater self-sufficiency; but, as a practical man, who considered poverty and insecurity of life to be great evils, he would wish, first, to satisfy himself on two matters. He would ask if Ireland was sufficiently large for more than a very modest measure of self-sufficiency to be feasible without a disastrous reduction in a standard of life which was already none too high. He believed that the answer would be that it would be an act of high wisdom on the part of the Irish to enter into an economic arrangement with England which, within certain appropriate limits, would retain for Ireland her traditional British market, against mutual advantages for British producers. He would see nothing derogatory in such a policy to political or cultural autonomy, but would regard it as an act of common sense. To-day it was not too late to accomplish such a policy, but every delay would make it more difficult, inasmuch as the exclusion of Ireland's agricultural produce suited the present trend of agricultural policy in Great Britain. If, on the other hand, he were to reject this plan deliberately, for a complexity of reasons, and decide to work out the destiny of the Free State on other lines, he would sit down to the problem with the best brains that he could command to work out a slow series of experiments. No man had a right to gamble with the resources of a people by going blindly into technical changes imperfectly understood. Russia stood as an awful example of the ruin and desolation that ill-judged and obstinate experiment could work in an agricultural country, so that people were starving to-day in what was once one of the greatest food producing areas in the world. He warned his audience in conclusion, of the three outstanding dangers in econo-

National Self-Sufficiency

nationalism, the silliness of the doctrinaire, insane and unnecessary haste and, worst of all, intolerance and the stifling of instructed criticism.

Another economist, Mr. Joseph Johnston, who is Lecturer in applied economics at Trinity College, Dublin, and therefore a domestic critic, has recently pointed out that the final effect of the present "economic war" between Great Britain and the Irish Free State must be to drive Irish agriculture back to a semi-mediaeval régime of bare self-sufficiency, and to destroy our mechanism of exchange, together with the livelihood of nearly half a million urban residents. A foreign Government has given the Free State farmer a black eye by its tariff policy. His own Government retaliates with a tariff policy which blackens his other eye and thus restores the balance.

But, not content with depriving the farmer of his only market, the Government now proposes to take his land. The big farmers are to be dispossessed on a sweeping scale in order to create small holdings for landless men. Dr. Ryan, the Minister for Agriculture, states that land will be taken from men who complain that they are losing by farming—and who is not under present conditions?—but it will not be taken from a good employer, even though his holding is large. The new Land Bill, which implements this policy, confers sweeping and autocratic powers on the Minister for Lands and Fisheries and the Land Commission, and definitely destroys the security of tenure which seventy years of legislation had gained for the Irish farmer, and to create which Parnell and Redmond devoted their lives. If these powers are used, as is only too probable, to reward the Government's landless supporters, then we may look forward to a bitter, and perhaps bloody, struggle, for the big farmers will not give up their land without a fight. Even in the Government party itself there is serious criticism of the proposals contained in the Bill. How far the dry rot of dishonesty has penetrated our people's character is shown by the fact that the Bill

The Irish Free State

cancels all arrears of land annuities over three years due, thus rewarding those who did not pay, and gives the Land Commission power to issue directly to the sheriff, without the intervention of a court, a warrant to levy for future payments. This procedure, according to the official statement, "will be easier, quicker, and less expensive to the defaulters"—in fact it may be described as painless extraction.

The necessity for such peremptory methods will unfortunately be only too probable when the Government again seeks to collect the reduced land annuities. The farmers are indeed already in revolt against the payment of the increased local rates, and the Government had to take mandamus proceedings in the High Court against the Dublin and Cork county councils to compel them to strike a sufficient rate for the current financial year. To cripple the political power of the large farmer the Government has introduced a Bill to convert the present local government register, which is limited to rated occupiers, into an adult franchise roll. It hopes by this means to obtain control over the local bodies. The Senate has, however, rejected this measure and it is, therefore, held up for eighteen months. The recent Dublin municipal election, in which the Fianna Fail party was defeated in spite of strenuous efforts, proves that the more responsible voters have no sympathy with the Government's policy. But, amongst the small farmers and irresponsibles, there is a tendency to move even further to the left. A body, known as the United Farmers' Protection Society, who object to the attempts of the Irish banks to secure payment of their debts, has suggested that the I.R.A. should be given a mandate to protect the farmers against the banks. That this request will not fall on deaf ears is shown by the tirades of *An Poblacht*, the Republican organ, which claims that the agricultural community now finds itself in bondage to the banks, which are part of the British financial system. The banks, in fact, have promised to consider each case

National Self-Sufficiency

of farmers' "frozen debts" on its merits, which the Government considers satisfactory. It might be well for its critics to consider what position an independent Irish currency would occupy in the present unstable financial world. It would certainly complete our segregation from outside influences.

Meanwhile our cattle prices have sunk from 45s. per cwt. in June, 1931, to 25s. per cwt. in May, 1933—a fall of £1. In London, for the same period, a fall of only 8s. is shown. No wonder that the Germans, in return for the free entry of German coal into the Free State, have agreed to purchase some 6,000 cattle at these prices, an arrangement which is, of course, of no real benefit to our farmers. Our pig population is already decreasing, as the farmers do not find pig-rearing remunerative, and under the new British bacon quota scheme they will find it even less so. To meet this quota difficulty the Government has introduced a Bill to regulate the export of any agricultural product which is made the subject of such a quota system by another country. To finance industrial development, it has introduced the Industrial Credit Bill, under which it is proposed to set up a corporation, with a capital of £5 million, which will be issued from time to time, as necessity arises. Under this scheme it is proposed to establish a number of important new industries, such as the manufacture of industrial alcohol and cement, paper-making, and mining. Irish investors are expected to subscribe the capital. The Minister for Finance is given power to underwrite and take up such shares as have not been subscribed for by the public. There are no underwriting companies or issuing houses in the Free State, and, to that extent, the new corporation will be useful, always provided that the capital subscribed is not wasted on uneconomic and wild-cat projects. The history of the loans made by the Cosgrave Government under the Trade Loans Guarantee Act proves that it is easy to lend money for industrial development, but very difficult to secure its

The Irish Free State

repayment. In short, Irish industry is more in need of confidence than capital; but this the Government has almost entirely destroyed by its attempt to reverse the country's economic policy by hasty and unsuitable methods. Protection and the exclusion of foreign capital having both failed to stimulate local enterprise, the Government itself now proposes to enter the industrial arena—a doubtful and dangerous experiment.

At the end of May Mr. de Valera paid a visit to Rome, where he was received by the Pope and Signor Mussolini. On his return he spoke at the American Club in Paris, on June 8, and stated that his policy was to abolish free trade, to provide work for the 30,000 young people who formerly would have emigrated, to build 10,000 houses and divide half a million acres of land within five years. Every thirty acres of land would represent a new family. The Irish people understood that policy, and were prepared to suffer in the initial stages, as they saw the prospects of ultimate success.

The necessity for such suffering is, indeed, one of Mr. de Valera's principal oratorical themes, and probably accounts for the fact that his Government, unlike that of Russia, has not seized the opportunity presented by the Economic Conference to compose its differences with Great Britain. It is noteworthy that neither Dr. Ryan, the Minister for Agriculture, nor Mr. Lemass, the Minister for Industry and Commerce (both of whom took part in the private negotiations with Mr. Thomas at Ottawa) represented the Free State on that occasion. Their place was taken by Senator Connolly, the Minister for Lands and Fisheries, who is Mr. de Valera's right hand man and believed to share his views. His principal contribution to the proceedings was a complaint concerning the conduct of Great Britain in seeking to recover the land annuities by means of punitive tariffs, which he contrasted with the attitude she took up in her arrangements with the United States; and he asked how agreement could be

National Self-Sufficiency

reached on tariffs or tariff policy whilst such conflicts existed. It is unfortunately only too clear that a settlement of this miserable and unnecessary dispute is not to be reached on these lines.

Meanwhile, the opposition parties have not been silent. Speaking at Bandon on May 20, Mr. Frank MacDermot, the leader of the Centre party, enumerated what he described as the seven deadly sins of the Fianna Fail party. It was, he said, a constructive party which pulls down our fundamental industry; a prosperity party which increases unemployment; an economy party which adds millions to expenditure; a liberty party which thrives on intimidation; a Gaelic culture and civilisation party which truckles to ignorance and intolerance, and delights in buffoonery and personal abuse; an anti-partition party which is out to perpetuate partition; and a republican party which will not give us a republic. Mr. Cosgrave pointed out, at his party convention on May 2, that talk of a republic brings but one certain result—the indefinite postponement of any hope of a united Ireland. At Ferns on June 15 he also delivered an exhaustive indictment of the Government's policy, which, he stated, grievously affected the livelihood, the hopes, and the ideals of the entire community. Failure to agree on the composition of a legal tribunal to pronounce judgment on the legal points at issue with Great Britain must, he said, be admitted. The only hope of settling the dispute was an honest conference with the British Government.

But unless the various opposition parties are prepared to sink their differences and form a new national party on a broad basis, there is every possibility that they will be destroyed one by one. The Lord Mayor of Dublin, Alderman Alfred Byrne, T.D., who has just been re-elected to that office by a large majority, advocated the establishment of such a party before the last general election, but the project came to nothing.* Whether this failure was due

* See THE ROUND TABLE, No. 90, March 1933, p. 295.

The Irish Free State

to personal or political differences it is difficult to say, but it is hard to understand why politicians as shrewd and sensible as Mr. Cosgrave and Mr. MacDermot undoubtedly are cannot agree upon a common policy for the supreme purpose of saving the country from disaster. Both the Cumann na nGaedheal and Centre parties have fulfilled their purpose, and should immediately be replaced by a new and efficient organisation, with a programme broad enough to enlist the support of all the moderate and constructive elements in the country. Failing some such solution, the result of the next election will probably complete their downfall, and the inevitable rise of new forces, far more extreme than Mr. de Valera's party, will follow.

That Mr. de Valera may spring such an election on the country in the near future is by no means improbable. At the moment he is busily engaged upon an effort to curtail further the powers of the Senate. At present that body can hold up the operation of any Bill, other than a money Bill, for eighteen months, unless a general election intervenes. The Government has now introduced a Bill which will reduce the period of delay to three months, and the Senate, to postpone the evil day, has referred it to a committee of both Houses. It cannot, however, reject the money Bill, which the Government has also introduced, to provide for the repayment of the loan raised in America by the pre-Treaty Republican Government in 1920-21. The debates on this Bill in the Dail have been both rancorous and unedifying. Mr. de Valera himself holds a portion of this loan, as trustee, for the development of his party newspaper, *The Irish Press*, and, during the debate, it was stated that he would in that capacity receive about £100,000 as a result of the proposed repayment.* As *The Irish Press* has made a loss of £59,386 for the period from September, 1931, to December, 1932, this contribution to its support will be of vital importance to Mr. de Valera's party, to whom this newspaper is an

* See THE ROUND TABLE, No. 91, June 1933, p. 641.

Republican Designs and Dissensions

enormous asset. It could hardly survive otherwise. Amendments were proposed by the Cosgrave party to ensure that the loan should only be repaid to the original bondholders, from some of whom Mr. de Valera obtained the assignment of the bonds he now holds, for the purpose of starting *The Irish Press*, but these were defeated, and the loan will, no doubt, soon be repaid, although, as has already been pointed out, the obligation to repay it does not mature until the establishment of an Irish republic. Mr. de Valera of course personally obtains no benefit from the transaction, but it is undeniable that his party newspaper will gain an enormous advantage from this premature repayment of the loan out of public funds. That his enemies have to digest this gall and wormwood is, he avers, the supreme pleasure of his life.

III. REPUBLICAN DESIGNS AND DISSENSIONS

SPEAKING at the grave-side of the executed leaders of the 1916 rebellion in Arbour Hill Barracks, Dublin, on April 23, Mr. de Valera said that the time had not yet come for the declaration of a republic. They must content themselves with the statement that it was for that goal that they strove, and that they would not rest until they had reached it. He said that they should remove one by one any forms or symbols that were out of keeping with Ireland's rights as a sovereign nation, so that their State might be a republic in fact, and that, when the time came, the proclaiming of a republic might involve no more than a ceremony—the formal confirmation of a status already obtained. He has promised, however, that, as far as he is concerned, the Irish people will be consulted before a republic is actually proclaimed. But it is well to remember that when Mr. de Valera talks about a republic he does not mean quite the same thing as the Irish Republican Army does. Quite recently he stated in an interview that he personally

The Irish Free State

thought that an Irish republic could be associated with the British Commonwealth of Nations, if such an association were desired by the Irish people. This is, of course, the principle of external association embodied in the famous Document Number 2, for which he turned down the Treaty of 1921 and plunged the country into civil war, and which, apparently, still remains his real aim. It was to further this aim that he removed the oath of allegiance, an action which, he believes, will cause a complete change of attitude on the part of the people of this country, and enable the extreme element to enter the Dail. He has recently stated in the Dail that any military organisation outside the national army is no longer justified on any basis whatever, and that any government would be guilty of a grave dereliction of duty if it were to permit any such thing to go unchecked.

But the I.R.A. have no intention of handing in their guns. A statement issued by their Army Council on Easter Sunday insists on the natural right of Irishmen to organise, train and arm for national independence. When the nation is free, they declare, it will be time enough for the Government to control the military forces, to maintain its freedom, sovereignty and unity. Only by revolutionary action can national freedom be achieved. And their official organ, *An Poblacht*, pertinently inquires of Mr. de Valera, without receiving a reply, whether his aim is merely to prune the Treaty, or to establish a republic. Legally and theoretically they claim that his Government is in the same position as that of Mr. Cosgrave. In this they partially agree with Lord Hailsham, who stated in the House of Lords on May 11 that the removal of the oath had no effect on the Treaty, or any Article of the Treaty. Every citizen of the Irish Free State was born within the King's allegiance, and no one born within the King's allegiance could get rid of that fact and the obligations which it involved. A treaty entered into between two nations could not be altered without the consent of both, and any

Republican Designs and Dissensions

attempt made by one of the parties to make any alteration in it was inoperative without the consent of the other.

But the I.R.A. have not confined their activities to manifestos; they have also indulged in overt acts of the most provocative kind. All over the country drilling is now being openly carried on, and arms are undoubtedly being landed. Men carrying machine-guns have appeared in the streets of Dublin. Seventy men, armed with rifles and two Lewis guns, recently took forcible possession of an unoccupied house in West Cork for a week-end whilst they carried out military exercises. The men who do these things are well known to the police and the entire countryside, but no attempt is made to interfere with or apprehend them. On the contrary, the Government seems to pursue an ostrich-like policy of pretending that nothing is happening. One example of its weakness may be cited. A man called John O'Connor, of Tralee, was indicted on April 25 for the unlawful possession of fire-arms and sent back to jail for refusing to plead. On the following day he went on hunger strike, and on May 1 he was released, at the request of the judge who sentenced him, who had been obviously compelled to take this course in order to save the Government's face. Subsequently, the Government withdrew the proceedings against him, being apparently afraid to enforce the law. A few days later the same judge was publicly insulted in his court and dared not punish the offender. Terrorism of jurymen is once more rife, and juries have practically ceased to convict in cases bearing a political complexion. On July 16 the house of a Civic Guard superintendent at Drogheda, who had prosecuted members of the I.R.A. for various offences, was riddled with bullets fired from a machine gun.

As regards the Army Comrades Association, the anti-communist organisation started by Dr. O'Higgins, a Cosgrave deputy and brother of Kevin O'Higgins, to maintain free speech, the Government takes quite a different attitude. Mr. de Valera announced in the Dail on July 14

The Irish Free State

that the Government would not allow any organisation to parade in uniform, and this indicates that it apparently intends to proclaim or prevent the demonstration in honour of Griffiths and Collins which the A.C.A. propose to hold in Dublin and at which their blue shirt uniform is to be worn. Such interference might easily lead to serious trouble.* At a convention, held in Dublin on July 20, the name of the A.C.A. was changed to the National Guard, and General Eoin O'Duffy, who was recently removed by the Government from the command of the Civic Guard, was unanimously chosen as its leader, in place of Dr. T. F. O'Higgins, T.D., who had resigned. In his inaugural address General O'Duffy declared that the aim of the National Guard was to safeguard the national honour, the national interests, and the national culture in the widest sense, and he promised that they would keep within the law.

Under such conditions it is no wonder that the executive committee of the communist international recently decided to create "a new independent Irish communist party," whose programme includes as immediate tasks the undermining of Mr. de Valera's popularity, anti-religious agitation, anti-British propaganda, and the preparation of a revolutionary upheaval to overthrow the present Government and establish an All-Ireland Soviet republic. A communist conference for this purpose was actually held in Dublin, on June 4, and Mr. Sean Murray, one of the leaders of the new party, after proclaiming freedom of thought for all religious denominations in the new party, said that they proposed to confiscate all capitalist property in Ireland, but would not interfere with tenant farmers or small shop-keepers, whose business did not come within the capitalist category. The I.R.A. thought it safer, however, to disclaim officially any connection with this communist development, to which it ascribed a "dogma of atheism." The "Communist party" has retorted by a

* The demonstration was proclaimed under the Public Safety Act, and abandoned.

Republican Designs and Dissensions

sarcastic statement, in which it declares that there is not a grain of communism in the present policy of the I.R.A. Council, but that 50 per cent. of the delegates to the communist congress were members of the I.R.A.

There is no doubt that these events have thoroughly alarmed the Catholic hierarchy, and several bishops have delivered individual pronouncements, warning their people against joining the I.R.A., and denouncing its activities. Cardinal MacRory, the Catholic Primate, on his return in June from Liverpool, where he acted as Papal Legate at the consecration of Liverpool Cathedral, took the opportunity to point out that God set these two islands together, but man had succeeded for a long time in keeping them apart. The English did not hate the Irish. They loved them. It was a pity that the two Governments did not come together. He hoped some means might be found that would set these two nations into that friendly relationship which ought to exist between them. This Christian statement only provoked a republican demand for an intensification of the struggle. But far more indignation was aroused in the extremist camp by the contemptuous references of Dr. O'Doherty, the Bishop of Galway, to past and present Irish patriots. Having stated that the I.R.A. was responsible for murder, he proceeded to refer to the "cabbage garden plot" of the '48 rebellion, to "Emmett's rabble" and to "cut-throat Tone." Utterances of this kind are of little use, and merely enable the I.R.A. to claim that the Catholic hierarchy has always been opposed to the movement for complete independence. The bishops must be prepared actively to educate the people on these matters, not by occasional diatribes, but by reasoned and constant instruction and, if necessary, by organised and intelligent action. Unfortunately they seem to lack a clear policy and effective leadership, they are prepared to speak but not to act.

The Catholic Church is, indeed, the one remaining bulwark against the disruptive forces which threaten us.

The Irish Free State

It is, therefore, sad to find that the principal paper, read by one of the bishops at the recent annual meeting of the Maynooth Union, was a vulgar tirade against Trinity College, delivered at a time when unity, rather than dissension, should be sought amongst those who stand for the defence of Christianity in Ireland, and who have far more in common than their leaders seem to realise. No objection is taken to Irish Catholics attending Oxford, Cambridge, or the Queen's University, Belfast, all of which are in a similar position to Trinity. The real objection is, of course, that Trinity competes successfully with the National University, an institution which cannot by any stretch of the imagination be called a Catholic university. Trinity has a definite place in our history, and was the *alma mater* of Tone, Emmett, Davis, Redmond, Douglas Hyde (whom it recently honoured) and many other national leaders. Tone was, in fact, the founder of the United Irishmen, and the father of Irish republicanism, which this year displayed its dissensions over his grave. Each year a republican pilgrimage takes place in June to his burial place, at Bodenstown, County Kildare. On this occasion, however, the Fianna Fail party refused to join the I.R.A. celebration, and organised a separate demonstration of its own, as it apparently wanted to avoid appearing as an appendage of the I.R.A.; and Sinn Fein, Miss Mary MacSwiney's devoted Old Guard, objecting to the I.R.A.'s associates, organised another. An official parade by the national army also took place, so that Wolfe Tone had, this year, four different celebrations in his honour. It is difficult to reconcile these body-snatching performances with any real sense of patriotism or humour, nor has the paranoiac hatred they seek to perpetuate any purpose or excuse. Were Tone alive to-day, he might well exclaim: "Save me from my friends!"

The Irish Free State.

August, 1933.

882

IN previous issues of THE ROUND TABLE much has appeared on the general characteristics of politics in Canada, the nature of the parties, the issues over which they fight, and the legal features of the federal constitution. Little attention has, however, been given to the question of public administration in the Dominion, and no attempt has been made to evaluate its quality. This is the theme of the present article.

It needs no elaborate argument to prove that, whatever the triumph of Canada in the art of government, it is not a triumph in the perfecting of an administrative system. In public administration Canada lags notably behind Great Britain. She has inherited the British parliamentary system, but she has not inherited all the excellencies of the British administrative system. In brief, Canadians sorely need to pay increased attention to the combined art and science of public administration. They require to study with thoroughness the methods and machinery of administration in some of the older States of Europe. It is not intended, however, in this article to deliver exhortations in such a general strain. The intention is to pursue the humbler task of describing and interpreting tendencies.

I. THE CIVIL SERVICES

ATTENTION may first be directed to the development and character of the federal civil service. Up to 1908 political patronage in this service was triumphant. It is true that as early as 1868 a Civil Service Act made a qualifying examination requisite for appointment to certain offices, but the provision proved to be little more than a scrap of paper. The Act was systematically violated, the examining board was ineffective, and the majority of appointments were made on party grounds alone. The results of political patronage were what might have been

Canada : Public Administration

expected. Some excellent appointments to the service were doubtless made, but the cumulative result of a régime of political spoils was evil in the extreme. A Royal Commission in 1880 could honestly describe the civil service as "a refuge for people who, by reason of their indolence or lack of intelligence, could not succeed in other employment." Men were placed in positions for which they were woefully unqualified. Departmental staffs were needlessly enlarged, at great expense to the public, in order to accommodate those whom politicians wished to reward. Owing to the prevalent attitude towards public employment it was difficult for civil servants to achieve that status and spirit of independence which are essential for the most reliable and creative work. An attitude of political servility was much too prevalent for the welfare of the public. In brief, there existed the usual crop of evils which follow from political patronage.

A reform was attempted by a statute in 1882, which provided for an examining board and for somewhat more systematic qualifying examinations; but it proved feeble and ineffective because to most appointments the door of political patronage was still wide open. Consequently, when a Royal Commission in 1907-8 investigated the federal service, it found conditions as deplorable as those of 1880. Real reform began with the passage in 1908 of a Civil Service Act which established a Board of two Civil Service Commissioners with secure tenure and substantial salary, endowed with the power of overseeing admission to the service. With certain exceptions all appointments to the inside division at Ottawa were to be made by competitive examinations. Where purely technical qualifications were required, competitive examinations might be dispensed with. These provisions dealt a blow at the dominance of a system whereby men were appointed to public office mainly on the solicitations of Members of Parliament, or on the pressure of patronage committees in the constituencies. But only the civil servants in Ottawa

The Civil Services

were affected, and, since by far the largest number of those on the employment registers of the government were outside the capital, the scope for further reform was great. Indeed the most flagrant examples of the spoils principle were found in the outside service. Not till the concluding period of the great war was a genuine effort made to remedy these. A combination of circumstances then favoured reform, particularly the existence of a National Government, and a sensitive public opinion aroused by some disgraceful disclosures of corruption in connection with war contracts. Hence there was passed the Civil Service Act of 1918, which brought most of the appointments in the outside service within the control of the Commission. This was a far-reaching measure and it imposed a tremendous strain upon the Commission, which had now nominally the task of filling, as occasion required, some 45,000 additional offices. That strain has been felt to the present day, and it would not be untrue to say that no satisfactory machinery has since been devised which would enable the Commission to exercise an effective control over so large a number of appointments.

The Commission attempted to lighten its new burdens by a thorough reclassification of the service, whereby every office with any distinctive features was placed in a category of its own. In this extensive undertaking it obtained the assistance of a body of American personnel experts, who submitted an elaborate report, entitled *The Classification of the Civil Service of Canada*. The new classification evoked violent criticism, and the ponderously serious report of the American experts was commonly referred to as "the joke book." So stormy was the criticism that the classification had to be amended before being carried into effect. It is needless here to examine in detail the pros and cons of the classification adopted. It is sufficient to note that it involved scrapping the former system of general academic examinations as a test of ability, and the substitution of examinations calculated to test the

Canada : Public Administration

special or technical knowledge required for a given job. The doubtful method of promotion by examination was also restored. The system of technical examinations has severe critics, who compare it unfavourably with the different system which prevails in England. But the difference between the two types of examination is probably less vital than is usually thought. If conditions are such as to attract able men, a technical examination on a competitive basis may be as easily defended as an academic type of examination. Whether conditions in Canada are actually such as to attract able men is a different question to which we will return on a later page.

One acute problem emerged soon after the passing of the Act of 1918, and has remained a source of difficulty to the present day. It is the problem as to what appointments should be exempted from the control of the Commission. The commissioners themselves were quick to realise that it was impossible for them to exercise the requisite care in making all the appointments for which they were held responsible by the Civil Service Acts. Written examinations were in many cases impracticable, for instance in those of rural postmasters, where, owing to the small remuneration, there was often no eagerness to apply for the job, still less to stand for an examination. Hence the commissioners recommended that positions with a yearly salary of under \$200 should be exempt. From time to time additional exemptions were added, until at the present day a large number of members of both the inside and the outside services are free from the jurisdiction of the Commission. The net result has been to nullify the efforts of the reformers. Patronage committees remain a sinister fact ; there is still an ugly pressure upon local Members of Parliament from numerous job seekers ; public work often suffers through the appointment of men for political reasons rather than for those of efficiency. Yet the situation is vastly better than it was before the Acts of 1908 and 1918. There is not such unblushing abuse of the public

The Civil Services

service as a means of rewarding political partisans. Parties do not, and cannot, exploit the public purse to the same extravagant extent.

A question of some moment is the extent to which public opinion lies behind this development. One cannot answer the question with any degree of assurance. On the whole, it seems evident from the newspapers that public opinion has grown more consistently antagonistic to the system of political spoils. In western Canada especially this antagonism is vigorously expressed. An excellent illustration occurred a few years ago when a Liberal Postmaster-General dismissed some thirty-two postmasters, in some cases evidently on the advice of patronage committees. The fact that he was a Liberal did not save him from a bitter attack in the *Winnipeg Free Press*, the leading organ of liberalism in the West. Nevertheless the battle over the principle of an independent civil service is far from being completely won, and a more robust public opinion than at present exists will be necessary to achieve a final victory. It is an ominous and disquieting fact to observers who keep abreast of modern progressive movements that in almost every parliamentary session at Ottawa there are motions to abolish appointment by a Civil Service Commission and to get back to what is euphemistically described as "ministerial responsibility," which only too evidently is the responsibility of irresponsible patronage committees. In the session of 1931, Mr. Gagnon, from the province of Quebec, introduced a Bill providing that all appointments to the service outside Ottawa—some 30,000 as compared with 10,000 in the capital—should be removed from the jurisdiction of the Commission. A like motion was introduced in the subsequent session, when one member described the Civil Service Act of 1918 as "a relic of war hysteria under which we laboured some ten or twelve years ago."

These critics claim that the Commission's methods of appointment involve tedious and time-consuming red tape, and in this charge there is doubtless some truth. It is an

Canada : Public Administration

unfortunate fact that in recent years the members of the Commission have been relatively weak men. They have lacked clear and vigorous judgment and that capacity for courageous action which is necessary to cut away ruthlessly the hoary growth of unnecessary regulation. For the attainment of genuine improvement Canadian governments must appoint commissioners with greater talent and bolder qualities. Only men of the highest capacity should be entrusted with the great responsibility of recruiting the public service. But it is only fair to point out that the present Commission is needlessly hampered by the faulty provisions of the Civil Service Act. Some of the so-called red tape was not created by the Commission, but by the parliamentarians who drew up the Civil Service Act, and a recasting of this important measure should accompany the appointment of abler commissioners. On one thing we can be emphatic: that the removal of the majority of the appointments from the control of the Commission would be disastrous. Those who know the past history of the Canadian civil service can harbour no two opinions on this matter. The unsavoury conditions which prevailed when the spoils system was triumphant were set forth with convincing power by the Royal Commission of 1907-8, and there is every reason to believe that similar conditions would return if the appointing power of the Commission were to be greatly restricted or entirely destroyed. The existing system should at all costs be preserved and improved.

In connection with the federal service there is a further important consideration. In prosperous times it is notoriously difficult to recruit able men for government work. In a new country which has hitherto developed rapidly, commerce and industry afford such glittering prizes to the ambitious and the able that public service is too often left to the second-rate and the unambitious. It is not to be implied that all the members of the federal service in Ottawa are of low calibre. On the contrary, there are men

The Civil Services

in the capital who would do honour to the public service of any country. Without implying any invidious discrimination, Mr. R. H. Coats, the Dominion Statistician, and Dr. Oscar Skelton, the Deputy Minister of External Affairs—to mention only two—would not suffer in comparison with the leading public servants of a great European State. But unfortunately there are many more in important offices who cannot be rated equally high. They are intellectually sterile, and owe the office they hold either to the fact that they are not subjected to the rigorous competition of able men, or to political influence, and to their readiness secretly to utter the party shibboleth. The only remedy for this condition is to judge men solely by merit and not by their political affiliations. Equally essential are adequate salaries. The higher posts, like those of the deputy-ministers, are already fairly well paid when due recognition has been given to the perquisites of the office, but there are not enough well-paid minor positions to attract able young men. Consequently, the deputy-ministers, who are usually taken in mature life from outside activities, are often forced to depend upon mediocre subordinates, men who adequately satisfy the prosaic requirements of clerks, but lack superior executive and thinking capacity. A patent weakness in the federal service is its failure to provide a sufficient number of attractive stepping-stones for ambitious and able young men. Yet it is only by attracting such men that the leaven of ability can be increased and those conditions eliminated from the federal service which led one wag to describe as its appropriate motto the words, "All hope abandon ye who enter here."

In the provinces the civil services reveal the defects, in most cases accentuated, of the federal service. Political patronage, with its damaging influence on the quality of public administration, has been the rule. In Ontario an attempt has been made with partial success to minimise the ill effects by the appointment of a Civil Service Commissioner to supervise all appointments, investigate con-

Canada : Public Administration

ditions in the various departments, and make recommendations for bettering business methods. Despite progress in the past fifty years, there is still ample room for improving the methods of recruiting, promoting, and preserving the independence of provincial civil servants. What seems to be particularly lacking among the members of both the federal and provincial services is a real professional spirit, which in itself would do much to guarantee their independence and enhance their influence. Significantly there is no branch in Canada of the Institute of Public Administration of Great Britain, or anything in the nature of that association, although branches of the Institute exist in New Zealand, Australia and some of the outlying parts of the Empire. The fact that there is no organization to bring together public officials on the meeting-ground of a common interest in public administration means much; it means especially that there is little scientific interest in the subject among most of those who are actively engaged in such administration, and that in itself is not a healthy situation.

A phase of public administration in which political patronage has been particularly costly is the granting of contracts for public work. This form of patronage has been, perhaps, the greatest of the unnecessary costs of Canadian government. The party in office is the largest distributor of contracts within the State, and in Canada it has commonly not refrained from using its power freely to maintain or to extend its hold upon the constituencies, by carefully spending money in those areas in which its majority is threatened. Thus by a process which is not far removed from the ethics of bribery it wins support. This, needless to say, is not a political blemish peculiar to Canada. It is prevalent in the democracies of practically all new countries, and in Canada it has not hitherto revealed itself to an exceptionally vicious degree. But it is there, and Canadians should correct it. That it survives is partly owing to the indifferent and uncritical attitude of public opinion; the readiness of the public to condone the little

Local Administration

vices of politicians as an inevitable part of the process of government. Its correction must await, like so much else in Canadian democracy, the growth of a more alert popular vigilance and a more vigorous public spirit.

II. LOCAL ADMINISTRATION

A PRONOUNCED weakness in administration exposed by the events of the present depression is found in the municipalities. For the benefit of readers outside Canada it may be pointed out that municipal institutions in this country have wide and important powers. The United Empire Loyalists, in laying the foundations of Ontario, brought with them from the north American colonies stubborn convictions about the value of local government, and built up a system of local rule which later was adopted as a model elsewhere in Canada. The British North America Act gave to the provincial legislatures the authority to establish municipal institutions and to endow them with necessary powers. In all the provinces these powers are generous. For example, until the present depression unemployment and poor relief were left almost wholly to local governing bodies, involving a financial burden at times of no little weight, particularly in the case of the cities. With mounting figures of unemployment, from 1930 onwards, this burden became unbearable. The municipalities had neither the financial means nor the administrative organization to deal effectively with a problem which had become national in its complexity and magnitude. The provincial and federal authorities were, therefore, forced to aid the municipalities in the matter of the cost of unemployment relief.

This financial aid did not, however, meet all the paralyzing difficulties of the situation. The municipalities were struggling to cope with a problem which administratively exceeded their capacity. In the majority of cases they had not the necessary organization or trained officials. It is true that they were quick in improvising them, but their

Canada : Public Administration

improvisations were defective. Satisfactory treatment of unemployment requires the compilation of uniform and useful statistics, in order to test the effects of experimental policies ; the power to transfer workers from one area to another according to employment needs and the planning of public construction ; the exercise of care in the distribution of relief money and in expenditure on useful public works. These and other necessary conditions have been too frequently absent in recent years, because municipal councils have been ignorant of the complexities of the problem and have had inadequate expert advice.

Such advice might well have been supplied by both federal and provincial authorities, but these authorities were just as sadly unprepared as were the municipal bodies. The Federal Government seemed on the whole to think that its task was done when it voted money for the provinces and the municipalities to spend on relief. On the other hand, the provincial authorities have in most cases granted subsidies to the municipalities without much attempt to guide them in the administration of these funds. In Ontario the government, in its subsidies to the municipalities, laid down few conditions. The subsidies were usually hurriedly made, without anything like a thorough investigation of the needs of each municipality. No adequate service of inspection was provided to check the efficiency and honesty of municipal methods in administering the funds. Hence, as might be expected, some cases of scandalous expenditure have occurred. A notorious case was revealed at the town of Sturgeon Falls, where relief funds were freely plundered by those who had no rightful claim to benefit.

Nor does this weakness in municipal administration show itself only in handling the problem of unemployment. It also appears in attempts to implement measures of social legislation. An excellent instance was the administration of old age pensions in Ontario. In 1927 the Federal Parliament passed a law providing for the grant of assistance to any province undertaking to pay old age pensions on cer-

Local Administration

tain prescribed conditions. The form of this support was determined by the fact that there is a doubt whether the Federal Government itself has power under the British North America Act to establish a purely federal system of old age pensions. The Federal Government, however, admittedly has the power to grant money to the provinces for any purpose. The statute of 1927, therefore, seemed to be the only feasible way of furthering the particular policy in question, and it was a particularly effective way, since few provinces wished to lose the opportunity of extracting additional money from the Federal Treasury.

Ontario passed the necessary legislation, providing for local pension authorities in every city, town, county and district, with power to adjudicate upon claims for pensions. But, as in the case of many unemployment relief committees, the mechanism of administration was lamentably defective, and various abuses soon crept in. Not the least of these was the use of their power by the boards on some occasions for party or political ends. Shortly after the system came into operation, Mr. W. G. Martin, the Minister of Public Welfare, admitted that considerable abuses had been unearthed by five inspectors engaged in investigating cases of pensions granted by the local boards, and that, although the total number of pensioners was only 39,000, the government would recover more than \$200,000 illegitimately distributed. Owing to the prevalence of such abuses a wise change was made in 1932, whereby in future all applications for pensions had to be forwarded for investigation to a Provincial Old Age Pensions Commission.

* * *

In these paragraphs no reference has been made to what might be considered the striking successes of public administration ; such, for example, as the excellent work performed by the officials of Ontario's provincially owned hydro-electric system, or the equally excellent work of federal officials in Ottawa in building up within the past ten years a first-rate statistical service. Other instances of commendable work done by public servants might also be

Canada : Public Administration

cited. But the intention of this article is to describe the more general conditions, which are not as wholesome as they might be. The crux of the situation is this: the tendency in Canada has been to devolve on to the municipal authorities responsibility for the administration of sorely needed social policies, and in recent years particularly, in view of the increase in the burden which is placed upon the State in connection with the amelioration of social conditions, it has been proved that these authorities cannot discharge this responsibility satisfactorily because they are inadequately organised and supervised. The gravity of the matter is not sufficiently recognised. As already mentioned, the Canadian people have hitherto paid less attention to public administration than the subject deserves. One thing which undoubtedly aggravates the condition is the existing distribution of power between federal and provincial governments, often referred to in previous articles of *THE ROUND TABLE*.^{*} The Federal Government does not feel free under the provisions of the British North America Act to carry into effect social legislation. If it were free, it would undoubtedly create administrative agencies which could be efficiently supervised. As things are at present, it is left to the provinces to pass the bulk of the social and labour legislation, and they in their turn shoulder on to the municipal bodies much of the responsibility for administration, with results which are too often unfortunate. The simplest and most effective method of reform would no doubt be to enlarge the federal legislative power; but this is difficult to achieve because of the overgrown particularism of the provinces. Democracy in Canada is not without its virtues, but "an alert popular vigilance" in the matter of public administration is not one of them. There is no more pressing need than its creation.

Canada.

July, 1933.

^{*} See *THE ROUND TABLE*, No. 85, December 1931, p. 162; No. 88, September 1932, p. 862.

AUSTRALIA

I. AUSTRALIA'S RESPONSE TO THE OTTAWA AGREEMENT

THE first business which the Lyons Government brought before the Commonwealth Parliament when it met in March was a new tariff. In moving the tariff resolution, the Minister for Customs (Lt.-Col. T. W. White), whose predecessor, Sir Henry Gullett, had been compelled by ill-health to resign his portfolio, summarised the object of the Government's policy as being to secure:

(a) a selective tariff, where efficient industry is an essential qualification for tariff shelter; (b) a competitive as distinguished from a prohibitive tariff; (c) the measure of protection to be guided by the recommendation of the skilled Tariff Board, and not by arbitrary ministerial action.

"This," he went on to say, "accords also with the Ottawa Agreement, whereby the first responsibility of each government is recognised to be to care for the industries, whether primary or secondary, upon which its population depends, while at the same time assisting the commercial solidarity of the Empire." "The aim," he stated, "is to attain a fair balance between primary and secondary industries." The Minister referred to Articles 10 and 11 of the Ottawa Agreement, which declare that the Australian tariff is to be based on, and reviewed in the light of, "the principle that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to the case of industries not fully established." It was not intended at Ottawa, the Minister added, that reasonable competition should mean destructive competition. If Australian costs were higher in economical and efficient

Australia

production, allowance must be made in ascertaining the protection necessary.

In the performance of its engagement to review existing protective duties, the Commonwealth Government referred a large number of important items to the Tariff Board for inquiry and report. The Board had been occupied upon a review of the tariff for some time before the Ottawa Agreement, and compliance with the principles of the Agreement has not rendered it necessary for it to alter the general lines that it had been following. In so far as certain industries are concerned, however, it is probable that, although the Board's reports may not have brought out the point, difficulty will be experienced in permitting reasonable competition on the basis of economical and efficient production. Economical and efficient production in an Australian industry may only become possible when that industry commands practically the whole of the market. If imports which will supply part of the market are permitted, then even if the price does not fall Australian production may be so reduced in scale that sale at the former price may become impossible and the industry languish. Despite the benefits which primary producers may expect to reap from the Agreement, it is most improbable that Australian opinion would be willing to pay the price if it meant the loss of such industries.

The tariff submitted in March embodied such reductions of duty as had been recommended by the Board in reports already in the hands of the Government, including the reductions that had been proposed in tariff resolutions submitted during the 1932 session, many of which were based on reports made before the Ottawa Agreement. The reductions in duties on British goods are considerable, and many of them should have the result of stimulating British trade and lowering Australian costs, both in primary and in secondary industry, without seriously damaging sound and well-established Australian manufactures. The following figures, from the Board's various reports, which have

Australia's Response to Ottawa Agreement

been adopted in the new tariff, can probably be treated as representative instances :—*

Goods	British imports before Scullin tariff £	Former duties (British preferential)	Reduced duties 1932-33
Static trans- formers	130,000	60 per cent., or specific rates up to equiva- lent of 280 per cent. <i>ad valorem</i>	45 per cent.; larger sizes free.
Crude oil engines	53,000	55 per cent.	45 per cent.; free above 100 h.p.
Dynamo-electric machines	445,000	40 per cent., 45 per cent., and specific rates up to equiva- lent of 154 per cent.	45 per cent.; larger sizes free.
Vessels of 500 to 1,000 tons	—	50 per cent.	Free.
Electrical fittings	730,000	65 per cent. and up- wards, and specific rates up to equiva- lent of 700 per cent.	27½ to 45 per cent., and many free.
Dry batteries	—	Specific rates up to equivalent of 300 per cent.	35 per cent.
Hoods for hats	175,000	20s. a dozen	.. 10s. a dozen.

On these items the reduction in the duty is considerable. In other cases it appears to be inadequate for the purpose of the Ottawa Agreement. For instance, although the prohibitive duty imposed by the Scullin Government on socks and stockings has been halved, it still seems to provide an excessive rate of protection (about 100 per cent. against British and 200 per cent. against foreign products). It is the same with many other articles of apparel. The Tariff Board has advised the Government that although these

* The figures for imports are the sterling values of British imports in an average year before the increases of duties enacted under the Scullin Government came into force, and the duties are those applied to British imports; foreign imports are subject to duties at substantially higher rates than British imports.

Australia

items have been recently reported upon, they should be reconsidered in the light of the Agreement. Other important items have been listed for review; they include bolts and nuts and gears for motor-cars.

In the case of machinery it may be said that very substantial benefits have been given to British manufacturers. Besides the items already mentioned and others of less importance on which the duty has also been reduced, there are 367 items which were formerly dutiable at the rate of 45 per cent. in the case of British goods and 65 per cent. in the case of foreign goods. Actually these items were admitted free at the discretion of the Minister, under a by-law, but the duty might at any time have been imposed. They are now admitted free of duty under the preferential tariff, and are subject to 15 per cent. under the general tariff; nor can any new duty be imposed without inquiry and report by the Board. But in the case of textiles, and iron and steel, the effects of Ottawa are less beneficial to British trade—indeed no one familiar with conditions in Australia would look for any great benefit to British trade in these particular products. The Australian woollen industry, both spinning and weaving, is well established and efficient, and there is strong internal competition; hence it cannot be expected that the tariff will be lowered so as to permit of oversea competition in the important lines. Cotton spinners and weavers, who have heavy protection in respect of limited classes of goods, are asking for an extension of their privileges; they are, moreover, supported by cotton growers who demand a protected home market. The British preference on cotton piece goods is 20 per cent. These goods are not made in Australia, but they are the subject of competition from the Far East, and those who would correct this state of things by tariffs must bear in mind that China and Japan are buying increasing quantities of our own exports, particularly wool and wheat. The gravest case is that of iron and steel, an industry natural to Australia and equipped with modern

Australia's Response to Ottawa Agreement

plant, which already supplies the Australian market with pig iron, rails, building sections and other important products. On grounds of defence, moreover, it has unanswerable claims to continued existence. Both during and after the Ottawa Conference, the iron and steel companies announced that preparations were being made for the extension of their plant so as to permit of the manufacture of iron and steel plate, pipes and tubes (for water and gas), hoop iron of all sizes and tinned plate. These are almost all the important items now imported from abroad. Each of these developments has been encouraged by the Commonwealth Government, for, although the items in question have hitherto been free, deferred duties have been declared from time to time—some as long ago as 1920—to come into force whenever the Minister is satisfied that production is about to commence or is actually established in Australia. In view of this encouragement, and of the fact that, ever since the inception of the industry, they have planned these very developments, which, moreover, are said to be necessary for the economic working of the existing iron and steel plants, the companies claim that they are entitled to protection. If any protection is given, however, it is not likely to permit of competition from Great Britain. The most important remaining trade with Great Britain in the iron and steel category (except machinery) is thus threatened.

The Tariff Board has been fully engaged in the inquiries which have to be made before the Ottawa Agreement can be honoured, but progress has seemed slow both to would-be importers and to those interests in Australia which want to see an immediate and substantial reduction of duties. It is understood that representatives of British trade feel anxiety as to whether Australia intends substantially to comply with the Agreement. What has been said above should satisfy them that the Government has acted in good faith, and that reductions may be expected in many more duties. The views of those in Australia

Australia

who wish to see duties lowered found expression in a resolution moved by Mr. Paterson, deputy-leader of the Country party, that the Government should at once give an increased preference to British goods by reducing all duties raised by the Scullin Government to the level of the 1921-1930 tariff, without awaiting reports from the Board. This view did not, however, give adequate weight either to the difficulty of reducing duties, or to the danger that too great haste and insufficient consideration might alienate public opinion and jeopardise all hope of reasonable tariff reform. The House of Representatives rejected Mr. Paterson's resolution; the Government's proposals were adopted by it in May almost without alteration and are likely to pass the Senate by July.

It is not to be supposed, however, that Australian opinion is wholly satisfied with what is being done. On the one hand, there are the disappointed primary producers, who looked for a double benefit—better markets in Great Britain, and cheaper goods in Australia; in so far as the former is concerned they have been disappointed, owing to the restriction of the quantity of meat imported into the United Kingdom, the proposed restriction of imports of butter, and the fall in the prices of both, while they find little change in the price of the things that they most need. On the other hand there are the manufacturers who fear for the future of the more highly protected industries. Between the two stands the general public, which (bearing in mind the doubts about our future economic structure that are suggested by the failing markets for our food exports in Europe, and the growing markets for our wool and wheat in the Far East), is unlikely to support any tariff reductions which would threaten major industries, and is also uncertain about the wisdom of measures which might antagonise our best foreign customers.

Figures are not available for an adequate statistical picture of the effect of the new tariff. Duties on about 130 items and sub-items, if imported from Great Britain,

900

Australia's Response to Ottawa Agreement

have been reduced (this total includes the reductions made by tariff resolutions in 1932, some of them before the Ottawa Conference); on about 440 items, the duties on British goods remain unaltered, but on foreign goods they are raised, most of them by 5 to 10 per cent. It is not to be understood, however, that the duties on all British goods which now bear lower duties would give "full opportunity of reasonable competition" with established Australian industries even if the difficulty which arises from exchange and primage, and is discussed below, did not exist; how many give that opportunity it is impossible to say.

One point of the utmost importance has not yet been dealt with. In making recommendations as to the amount of duty necessary to protect an Australian industry, the Board, whether it is applying the Ottawa principle or not, has so far ignored the effects of exchange and primage. Primage is a temporary revenue duty of 10 per cent. of the dutiable value, payable on nearly all imports. By "exchange" is meant the depreciation of the Australian pound which makes its exchange value only four-fifths of the pound sterling. For over two years, at least £125 Australian have been required to make a sterling payment of £100, and there is no present prospect of any appreciation; but, as with primage, the exchange disparity was at first assumed to be a merely temporary phenomenon.

The first effect of this depreciation and of the primage is to raise the landed cost of imports in Australian pounds in the ratio of 100 to 135; that is, the Australian manufacturer could charge up to £135 Australian when competing with English goods costing £100 sterling to land, or, in other words, exchange and primage, taken alone, add 35 to the percentage rate of duty recommended for protection. But Australian costs of manufacture are also increased, because primage raises the price of imported raw materials and machinery, while exchange depreciation raises the price both of imports and of exportable goods consumed in Australia. The cost of imported raw materials

901

Australia

is therefore raised by 35 per cent., and of exportable produce (such as wool, hides, metals) by 25 per cent. The prices of imported and exportable foods (such as tea, butter, flour) are raised in the same proportions, thus increasing the retail price index, with a corresponding effect on the wages paid by those industries (including most manufactures in which wages depend on that index). Impressive statements of the theory of purchasing power parity could be quoted which would justify the assumption that the final effect would be to raise costs nearly as much as prices—nearly enough at any rate for temporary purposes. This conclusion, it may be noted, is much more plausible for Australia than for Great Britain, because wages in Australia are peculiarly elastic and responsive to price changes, while British wages have shown themselves remarkably rigid even in the débâcle of prices of the last few years.

Further, by a technicality of the customs law, *ad valorem* percentages are calculated not on Australian values, but on sterling values. A duty of 40 per cent. on goods with a landed cost of £100 sterling or £125 Australian is not £40 sterling or £50 Australian, but £40 Australian. The *ad valorem* rate, nominally 40 per cent., is in effect reduced to 32 per cent.

On the whole, then, there was a fair case for assuming that neither exchange premium nor primage—particularly if they were only temporary—gave such increased protection to Australian manufacturers as to warrant a revision of rates of duty that had been fixed on the assumption that neither had any effect on competitive costs. Their persistence, however, has called for a closer consideration of the problem.

Economic opinion inclines to the view that under Australian conditions, in spite of the automatic adjustment of wages to prices, the general price level cannot be expected to rise much on account of exchange depreciation. General costs, therefore, will not be materially affected by exchange and primage. The special costs of raw material

Australia's Response to Ottawa Agreement

may, however, be greatly raised. When raw material bulks high in total costs, and that raw material is imported or exportable, an industry may require nearly all the old duty to give it the same protection as it had when exchange was at par. On the other hand, an industry using no imported or exportable raw material might be able to get along with protection reduced from, say, 40 per cent. to 10 per cent. These are the extreme cases, and industries of the former kind cannot be of great importance. On top of these and other complications comes the consideration that, in spite of exchange and primage, the wages index in Australia has fallen 20 per cent. in the last three years, while British wages have fallen only 4 per cent. The relative protection required must therefore be changing rapidly. The Tariff Board held a public enquiry into the whole tangled question and made a report, but its recommendations have not yet been made public, although in both Houses of Parliament it was pointed out that the tariff could not fairly be considered without knowledge of what was to be done about exchange and primage.

Finally, those who expect that the implementing of the Ottawa Agreement will largely increase British trade with Australia may be disappointed if they overlook the limit set to Australia's imports by her capacity to pay for them. Oversea interest is a heavy fixed charge. The aggregate value of exports is determined more by the season than by the price received for them. There is, indeed, for a given season a fixed value of imports that Australia can buy. Capital investment from abroad would increase it, but that is not at present likely to take place to any great extent. Imports could be drawn more from Great Britain and less from other countries, though again not to any great extent. When what is possible in that way has been done, there will be a more or less fixed fund from which alone British exporters can be paid, until Australian export prices rise or the burden of external interest is reduced. Consequently, if reductions in the duties in one class of goods tend to

Australia

increase British exports of those goods to Australia, there must be a corresponding decrease in exports of other British goods to Australia.

Viewed from any angle, it is clear that to implement Ottawa for the benefit of Australian primary producers and British manufacturers, without inflicting more damage on important Australian industries than Australian opinion will think justifiable, is likely to be very difficult, if not impossible.

II. APPEALS TO THE PEOPLE

DURING the quarter there have been appeals to the people in three States—on April 8 general elections in South Australia and Western Australia, and a referendum in Western Australia on “secession,” and on May 13 a referendum in New South Wales on the reform of the Legislative Council. Each of the general elections rejected the existing Government; in South Australia a Liberal-Country Ministry under Mr. R. L. Butler supersedes a Labour Ministry, while in Western Australia a National-Country Ministry gives place to a Labour Ministry with Mr. Philip Collier as Premier. The following is the state of parties as it appears from the returns, in comparison with their state in the outgoing Parliament.

<i>South Australia.</i>				New	Old
Liberal Country	..	..	..	28	15
Australian Labour	..	..	..	6	9
Parliamentary Labour	..	..	..	4	20
Lang Labour	..	..	..	3	1
with a few “Independent” and “Single Tax” members.					
<i>Western Australia.</i>				New	Old
Nationalists	..	..	..	8	15
Country	..	..	..	11	12
Labour	..	..	..	30	23
Independent	..	..	..	1	—

In both cases the ministerial defeat was a rout, and in certain of its aspects expresses the dissatisfaction which a

Appeals to the People

Government is bound to excite in many questions and for very different reasons in conducting public affairs during the present critical period. In both cases, the Premier whose name is associated with the life and works of the outgoing Parliament disappears from parliamentary life. Sir James Mitchell, Premier of Western Australia, lost his seat. He was one of those who ill accommodated himself to these lean days when Governments have to do without oversea loans, and must contract expenditure. Mr. Hill, late Premier of South Australia, found even before the election that his zeal in supporting a plan which involved drastic all-round economies had made his position as Labour leader impossible, and his retirement to the non-political office of Agent-General in London, if it did not unite the Labour groups, prepared the way for a contest in which all of them were opposed not merely to the party led by Mr. R. L. Butler but also to its policy. In neither State is the divergence between Labour and its opponents quite so great as in the eastern States. This is partly a matter of persons, partly a matter of economic and social differences which have prevented labour class consciousness from assuming the form which it has in more highly industrialised communities. In the case of neither State has a “turn-over” the same significance for itself or for Australia as a whole as it has in the case of the eastern States.

More interesting than the general election itself was the referendum which attended it in Western Australia on the subject of secession from the Commonwealth. The elector was called on to answer two questions:

1. Whether he desired the secession of Western Australia from the Commonwealth.
2. Whether he desired a constitutional convention to consider the reform of the Commonwealth Constitution.

A majority of the electors answered “aye” to the first question; “no” to the second. The answers are the

Australia

more interesting in that they are independent of the party issues of the general election; for Labour in Western Australia has adopted the general Labour aim of unification, while the secessionist campaign had encouragement from Sir James Mitchell. The movement itself is the expression of many discontents, most of them not peculiar to Western Australia. The production costs which a high tariff imposes are not compensated in Western Australia by an industrialisation which centres in Sydney and Melbourne, and grievance takes possession both of those who desire cheaper goods from abroad and those who would see Western Australia become more "self-contained" with a tariff of her own. The Navigation Act, the especial grievance of Tasmania, is also a cause of Western Australian discontent. There are complaints that the incidence of taxation bears the more hardly upon States in proportion to their developmental tasks, and as these are greater in States with vast territory and a small population, Western Australia, pre-eminent in these conditions, accounts herself the chief sufferer.

The complaints are not new, but hard times have brought them to a head. They compel the realisation that Australia is a continent, that policies which may be beneficial to the continent as a whole may be ill-suited to communities which, from their geographical situation and their economic and social condition, have a strongly developed self-consciousness which does not merge in an all-Australia consciousness. The rigid party lines and discipline, on which Commonwealth elections are fought and parliamentary action is determined, have ignored these differences and hindered the effective recognition of these conditions in federal policy, and have diverted the discontented States to seek compensation in financial assistance from the Commonwealth in somewhat the same way as primary producers have sought compensation in various forms of Government aid for the handicaps imposed upon them by the tariff and social legislation. It is, too, one

Appeals to the People

of the disadvantages of a federal system that it facilitates some dispersion of responsibility for the consequences of policy, and particularly of financial policy. Not a little of the financial and economic tangle in Western Australia is due to expenditure imprudently undertaken and carried out by the State itself in the name of development.

On May 13 a referendum was held in New South Wales on the question of whether the Upper House should be reformed. On a poll of something over 1,400,000 there was a majority of just over 40,000 in favour of the reform proposals, which will accordingly become law. No change in the constitutional position of the New South Wales Upper House (the Legislative Council) was possible without a referendum, since the constitution specifically enjoins that the Upper House shall not be abolished nor shall its powers be altered, until the proposed change has been approved at a referendum. This provision was inserted in the constitution in 1929; its validity was upheld by the Privy Council in 1932.

There is thus an essential distinction between the referendum held in New South Wales and that in Western Australia, a distinction which for fear of misunderstanding must be emphasised. The questions submitted to the people in Western Australia, and their answers, are wholly void of legal effect: the referendum was an extra-constitutional act, and its result was merely the collection of opinion. It is beyond question that no State by its own act can secede from the Commonwealth, and there are doubts whether even the machinery for the alteration of the constitution of the Commonwealth—the assent of the Commonwealth Parliament and the approval of a majority of voters in a majority of States—could effect the severance of a State from the "indissoluble Commonwealth." On the other hand, the referendum in New South Wales is the legal and constitutional means of altering the form and powers of the Legislative Council, essentially a State matter.

Australia

The New South Wales Upper House has previously consisted of members appointed for life by the Governor on the nomination of the Premier. The number that could be appointed was unlimited, and the question of how far a Governor was bound to accede to the request of a Premier for additional nominations had never been satisfactorily determined. In consequence of this the House has been subjected to successive "swampings"; no fewer than 77 new members have been appointed within the last eight years. The total membership at the time of the referendum was 121.

The Government's proposals were largely based upon the desirability of reducing the numbers of this unwieldy body, but were particularly directed to the avoidance of the possibility of a Government's obtaining office, swamping the Upper House, and putting into execution a policy for which it had no mandate. The experience of Mr. Lang's tragic régime of 1930-32 had shown that the old system was no sufficient safeguard against this.

The new Council will be elected by the members of both Houses of Parliament voting as one body on a system of proportional representation. It will be limited to sixty members, each one—except in the case of those elected at the first elections—holding office for twelve years. Every three years one-quarter of the members will retire, and elections will be held to fill their places. In order to start the system of rotationary retirement the members of the first House will be elected for varying terms.

It will be seen that the system of indirect election takes its origin in large part from the recommendations of the Bryce Report of 1912 on the reform of the British Parliament. The really distinctive feature of the proposals is the provision which has been made for solving deadlocks. If the Upper House refuses to pass a Bill upon which the Lower House insists, the Lower House, after a short interval and after the breakdown of negotiations with the Upper House, is empowered to direct that the measure

Appeals to the People

in question shall go to a referendum. If it is then passed, it can become law in spite of the opposition of the Upper House. With regard to the supply Bills for the ordinary annual services of Government, the Upper House has no control, except the power to delay them for one month. Other money Bills come under the ordinary deadlock provisions. This important departure from the usual convention that all money Bills should be under the complete control of the Lower House has been prompted by the recollection of Mr. Lang's 1932 Mortgage Tax Bill (which, however, never became law). It was felt that a Government could violate its mandate just as effectively with a taxing Bill as with any other Bill, and that some check was necessary.

In the circumstances the passage of the Reform Bill, in the face of that hostility to constitutional change which has always marked the Australian electorate, must be rated as a notable achievement, especially since the policy of necessary economy adopted by the Stevens Government was naturally unpopular in certain quarters.

The new House cannot be elected until certain legal formalities have been complied with, and it is unlikely to be inaugurated before 1934. The present constitution of the chambers—the overwhelming majority of anti-Labour members in the Assembly, and of anti-Lang (though not anti-Labour) members in the Council—appears to indicate that at the outset, and for many years, the Council will have the "conservative" character generally attributed to second chambers. On the other hand, the Assembly may in any case appeal from its veto to the electorate

Australia

III. PUBLIC FINANCE AND THE LOAN COUNCIL

THE Premiers' Conference and the Loan Council (which can be transmuted in a moment by a change of Chairman) met early in June to plan finance for the year 1933-34. The Commonwealth Bank Board sat at the same time to facilitate negotiations on short and long term borrowing.

For revenue and expenditure in 1932-33, approximate figures were tabled which showed that the Commonwealth Government had bettered its undertaking to balance its budget in that year and was expecting a surplus of more than £3 million. This included a carry-over of the unexpected surplus of £1.3 million earned in the preceding year, but, on the other hand, the Commonwealth found out of revenue £2.2 million for the relief of wheat growers, which had not been budgeted for, and conceded some relief in land tax, primage on imports and sales tax. The States, which had the harder row to hoe, kept within the limit they had set themselves, and showed a combined deficit of £8.76 million, against a planned £9 million. Queensland, Western Australia and Tasmania exceeded their quotas, but the other three States more than made up the excess.

The performance for the year was, therefore, satisfactory. Progress towards balanced budgets does not continue automatically on a given scheme of economy in expenditure and additional taxation. Some expenditure, such as old age pensions, naturally grows, and the faster on account of the changing age distribution of the Australian population. Revenue, on the other hand, trends downward. Taxes on goods and services, it is true, have passed the low point and are increasing, but that chiefly benefits the Commonwealth. On the other hand, with the gradual reduction of capital values to realistic levels, all direct taxation continues to fall away, and the States are chiefly dependent on direct

Public Finance and the Loan Council

taxation. So it comes that the States cannot even keep deficits down to the 1932-33 figure without new efforts. The Commonwealth is in a much stronger position in any case, and particularly so with the suspension of interest and sinking fund payments on British war debt, which together make over £6 million in Australian currency. The Commonwealth has at least a £3 million surplus in the current year and could probably increase this figure in 1933-34 and use it directly to offset State deficits. The Government's view, however, is that it is more helpful to use the surplus to lighten the burden of heavy taxation, both direct and indirect. It cannot be said that the State Governments concur in this opinion.

With the prospect of a further decline in the yields of direct taxation, the States estimated an increase of deficits for 1933-34 from £8.76 million to nearly £10 million. These figures roused the stern deflationists from pained acquiescence to impassioned protest. It was a radical departure from the "Three Years' Plan," to balance budgets by June, 1934—a lamentable failure to live up to the solemn undertakings made at the Premiers' Conference of 1931. It was in vain that the Loan Council itself, its Chairman, Sir Walter Massy Greene, and the State Premiers, recalled the facts of 1931. The stern deflationists—including some important daily papers, backed by an elusive "city opinion" and "banking opinion"—continued their lamentations. The same body of opinion—or feeling—was, as might be expected, equally insistent on a reduction in taxation.

The "Three Years' Plan" was, in fact, a myth, having its roots in pious resolutions to balance budgets, before any definite plan for doing so was considered. There is no mention of three years in the resolutions of the Premiers' Conference, which adopted the Premiers' Plan in June, 1931. The Committee of under-treasurers and economists, on whose report the plan was based, restricted its aim to a progressive reduction of deficits. It counted on some increase in export prices within three years, but even with

Australia

that improvement it recorded its conclusion that "it will not be possible to balance budgets during the next three years." Actually, export prices have fallen 12 per cent. since that time, so that *any* progressive reduction in deficits more than fulfils the obligations undertaken by the Governments in June, 1931.

The myth has, however, served one useful purpose. The Plan has imposed difficult and unpopular tasks on all Governments, and all available pressure has been needed to keep some of them up to the mark. The Commonwealth Bank Board, which finances the deficits with treasury bills, has naturally felt a special responsibility in keeping deficits down, and has used the tacit assumption of a "Three Years' Plan" with increasing insistence as a stick to beat reluctant treasurers. The Commonwealth Government has been disposed to second the Bank. Too insistent an emphasis on the immediate necessity of balanced budgets would, however, impose on the Commonwealth Government the logical necessity of using its surplus to reduce State deficits, a policy from which it is very averse. It was probably these considerations which led to a fairly united front of both Commonwealth and State Governments in their recent negotiations with the Bank, and to an agreement with the Bank, which takes fairly into account the realities of the political economic and financial situation.

The first estimate of State Government deficits for 1933-34 was about £10 million. When under-treasurers in committee and the Loan Council itself had done their best with them, the total was reduced to £9 million, and the request made to the Bank to issue treasury bills to that amount. The Bank suggested a limit of £7 million. After further deliberations in the Loan Council, the Commonwealth offered additional grants to the weaker States to the amount of £300,000 and further economies of £200,000 were undertaken by four States. The result was to reduce State deficits to £8·5 million, and at that figure an agreement was reached with the Commonwealth Bank. The

Public Finance and the Loan Council

planned deficits for 1933-34 compare with the estimated deficits for 1932-33 as follows:—

	1932-33 (Estimated)	1933-34 (Planned)
	£	£
New South Wales	4,210,000	3,950,000
Victoria	800,000	800,000
Queensland	1,580,000	1,850,000
South Australia	1,100,000	1,100,000
Western Australia	850,000	750,000
Tasmania	200,000	50,000
	8,760,000	8,500,000

The Commonwealth, which would have a large surplus on the present prospects of revenue, is planning to reduce it to a moderate figure by remission of taxation.

The official statement of the Loan Council took the view that £8·5 million was a reasonably satisfactory figure for total deficits. This figure took no account of the probability of oversea conversions which would reduce it. It did not anticipate any rise in oversea prices, though prices were actually rising at the time. Moreover, some of the State treasurers were very hopeful that they could better their estimates. Further, the expenditure of Australian Governments included sinking fund contributions of over £7 million. When all these were taken into account, there was a good prospect that budgets would practically balance on the actual expenditure of the year. The possibility of suspending sinking funds was raised, but the Governments were resolute on the necessity of not interfering with sinking fund commitments, even at the cost of further local borrowing.

The general policy in respect of loans for public works was settled at the February meeting of the Loan Council. It was then agreed with the Commonwealth Bank Board that in future money for public works should be raised on the open market for long term loans and not, as heretofore, from the banks by treasury bills. It was also agreed that

Australia

if the market was favourable for further borrowing at reasonable rates, some funding of treasury bills should be undertaken. The agreement on the latter point is not very explicit, and there is strong opposition to the early funding of treasury bills, on the ground that it will restrict credit and postpone the movement which is now going on steadily towards lower interest rates. It is possible that in the end a compromise will be reached by which treasury bills will only be funded to the extent that they are being increased by financing of deficits, so that the total of treasury bills outstanding will remain constant until definite progress towards prosperity has been made.

The public works programme for 1933-34 was fixed by the Loan Council in June at £17,346,000. Of this, £8.5 million was raised recently by public loan at 3½ per cent. A further loan for perhaps £7 million, with amounts available from other sources, would provide the balance, and this may be expected later in the year. But no agreement with the Bank has been made, and, at the suggestion of the Bank, the question was postponed until some estimate could be made of the effects of the World Economic Conference. The matter will, therefore, come up again for consideration later in the year, along with the question of funding treasury bills.

There was one matter outside the sphere of finance discussed by the Premiers. The political reaction to the Western Australia referendum was various proposals for a national convention to consider generally the revision of the Commonwealth Constitution. The discussions were indeterminate and ended in an understanding that there may be such a convention next year during a long parliamentary recess. The Commonwealth Government has independently appointed a commission to consider States grants.

Australia.

July 27, 1933.

914

SOUTH AFRICA

I. THE COALITION

SOUTH AFRICA has had during the last quarter almost a glut of political novelties. It has observed the political enemies of a generation fraternising, and co-operating with all the apparent heartiness of long-standing association. It has passed through a general election in which the racial note has been all but unheard. It has seen a Parliament assemble in which the Opposition consists of only six members—in three groups of two. It is not strange that it should from time to time have wondered whether the change that has come over the political scene is not perhaps too good to be true—whether it can really be expected to last.

The Hertzog-Smuts Government was sworn in on March 31, Parliament was dissolved a week later, and the elections took place on May 17. The issue was approval of the coalition agreement or otherwise. The electorate, augmented since the previous general election by the enfranchisement of the women, was asked to give the newly formed National Government a national mandate.

In the election campaign the two contracting parties co-operated very effectively. In a seat held in the previous Parliament by a Nationalist, it was left for a Nationalist to carry the Coalition banner. A similar arrangement was applied in the constituencies previously represented by members of the South African party. The party organisations loyally carried out the arrangement. Only in a relatively small number of cases was it defied by individuals, who courted expulsion from their own party in each instance, in order to oppose an official Coalitionist candidate from the other party. As a result in more than half the constituencies the official Coalitionists were returned unopposed.

The opposition, in so far as it was put up, came from

915

South Africa

Labourites, from Mr. Tielman Roos and his friends, from isolationist factions in Natal, and from independents of varying colours, most of them men who were disgruntled by the nomination of the official Coalitionist candidates. In the result 138 supporters of the Government were returned—75 Nationalists, 61 South African party men, and two of the four Labour men who had in the last Parliament supported the Nationalist Government. Of the remaining twelve members of the new House six are independents who are pledged to support the principle of coalition, four may be described as Independent South African party men, and two as Independent Nationalists. The remaining six are the only members of the House who can be regarded as definite opponents of the Government. Two are Labourites, of that section which withdrew from the Nationalist-Labour Pact some years ago, two are followers of Mr. Roos, and two are Natal "Home Rulers." One of the South African party members, it may perhaps here be mentioned, is a woman—the first woman member of a South African legislative body—the wife of Colonel Deneys Reitz, General Smuts's faithful follower in peace as in war, who is Minister of Lands and Irrigation in the new Government.

A word or two needs to be said about the Opposition groups, if only because each of them may perhaps become a focus of the discontent which, in accordance with the common fate of Governments, is likely to gather against the Coalition.

As for Labour, it is probable that it has reached the nadir of its fortunes in South Africa. At the 1920 general election it returned 21 members to a House of Assembly of 134. In 1929 it secured only eight seats out of 148. In the present Parliament there are only four Labour members out of 150; of these, two won their seats by virtue of Nationalist and South African party support—there are, in fact, only two independent Labour members of Parliament in South Africa. It is a striking indication of the

The Coalition

consequences for Labour of entering into a political pact as the junior partner. Further than it has already gone the attrition of Labour can hardly be expected to go, but it may be doubted whether its re-establishment as an effective political force will be other than a slow process. Doubtless in the industrial centres it will draw to itself some of those who find cause for grievance in the Government's policy; but it will never go very far until it proves capable of attracting the Afrikaans-speaking workers, whose numbers have been growing steadily, while those of the English-speaking workers have declined. So far Labour has failed in this objective. It may be that, as one of the results of coalition, the hitherto predominantly Nationalist Afrikaans-speaking worker will cease to be race-conscious and become class-conscious.

The two followers of Mr. Roos who were successful at the polls are the sole survivors of a band of some twenty "Roosite" candidates, including Mr. Roos himself. The activity of Mr. Roos undoubtedly provided the occasion, if not the cause, of coalition. His dramatic intervention in politics at the end of last year seemed to have secured for him an all but impregnable position in the people's favour. But in standing out for the premiership he overcalled his hand. The coalition for which he had pressed came into being, but in a manner which showed that he had erred in thinking that he was himself indispensable for its formation. In the upshot he allowed himself to be driven into the position of fighting the official Coalitionist candidates at the polls, and could give no better ground for doing so than that the coalition was not sufficiently complete because the parties had not been amalgamated. He himself stood against one of the Ministers, Mr. Grobler, at Rustenburg, and was defeated. As a result he has dropped out of political activity to resume practice at the bar, and the name of the Judge, whose resignation from the highest Court in the land and subsequent political activities set all South Africa talking a few months ago, is

South Africa

now only seen in the press in connection with his appearances to defend accused persons in Magistrates' Courts. Yet it may safely be assumed that Mr. Roos regards himself as only "baffled to fight better," that he is waiting for the opportunity which he hopes the Coalition Government's mistakes will provide for another incursion into politics. If fortune favours him in the matter of health—for long an uncertain factor in his case—he may yet be destined to be once again a power in South African politics; and perhaps the natural course for him to pursue is to try to lead the Afrikaans-speaking worker in the towns, possibly also the poor white in the countryside, into an alliance with Labour.

Something must be added about the significance of the other Opposition *duo* in the new House—the two Natal "Home Rulers." It is unnecessary to recall what has already been stated from time to time in these columns* about Natal's reaction to the period of Nationalist rule. Its consciousness of its distinctiveness as the most British part of the Union has been effectively stimulated, and has revealed itself in many different manifestations—separation, federation, home rule, a distinctive Natal party, are all cries that have been raised. To some extent the Coalition succeeded in establishing itself in Natal's good graces by reversing the Nationalist policy of abolishing the provincial system, and by declaring for the maintenance of the Provincial Councils and a possible extension of their powers. Federalism, as such, it has, however, rejected, and so provided a basis for the survival of an agitation among a section of the community to whom the continuance of Nationalist Ministers in office is by no means palatable. It was not surprising, therefore, that two anti-coalitionist Home Rulers were returned at the elections. They are not, however, men of any great political experience or aptitude—indeed, the weakness of the isolationists in Natal lies in their apparent incapacity to throw up leaders

* See THE ROUND TABLE, No. 87, June, 1932, p. 656, and No. 88, September, 1932, p. 895.

The Tax on the Gold Premium

of any weight. But for that, the establishment of a Natal party, speaking for practically the whole of the province, would remain as a somewhat unpleasant possibility. As it is, it will probably not be realised. Certainly the return of economic prosperity to Natal would do much to terminate the political *malaise* of the last few years.

II. THE TAX ON THE GOLD PREMIUM

PARLIAMENT assembled within a week of the final election results becoming known—an unusually brief interval for a country of great distances like South Africa. The opening was expedited in view of the necessity for the early departure of the delegation to the World Economic Conference, at which South Africa has been represented by General Smuts and two of his Nationalist colleagues. General Smuts himself travelled to London by air, emphasising as he went the links of common interest between the Union and the African countries to the north. His colleagues, Mr. Havenga and Mr. Pirow, stayed a few days longer to deliver the general and railway budget statements respectively, and then travelled by sea. In the absence of three of its most important members, the Government decided to confine the session virtually to the passing of the budgets and the necessary legislation arising therefrom, and this work it was able to complete in the space of four weeks.

Mr. Havenga's budget statement was easily the most important of its kind ever made in the Union Parliament. The new Government on assuming office found two problems awaiting it, different in kind, but in a sense complementary to one another. First, there was the almost desperate position of the farmers. On that it is unnecessary to enlarge, since in essence the plight of the farmer in South Africa is the same as that of the primary producer in other lands. But, secondly, there was the question

South Africa

of the disposal of the gold premium, estimated at a figure not far short of £20 million, accruing to the gold producers as a result of South Africa's abandonment of the gold standard. It was recognised that the State had an interest in the premium and that is why the two problems have been described as complementary, since it seemed inevitable that part of the premium should be applied to the relief of agriculture. The matter was not, however, so simple as that would suggest, for a due balance had to be maintained between the interest of the State and other legitimate interests in the disposal of the premium. These interests were all to some extent connected with the prospect, which the increased price of gold held out, of a considerable expansion of the industry and a substantial extension of its life, through the working of ore of a lower grade than it was profitable to mine while gold remained at the standard price. Thus there was the interest of the workers, represented not so much by a possible increase in wages as by an extension of the sphere of employment; the interest of the shareholders, whose increased dividends would help to provide a fund from which money for new developments might be drawn; and the interests of the nation as a whole, for whose future prosperity it was of the first importance that the opportunity of prolonging the industry's life should not be lost as a result of excessive taxation.

In framing his budget Mr. Havenga found that he had to start with an accumulated deficit of £1,962,000 from the lean years of the past, a deficit which he suggested, not very convincingly, would have been smaller if South Africa had remained on the gold standard. He had also to start with an unavoidable increase in expenditure. Last year South Africa had the benefit of the exchanges in respect of its oversea interest payments. Its substitution of a sterling for a gold basis for its currency has deprived it of this advantage, the amount involved being £1,600,000. But apart from this, although in general the expenditure estimates had been framed on a conservative basis, there were certain

The Tax on the Gold Premium

globular additional items. The "cuts" imposed last year on the public service were restored, and the railway administration was put in a position which enabled it to take similar action, by the Treasury agreement to take over the responsibility for certain interest charges which had long been in dispute. For the rest, substantial assistance was provided for farmers. For one thing, the export subsidies, which were originally provided as a compensation for the burden carried by the farmers in consequence of South Africa's maintenance of the gold standard, were to be kept on; for another, provision was made for a subsidy of $1\frac{1}{2}$ per cent. towards the interest payable by *bona fide* farmers on mortgage bonds on their farms, which, together with a confiscatory tax claiming for the Exchequer any interest over 5 per cent. collected on such bonds, was intended to bring the rate of interest payable by the farmer himself down to $3\frac{1}{2}$ per cent. Under these and certain other minor heads, an amount of £4,855,000 was provided on the estimates for the vote, Assistance to Farmers. The result was that, as against an expenditure of £27,300,000 in 1932-3, the expenditure for 1933-4 was estimated at £34,016,000. On the other side it was anticipated that the revenue would increase from £27,253,000 to £28,292,000, an increase in which the chief factor was the anticipated additional yield of normal mining taxation resulting from the increased price of gold. Mr. Havenga, therefore, estimated that the deficit of £1,962,000, with which the year commenced, would be increased by an amount of £5,724,000, giving a total of £7,686,000. This he proposed to meet to the extent of £1,900,000, by transferring from loan account to the Consolidated Revenue Fund the increased amount payable to the State as its share of the profits by the leased mines in consequence of the enhanced price of gold, and to the extent of £6,000,000 by an excess profits duty on the gold mines in general. This left him with a surplus of £214,000, which he proposed to apply to certain minor tax adjustments.

South Africa

It is perhaps necessary to state clearly what exactly is the anticipated effect of Mr. Havenga's proposals for the taxation of the gold premium. On the normal basis of taxation the State's share of the increased profits resulting from the enhanced price of gold is set down at £3,700,000, roughly one-half of which would, if the law had not been altered, have gone into loan account, but which, in the way proposed by the budget, has in fact been transferred to the Consolidated Revenue Fund. In addition to this an excess profits duty, estimated to yield £6,000,000, has been imposed—a total therefore of £9,700,000. This is roughly 50 per cent. of the amount represented by the increased price of gold, which is estimated at £19,700,000. It must not, however, be assumed that this latter figure correctly reflects the increase in the profits of the mines. Encouraged by the Government, the mines have been working lower grade ore, which means that they must mill a larger tonnage and proportionately increase costs, in order to produce the same amount of gold. It is therefore improbable that the actual profits of the mines will exceed £15,500,000, of which it will be seen that considerably more than one-half will accrue to the State.

Mr. Havenga's budget undoubtedly did not lack the virtue of courage—it may be doubted whether any but a National Government would have ventured to present it. It was indeed severely attacked—not so much, however, at its most vulnerable point (the confiscatory proposals with regard to farm mortgage interest, and the virtual interference with the sanctity of contract) as on account of its gold mining taxation proposals. Some of the strongest criticism in the House came from one or two of its pledged supporters, representing Witwatersrand constituencies, but at no stage did more than six members vote against any of the proposals. Outside the House, however, a storm of almost unexampled severity blew up on the Witwatersrand. The budget came at a time when a stock exchange boom was at its height, and it led to a slump

The Amalgamation Movement

which caused considerable losses to individuals. The mining industry, which in this matter was perhaps not as wisely led as it might have been, sought to adopt bludgeoning tactics. Mr. Patrick Duncan, himself a Witwatersrand member, who had been left with the thankless task of defending Mr. Havenga's budget, was bitterly assailed. He stood his ground with great determination and skill, and although he made certain important concessions, chiefly in the form of assurances with regard to the maximum immediate and future yield of the taxation, he maintained the essential features of the budget. And, though for a time after the session ended the storm continued to rage fiercely, it would, at the moment of writing, appear to be subsiding, under the influence of a favourable trend of the market, as rapidly as it blew up—if not *pulveris exigui iactu compressa*, at least in a manner to some extent reminiscent thereof.

As for the future of the gold mining industry, which is of first-rate importance for South Africa as a whole, the essential fact remains that, despite the admittedly heavy government taxation, enough of the premium has been left to the industry to ensure at least the doubling of the tonnage that can profitably be worked—subject, of course, to the assumption that gold remains at 120s. an ounce.

III. THE AMALGAMATION MOVEMENT

THE controversy over the gold mining taxation undoubtedly served to consolidate the Government, which has worked together admirably as a team, and shows no sign of fissure as a result of past controversy or divergence in the elements of which it is composed. It already seems unthinkable that the two parties now co-operating should break away and confront one another as they did before. That does not, however, exclude the possibility of important political changes. For one thing, there is

South Africa

already on foot, and rapidly gathering force, a movement to amalgamate the two parties ; at the moment its strength is rather in the countryside than in the towns. For another, there are elements of disruption in both camps, which would almost certainly be strengthened by premature amalgamation. In such an event the South African party's position in Natal would certainly be weakened, the Nationalists would be faced by the defection of most of their Cape supporters led by the redoubtable Dr. Malan, who has already given abundant evidence that he is waiting his chance to withdraw his support from the coalition and establish a party in the old Nationalist tradition, appealing to an exclusively Dutch sentiment.

While the position of the Hertzog-Smuts partnership seems to be assured for a considerable period, the forces of opposition will unquestionably grow in strength. Three *foci* of discord have already been mentioned—Labour, Natal, and the ambitions of Mr. Tielman Roos, to which may now be added the intransigence of Dr. Malan. It may even be that one pair of bitter enemies of the past—Dr. Malan and Mr. Roos—may yet be seen working together to oppose another pair of such enemies—General Hertzog and General Smuts. South Africa has seen even stranger things than that happen on its political stage. But after all, the purpose of this article is record, and not prophecy.

South Africa.
July 18, 1933.

NEW ZEALAND

I. FINANCE

THE circumstances under which the Coalition Government on January 20 decided to comply with the demand of the primary producers for an increase in the exchange premium on London, from 10 to 25 per cent., and the keen parliamentary struggle that followed, were discussed in our last article. The results of that momentous decision are still obscure, but the lucid statements of Mr. Forbes, the Prime Minister, and Mr. Coates, who had succeeded Mr. Downie Stewart as Minister of Finance, explaining the grave position of the country, especially of its primary industries, as the justification for the Government's change of front, and outlining its general financial policy, seem to deserve a little more attention now than was then possible. In 1928, said Mr. Forbes on January 27, the value of our exports was £56,200,000, while in 1932 it was £33,600,000. Our imports for the same years were valued at £44,100,000 and £22,800,000 respectively. In four years our exports had fallen by 40 per cent. and our imports by 53 per cent. Following the rule that the national income may be approximately estimated by adding 20 per cent. to the estimate of total production, he set out the position of both in the following table :—

Production and National Income.

		1928-29.	1932-33.
Farm products	.. ..	£82,100,000	£49,000,000
Other products	.. ..	41,200,000	32,500,000
		£123,300,000	£81,500,000
National income	.. ..	£150,000,000	£98,000,000
1928-29=100	.. ..	100	65

The national income had thus fallen by 35 per cent. in these four years. A significant table, based upon the Government Statistician's index of prices in 1914 and in

New Zealand

November 1932, respectively, was also produced by the Minister of Finance.

Export prices	21 per cent. below 1914 figure.
Farm expenditure (1931) ..	49 per cent. above 1914 ..
Retail prices	29 per cent. above 1914 ..
Wholesale prices	21 per cent. above 1914 ..

It was commonly asserted, said Mr. Coates, that "an initial and fundamental choice must be made—the choice between reducing costs and increasing prices," or, as it was less accurately put, between deflation and inflation. The Government proposed to approach the problem from both ends. The raising of the exchange rate, which has already been fully discussed in these pages*, and a further reduction of the burden of fixed charges were the two principal points in the Government's programme. On the second of these the Finance Minister's statement did much to relieve anxiety. The unsettling consequences of the "unprecedented interference with the terms of contract," which the National Expenditure Adjustment Act of 1932 effected by its general reduction of interest and rent by 20 per cent., had been magnified by the Prime Minister's vague reference on the eve of the Christmas adjournment to the need for a further reduction of interest charges. But this fear was removed when his colleague stated that the Government recognised—it may be rather late in the day—that "if industry is to be carried on the confidence of investors must be retained," and that in view of the extensive powers already provided for reviewing individual cases it was not proposed to carry the policy of statutory reduction any further. Encouraged by the example of Great Britain and Australia, the Government proposed to take steps to reduce the rate of interest on government securities by introducing a conversion scheme which was to be "as far as possible on a voluntary basis." The lowering of bank deposit rates and overdraft rates was also under consideration.

* See THE ROUND TABLE, No. 91, June 1933, p. 705.

Finance

In view of the disturbing effect that the high exchange rate was bound to have upon the budgetary position, Mr. Coates included in his speech what might be called a supplementary financial statement. With only two months of the current year to run there was no need to amend the budget. There was even a prospect of a slight improvement on Mr. Forbes' estimate of a deficit of £879,000 in his budget speech on October 4 last year. But while the raising of the exchange rate would be of immediate benefit to the primary producer, the Finance Minister anticipated that, until business conditions generally had been fully adjusted to the new position, the immediate effect upon the budget would be adverse. It was therefore advisable to allow for a further shrinkage in revenue, especially in customs revenue. In addition to the loss that the customs are sure to suffer from declining imports in the year 1933-34, the Minister pointed out "that the concessions following the Ottawa Conference will be operative for the full year, and that allowance had to be made for them." The reference to the full year shows that he was only speaking of the £250,000 which represents the estimated loss resulting from the small concessions specified in the Ottawa Agreement which are already in operation. The effect of any further loss that may follow the tariff inquiry now proceeding is a question to which even the expert can only guess the answer, since it is ultimately a matter of politics rather than of economics. But it is safe to assume that at least half of the year will have passed before the inquiry is completed and the politicians have said their last word upon it.

On the expenditure side of the account no less than £2,400,000 was debited to the raising of the exchange rate, but the Minister was able to show that one of the items was not really so bad as it looked. The actual expenditure on the 10 per cent. exchange for the year 1932-33, which supplied the basis of comparison, was £350,000, but this sum would have been doubled if a

New Zealand

considerable part of the funds required in London for that year had not been remitted towards the close of the previous year under the exchange pool arrangement. Owing to this accident the comparison which the Minister was compelled to make appeared to load the change of policy with £350,000 more than its fair share. On the other hand it was afterwards pointed out by Mr. Downie Stewart that, as the 10 per cent. exchange was already costing £800,000, and deficiencies of income tax and other items accounted for £500,000, the aggregate burden of the increased rate on the budget, when the Minister's extra £3,300,000 was added, would be £4,600,000.

The two other items in the exchange increases were explained by the Minister of Finance as follows:—

The increase in the exchange rate adds a further £1,050,000 to the cost, in New Zealand currency, of remitting payments due on loans contracted in the United Kingdom. In addition, the Treasury estimates allow for a contraction of imports to such an extent that the exchange surplus in London will total £4,000,000, and that the extra exchange costs under the indemnity arrangement will amount to £1,000,000 (that is, 25 per cent. of the exchange surplus).

It was, however, admitted that the absence of any New Zealand precedent and the general uncertainty in external conditions would make it "hazardous to attempt any precise estimate," the £1,000,000 being merely taken as a "working figure" for the purpose of the Minister's calculations.

The Finance Minister's survey showed a prospective deficit for the year 1933-34 of £9,850,000, which was made up as follows:—

Equivalent of current year's shortage	..	..	£	£
Revenue decreases:				700,000
Customs	..	..	..	..
Income Tax	..	..	..	1,400,000
Stamp and Death Duties	..	..	..	750,000
Interest receipts	..	..	..	250,000
Post and Telegraph profits	..	..	..	220,000
Other items	..	..	..	470,000
Reserves	..	..	..	260,000
			£	2,500,000
				5,850,000

Finance

Expenditure increases:

Exchange:

Extra cost, external debt charges:			£	£
(a), On account of full year at 110	..	..	350,000	
(b) By exchange increase to 125	..	..	1,050,000	
Cost of exchange on surplus bank funds,				
London	..	..	1,000,000	
				2,400,000

Other items:

Additional interest and other debt charges	..	350,000	
Motor taxation payable to Main Highways Fund	..	500,000	
Pensions	..	50,000	
			900,000
			£9,850,000

Turning to the problem of how to bridge this gap, Mr. Coates held out no hope of any considerable economies—those recommended by the National Expenditure Commission and not yet carried out amounted to £1,150,000. He hoped to realise £2,000,000 by another raid upon the reserves, to find ways and means up to £2,400,000 (which has since been done by means of a sales tax), and to save about £400,000 in interest by the conversion scheme mentioned above, which has also been successfully carried out with considerably better results than was anticipated. In this way he expected to bring the deficit down to about £4,500,000.

On April 29 the Minister of Finance was able to spring a pleasant surprise upon the country. He announced that the year had closed on March 31 with a balanced budget. The details were not available till the publication of the audited accounts on June 12, but it already appeared that expenditure totalled £22,528,379, and revenue £22,569,521, leaving a surplus of £40,142.

The budget provided (said Mr. Coates) for reducing the huge prospective deficit to not more than £1,010,000, but as the year progressed it became evident that the result for the year would be much nearer a balance than this. The final results disclose a surplus of some £40,000, which has been made possible partly by reason of revenue buoyancy totalling £938,000 and partly by way of net economies totalling £112,000.

New Zealand

In view of the grave outlook at the beginning of the year the Minister was right in supposing that the result would afford general satisfaction, for in these hard times even a nominal surplus is something to be thankful for.

Under all the main headings of expenditure but one, substantial economies, totalling £483,000, had been effected, but the one exception, "other services," provided a heavy set-off of £370,500 in excess of the appropriation, and a matter which had excited more interest than all the other items put together was involved. This excess was due to the additional exchange on London, purchased by the Government during the last quarter of the financial year in order to carry out its obligation to the banks under the Banks Indemnity (Exchange) Act 1933. Treasury bills amounting to £2,858,000 had been issued under this Act, and redemptions totalling £478,000 had left £2,380,000 outstanding at the close of the year.

Of this (Mr. Coates, explained) £1,910,000 has been utilised to purchase exchange from the banks under the provisions of the Banks Indemnity (Exchange) Act; the difference of £470,000 between the bills outstanding and the amount purchased represents the exchange cost which has been debited against revenue under "permanent appropriations—other expenditure." Of the sum of £1,910,000 paid to the banks for the purchase of exchange, the major portion was retained in the New Zealand Government Indemnity Exchange Account in London, but, as indicated in the account, £380,000 was transferred to the public account before March 31 and formed part of the floating cash and investment balances of the Consolidated Fund.

The £470,000 which the new policy has cost during two months of the export season indicates that the Minister's estimate of £1,000,000 for the full year is likely to be far exceeded.

II. LOAN CONVERSION

NEXT in importance to the raising of the exchange rates in the Government's policy of bridging the gap between costs and prices, though destined to meet with a

Loan Conversion

very different reception, were the proposals submitted to the House of Representatives by the Minister of Finance when he moved the second reading of the New Zealand Debt Conversion Bill on February 28. He described interest as "probably (directly or indirectly) the major item in the fixed charges of all business," and though the Bill itself dealt only with the Dominion's internal debt, he took the opportunity of explaining the steps that the Government was taking with the object of bringing about a general reduction of interest rates. Recognising that New Zealand, having, like Australia, no short-term loan market in the ordinary sense of the term, was dependent for this kind of borrowing on overdraft rates and deposit rates, the Government had been in negotiation with the trading banks, with the result that their overdraft rate for best accounts was to be reduced from 6 per cent. to 5 per cent. from May 1. Stock and station agents had undertaken to reduce their rates by 1 per cent. at the same time. The banks had already reduced their deposit rates by $\frac{1}{2}$ per cent. in December, and the Post Office Savings Bank was to reduce its rate from $3\frac{1}{2}$ to 3 per cent., but with the right to revert to $3\frac{1}{4}$ per cent. if it was found that money was being transferred to the trading banks.

The Bill provided for the conversion of all government securities held within the Dominion as from April 1, 1933. The gross amount of this debt was approximately £115,320,000, but of this total about £45,800,000 is held by the Post Office on Treasury account. The rates on the securities so held did not in general exceed the minimum of 4 per cent. prescribed by the Bill, but, where necessary, a reduction to that amount was to be made by administrative action. The basis of the conversion proposed for the remaining £69,520,000 was a reduction of 20 per cent. in existing rates, with a minimum of 4 per cent. (apart from tax-free securities) for the rest of the current term, and thereafter an actual return of 4 per cent. only till the end of the new term. In the case of tax-free securities an

New Zealand

adjustment was to be made during the remainder of the present term, but, with that qualification, interest on such securities was also to be reduced to 4 per cent., and made liable to income tax. The net saving from the reductions on both classes of security was estimated by the Finance Minister at £570,000. He was able to announce that offers to convert had been received from a number of large holders, including the trading banks, and he made a strong appeal to others to be prompt in following their lead. Failing notice of dissent within the prescribed period, the Bill provided that assent would be assumed and conversion follow.

Holders, of course, have the right to dissent (said the Minister) but if they do so their interest receipts will be subject to the existing stamp duty and any other special taxation on interest that may be imposed. Holders who convert will be free of the present stamp duty, and the interest from the new securities will not be subjected to any other special taxation.

The Bill received a warm welcome from Parliament, press and people, and it passed through all its stages in both Houses without a division. The only objection raised was on the question of compulsion. When the Australian plan of compulsory conversion was being urged upon the New Zealand Government, Mr. Downie Stewart, who was then Minister of Finance, strongly objected in his Supplementary Financial Statement on October 6, 1931, on the ground that "any compulsory reduction of interest would in reality mean default by the State, and would seriously damage our credit." As a private member he repeated this objection during the second reading debate of the Conversion Bill, contending that though the 20 per cent. cut in interest and rents made last year involved the breaking of private contracts, "we have not yet reached the point where the State can afford to break contracts where its own interests are involved." When the Bill was before the Legislative Council on March 2, Sir Francis Bell appealed to the

Loan Conversion

"tradition that the country's honour is above all things," and that its obligations are not to be reduced by legislation.

Nobody denies (said Sir Francis) that that was and is the English tradition. But there comes a National Expenditure Adjustment Commission, and there comes a precedent from Australia, and New Zealand is to adopt the Punic faith in lieu of the honourable tradition which it has followed until to-day.

The answer given was that there was no compulsion in the Bill. This was formally correct, but the threat of compulsion was plainly implied in the Minister's statement that the interest receipts of non-converting bondholders would be "subject to the existing stamp duty and *any other special taxation on interest that may be imposed.*" And a few days later the threat was made effective. The Conversion Bill was followed by a Finance Bill, Clause 5 of which imposed a tax of $33\frac{1}{3}$ per cent. on all interest accruing on or after April 1 on existing government securities. The first Bill, which invited the holders of $4\frac{1}{2}$ per cent. securities to take 4 per cent. instead, was an appeal for a voluntary sacrifice. The second, which threatened them with 3 per cent. if they refused this invitation, was clearly just as compulsory as any other penal measure.*

Mr. Coates nevertheless maintains that the success of his scheme was a triumph of patriotism, and he is able to point to the fact that more than a third of the conversion—£24,000,000 out of £69,000,000—had been achieved before the spur of compulsion was applied. If he is right, the country's gratitude to the bondholders should be increased by a recognition of the purity of their motives. But, whether he is right or wrong, the Government and the

* The hardest case was that of the subscribers to a £5,000,000 loan at $5\frac{1}{2}$ per cent. which had matured at the beginning of January, but at the invitation of the Government was being nearly all renewed for 7 years at 5 per cent. The applications closed on February 27, and on the following day this Bill was introduced which cut the interest down again from 5 per cent. to 4. The Finance Minister admitted and regretted the hardship, but was unable to see how it could be avoided.

New Zealand

Legislature are entitled to no gratitude for the scepticism involved in a compulsory clause which has cast a slur on these motives and at the same time established a precedent which may have disastrous applications. The unanimous approval of the Labour party might well have made the Government suspicious of its own policy. It supplies another illustration of the truth of the remark made in the last New Zealand article* that

in New Zealand, as in Germany, it often seems that some of the institutions of the capitalist system are in process of being destroyed by people who profess and believe themselves to be its most ardent supporters.

But it cannot be pretended that the country has been seriously perturbed by the violation of sound principle in this part of the scheme. Instead of falling, the prices of our securities have actually risen during the last six months. Public opinion has indeed been impressed by the success of the Government in what has been called "the most momentous operation in the field of State finance ever attempted in this country"† by the reduction of the Dominion's interest bill by £570,000, by the lowering of the bank rates, and by the hopes, which have been encouraged, of a general downward revision of interest. By the courage and the enterprise which Mr. Coates has displayed in the handling of this matter the Government has certainly recovered a good deal of the credit that it lost during the heated debates and narrow divisions on the exchange issue.

III. OTTAWA OBLIGATIONS

WHEN Mr. Coates, who was then Minister of Public Works and had been New Zealand's chief delegate at Ottawa, submitted the Ottawa Agreement to the House

* See THE ROUND TABLE, No. 91, June 1933, p. 705.

† *Otago Daily Times*, March 24.

Ottawa Obligations

of Representatives on October 13, he called special attention to the obligation of the Government under Article 8 "to institute an inquiry into the existing protective duties, and, where necessary, to reduce them as speedily as possible to such a level as will place the United Kingdom producer in the position of a domestic competitor." The faithful discharge of this obligation, he declared, was as much in the interest of the Dominion as it was an obligation of honour, since a downward revision of the tariff was "a necessary step towards lower costs of production and lower costs of living." "If we are to export," he added, "we must import—we cannot have one-way trade." The Government had, indeed, been accused of laxity in its interpretation of the words, "as speedily as possible" on the ground that it allowed nearly seven months to elapse between the ratification of the Ottawa Agreement and the appointment of the Commission which is to conduct the inquiry. But the charge is without foundation, for the postponement was made in order to meet the convenience of the representatives of British industry who are to be heard at the inquiry. It was made, moreover, at the express request of the British Government.

Though some Dominion manufacturers naturally regard the inquiry with apprehension, no hostile criticism worth mentioning has been directed either at the personnel of the Commission or its order of reference, which were announced on May 11. The choice of Dr. George Craig, C.M.G., who for ten years has been Comptroller of Customs, for the chairmanship might seem to be an ex-officio appointment, but nobody suggests that, as regards ability and experience combined, any better choice could have been made. The other three members are Professor B. E. Murphy, of Victoria University College Wellington, who is New Zealand's senior Professor of Economics, and neither the least able nor the most academic of the number; Mr. G. A. Pascoe, of Anderson's, Ltd., one of the largest firms of iron and steel founders and importers in the

New Zealand

country, and Mr. J. B. Gow, intimately associated with the dairying industry and local government for many years. Neither in representative character nor in ability could these appointments have been easily bettered. It is, of course, obvious that while the chairman and Professor Murphy represent disinterested and expert knowledge, the other two are representative of the two principal interests concerned, i.e., the secondary and primary industries. As these interests are, however, mutually opposed, there is no fear of their dominating the Commission.

The order of reference, on which it would have been more difficult to go wrong, is also unexceptionable. It reads as follows :—

To inquire into the customs tariff of New Zealand and to recommend for consideration by the Government any alterations therein, having regard to existing trade agreements to which New Zealand is a party, and particularly to the agreement concluded at Ottawa in 1932 between His Majesty's Governments in the United Kingdom and in New Zealand; to the financial, economic and industrial conditions in the Dominion; to the reasonable requirements of local industries which are being conducted in an efficient manner, and are economically justifiable; and to all other relevant considerations.

While the first of these terms of reference is concerned with the whole subject matter of the Government's undertaking under the Ottawa Agreement, the others open the door for the general overhaul to which Mr. Coates referred.

It is only with our protective duties that the British manufacturer is concerned, but, to a country which is dependent upon the tariff for more than half its income from taxation, the revenue aspect of the problem is also of capital importance. Six years have passed since any inquiry of the kind took place, and on the last occasion there was a general increase in the preference to British goods from the 15 per cent. fixed in 1921 to 20 per cent. There was a further increase in 1930, but it was accompanied by a general raising of duties which to some extent neutralised it. These duties were, moreover, raised again

Ottawa Obligations

in 1931. Our tariff quarrel with Canada in 1930, and the stand made by the British delegates at Ottawa, seem at last to have convinced our people that there is such a thing as "prohibitory preference," and that a British manufacturer whose goods are excluded by a tariff barrier has no reason to feel overflowing gratitude for the greater height of the barrier which excludes the goods of his foreign rival. Too often New Zealand's preference for Empire goods has meant little more than a gesture of goodwill, which pleased the people by its patriotism, the local manufacturer by increasing his protection and the Treasury by the additions it brought to its revenue.

One point which distinguishes the present inquiry from normal tariff inquiries in this country is the publicity of the proceedings; and the value of this feature was increased by the announcement of the Commission at its opening meeting on June 7 that interested parties might be represented by counsel or other agents with the right to examine and cross-examine witnesses. A ruling given at the same time, that "the relation of the tariff to the rates of exchange prevailing in New Zealand and in other countries" was covered by the order of reference settled another point of great public interest. Both before and after the increase in the exchange rate it has been strongly criticised on the ground of inconsistency with the spirit, and even with the letter, of the Ottawa Agreement. So far as the letter is concerned, the critics of the Government doubtless went too far. The Dominion, scanning the text to find any mention of the exchange rate, might at the end be able to say with Shylock, "I cannot find it; 'tis not in the bond." But the spirit of a Shylock seems to provide a poor model for the interpretation of a "gentlemen's agreement," under which, as in all other relations between the parties, New Zealand has been treated with great generosity, and into which both parties entered with something higher in view than a merely commercial object. An ex-Minister declared that he was not greatly

New Zealand

impressed by this argument because Australia, which, even before Ottawa, had handicapped British trade in a similar fashion, had nevertheless received the same benefit as New Zealand. But surely the man who receives a benefit from one whom he has previously poked in the eye with a burnt stick is in a less invidious moral position than one who after receiving the benefit selects this method of showing his gratitude. It is, of course, possible that he may mean well, but he obviously renders himself liable to be misunderstood.

But if New Zealand's difficulties may be held to constitute a "bitter constraint and sad occasion dear," over-riding her moral obligations under the Ottawa Agreement, she must be congratulated on the mathematical exactness with which she has calculated her reprisal. "Freely ye have received, freely give." Having received a tariff preference of 15 per cent. on a large part of her exports, New Zealand retaliates with a penalty of 15 per cent. on British goods* by raising the rate of exchange on London from 10 to 25 per cent. The penalty is, moreover, for the present at any rate, a more serious matter than an equivalent interference with the tariff, since it applies to imports of all kinds, whether dutiable or not. The contention of the Government is that in thus taking away with one hand far more than all that it has given or is likely to give with the other, it has done Great Britain no injustice, because the two transactions are distinct and have no relation to one another. What the relations, both moral and economical, between these unrelated matters may be, and how they should be treated, are two of the most interesting of the questions that the Commission has to decide.

* The 15 per cent., of course, affects imported goods from foreign countries as well.

The Restriction Proposals

IV. THE RESTRICTION PROPOSALS

WHILE the recent fall in the price of butter has seriously aggravated the troubles of our dairy farmers, and the hopes based upon the high exchange are still awaiting fulfilment, their anxieties have been further increased by the restriction proposal of the British Government. It was the subject of an urgent question in the House of Representatives on February 21. Australia and New Zealand were asked to reduce their exports of butter to Great Britain by 6 per cent. for twelve months from May 1 on the understanding that Great Britain would reduce her imports of foreign butter by 12 per cent. during the same period. As the price of New Zealand butter in London on February 1, 1932, was 101s. a cwt., and a year later 78s. a cwt., with the prospect of a still further fall, it is clear that the solvency of both the home farmer and the New Zealand farmer is threatened. But while on that account press opinion, which represents for the most part urban opinion, regards the acceptance of the British proposal as inevitable, it has encountered strong opposition from the representatives of the dairy industry.

The attack was opened by the Dairy Produce Board on February 17 with a resolution which declared that the restriction of dairy produce was impossible in New Zealand, and that the only sound policy was to propose free trade between Great Britain and the Dominion. On April 1 Mr. Dynes Fulton, its acting chairman, made a public statement explaining the policy of the Board. If restriction was enforced, he said, "the whole dairy industry would be hamstrung." The annual increase of not less than 10 per cent. which had been maintained for many years would be checked and further improvement would be impossible. The effect of the British proposal

New Zealand

during the next two years was summarised by him as follows :—

	Amount in tons.		Price.	
	1932-33	1933-34	Per cwt.	Total.
Export, if unrestricted ..	120,000	132,000	70s.	£9,240,000
Quota, with 6 per cent. restriction	112,800	112,800	84s.	£9,475,000
Surplus to dispose of, say		20,000		

How was New Zealand to absorb or dispose of this surplus of 20,000 tons? Mr. Fulton had no difficulty in showing that it would be impossible. With a local consumption of 26,000 tons—about 40 lb. a head—New Zealand already leads the world, and even if the present price of 9d. a pound were reduced to 6d., no considerable increase in the consumption could be expected. Externally there was no hope, as Canada and the United States had shut their doors against us by their tariffs, and our trade with the Pacific Islands and the East was trifling. Making the most liberal allowance for any set-off, domestic or foreign, Mr. Fulton estimated that the British proposal would leave our dairy farmers with 13,750 tons of unsaleable butter on their hands. He also suggested that the press messages indicating that British importers were unanimously in favour of the proposal were not in accordance with the facts.

The farmers' fear of the proposed restriction was strongly expressed at a meeting of the Dominion executive of the New Zealand Farmers' Union on April 19. The president, Mr. W. J. Polson, M.P., fully endorsed Mr. Fulton's statement. He admitted that it might be necessary to agree to some form of quota for a few months, but it should only be a temporary expedient. They had agreed that their representative at Ottawa should say that a quota was necessary for the foreigner, but they were not to consent to a quota on any Dominion product. A resolution was

The Restriction Proposals

unanimously carried condemning any support of "the fatal principle of quotas" and urging

that all rural interests should adopt a common platform standing on the Agreement and demanding that it be interpreted in the spirit in which it was intended, namely, offering Britain such tariff adjustments as will secure reciprocal advantages from a continuation of it.

On May 6 by far the ablest, most comprehensive and best balanced contribution to the problem that has yet appeared was made by the Minister of Finance in a 30-page pamphlet entitled "A Butter Quota or a Free Market?" Himself, like the Prime Minister, a farmer, Mr. Coates earnestly appealed to his fellow-farmers to take the long view, to recognise that this was no passing emergency for the dairy industry, and to realise that the quantitative regulation of imports was a policy to which not only the present National Government, but all the British parties appeared to be committed. He called particular attention to a statement by Major Elliot, the Minister of Agriculture, in a speech at Manchester on February 10, that the quota policy was "not a mere expedient to meet a crisis, but had come to stay."

After a lucid survey of the whole position Mr. Coates summed up the case for and against accepting the British proposal. The arguments against accepting were as follows :—

- (1) The quota will involve a reduction of exports to Great Britain; hence, unless other markets are found, restriction of production is threatened.
- (2) It runs counter to the whole accepted policy of New Zealand, which rests on expansion of production from the land.
- (3) The quota would be difficult to apply; it would involve more control and interference with private enterprise.
- (4) Control of exports would lead to control and forward planning in production, and this would raise novel and difficult problems.

The arguments for acceptance were the following :—

- (1) The alternative is ruin. Not merely a price decline, but a

New Zealand

débâcle is the immediate danger. This will enforce less production, so that the above point is an unreal one; we are threatened with less production, quota or no quota.

(2) The raising of price levels, especially for farm produce, is agreed by all to be urgently required; and regulation of supplies is a necessary step to this.

(3) The proposal is generally in line with the efforts that are being made the world over to bring order out of chaos. This spells the doom of *laissez-faire*,* and an increasing measure of control and regulation. These efforts will not cease even though our producers hark back to the days of unregulated competition. . . .

(4) To-day there is a great contrast between the lack of organised control of production in agriculture, and the increasing control in other industries, in commerce and in banking. The contrast can itself be regarded as a substantial reason for the unbalance in the world. If the balance is to be restored, this cannot be brought about by destroying the co-operation in industry and throughout the whole world of commerce, but only by bringing more organisation into agriculture. The quota is in keeping with that requirement.

(5) Although to-day we are free to reject quantitative regulation, this freedom will expire in little over two years' time. It is a short-sighted policy to bang the door against intelligent and reasonable organisation. We may decide to "meet the market," and thereby decline to meet Great Britain. Co-operation is wiser than conflict.

(6) Finally, whether the quota will bring more gain than loss is a question that must depend for its answer on the actual details as they are worked out; it cannot be answered in the abstract. . . . The correct attitude is to get down to details and examine the possibilities of the quota, accepting the fact that conditions have changed, and that new conditions call for new ways of thinking.

In a foreword to his pamphlet Mr. Coates describes his opinions as "set down in a purely tentative and provisional way," and says that, if he has dwelt more fully on the advantages of accepting the restrictions than on the objections, it is because the advantages have been inadequately presented. The force with which he has stated this side of the case has made a great impression; but though his arguments have not been met, they have not changed the tactics of the advocates of a free market. The spokesmen of the Farmers'

* Mr. Coates reprinted, in an appendix, the article entitled "*Laissez-faire Doomed*" from *The Times* of December 8, 1932.

The Restriction Proposals

Union have no alternative policy to that of blank negation, except further tariff changes in favour of Great Britain which are too vague for practical politics. They could not, moreover, provide an adequate remedy.

Meanwhile, as Mr. Forbes informed the World Economic Conference on June 15, the producers of New Zealand disapprove of the limitation of either exports or production. On the contrary, they hope that a removal of barriers and a restoration of purchasing power will enable even larger supplies to be absorbed. And without their consent the British proposal, which was to have operated from May 1, and also required the consent of Australia, has by this time presumably lapsed.

New Zealand.

June 27, 1933.

INDEX, 1932-1933

Volume XXIII

(Titles of Articles are in Italics)

PRINTED BY W. H.
SMITH & SON LTD.,
THE ARDEN PRESS
STAMFORD ST.,
S.E., AND PUB-
LISHED BY MAC-
MILLAN AND CO.,
ST. MARTIN'S ST.,
LONDON, W.C.



AMERICA. See United States

AUSTRALIA

Banking system, 201
Far Eastern problem, 683
Government finance, 197, 420, 423, 910
Labour party future, 677
New South Wales referendum, 670, 907
Ottawa results, 58, 191, 422, 680, 895
Political situation, 430, 676
Premiers' Plan, 197, 911
Restriction of production, 194, 197
Secession movement, 682, 905, 914
South Australian elections, 904
Tariff policy, 191, 422, 895
Unemployment relief, 200
Western Australian elections, 904
Wheat bounty, 424
Wool industry, 425

Australian View of the World Conference, An, 771

BRITISH EMPIRE. See also Ottawa Conference

Commonwealth tribunal, 742
Declaration of economic policy, 739, 779, 783, 850
Empire Marketing Board, 855
Foreign law in the Empire, 362
Imperial preference, 46, 355
League of Nations, and, 496, 720
Privy Council, 746
Restriction of production, 56, 194, 228, 776, 782, 939

CANADA

Budget, 656
Bye-elections, 175, 403
"Co-operative Commonwealth Federation," 408, 654
Far Eastern problem, 662
Liberal party, 653
Monetary problem, 406, 657
Oriental population, 666
Ottawa Conference, 47, 53, 56, 63, 174, 407
Political situation, 402, 652
Public administration, 883
Railways, Royal Commission, 179, 405, 660
Russian trade, 407
South Africa, tariff agreement, 453
United States, relations with, 410, 661, 668
Waterway treaty, 184, 404, 417

Capitalism and Communism, 787

CHINA. See also Far Eastern Crisis

Canada, relations with, 663
Chang Hsueh Liang, 80
Historical background, 65
League of Nations, and, 576
Reactions to Manchurian affair, 568

China after the Loss of Manchuria, 568

Commonwealth Tribunal, A, 742

DISARMAMENT

Aerial bombing, 858
French plan, 20
German equality, 20
Historical background, 1
Naval disarmament, 10

ECONOMIC CRISIS. See also Reparations and War Debts, Tariffs, Trade and Unemployment

British Empire declaration, 739, 779, 783, 850
Capitalism, socialism and communism, 278, 484, 787
Causes of the crisis, 23, 276, 483, 771
Economic nationalism, 18, 273, 738, 870
Gold, 30, 40, 723, 741
Indebtedness, 30, 35, 247, 492, 535, 699, 723
Monetary problem, 34, 39, 268, 723, 732, 772, 803
Place in world problem, 14, 22, 483
Prices, 29, 733
Production, 28, 799
Remedies, 32, 276, 492
Restriction of supply, 776, 782
Russian five years plan, 99
Shipping subsidies, 256, 353, 836
World Economic Conference, 21, 34, 267, 280, 544, 722, 771, 836, 849

EUROPE. See also Disarmament, Germany, and League of Nations

Fascism, 487
Four Power Pact, 858
Hungarian boundary question, 595
Locarno, 7, 494
Nationalism, 717
Peace treaties, 3, 477, 496, 584
Security problem, 5

INDEX

EUROPE (Continued)

- Transylvanian minority problem, 592
- Treaty revision, 493, 584

FAR EASTERN CRISIS. See also China and Japan

- Australian policy, 683
- Canadian relations, 663
- Chinese reactions, 568
- Japanese reactions, 307
- Lytton report, 64, 82, 307
- Manchurian problem, 73, 318, 568
- Washington settlement of 1922, 12

FIVE YEARS PLAN. See U.S.S.R.

Foreign Law in the British Empire, 362

Foundation for Disarmament, The, 1

Fruits of Anarchy, The, 717

Future Government of India, The 322

GANDHI. See India

GERMANY

- Alsace-Lorraine, 588
- Anschluss, 601
- Anti-Semitism, 514, 529
- Colonial question, 602
- Czecho-Slovak boundary, 589
- Disarmament equality, 20
- Eupen and Malmédy, 589
- Hitler, 512, 521
- Locarno, 7, 589
- Nazi revolution, 487, 512, 592, 601, 717
- Polish corridor, 593, 597, 603
- Schleswig-Holstein, 588
- Shipping subsidies, 842
- Treaty revision 584

Glance at Trade and Industry, A, 348

GREAT BRITAIN

- Agriculture, 172, 389, 862
- Budget, 391, 619
- Bye-elections, 170, 173, 395, 632, 863, 865
- Coal industry, 349, 831
- Co-operative societies, 621
- Cotton industry, 354, 826, 832
- Exchange equalisation fund, 630
- Housing, 387, 629, 859
- Indian policy, 165, 325, 356, 549, 855
- Industrial disputes, 172, 358, 832
- Irish dispute, 118, 140, 286
- Iron and steel industry, 352, 629
- Japanese competition, 825, 856
- Labour party position, 166, 398, 632, 863
- Liberal Ministers' resignation, 162, 170
- Liberal party, 396
- Lloyd George, Mr., 396, 864
- Means test, 170, 857
- Monetary policy, 727, 731
- National Government, 163, 169, 394, 865

GREAT BRITAIN (Continued)

- Nationalisation of banking, 167
- Quota system, 56, 194, 228, 389, 624, 862
- Railways, 358, 390
- Russian embargo, 630
- Shipbuilding, 353, 836
- Shipping subsidies, 836
- Tariff policy, 162, 393, 623, 854
- Trade, 349, 384, 823
- Trade agreements, 62, 623
- Transport problem, 391, 621, 628, 859
- Unemployment, 171, 348, 384, 631, 823, 853, 856
- United States, relations with, 9, 245, 627
- War debts, 245, 724, 854

Honeymoon of the New Deal, The, 757

IMPERIAL CONFERENCE. See Ottawa Conference

IMPERIAL PREFERENCE. See British Empire and Ottawa Conference

INDIA

- British Government policy, 165, 549, 855
- Burma, 161
- Civil disobedience, 564, 812
- Communal problem, 142, 156, 161, 323, 327, 560
- Depressed classes, 152, 327, 808, 817
- Gandhi's fasts, 152, 567, 808
- Joint Select Committee, 549, 820
- Lancashire, relations with, 356, 826
- Ottawa agreement, 161
- Poona Pact, 155, 817
- Princes, attitude of, 326, 333
- Round Table Conferences, 322
- Safeguards, 325, 328
- Terrorism, 159
- White Paper, 548, 807

India: Mr. Gandhi Again, 807

India: The Reaction to the Communal Award, 144

Ireland: The Tariff War, 118

IRISH FREE STATE

- Agriculture, 120, 871, 873
- American loan, 641, 876
- Army Comrades Association, 125, 292, 645, 879
- Budget, 866
- Bye-elections, 139
- Centre party, 122, 294, 297, 634, 875
- Church, attitude of the, 130, 881
- Communism, 644, 880
- Cosgrave, see Cumann na nGaedheal
- Cumann na nGaedheal, policy, 128, 297, 875
- De Valera and a republic, 132, 877
- Economy measures, 640
- General election, 295

INDEX

IRISH FREE STATE (Continued)

- Governor-General, 134, 291
- Industrial Credit Bill, 873
- I.R.A., 124, 292, 298, 643, 872, 878
- Labour party, 126, 293, 634
- Land annuities, 290, 637, 871
- MacDermot, see Centre party
- Negotiations with U.K. Government, 133, 136, 138, 286
- Oath Bill, 636
- O'Duffy, General, 304, 642
- Ottawa Conference, 131
- Population increase, 646
- Tariff war with U.K., 118, 140, 286, 638, 648, 866
- Trade, 118, 288, 647, 869
- Transport problem, 649
- Treaty of 1921, 133, 138, 305
- Wage disputes, 294, 359, 648
- World Economic Conference, 874

JAPAN. See also Far Eastern Crisis

- Canada, relations with, 662
- Commercial competition, 825
- League of Nations, and, 307
- Manchurian problem, 73
- Shipping subsidies, 841

Japan and the League, 307

LEAGUE OF NATIONS. See also Disarmament, Europe, Far Eastern Crisis, and World Economic Conference

- British Commonwealth and, 496, 720
- China and, 576
- De Valera's speech, 141
- Disarmament Conference, 1, 511
- Future of the League, 16, 490, 719
- Japan and, 307
- Origins, 480
- Protocol of 1924, 7
- Sanctions, 493
- Treaty revision, 584
- United States and, 272, 481, 511

Lytton Report, The, 64

MANCHURIA. See Far Eastern Crisis

NATIVE POLICY. See South Africa

Nazi Germany, 512

NEW ZEALAND

- Budget, 241, 464, 474, 927
- Economic situation, 697
- Exchange problem, 233, 703, 925
- Industrial disputes, 237
- Land problem, 233
- Loan conversion, 709, 931
- National expenditure commission, 467
- Ottawa Conference, 58, 227, 243, 459, 713, 934
- Political leaders, 706
- Restriction schemes, 228, 702, 939
- Shipping problem, 844
- Trade, 242, 465, 925
- Unemployment, 239, 698
- Wheat, 236

New Zealand in the Depression, 697

Opportunity at Washington, The, 270

Ottawa and the Trade Agreements, 44

OTTAWA CONFERENCE. See also British Empire

- Australia and, 191, 422, 895
- Canada and, 174
- India and, 161
- Irish Free State and, 131
- Narrative, 46
- New Zealand and, 227, 243, 459, 713, 934
- Results, 44, 54, 271, 854
- South Africa and, 444
- Southern Rhodesia and, 223

Policy for the Pound, A, 722

Poor White in South Africa, The, 605

President Elect, The, 90

President Roosevelt's Program for Recovery, 497

PROTECTION. See Tariffs

Reception of the Indian White Paper, The, 548

Recoil from Freedom, The, 477

REPARATIONS AND WAR DEBTS

- American attitude, 246, 509
- British policy, 263, 724
- Place in world problem, 13, 38, 541
- War debt figures, 258
- Washington conversations, 245, 270, 722

ROUND TABLE CONFERENCE. See India

RUSSIA. See U.S.S.R.

Russia and the Five Years Plan, 99

Shipping Subsidies, 836

SOUTH AFRICA

- Budget, 920
- Bye-elections, 440
- Coalition, 441, 685, 915, 923
- Gold standard abandonment, 442, 453, 919
- Native question, 214, 690
- Ottawa Conference, 444
- Political situation, 438, 685, 915
- Poor White problem, 605
- South West Africa mandate, 209

SOUTHERN RHODESIA

- Balance of payments, 226
- Economic position, 219
- Native question, 214
- Ottawa Conference, 223
- Party politics, 224
- Population, 212

SOUTH WEST AFRICA

- Constitutional position, 209
- Public finance, 207
- Tariffs, 210

INDEX

TARIFFS AND TRADE RESTRICTIONS. See also Economic Crisis, and Ottawa Conference

Australia, 422, 895
British trade agreements, 623
Great Britain, 162, 389, 393
Irish Free State, 118, 140
New Zealand, 934
South Africa, 210
United States, 255
World Economic Conference, 25, 39, 267, 775, 852

Task of the World Economic Conference, The, 21

TRADE, INTERNATIONAL. See also Economic Crisis and Ottawa Conference

Between currency groups, 736
British trade agreements, 623
Decline of, 29
Irish Free State, 118, 647, 869
New Zealand, 242, 465, 925
Southern Rhodesia, 226
United Kingdom, 349
United States, 257, 791

Trade Prospects, 823

Treaty Revision, 584

UNEMPLOYMENT

Australia, 200
Great Britain, 171, 348, 384, 631, 823
New Zealand, 239, 698
United States, 247, 345, 497
World total, 30

UNITED STATES

Banking crisis, 498, 759
Budget problem, 338, 502, 760
Canada, relations with, 410, 661, 668
Capitalist system, 789
Economic condition, 247, 335, 497, 536, 757, 790
Farm relief, 340, 503, 728
Foreign, 511

UNITED STATES (Continued)

Gold standard, 507
Hoover and Roosevelt, 95, 338
"Lame duck" session, 337
League of Nations, 4, 9, 272, 481
Monetary policy, 345, 500, 504, 731, 761
National Industrial Recovery Act, 728, 760
Presidential election, 90
Prohibition repeal, 96, 770
Reparations and war debts, 38, 97, 246, 509
Roosevelt, President, 90, 252, 497
Shipping subsidies, 842
Stimson doctrine, 11, 495
"Technocracy," 342
Trade, international, 257, 791
United Kingdom, relations with, 10, 245, 270
Washington conversations, 245, 270, 627, 722
Waterway treaty with Canada, 184, 404, 417

United States : the New Deal, The, 335

U.S.S.R.

Agricultural collectivisation, 113
British embargo, 630
Canadian trade, 407
Communism, 484, 787
Economic situation, 788
Five years plan, 99
Russian scenes, 100

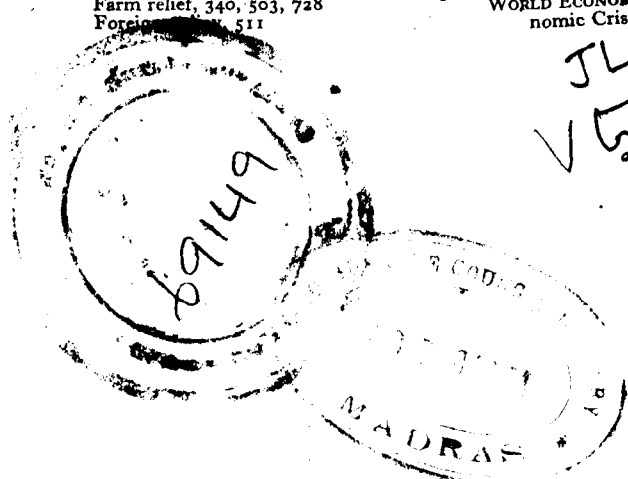
Victory of Mr. de Valera, The, 286

WAR DEBTS. See Reparations

War Debts and World Recovery, 245

World Debts and the Economic Conference, 535

WORLD ECONOMIC CONFERENCE. See Economic Crisis



JL
V5bm N32
N33.23