

THE ROUND TABLE

• A QUARTERLY REVIEW OF THE POLITICS OF
• THE BRITISH COMMONWEALTH

Volume XXIV

DECEMBER 1933 TO SEPTEMBER 1934

London : MACMILLAN & CO., LTD.

JL
V56m N33
N34.214



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THE BRITISH COMMONWEALTH

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N° 93. DECEMBER 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).

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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 FUTURE OF THE LEAGUE?

I. THE BROAD ALTERNATIVES

SINCE the last issue of THE ROUND TABLE appeared, reaction from the ideals which have prevailed since 1919 has gone yet further. The United States is more pre-occupied than ever with the gigantic experiment in autarchic recovery upon which she embarked last March, and to-day she is an even more doubtful and disturbing factor in world economics than she was three months ago. Germany, in somewhat hasty protest against alleged evasions and delay in giving her that "equality" which she was promised in December 1932, has withdrawn from the Disarmament Conference and tendered her resignation from the League of Nations. The tension between Japan and Russia in the Far East seems to be increasing, and there are rumours that the military party in Japan want to evict Russia from Vladivostok and the Eastern Province of Siberia, while her capacity for fighting is low.

The issue, which has now been openly joined, is not whether or not we shall be drawn into an early world war, for that, in any event, is unlikely. It is rather whether further consideration will induce the nations to return to the ideals and methods that underlie the League of Nations and the Kellog Pact, or whether, ignoring or even welcoming the consequences of a return to anarchy, the nations will drive on towards the destruction of the League. There are two ways in which the affairs of the world can be conducted. One way is the anarchic method that has prevailed since the collapse of the Roman Empire—a method which provided no effective international organi-

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sation, and which left every nation to rely upon its own armaments for its security, and for the protection or the enforcement of its rights. This system, or rather lack of system, leads inevitably, as the history of the last few hundred years abundantly proves, to competitive armaments and alliances, to the diplomacy of the mailed fist, and to constant wars, in which victory and prestige go to the strong, and the weak are pressed to the wall. If the world slips back into its old ways the League will disappear, or become merely a piece of useful machinery for dealing with international questions of a relatively non-controversial kind ; two great armed camps will appear, like the Triple Alliance and the Triple Entente before 1914, though now they would embrace the whole world ; and after a period of uneasy peace, due to the reluctance of either side to put its claims to the doubtful arbitrament of force, a world war will break out because a knave or a fool or an accident has set in motion the time table of military mobilisation, on obedience to which every nation would again believe its security to depend.

The other way is that the nations, recognising, as they did in 1919, that in a world now so shrunken in time and space anarchy can only spell ruin for all, should make up their minds to deal with international problems collectively by an appeal to reason and justice, applied through conference, arbitration or a world court, that they should renounce war as an instrument of national policy, reduce their armaments to a defensive level, and enter into engagements to take collective action against any nation which lawlessly resorts to war. This is the way of the Covenant of the League of Nations, the Kellogg Pact, the Four Power and Nine Power treaties relating to the Far East, and the various treaties of Locarno. As has already been pointed out by THE ROUND TABLE, the system created by these treaties is itself very inadequate for the purpose of maintaining an assured peace, and must either fall into decay or be developed into something stronger and more organic, yet it is

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only along this way that civilisation can make progress, and a fresh relapse into a new Dark Age be prevented. On a short view victory in war and domination over others may look like national greatness, but the true triumphs of civilised man are gained, not in the bloody and destructive duels of anarchy, but by his conquests over nature, by the development of ordered prosperity, by the progressive improvement of government, and by the advancement of literature and the arts. History will certainly award the palm to those nations whose efforts in this age contribute most to the creation of a world commonwealth based on freedom, law and justice, rather than to those which show themselves the strongest in an anarchic *melée*.

The question whether Europe, and indeed the world, in the next decade or so is to follow the first or the second of these two ways has been inescapably raised by the two chief international events of 1933, the withdrawal of Japan and Germany from the League of Nations. There is no doubt that sooner or later, through wisdom or bitter experience, the nations will learn the lesson and realise that continued anarchy can only end in poverty, weakness and war for all. The test for contemporary statesmanship to-day is to re-establish the international system which has been reared under such difficult circumstances in the last ten years, in a more stable and universal form, thus saving the world from the necessity of going through the lessons and sufferings of another period of anarchy.

II. THE IMMEDIATE OBJECTIVE

OUR immediate objective must be to bring Japan and Germany back into the League, and to induce all the nations of the world to enter into a universal disarmament treaty with provision for international supervision and for strengthening the international guarantees of security against aggression.

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So far as Germany is concerned, the conditions of success are threefold. In the first place it is necessary to bring to an end without further delay the situation in which to-day, fifteen years after the armistice, Germany is legally disarmed though her neighbours are legally armed to the teeth. It is no answer to point to the excesses of the National Socialist régime. It is impossible to say in what degree various factors have contributed to the development of that régime, but the imposition of excessive reparations and the denial of equality were certainly among them. It was in great measure by the exploitation of a sense of injustice and inferiority that the Nazis succeeded in creating their dictatorship. It is now quite certain that there will be neither a disarmament treaty, nor a restoration of the League, nor appeasement in Europe unless Germany is given defensive security within a brief and specific period. It was one of the supreme merits of the diplomacy of Castlereagh and Wellington that they did not make the mistake of trying to "repress" France after the Napoleonic wars. And the best way to help to restore a more liberal régime in Germany is to remove the legitimate grievances by the exploitation of which the Nazis have so largely risen to power. Either Germany's neighbours within a short time must bring their armaments down, or Germany's will come up. Equality is going to come anyway. It is far better that it should come by agreement than by illegal rearmament, which is the alternative. The way of disarmament is clearly far the best, for it is cheaper and safer for everybody. But if France and her associates will not accept this, then let there at least be agreement on a limited degree of rearmament, for it is probably still possible to obtain a general treaty for the limitation of armaments, coupled with an effective system of international inspection and the restoration of the League. But if this opportunity, like so many others, is lost, the result will inevitably be rearmament, but rearmament without limits, leading straight to competition, alliances and the divi-

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• sion of Europe and the world once more into two armed camps.

• But there is a second condition no less necessary. Peace and justice in society do not depend only on reason, equality and goodwill. They depend also upon the policeman who deals with law-breakers and makes it unnecessary for ordinary citizens to go about armed, or to take the law into their own hands. It is exactly the same in international affairs. Unless there is real confidence that violators of treaties and laws, and aggressors, will be brought to account, the collective system will fall into disuse as being practically useless from the standpoint of giving security; there will be neither reduction nor limitation of armaments, and nations will seek in alliances or in the strengthening of their own resources the security that they can find in no other way. The demand for security is the more insistent at the present moment in view of the alarm which recent manifestations of the Nazi spirit have produced beyond the borders of Germany. We pronounce no judgment on the Nazi movement generally, for it is difficult to get at all the facts, and while there has been much painful brutality there is clearly much that is healthy and self-respecting about the popular aspects of the Nazi renaissance. But the movement is headed by men who are new to international responsibilities, who preach a crude doctrine of racial ascendancy, who seem to advocate a return to the competitive and anarchic internationalism of the pre-war age, and who are deeply suspect of consciously or unconsciously reviving the old Prussianism in a new and modern form.

If there is to be an early establishment of "equality," and international inspection of armaments, there must also be an agreement among all the signatories of the disarmament treaties to take common action against any nation which arms in defiance of the treaties. For any such rearmament would mean war. The agreement therefore might well include an understanding to put into operation against any nation which is declared by the international

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inspectorate to be preparing for war, the system of economic boycott provided for in Article 16 of the Covenant of the League. Such a system could, however, only be put into force if all the nations, including the United States and Russia, were to support it. If it were so put into force, it would certainly be effective.

In the third place, there is the question of revision of the peace treaties—perhaps the most difficult of all. It is difficult, not only because revision of any political boundaries, like the lowering of tariffs behind which vested interests have grown up, raises vehement fears and passions, but also because it is by no means certain what Germany means by revision. If she means the rectification of minor injustices in the peace treaties, while leaving the principle of national self-determination intact, revision should not be difficult as tension lessens. But if what she demands amounts to a reversal of the verdict of the war, as some seem to think it does, no peaceful revision will be possible. In any case revision can only begin after both “equality” and “security” have been attained.

III. A PLAN IN CASE OF FAILURE

WE earnestly trust that the negotiations which are to be re-opened after the German referendum will lead to agreement. It may be that the explosion will prove to have cleared the air, that after considering the consequences of a failure to agree and of a return to the old anarchy, the League system may be re-established in a stronger, a more universal and a more intelligently understood form than in the past.

Unfortunately, however, nobody can feel certain that the old League will be restored, with Germany and Japan once more members, or that an armaments treaty with adequate guarantees for fulfilment will be effected and a beginning made of revision by pacific means, as a result of the

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negotiations of the next few months. For that result depends not upon the action of any one Power but on all round agreement. On the one hand, Germany and Japan may refuse to return to the orbit of the collective international system. They may prefer to recover their full liberty of action and try to create a system of alliances with other dissatisfied Powers, considering that it will give them greater security and may enable them eventually by pressure, and threats, or if need be by force, to secure extensive modifications in the treaties by which they are bound, both in Europe and in the Far East. Or, on the other hand, the rest of the world may be unwilling to give those universal guarantees to take collective action against a treaty breaker, without which a disarmament treaty and pacific revision of the peace treaties would probably be impossible. In the event of a failure to reconstruct the League, what should be the policy of Great Britain and the British Commonwealth ?

It cannot be isolation. The English Channel is too narrow and the Commonwealth is too widely distributed all over the world for Great Britain to be able to keep for long out of any general conflagration. And, in practice, if Great Britain were drawn in, it would be almost impossible for the Dominions to keep out. A positive policy is more likely to produce peace than a negative policy. Great Britain is far less secure in these days of competitive nationalism and air force than she was in the pre-war period when Europe and the United States were almost wholly self-centred, and Great Britain, in alliance with Japan, was, in fact, the only great world Power.

Nor can Great Britain form part of any European balance of power. Such action would, in the first place, break up the British Commonwealth, for the Dominions have repeatedly made it clear, from the time of their refusal to sign the Anglo-American Guarantee to France in 1919, that they will not undertake any commitment in the European

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maelström. In the second place, such action would put it in the power of any European State which chose to precipitate a conflict to drag Great Britain into a European war, whatever the purposes and motives behind it. Finally, the formation of such a European balance, with Great Britain as one of its elements, would not succeed in preserving peace permanently, as the experience of the pre-war Entente Cordiale abundantly proved.

What, then, is the right course for Great Britain and the Dominions to adopt ? It only begins to become clear when we remember that up to the present, at any rate, the League has never succeeded in solving the problem of "security." It has been an instrument for international understanding and reconciliation and diplomacy, but practically all its members have made their own arrangements for security. The British Commonwealth has relied upon its navy. So has Japan. The United States has relied upon its navy and its isolation. Most of the rest of America has relied upon its isolation. Italy has relied upon its army. France, less favourably situated, and deprived of the proposed Anglo-American Treaty of Guarantee, has relied upon something more than its army and navy. It has, in conjunction with Poland and the Little Entente, formed a system of military alliances which has ensured the security of all these Powers and most of the old neutral small Powers of Europe, by making impossible any attempt to alter the peace settlements by the use of force on the part of the disarmed Powers.

"Security," therefore, has depended, in fact, very little on the security articles of the Covenant, e.g., Articles 10 and 16, but mainly on the armaments of the several Powers and on regional military and naval arrangements in Europe and the Pacific. The present crisis is mainly caused by the impending termination of the French security system through the belated concession in principle of "equality" to Germany in the declaration of December 1932.

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• In all probability the old French security system will be followed by a new security system within Europe itself, based not on the preponderance of one group, but on a balance between two groups, France being the centre of one and Germany of the other. The process of substituting this balance for the old preponderance will be a difficult and a dangerous one, but if it can be successfully effected there is no reason why it should not eventually be brought, as a regional system, within the League. "Equality" really means balance, and there is no reason why a Europe, in which security rests on balance, should not form an active and loyal part of the League. It is the League idea which alone can convert the old balance of power, meaning the division of Europe and the world into two highly armed camps bitterly suspicious of one another, relying solely on force and with no common institutions, into a balance of relatively friendly, lightly armed Powers, relying more and more, as unity and confidence grow, on the collective settlement of international disputes, on the appeasement of injustices and animosities, and on collective action against aggression.

But the probability of restoring the League as the unifying factor in a Europe relying for the present mainly on "equality" and balance for its security, and the hope of preventing the preponderance of the French system giving place to the preponderance of a German system, which would then proceed to tear up the treaties and change the frontiers of eastern Europe by force, or the threat of force, would be immensely increased if the "oceanic" Powers of the League-Kellogg system could form a security arrangement among themselves, uncommitted to the internal politics of Europe, yet, under the famous Stimson declaration of August 1932, no longer neutral to the possibilities of war but actively concerned to prevent it.

The formation of such an oceanic security arrangement within the League-Kellogg system is much more possible than at first might appear. If the major Powers of

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Eur-Asia finally break away not only from free institutions but also from collectivism in international affairs, the problem of security against possible militarist action will once more become an important consideration in the national counsels of all the liberal and democratic peoples. By standing together in a kind of oceanic system for security they would themselves be in a position of almost complete invulnerability. Its members would be the nations of the British Commonwealth, of North and South America, the Powers which control non-Mediterranean Africa, France, Belgium, Spain and probably Scandinavia. It would cover two-thirds of the earth's surface. Nearly all the self-governing peoples within it are democracies and believers in free institutions. It would have immense natural security. Taking a line from Canada or Panama through Hawaii, Singapore, Aden, Suez, Malta, Gibraltar, and back to England, it would control practically all the naval bases and great international canals. It would have, too, immense financial and economic resources, for the greatest aggregation of manufacturing plant and mines lies around the basin of the North Atlantic, and the rest of the area is largely agricultural. It might well develop an intelligent system of mutually adjusted tariffs between its members which would leave room for a large measure of international exchange.

Let us then consider certain points which present difficulties. Would the United States consent to enter into such an oceanic system ? For without her co-operation it could not be effectively created. At this moment she would not do so ; but events are steadily driving her in this direction. On the one hand the military and naval expansion of Japan is forcing her to consider the problem of her own security, and to concentrate her naval resources in the Pacific, and unless she is going to have a navy larger than both the British and the Japanese navies combined, a naval understanding between Great Britain and the United States based on the Kellogg Pact, the Stimson

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declaration and the Nine and Four Power Pacific treaties, wholly defensive in character and involving no commitments in Europe, might give both sides the security and economy they desire. Further, it seems likely that the present American experiment in economic autarchy will break down. The only way in which the adjustment between supply and demand could be brought about inside the boundaries of the United States so as to eliminate unemployment would be the public control of land, farming, manufacture and distribution on communist or fascist lines, which would deal with the rest of the world only through import and export boards. Such discipline the American people, the most individualist in the world, would never stand. The only alternative is that, having reached her present state of economic development, the United States, like Great Britain a century ago, should abandon her prohibitive tariffs, and her debtor and isolationist traditions, and use her unparalleled facilities for mass production to supply the 2,000,000,000 people in the rest of the world with the cheap and well made products they so badly need, taking some of their raw materials, tropical foodstuffs and other commodities, or lending them capital for development, in exchange, and absorbing nearly all her agricultural production within her own borders. That is what may well happen, and if it happens the United States will become as interested in world politics and as concerned with the maintenance of peace, if only for commercial reasons, as is Great Britain to-day.

What of France ? The relationship of an oceanic security system with France would not differ from that with other members. It would be purely consultative, as proposed by Secretary Stimson. It would have nothing to do with the relations of France with central or eastern Europe. As already explained, the problem of "security" for France, which has dominated international discussions ever since the war, is now, in any case, going to change its

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character, and become based on balance instead of preponderance. Further, the Locarno Treaty of Guarantee clearly requires revision. The withdrawal of Germany from the League must alter its character, and the guarantee of the demilitarisation of the Rhineland must obviously be dropped as being inconsistent with "equality" and no longer applicable. The security which the oceanic system would give to France would be the far greater probability of economic sanctions under Article 16 of the Covenant being put into effect on her behalf in case of unprovoked aggression. And Great Britain, mainly in the interest of her own safety, might renew to Belgium the guarantee against invasion and undertake to intervene in the event of any attempt to alter her western frontiers as defined at Versailles, and voluntarily accepted by Germany before Locarno. In return, we should ourselves require co-operation in the event of the invasion of Great Britain by sea or air.

What of Italy? It is uncertain what the policy of Italy, under the conditions envisaged, would be. On the one hand, she has abandoned democracy, is expansionist in spirit, and does not believe very firmly in internationalism as the necessary balance to nationalism. On the other hand, she is doubtful of Germany (partly because of the Brenner Pass), is fearful of a new scheme for a German *Mittel-Europa*, and is anxious to work with Great Britain in the Mediterranean (partly for naval reasons), and with France too, if certain outstanding feuds can be adjusted. If she adheres to the collective system, she might also enter the oceanic system.

Finally, what of Germany herself, Russia and Japan? The assumption of this part of the article, of course, is that Germany has definitely rejected, at any rate for the time being, the League and the collective system, has set about regaining armaments and equality, and begun to look for allies. If she or either of these other Powers should change their minds and be willing to accept the principles and

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obligations of the League, they should certainly be welcomed.

IV. THE ESSENCE OF THE COLLECTIVE SYSTEM

THE central issue before mankind is that of collectivism versus anarchy in international affairs—both political and economic. Sooner or later the nations will learn the lesson, and will realise that not only is anarchy fatal to themselves, but even a loose association, like the League of Nations, and still more the Kellogg Pact, is an inadequate bulwark against poverty and war. At the moment, unhappily, many of them are not, for one reason or another, willing to listen. Some are not willing even to join any form of League. None, or practically none, are yet ready to live up to the security provisions of the Covenant, such as Articles 10 and 16, on a world-wide scale.

It is necessary, therefore, to deal with the world as we find it, and realise the best that is practically attainable. There is no doubt that the prospects of the League of Nations, almost irretrievably weakened by the abstention of the United States and Russia at the beginning, have been still further damaged by the withdrawal of Japan and Germany. To some extent the withdrawal of Germany has been due to her excessive tendency to identify the League with the victorious Allies, which made it seem like an instrument for giving effect to a stern peace. If that aspect of the League can be remedied—and the real remedy is the conceding to Germany without delay of her full right of equality—the League itself may be re-established as the instrument of European, if not of world unity.

But it is clear that the road is likely to be long and narrow. If the League is to become the real centre of gravity in the world it will only be because it once more includes Germany and Japan and secures also a close association with the United States.

ROOSEVELT'S ROAD TO RECOVERY

PRESIDENT ROOSEVELT'S recovery program has encountered difficulties. They are not serious yet, because they are not wholly evident, but they may be serious before this article is read. It is time to take stock, to see how far along the way we have gone, and try to estimate what the near future has in store. From one point of view the events of the past do not matter much ; we are concerned with what lies ahead. Yet to a large extent these past occurrences will shape the character of controversy and action : and in another sense they tend to disclose the mind of the President, who, in spite of individual criticism and group complaint, still wields, with the approbation of an overwhelming majority of people, such power as no Chief Executive of the United States ever wielded before except in time of war. It is due him, therefore, and pertinent to our inquiry, to remind ourselves that on March fourth, when Mr. Roosevelt took office, there were thirteen and a half million industrial workers out of employment. Thirty million farm people, overmortgaged and overtaxed, were selling their produce for considerably less than the bare cost of production. On the day after his inauguration circumstances forced the President to declare every bank in the United States to be closed. Some forty-four thousand millions of dollars of deposits were thereby locked up—ten per cent. of which will never appear again—and a hundred and twenty million people were flat on their backs. It was nothing short of a national catastrophe, the greatest financial catastrophe in history. To that crisis the President brought courage when there was none,

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- faith instead of despair, and a gallant eagerness to seize responsibility with both hands. Congress voted him all
- the powers which he requested, adding a few of their own invention for good measure, gave him control of vast Federal credits with which to carry out his plans, provided the sinews of economic recovery and set up the framework of social reconstruction. Having done all these things with great dispatch they adjourned and left the President to carry on.

The problem of unemployment was the one to which the Administration, clothed with power, first addressed itself. Three hundred thousand young men were enrolled in the Civilian Conservation Corps at a moderate daily wage. They are engaged in clearing old forests and planting new ones, which in itself is a useful thing to do. The greater part of their pay is sent directly to their families and doubtless makes all the difference between existence and starvation in three hundred thousand homes. Congress also appropriated \$500,000,000 for direct relief, and these dollars pass from the Federal Treasury into the hands of State officials who administer their quota according to need. In the months, March to September, some two million workers were re-employed in industry through the restoration of confidence and through the increased activity which arose partly out of speculation and partly out of replacement demand. During those same months, and more especially in the months of August and September, about a million seven hundred thousand others found work through the voluntary agreement of companies to reduce hours of labor and take more men and women onto their payrolls. Finally, in order further to hasten re-employment, the President was given authority to spend up to \$3,300,000,000 on public works, the mandate being that these projects should be of public importance, sound in conception, and self-liquidating if possible. Thus in the main the problem of unemployment has been attacked by the expenditure of government funds on a large scale.

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The staggering burden of Federal debt, State, county and municipal debt, corporate and individual debt, secured and unsecured, presented the second most acute problem. The Administration, for good if not for valid reasons, but with deplorable debonair, proceeded to go off the gold standard. That action had the collateral effect of reducing the burden of all debts contracted in terms of gold, including those of the United States Government, by as much as the new unsecured dollar might shrink in terms of gold. Today so-called "gold obligations," estimated to amount to some \$75,000,000,000, have diminished in gold value by about thirty-five per cent., and that's that—unless and until the Supreme Court of the United States decides otherwise. Overburdened railroads are seeking friendly reorganizations under new legislation, overextended individuals are making legal compositions with a majority of their creditors, to the terms of which the minority must accede, and more than twenty thousand overloaded homes in the country and in the city have been saved from foreclosure by the intervention and financial assistance of the government. But the burden of debt on real estate, except as to the rate of interest, has not been permanently lightened by what is in effect a moratorium. Nor could the case have been otherwise; for savings bank and life insurance company portfolios are full of first mortgages and no scheme to reduce their dollar value is deemed tolerable. The only alternative thereto, in the government's view, is to hope for a rise in commodity prices and to assist it, thereby permitting the debtor in general and the agricultural debtor in particular to pay off his dollar obligations with the proceeds of less goods and services. Obviously if wheat can be advanced from fifty cents a bushel to a dollar, the farmer can pay a dollar on principal or interest account with one bushel of wheat instead of two. And that result, in rough example, is what the Administration is aiming toward today.

At this juncture it should be clearly stated that no one in the United States in full possession of his senses minim-

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izes the gravity of the farm mortgage situation. There are many who question the power to raise prices by the means employed up to now; there are others who feel that the farmer overbought land in boom times on a thin capital margin, and that he has no greater moral call on relief than the speculator in stocks; there are still others who deplore the premium which the Administration's program holds out to debtors, and the discount on thrift and investment which it implies. But against these intellectual and moral considerations stand the threadbare facts: thirty million people are in an appalling financial state. Orthodox economists, when they treat of agriculture, devote a few arid chapters to its place in society and secretly hope to high heaven that the farmer will be able to extricate himself again, as he sometimes has in the past, through the providential intervention of a crop shortage in Russia or a cattle plague in the Argentine. The President, on the other hand, seems to be profoundly concerned about the present plight of the farmer, and is vigorously employing a number of unorthodox measures to improve his condition. The bias of this Administration is toward agriculture—perhaps it is merely the correction of a traditional bias among American statesmen and economists toward industry. At all events, that is one characteristic of the New Deal. General Hugh Johnson, administrator of the National Industrial Recovery Act, has been vice-president, general counsel and assistant general manager of the Moline Plow Works since 1929. Henry Morgenthau, Jr., a close advisor of the President on financial matters, and one of the small group present on October 30 when Mr. Roosevelt decided to enter the world market for gold—Mr. Morgenthau has published the *American Agriculturist* for the past eleven years. And Professor Warren, whose monetary theories seem to be in the ascendancy today in the White House, has been head of the Department of Agricultural Economics and Farm Management at Cornell University since 1920.

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II

ON October 22, in a now famous speech, President Roosevelt stated his aims. "Ever since last March the definite policy of the government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed. It has been to make possible the payment of public and private debts more nearly at the price levels at which they were incurred. It has been gradually to restore a balance in the price structure so that farmers may exchange their products for the products of industry on a fairer exchange basis. It has been and is also the purpose to prevent prices from rising beyond the point necessary to attain these ends. The permanent welfare and security of every class of our people ultimately depends upon our attainment of these purposes."

If the unemployment situation called for the expenditure of a million dollars a day on the Civilian Conservation Corps, those fresh dollars also served to increase purchasing power and to put up prices. So did the allocation of five hundred million dollars for direct relief; so did the re-employment of 3,600,000 industrial workers. The gradual expenditure of \$3,300,000,000 in public works (and of this amount \$2,100,000,000 has already been allocated) should mean large scale buying in many branches of industry; and by the speedy liquidation of banks which still remain closed, a thousand million dollars not now available to depositors can be put in their hands before January first. Cotton farmers have been subsidized to cut their acreage by ten per cent. in the hope that a crop reduction may lift the price of cotton; millions of young pigs have been slaughtered and bought with government funds for relief purposes; corn acreage and wheat acreage

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have been reduced by contract with the government—all with the object of raising prices. Likewise those decisions of the President which have had direct foreign repercussions—four out of five of them seem to bear toward the same national objective. If going off the gold standard in April was deemed necessary in order to forestall another run on the banks, it also tended to put up prices. The declaration—the manifesto—which Mr. Roosevelt threw down to the World Economic Conference on July third destroyed prospects of an exchange stabilization which might have prevented commodities from going up. The invitation to Litvinoff to visit Washington was actuated, in part, by the hope of finding Russian buyers for farm machinery and cotton. And the most recent purchases of gold in European markets by the United States Government have been openly undertaken for the purpose of devaluing the dollar as expressed in goods. The fifth decision, involving Mr. Norman Davis's withdrawal from active disarmament negotiations, seems to have little bearing unless, as the cynic suggests, the breakdown of negotiations toward peace is the surest of all ways—in the end—to send prices sky high.

Speculative enthusiasm, aided by some purchasing to replenish stocks, carried the American commodity markets to high figures in July, but from these levels, in spite of the government's aims, and in spite of all the indirect aids exerted by Washington, the average drifted slowly downward until in dollars it was only twenty-five per cent. higher than when Roosevelt began his Herculean labors, while in gold dollars it was substantially lower. With wheat selling at sixty-five cents a bushel in mid-October as against a dollar and a quarter in July, with a sellers' strike of North Dakota farmers well organized and spreading to the nearby States, with open revolt in that section of the country against the National Recovery Administration, the government stepped into the wheat market and bought heavily over a period of days. Wheat rose with these purchases; it declined when they ceased. Apparently a further stimulant was needed.

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At all events on that night of October 22 the President addressed the nation over the radio, reviewing the record of the Administration and added to what has been quoted above three positive declarations :

I do not hesitate to say, in the simplest, clearest language of which I am capable, that, although the prices of many products of the farm have gone up and although many farm families are better off than they were last year, I am not satisfied either with the amount or the extent of the rise, and that it is definitely a part of our policy to increase the rise and to extend it to those products which have as yet felt no benefit. If we cannot do this one way we will do it another. Do it we will.

As a further effective means to this end, I am going to establish a government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market. My aim in taking this step is to establish and maintain continuous control. This is a policy and not an expedient. It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move toward a managed currency.

I would not know, and no one else could tell, just what the permanent valuation of the dollar will be. To guess at a permanent gold valuation now would certainly require later changes caused by later facts. When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I said that in my message to the American delegation in London last July. And I say it now once more.

These utterances took the financial community by surprise. "Sound money" men were bewildered by the reference to a managed currency; they questioned the extent to which the purchase of newly mined American gold could raise commodity price levels; they looked with abhorrence at the idea of competitive depreciation of the currencies as the result of a competitive race for gold; and they read, in unmistakable terms, that the President, if need be, would resort to the printing press in order to

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accomplish his end. "If we cannot do this one way we will do it another. Do it we will."

The more precise reasons why financiers were surprised to the point of being shocked were these :

First : They had recent reason to think that Mr. Roosevelt had decided to follow a conservative course in monetary matters. A few days prior to October 15 the Secretary of the Treasury had offered approximately \$1,900,000,000 principal amount of new ten to twelve year government bonds to the present holders of Fourth Liberty 4½s, thus proposing to convert, prior to April 15, 1934, about one-third of that issue outstanding. From the government's point of view a substantial amount of interest would thereby be saved. To the investor's eye the new securities contained certain ingenious features calculated to induce him to make the exchange, and the rate of interest was sufficiently attractive. Other circumstances seemed to favor the success of the operation. It was widely reported that, during the week before, a committee of "inflationists" had been severely rebuffed in a conference with the President, and the very fact that the Treasury was attempting a conversion of this magnitude strongly suggested that the Administration had concluded that the time had come to attempt a gradual stabilization of the dollar.

Second : Though they were well aware that the response to the Treasury's conversion offer had been more than luke-warm, they did somehow expect that the President would give the operation more than a week to prove its success or failure before switching from the extreme of sound money to the extreme of fiat money.

Third : They mistrusted an incomplete statement of monetary policy so evidently influenced by the unorthodox theories of Professor Warren, of Cornell, and Professor Rogers, of Yale.

Up to this moment the Administration had been subjected to very little open criticism. Farmers had become

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disgruntled again, but their condition had been materially improved nevertheless. Proprietors of the *New York American*, *Chicago News*, *Kansas City Star* and other daily papers professed to be anxious for the integrity of the republic, all because the National Recovery Administration would not write into the newspaper code a clause specifically guaranteeing the freedom of the press: but this controversy was more apparent than real. Wall Street bankers had been suffering sullenly from a "persecution complex," for the opportunities for commercial bankers are restricted by the 1933 Banking Act; the hands of investment bankers are so tied by the new Securities Act that the future looks dark for profitable issues, and full of pitfalls and incarceration. But for reasons which have appeared in sufficient detail already in the press, the banking fraternity hardly had the heart to stand up for their lost "rights," and the occasional voice of protest against some very real flaws in the Securities Act was a feeble voice indeed. Industrialists had not liked some of General Hugh Johnson's intimidating talk—Henry Ford in particular had not liked it. They were alarmed by the creeping strength of labor under the new system of codes, and some of them were finding it difficult to pay out more wages and still make company ends meet. But on the whole, having signed these codes, they were loyal to their signatures, and they were disposed to follow the President's lead.

"Inflation," however—that was an issue that roused men to the core. City people who had already felt the pinch of rising prices became alarmed overnight for the future. Economists pointed out the consequences of such a step. Internationalists took alarm at the hostility that would be awakened abroad by the purchase of free gold. Old newspaper men sniffed the smoke of 1896 in their nostrils. Al Smith, writing for the *New Outlook*, attacked the Administration's monetary policy: Walter Lippmann, in the *New York Herald Tribune*, parted company with the President on this point. The American

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- Legion in convention had passed a sound-money resolution: the American Federation of Labor had taken a formal stand against inflation. Finally, one week after Mr. Roosevelt's speech, the Republican National Committee fired its first gun against the President's record and actions—the first open breach of the informal truce which has existed since March fourth. It is impossible to hazard a guess as to the steps which the President has in mind: but there is no doubt as to his principal object, and no doubt of his determination to achieve it by any necessary means. There is also little doubt that from now until spring or longer the United States, for the fourth time in its history, will be the arena of bitter battles over monetary policy.

III

THE appearance of this cloud, much bigger than a man's hand, has galvanized into speech all those many people who believe that a world-wide recovery began in 1932, that the strong-arm methods so far employed by Mr. Roosevelt have sufficiently offset the effects of our banking collapse in March, that we should now stop the bread and circuses, settle in, stabilize the dollar, reduce government expenditures, and if necessary make a composition with agriculture by paying out a straight dole to marginal farmers. In other words, England's record and England's recovery point the way. There is certainly much to support this view, for in the late spring and early summer, freed from the worst of its fears, business went ahead by leaps and bounds. Statements, just published, reporting company earnings for the quarter ended September thirtieth, are in almost every instance more favorable than those of 1932; in many cases they are better than 1931, and in a few instances the improvement is astounding. Results for the current quarter will be poor by comparison, both because of seasonal influences, and

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because of over-stimulated buying during the summer months: but business activity will increase after the turn of the year, and this normal increase will be accelerated to an extent which we do not fully appreciate by the government's vast program of public works, the freeing of funds in banks, and the end of prohibition. Here is a turnover, they say, of about \$7,000,000,000 coming within the next few months as surely as day follows night. The government is advancing money to the railroads to buy a million tons of rail and track fastenings: the Pennsylvania Railroad is undertaking a second huge electrification project: and so it goes. Special taxes from liquor should bring in a thousand million dollars, corporate taxes will rise with better trade, unemployment drains on the government purse will be reduced, and after a brief time, the "extraordinary budget"—the national deficit budget—will disappear.

I suspect, however, that in spite of these powerful arguments put forward by sound-money men, some measure of inflation is close upon us. The political pressure from the western States is very great, the economic strain of the private debt structure is severe, the Administration has made exorbitant demands on the national credit, and that credit is not so high as it was a month ago. Government bonds have declined substantially since the President declared his policy: and during the past few weeks the Treasury has been forced to pay progressively .10, .14, .17 and .22 per cent. per annum for ninety day money. It is possible that the fact of the slow decline of the dollar against gold currencies will in itself conjure up the spectre of uncontrolled domestic inflation, and this alone may bring about the commodity price rise on which Mr. Roosevelt has set his seal. If this expedient fails to work, the issue of a moderate amount of currency backed by silver might produce the same desired result. So the gentlemen learned in these matters tell us: though it is hard for laymen to understand why the issue of currency based on

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the national credit and backed by silver should be deemed to dilute a currency based on the national credit alone. Lastly, like the unmarried mother who defended herself to Mrs. Easy with the plea that her baby was "such a little one," Washington may announce some day during the winter just a little issue of fiat money. After all, between the fiat credit which we now have and the fiat dollar bills which we may get, there is little difference except in the instructions given to the Bureau of Printing and Engraving. If this should happen, the frantic questions then will be, will the President control this thing? And can he? As for his determination, there can be no doubt. He has promised to manage the dollar against any undue fall as clearly as he has promised the fall itself. As for his courage to do what will then be the unpopular thing, witness the way he cut the salaries of government employees in the spring and slashed the allowances granted to war veterans. Witness his trip to Chicago in September to face the American Legion and to ask their continued co-operation—a trip and a speech against which every old-time politician warned him. As for the power to stem inflation—it is well to bear in mind that the United States gold reserve is immense, that the country is still a creditor country, that its national resources are almost illimitable, that the national debt even today—some \$24,000,000,000 in all—is ten per cent. less than it was at the end of the war, and that, given normal times, the United States could pay interest and amortization on a funded debt of ten to fifteen thousand million more and still enjoy prosperity. "It is true," says Professor Seligman, of Columbia, "that there may be in store for us a larger issue of paper currency and that, too, before very long. But this need upset no one. If it comes about, it will be primarily in order to pacify the farmers oppressed by low prices and the burden of debt.

"The farmers will find, however, that while prices for their products rise, the cost of the things they buy will

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also rise. Is it not probable that as this fact comes home to them their enthusiasm will lag? Meanwhile the opposition may be expected to gather strength so that, lacking the primary urge to further inflation, the movement will in all likelihood be arrested.

"Nor need any one fear budgetary inflation on the ground that the government is spending huge sums and borrowing the money to do so. To do otherwise is to deny the legitimate use of credit. So long as interest and amortization on what the government borrows can be paid out of current revenue in the ordinary budget, the process is fiscally unexceptionable."

IV

A VALIANT effort is being made here in the United States to hasten recovery and bring about certain fundamental social changes. Industrial recovery, the older economists maintain, must begin "at the top"; profits and the prospect of profits must precede re-employment and must be the forerunner of capital investment and industrial expansion. The President believes that this particular industrial recovery—if it is to take place at all—must begin at the bottom: that a nation-wide program of re-employment regardless of profits will create purchasing power, and that the purchasing power so applied will stimulate production and restore trade to profitable levels. It would be preposterous to try to make a sober forecast of the future, especially today when the American experiment is entering upon a critical phase. Nevertheless these times invite speculation, in opinions as well as in commodities, and perhaps it is not a reprehensible diversion to hazard a few guesses. Guesses they are.

After some months of bitter controversy, and after flailing about with the purchase of free gold, emergency embargoes against the importation of certain goods and

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against the exportation of capital, and after a degree of inflation that will temporarily carry prices higher than the now sacred 1926 level, we shall settle down with a dollar depreciated in its gold content by about fifty per cent. and with a temporary management of currency that will prevent too wide fluctuations around this new gold base.

The American picture will assume a somewhat different pattern, and within that pattern certain separate figures will be discernible.

New York will no longer be, or threaten to be, the financial center of the world. Owing to the inadequacy of our bankers, and in some cases to their startling delinquencies, New York institutions have suffered a blow from which they will be slow to recover. The opportunity which was laid on the laps of our financiers, the opportunity which only a child could miss, was muffed in the mad scramble to get rich over night.

Labor organizations, with swelling numbers and with new powers acquired and consolidated under the emergency codes, will increase in influence and the scope of American industry will be restricted accordingly.

Within certain important industries—steel, chemicals, coal, cotton, copper and the like—the collaboration of company heads in writing codes and in working out new techniques of survival, competition, exchange of processes and profit making will lead to the loose but effective perpetuation of units of industry which in some respects will supplant and in other respects supplement the principle of separate corporate action.

The government will keep a direct hand only on such businesses as it is deeply enmeshed in—the railroads perhaps. It will maintain a benevolent relationship to the new industrial régime, gradually remitting control to appropriate non-governmental associations, and intervening only as between producer and consumer or between better integrated capital and better integrated labor.

Lastly, in that new order which is here already, the

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creditor class will have less wealth and the debtor class will have less debts. Life in the United States will be less violent. There will be more leisure and fewer fortunes; there will be limits to the play of greed and limits to the course of fear. For these are the consequences of remembering "the forgotten man"; this is what happens when the orthodox economists are outmoded and recovery is achieved not from the top down but from the bottom up.

The United States of America.

November 3, 1933.

JAPAN'S BID FOR WORLD TRADE

THE recent commercial expansion of Japan is but one aspect of the modern tendency of all vigorous peoples to engage in manufacturing industry and foreign trade and to aim at such a measure of economic self-sufficiency as their natural resources will permit. But in the case of Japan that tendency has manifested itself in so strong a form that one is apt to regard it as something isolated and special, so that it is advisable, when studying her recent astounding advances in the economic field, first to relate them to world-wide movements and only at a later stage to examine them with a view to picking out features peculiar to Japan.

Nobody who has travelled lately in the East can fail to be impressed by the immense influence which industrialism is exercising equally upon the most disparate of oriental peoples. The operations of manufacture and trade offer to them an outlet for their energies and, it should be added, a means of satisfying their racial pride in competition with the older industrial nations of the West. This is a factor which should not be overlooked, for though the industrial and mercantile leaders of the East may endorse the doctrine that international commerce should be composed of mutual blessings, the rank and file certainly look upon it as a kind of battle, in which they are fighting for the national cause. Meeting and talking to Japanese and Chinese manufacturers and traders one cannot escape this impression. One feels that revenge is now being taken for the ancient conquests of the East by the West, that our mechanical weapons are being turned against ourselves, and that those who wield them do so

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with greater enthusiasm and with greater faith in their efficacy than their modern opponents. Return from a sojourn in the East to Europe or America, and you will find your friends casting doubts upon the advantages of industrialism. You will see the merchant escaping from his office to lead the contemplative life, the manufacturer fleeing from the noise of his machines to rural solitude. Their Eastern counterparts seem to have no misgivings. They have abandoned their traditional ways, put off the meditative habit, and derive from noisy factories or feverish boardrooms the same peculiar satisfaction that made the world seem so agreeable to our Victorian forefathers. Thus we find not only Japan, but also China and India, turning their energies to industry and competing bitterly with the older industrial countries, aided in their struggle by labour which is content with a relatively small reward, and which at the same time is on the whole industrious and obedient.

I. THE REASONS FOR JAPANESE SUCCESS

ALL these phenomena are exhibited by Japan in an almost exaggerated form; and from that point of view alone it is worth while to examine closely the reasons for the special success which has attended her efforts to build up an industrial State. These efforts have a lengthy history, but it will make for simplicity to pass over the early period, merely observing that the Japanese Government have for more than sixty years followed a consistent policy of fostering industry and trade, and that the success of that policy has been in a large measure due to two factors—the strong national feeling of the Japanese and their respect for authority, a habit perpetuated from the feudal age, which did not come to an end until the second half of the nineteenth century.

This is the historical background. Coming to more recent

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times, it may be said perhaps that the present phase of Japan's industrial expansion commenced with the European war, when, thanks to the preoccupation of other industrial States, she was able to make vast profits in foreign trade, to secure a foothold in new markets and to extend and improve her industrial equipment. Since then she has had her ups and downs. There have been slumps, as in 1920, the earthquake disaster in 1923, a financial panic in 1927, a severe trade depression in 1930, and serious troubles caused from time to time by fluctuations in foreign exchange. But, by and large, these intermittent spells of adversity have only served to purge and strengthen the industrial organism. Even the great earthquake, though it involved dreadful loss of life and property, probably on balance acted as a stimulus to greater efforts, of which concrete evidence may be seen in the tall buildings and wide streets of reconstructed Tokyo. Similarly, in 1930, the deflationary policy of the late Mr. Inouye, the Finance Minister, though it certainly inflicted great hardships upon many branches of industry and trade, had the effect of forcing reforms upon manufacturers and merchants. A powerful "rationalisation" movement was set on foot, in which both Government and industrialists took part. In the leading industries there was a strong effort to improve manufacturing technique and factory organisation, while deflation, by reducing prices in yen,* permitted some reduction in wages. These were difficult times for Japanese manufacturers and exporters, and there was a persistent outcry for the restoration of the gold embargo and a return to the easier conditions of inflation. These hard times continued until the end of 1931, when with a change of Cabinet the Government's financial policy was reversed and the embargo upon gold exports restored. But the salutary influence of the hard times persisted and began to show its effects fairly soon in the year 1932.

Among the first results of the reimposition of the gold

* The yen at parity was equal to 2s. 0½d. To-day it is equal to 1s. 2½d.

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embargo was a sudden fall in exchange. Taking 100 units as the gold parity of the yen, its foreign exchange value in terms of gold currencies fell from 100 in December, 1931, to little more than 40 in December, 1932. The effects of this decline upon Japan's export trade were spectacular. In the first place, a number of important concerns had, in the autumn of 1931, anticipated the Government's policy and had bought United States currency with yen at parity. Later, as the exchange fell, they either rebought yen or with their gold dollars purchased large quantities of raw materials, notably raw cotton. Consequently, at the beginning of 1932 many of the leading industries had stocks which they could afford to manufacture and sell at an extremely low price, even in yen, and at almost unheard of low prices in a gold currency. But this was not all. Although the foreign exchange value of the yen fell steeply, its internal purchasing power remained unchanged. Indeed, during the earlier part of 1932 internal prices actually began to fall. The effect of these conditions upon Japan's competitive power in foreign markets was stupendous.

Quite apart from the temporary advantage of raw materials bought at favourable exchange—an advantage which ends when the raw materials are consumed and must be replaced—there was a permanent advantage which may be expressed as follows:—For 100 gold units of foreign currency in December, 1931, the manufacturer could supply goods for export worth 100 yen. But for 100 gold units in December, 1932, he could supply nearly 250 yen's worth of goods. In other words he could, without diminishing his receipts in yen, reduce his prices in a gold currency in the ratio of 250 to 100. This advantage alone is enough to account for the flood of Japanese exports which steadily mounted as exchange fell, and reached its height towards the end of 1932.

But there were other factors in addition to exchange which accounted for the success of Japanese exporters. Exchange advantages tend to work themselves out as

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internal prices adjust themselves to external prices. In Japan, however, there were special conditions. In the first place, as we have already said, the internal price level in Japan did not rise, and it is chiefly this fact which has been overlooked abroad and has given rise to accusations of "dumping." The chief reason why internal prices did not rise is that Japan is practically self-supporting in respect of foodstuffs. Since she does not need to buy food abroad, the exchange value of her currency does not affect its purchasing power at home. Indeed, the price of the staple foodstuff, rice, is governed by the domestic supply; and during the first part of 1932 the market price of rice not only did not rise, but actually fell, until by the middle of the year it was as low as in 1931 and lower than in 1930. The increased cost of consumer's goods imported from foreign countries was not enough to raise the general domestic price level, and consequently there was no strong influence at work forcing employers to raise wages. The whole benefit of depreciated exchange could therefore be used in reducing export prices.

Given these advantages, at a time of world-wide economic depression when purchasing power had fallen in almost every country, the Japanese did not fail to make the fullest use of them. Their total exports increased in value from 1,180 million yen in 1931 to 1,518 million yen in 1932. This is not a remarkable figure in comparison with previous years, but it means that, while other countries were struggling to retain their export trade or were actually losing it, Japan was making advances, and was keeping her workpeople employed. The volume of Japanese exports during 1932 and 1933 to date has been much exaggerated. Indeed, there has probably been very little increase. What has called world-wide attention to Japanese competition is chiefly the low prices of her exports; but also their appearance in bulk in foreign markets which Japan had hitherto not fully exploited. This in its turn was brought about by political conditions in China, which drove Japan to find

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elsewhere buyers for goods which the Chinese, thanks either to their boycott or to their falling purchasing power, declined to take. Thus it has been pointed out that though in 1932 Japan lost 120 million yen's worth of trade with China she made up this loss by gains in other markets, as follows :—

	Million yen
British India	63
Dutch India	34
Egypt	12
Australia	11
East Africa	5

giving a total of 125 million yen.

Though it is clear that Japan's trade expansion has in volume not been remarkable during the last year or two, there can be no doubt as to the intensity of her competition, and it is this which has aroused a degree of animosity, not unmixed with admiration, all over the world.

II. THE CHARGES AGAINST JAPAN

THE consumers of Japanese goods in foreign markets, consumers whose purses are very thin, have had reason to bless Japan. The sellers of raw materials such as cotton, wool, rubber, etc., have seen their falling markets supported through heavy purchases by Japan. But Japan's competitors in foreign markets, whether other exporters, or local dealers, or domestic producers, have seen their businesses threatened or even destroyed by the inrush of Japanese goods at low prices. From all parts of the world there have been levelled at Japan accusations of dumping and other forms of unfair competition, of sweated labour, of official subsidies and of deliberate governmental action to depress exchange. It is important to examine these charges, so as to understand thoroughly the nature of Japan's competition, for only when it is thoroughly under-

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stood can it be decided whether it is in the long run injurious and, if so, how it should be dealt with.

If we take first the allegation of "dumping," it will be found that, assuming "dumping" to mean selling abroad at less than cost, no important cases of such action have been proved, with the possible exception of cement and perhaps one or two small items. It is now generally admitted by those in a position to investigate, that, in general, Japan has been conducting her foreign trade at a profit—often a small profit, it is true, but still a profit.

Similarly with subsidies. Subsidies are granted to industry, trade and shipping by the Japanese Government, but they are not remarkable in amount and they are certainly not enough to justify an assertion that Japanese exports depend upon subsidies. The leading manufacturing industry of Japan, her textile industry, certainly receives no subsidy, direct or indirect, worth mentioning.

As for the conditions of Japanese labour, opinions differ, but it would certainly be most difficult to prove that it is either sweated or oppressed. Japanese workpeople suffer from the abuses common to all industrial societies, but if it were possible to measure contentment or satisfaction it would certainly be found that, relatively to the standard of living prevalent throughout Japan, they are as well off as their fellow workpeople in most other countries. There has been a good deal of foolish talk about the "low" standards of living in Japan. It is true to say that the Japanese, of nearly all classes, have a very simple standard, which requires few material possessions, and can be maintained on an inexpensive diet; but it does not follow that they are not enjoying a civilised, or indeed an elegant, mode of existence. It is our Western habit to look upon a multiplicity of *things* as the measure of happiness, but so far the Japanese have managed to retain a good deal of that traditional good taste which enables them to combine simplicity and happiness. Any unprejudiced observer has to admit that workers in Japan seem to be

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fully as healthy and happy, as clean and self-respecting, as workers elsewhere. It is obvious that the reason for low costs of production must be sought elsewhere than in wage slavery. Efficiency of management and of labour certainly plays a great part, and it would be well for competitors of Japan not to make the old mistake of putting their trust in some imagined superiority of the Western operative. There are, no doubt, many respects in which Japan falls short, and it is even probable that the lead in efficiency over Lancashire, which the Japanese cotton magnates claim is due to the fact that Lancashire is too advanced and specialised for present economic conditions, which in most parts of the world allow the purchase of only cheap commodities. Yet the sad fact remains that, in present circumstances, Manchester is being hopelessly beaten by Osaka, and it must be faced.

But even the most inexpensive and diligent labour, under the most skilled direction, is not alone sufficient to account for the tremendous inroads which Japan has made upon the trade of her competitors. There is no doubt that, without a very considerable exchange advantage, she could not have done what she has done—increased her trade in a period of world depression, climbed over high tariff walls, and at the same time supplied the world's markets with goods which, taken all round, have vastly improved in quality over Japanese exports of a decade ago. It is this exchange advantage (varying with the market from 50 to 100 per cent.) which gives certain legitimate grounds of complaint to those injured by Japanese competition, for the depreciation of the yen, though not deliberately contrived by the Japanese Government, is at least a natural consequence of Japanese policy. The yen has fallen largely because other countries lack confidence in Japan. They look with disapproval upon her expansionist movement, and with concern upon her growing expenditure upon military undertakings in Manchuria, and the further equipment of her army and navy. This expenditure has

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forced the Japanese Government to raise loans in order to meet alarming budget deficits; and these impending deficits have caused an anticipatory fall in the exchange value of the yen. It can scarcely be wondered at that countries which have disapproved of Japan's foreign policy should feel particularly aggrieved by successes in foreign trade which can be directly traced to the very acts that they condemn.

III. COMPETITION AND DISARMAMENT

IT now remains to consider what steps, if any, ought to be taken by the aggrieved countries to protect themselves against the full force of Japanese competition. It might be argued that Japan is doing a service to impoverished peoples by selling to them at low prices the surplus fruits of her industry and skill. On a long view this may be right; but it is of no satisfaction to those producers or merchants in other countries who find their markets captured, their livelihood gone. It seems inevitable that some steps should be taken to protect existing interests, whether mercantile or industrial. The first move in this direction seems to have been made by the Philippine Islands, in October, 1932. There the Legislature met the exchange difficulty by calculating *ad valorem* duties, not on the current exchange value of the invoice price, but on its par value. This was done chiefly for revenue purposes, but it is not necessarily sufficient for the protection of domestic industries where they exist. Other countries appear to have taken similar steps, under existing legislation; but in the British Empire, owing to treaty obligations, it was not possible to use discrimination against Japan, and without discrimination there was no means of checking the inflow of Japanese goods. Accordingly, early in 1933, the Anglo-Japanese commercial treaty was denounced by His Majesty's Government in respect of

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West Africa ; and in April, 1933, the Indo-Japanese convention of 1904 was denounced.

The immediate result of these measures was to raise a storm of indignation in Japan, and to focus upon Great Britain all the hostile sentiment that had been brewing since the League of Nations first intervened in the Manchurian affair. Through a most unfortunate sequence of events, the Japanese public had come to form the opinion that it was Great Britain who was thwarting Japan's aspirations at every turn. Great Britain was the moving spirit in the League of Nations and in disarmament. The Lytton Commission was headed by an Englishman. Great Britain proposed an arms embargo aimed at Japan. Great Britain now was instructing all parts of the British Empire to join in an economic boycott of Japan. Unfounded as these suspicions may be, they were genuine enough, and Englishmen living in Japan marked with regret a rapid deterioration in Anglo-Japanese relations. Making every allowance for temporary excitement, it seemed as if a new phase in Far Eastern politics had been reached. The extreme Japanese point of view was that the Western world was striving to suppress Japan, to prevent her expansion, whether cultural or political or commercial, in any direction whatever. People talked openly of a defensive war, and it is certain that feeling for a time ran very high. It was no doubt deliberately stimulated by the industrialists who stood to lose by tariff action taken abroad against Japan, and probably the military party were not displeased to find a new target for the aggressive nationalism which they are pleased to foster. But there was an undercurrent of genuine alarm, and the average Japanese can scarcely be blamed for thinking that his country was being made the victim of such an *Einkreisung* as Germany complained of before 1914. The analogy is worth considering by students of world politics.

Underlying these sentiments there was a pardonable

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resentment, among even the most moderate Japanese, at the thought that their really substantial advance in industrial and mercantile technique, their diligence and their discipline, should have brought them, not the world's admiration, but a concerted resistance to their efforts to climb out of the world-wide economic depression.

On the other side of the picture is the disorganisation caused by the invasion of Japanese goods. Markets have been depressed by their low prices, existing organisations for distribution upset, and the internal industries of foreign countries have been in danger of destruction because of the competition of Japanese imports. Perhaps the best example of this last feature is the case of India, where the native millowners have forced their Government to increase the duty upon Japanese cotton goods from 25 per cent. to 75 per cent., and where negotiations have been in progress with a view to reaching some agreement with Japan by which her textile exports to India shall be reduced to some agreed quota.

It cannot be said that the Japanese Government have failed to realise the gravity of the situation. They have done a good deal to remedy it, by opening new treaty negotiations with India and by agreeing to unofficial conversations between Japanese and English industrialists, designed to bring about some kind of market-sharing. They seem to have admitted the principle of voluntary restriction of exports by means of government control, and they have shown a tendency to take administrative action with a view to increasing prices. They have met with considerable opposition from their own industrialists, and the problem of Japanese competition is far from being solved. Much depends upon the outcome of the negotiations now in progress in India, and much upon willingness to compromise elsewhere. It is important for us to recognise that Japan buys freely in British Empire markets—wool, cotton, rubber, etc. ; and there is some danger that, if she is pressed too hard, she may make some temporary sacrifice in order to

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develop alternative sources of supply elsewhere. She was last year the largest buyer of Australian wool, as she is the largest buyer of Indian cotton. It would be unfortunate if Japan were to gain the impression that, since Ottawa, an Empire bloc was working against her, for it would emphasise a tendency, already apparent, to enter into closer trade relations with countries outside the Empire.

It would be unfortunate from a commercial point of view, but also from the point of view of world politics. The recent trade expansion of Japan is but one aspect of that search for an outlet for her national energies which commenced in 1868. She has been checked many times, and no doubt she will resent any attempt to restrict her commercial activities which does not take into account her growing needs—her population increasing by one million each year, for which she must find employment and subsistence. It is therefore safe to say that the results of the treaty negotiations in India, and of subsequent attempts to reach a solution of trade difficulties in other parts of the world, will have a most important bearing upon the Japanese Government's attitude towards questions of disarmament and naval ratios.

There are many difficulties ahead. The Japanese people are in a mood of somewhat aggressive nationalism; their industrialists are stubborn; but the Japanese Government seem to be prepared to display a fairly accommodating spirit in treating the present economic problem, and if they are met in the same spirit it ought not to be impossible to reach arrangements which will, by ensuring some reasonable division of trade, remove from the minds of the Japanese the feeling that they are being deliberately isolated. One hopeful factor is that, given fair opportunities, Japan's exchange should improve, her internal price level rise, and thus restore her competition to something nearer a normal basis. Alternatively, if her foreign trade is drastically reduced, whether by tariffs or quotas, her earnings will be so diminished that her exchange may collapse and she may be

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forced to devalue the yen, in emulation of the procedure of France. The result of this would be, without doubt, a further invasion of foreign markets, which, though it might not last long, would cause further and serious disturbance to world trade.

BRITISH COMMONWEALTH RELATIONS

WHILE, in the tremendous shipwreck of the Great War, empires, institutions and ideas irrecoverably foundered, the British Commonwealth of Nations—already more an institution than an empire, and now more an idea than an institution—somehow remained afloat. The vessel that survives, it is often alleged, is a wreck scarcely worth salvage; tide and weather will soon demolish the leaky fabric of her separating timbers. Naval supremacy, declare the self-titled Cassandras, is gone for ever; the Dominions use the attenuated British connection merely to square their commercial books; Canada falls under the shadow of the United States; India will soon be lost; Ireland is in barely dissembled revolt; South Africa has repudiated even the flimsy tie of union under an indivisible Crown. To such observers, the post-war Imperial Conferences have been donkey-engines pumping water from a hull which fills twice as fast as they empty it, and which must eventually sink.

I. THE TORONTO CONFERENCE

WHEN, therefore, there assembled at Toronto in September a conference on British Commonwealth Relations, under the auspices of the Royal Institute of International Affairs and its sister society, the Canadian Institute of International Affairs, the first task of the delegates was to assess the strength and integrity of the

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Commonwealth in the world of to-day. The durability and reality of such an association are to be measured by the faith of its members in its continuance. To the extent that they are sceptical about the permanence of the connection, or doubtful of its value, the connection itself is immediately loosened. On the whole, the test gives reassuring results. The course of political and economic nationalism pursued by the Dominions, the centrifugal constitutional development of recent years, exaggerate the sense of dissolution among the peoples of the Commonwealth. That was, perhaps, the most striking conclusion that emerged from the deliberations at Toronto. Though the Conference witnessed plenty of argument and dissension over this or that point of constitutional law or administrative organisation, there was a unanimous belief among the representatives—quite unofficial but influential—of five self-governing units of the Commonwealth, and of India, that the British Commonwealth ought to endure, and that it would in fact continue to hold its place among the Powers of the world. One Dominion delegate, who went, he confessed, ready to resist any attempt at artificially cementing the fragments of an empire in dissolution, was taken aback to find no delegate from any other Dominion harbouring in his mind the hypothesis that the Empire was breaking up. We are inclined to take the extremist as representative, and thus to assume that the average citizen of some other member-nation does not share our faith in the value of the Commonwealth. When we have an opportunity to discover his real views, we find that the opinions he expresses are based largely on the assumption that we ourselves do not share his own fundamental faith.

The character and development of opinion in Canada may be taken as illustrative. The neighbourhood of a great country from which, geographically and economically, she has almost no natural boundary, has strengthened the spirit of nationalism among the people of Canada and heightened its negative aspects. The cultivation of Can-

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adian nationality has coloured every phase of the Dominion's political history. To be British was too mild a retort to the seeping influence of the United States; to be Canadian implied, besides not being merely American, not being merely British either. The inclusion of the French people of Quebec, and the foreign origin of many of the western settlers, emphasised the non-British side of Canadian nationalism. Sheltering under the lee of the United States, and separated by broad oceans from every other country, Canada has developed, among a considerable section of her people, a pacifist isolationism no less striking than that of the United States herself. For these reasons, Canadian opinion has been openly suspicious of every connection with the United Kingdom which might lure her into the latter's international entanglements, or cause the Dominion's policy on any issue to be influenced by that of Whitehall. Canadian statesmen and leaders of public thought, therefore, have been to the fore in the movement of constitutional and administrative devolution within the Commonwealth. They have now achieved what they sought, and, although they retain their fear of international engagements, to which an independent Canada might not have been party, they are ready to express their belief in the capacity of the British Commonwealth to serve the international purposes they hold dear. Canadian nationalism having once been asserted and recognised, its British character may be made plain.

But what of Ireland? Or of South Africa? Ireland, we sometimes forget, is a mother country of the Commonwealth. There are far more people of Irish descent in the new world than in Ireland itself, and we must consider them along with the inhabitants of the green isle when we discuss the attitude of Ireland towards the Commonwealth. Those Irishmen of the new world, indeed, have furnished many of the nationalist and socialist extremists of the Dominions, and they supplied Sinn Fein with the sinews of war. On the other hand, their acceptance of the Free

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State has been as decisive as their rejection of Union. Even in Ireland itself, where the sores of old wrongs fester and corrupt, the strength of sentiment in favour of the British connection has yet to be proved inferior to the forces that oppose it. The emphasis now laid on the purely commercial advantages of the connection is not entirely the fault of the Irish. Although the lingering sores may take long to heal, we are entitled to hope that if we lose Ireland it will be only to gain her, just as in our relations with the other Dominions we have lost vassals to gain partners. One vital fact, which not even the extremist leaders of the Free State can burke for ever, is that effective membership of the Commonwealth is the only possible condition on which the Six Counties may conceivably be amicably joined with the South.

South Africa presents the problem of an alien race, in a measure embittered by past conflict with the British power. Yet just as in Ireland the acutest strain is not between the Free State and the United Kingdom, but between one section of the Free State people and another, so in South Africa since the Union the sharpest cleavage of opinion has been between Afrikaner and Afrikaner, not between the English population and the Boers. Fraternal disputes of that kind heighten and exaggerate differences of opinion; the nationalist South African, when he is expressing his real faith, not just arguing with political opponents, may be heard expressing belief in the potentialities of the British Commonwealth for good. It is not the Commonwealth so much as the United Kingdom that is the object of his suspicion. The coalition of the parties of General Smuts and General Hertzog may well presage a new era of community of opinion on this vital issue. The difference, after all, between a loyalist and a nationalist South African is much less than the difference between a flag-waving diehard in England and an anti-imperialist Labour leader; yet even were the latter in office the loyalty of the people of Great Britain to the British Com-

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monwealth of Nations would not be generally doubted. Whichever way we turn, we find a real faith at least in the potential future of the British Commonwealth. One of the reports of the Toronto Conference recorded the unanimous "sense of the value of the Commonwealth, both for its own members and for the world as a whole, and of the need for the promotion of its influence in world affairs."

II. THE COMMONWEALTH AND THE COLLECTIVE SYSTEM

A SEARCH for the appropriate constitutional forms and administrative institutions to embody the sense of unity within the Commonwealth reveals far less unanimity. Even the general principles accepted by the Imperial Conferences of 1926 and 1930 meet with criticism from right and left both in the United Kingdom and in the Dominions. Those principles, nevertheless, are the constitutional common denominator of the Commonwealth, and as such they were naturally adopted by the Toronto Conference as the basis of its work. It was therefore inevitable that the conclusions of the Conference—or rather channels of argument, for the Conference was not in a position to reach definite decisions or to express a corporate view—should have been conditioned by the assumptions implicit in the 1926 and 1930 formulæ. The Balfour resolutions and the Statute of Westminster were composed when the future of the League of Nations seemed far more assured than it seems to-day. It was a reasonable assumption then that international affairs would continue to be dominated by the existence of a collective system, growing in authority and securing the loyalty of every member of the Commonwealth as the first principle of its foreign policy. By the time of the Toronto Conference that expectation had received more than one rude shock, but in spite of a considerable difference of opinion among the delegates as to the actual effectiveness of the

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collective system, by far the majority could still sincerely regard support for that system as the first principle of the foreign policy of their countries. The resignation of Germany, and the consequent injury to the hopes of disarmament, were not present to the minds of the delegates. Had the Conference been held a month later the content of its deliberations might have been very different. We can only guess. The purpose of this article is simply to describe what seemed to one observer to be the general thread running through the discussions at Toronto, based, as they were, on the accepted constitutional doctrine of the Commonwealth.

The Balfour resolutions and the Statute of Westminster, by themselves, are patently an inadequate guide to the draughtsman of the machinery of Commonwealth co-operation. They establish the twin principles of equality of status and voluntary co-operation, but they cannot establish equality of material position, nor do they provide the means or determine the limits of co-operation. They do not answer the question, how far and for what purposes are the different members of the British Commonwealth to act as separate countries, and how far and for what purposes as one; nor to what extent is the action or policy of one member to be internationally recognised as involving the remainder. They supply principles to which we can appeal, not plans we can carry out. Even the formal implications of equality they leave unmentioned. They allow General Hertzog to insist upon the right of neutrality and of secession while everyone not of his opinion turns a deaf ear. They wait on the event, yet the event, if it is not foreseen and forestalled, may shatter the Commonwealth and waft the resolutions and the Statute into the historical archives.

Indeed, as the Toronto Conference made plain, one of the most profound elements of Dominion opinion about the Commonwealth is distrust of what the event may bring forth. From Canada, from South Africa, we hear the

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frequent assertion, "We will not commit ourselves in advance." If there is an international crisis, the Dominions do not wish to be pledged to go to war, or to refrain from war, on anybody's initiative but their own. Especially they fear being caught up in Great Britain's "European entanglements." It does not serve to argue that Europe is far from being the only possible source of warlike conflict in the world, and that the United Kingdom does not shirk the real contingency of her being drawn into war by the "Pacific entanglements" of the Dominions. Suspicion of being pledged to war on account of Great Britain's local, private or European quarrels has been the most powerful motive behind the Dominions' insistence upon external as well as internal "equality of status."

The citizens of the Dominions want the Commonwealth to continue, but they do not want to be committed by a Commonwealth foreign policy. They want to have a foreign policy of their own, but they do not want, and could not afford, all the paraphernalia of independent sovereign States—armies, navies, diplomatic and consular machinery throughout the world. They recognise their debt for defence to the British navy (with a greater or less measure of appreciation according as they live in, say, New Zealand, an exposed island, or in Canada, where defence against the United States would be impossible and where defence against any other Power would depend more on the United States than on the United Kingdom); but they are extremely suspicious of any plan for a common defence policy for the Commonwealth, which they would regard as an excessive resignation of their own external independence.

These paradoxes, concealed by the subtlety of the 1926 and 1930 formulæ, are not insoluble. What the Toronto Conference sought, as the clue to their solution, was some community of interest independently recognised and some community of principle independently upheld among the nations of the British Commonwealth. The community of interest is easily established. Our close economic con-

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nections with one another, vital both to the Dominions and to ourselves, determine that the interruption of world trade would be inimical to us all. Our first interest is the freedom of the seas, coupled with the greatest possible freedom of world trade, without which the strategic freedom of the seas could be made a mockery. We have, besides, another and deeper common interest. We are democracies to whom the idea of freedom is sacred, and any assault upon it hateful. The enemy that inspired the deepest patriotic fervour in the Great War was *Macht-politik*. The cynics, it is true, may say that democracy, like tyranny, is only a matter of degree, and that the most successful democracies are the least democratic. Yet when the continuity of shading between democracy and despotism has been admitted, there remains as sharp a difference between the spirit animating the British democracies and that animating the Nazi régime as there is between blue and red, for all the mauves and purples on the palette. It is a difference of principle. For the fascist, personal liberty or its reverse is an instrument of the State for furthering the purposes of the State; for the democrat (and 99 per cent. of those nurtured in the British tradition are democrats at heart, despite our occasional leanings towards this or that mitigation of representative government), personal liberty is a supreme object of the State. Freedom is an end, not an incident. Its defence is a vital common interest for all the nations of the British Commonwealth. That is not to say that we must go to war with any Power which commits an assault, however gross, upon the liberties of its own subjects within its own territory. The suppression of liberty, however, is fostered by international conditions. International chaos begets national disorder, the mother's milk of despotism. The dictator can gather prestige by rattling his sabre only in a world in which sabre-rattling is still a gentlemanly gesture.

To say that the dual interest of all the nations of the

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British Commonwealth is the freedom of the seas and the freedom of the individual is to say that we have a common interest in peace. What we want, however, is not merely peace for each one of us, not merely to keep out of war; for we have learnt that, while great nations can keep out of little wars, none but little nations can keep out of great wars, and then only by reason of a nice balance of interest and power between groups of mightier States. Our interest is world peace, and for the sake of world peace it may well be worth our while to take risks apparently unjustified by our immediate interests.

There was unanimity in the Conference (runs one of its reports) that the peoples of the Commonwealth not only desired peace and policies tending towards peace, but also wished to give their fullest support to the collective system, established since the close of the world war for this purpose.

If the problem of the Commonwealth is presented in terms of defensive power, the same answer is given. The British navy is an empire navy in that it exists to defend all the territory and trade of the whole Commonwealth—Australian, Canadian, British Guianan, what you will. For disarmament purposes, for instance, the British Empire is a unit, nor would it occur to the citizens of the United Kingdom or to the representatives of foreign Powers to suppose that the British navy would not be at the service of any part of the Commonwealth which was attacked or otherwise became engaged in war. Yet it is a United Kingdom navy in that its administration and control are centred exclusively in Whitehall, and in that all but a fraction of its maintenance falls upon the British taxpayer. The anomaly might lead to grave difficulties, given the present status and outlook of the Dominions, were the latter to suspect that the British navy existed for any purpose but the safeguarding of world peace and the defence of the Commonwealth against aggression. In the Covenant and the Pact of Paris we have implicitly declared

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that the British navy will never be used save in a war of defence or on behalf of the collective system. Speaking to the Canadian Club in Toronto on October 2, Mr. Vincent Massey, who had been one of the Canadian delegates at the British Commonwealth Relations Conference, and who well represents the point of view upon the Commonwealth that was dominant there, declared that

The consideration of defence on the old pre-war basis inevitably produces divergent views in the Imperial family. An Empire plan of defence would threaten the unity of the Commonwealth and would defeat its own object, but in efforts towards the maintenance of peace under the collective system the British States can find a unifying force.

The argument from constitutional law is equally decisive. The interpretation of the Statute of Westminster, the Balfour resolutions, Article 9 of the Locarno Treaty (which is specially important because it is attested by foreign Powers), in relation to the issue of peace and war is a moot point among lawyers. Nothing can be laid down with assurance save that the position of the Crown is not that of the head of a personal union, and that arguments from the historical analogy of Hanover are valueless. Hence, at any rate were it not for the documents mentioned above, a declaration of war by His Majesty, as King in any part of the Commonwealth, would have to be regarded as a declaration on behalf of every part. It can further be acknowledged, however, that in view of those documents the question can hardly be left at that point. Certainly, public opinion in the Dominions generally accepts it as a fact that the Dominion Governments have the independent right to decide whether, and to what extent, they will actively participate in wars entered into by any other part of the Commonwealth, and General Hertzog has asserted, not as an aim but as an actuality, the right of a Dominion to be neutral in a United Kingdom war.

Quite apart from the attitude adopted by foreign Powers,

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and from the effect of Dominion public opinion, no one can say with assurance what constitutional formula or principle of international law might be applied, were the issue of peace and war actually to arise. That might not prove to be of serious practical importance at the moment of crisis, when motives nearer to the mind of the common man would outweigh legal niceties. Nevertheless, these are questions which gravely exercise public opinion in the Dominions, on whom, in the last resort, the decision would fall; and it is therefore fortunate that the collective international system suggests an answer. Provided that the system remains a reality, and is loyally supported by the nations of the Commonwealth, the old conception of a bare choice between war and neutrality is unreal and outworn.

Every single self-governing member of the British Commonwealth has independently renounced war as an instrument of national policy. Every one of them has signed the Covenant of the League of Nations, imposing upon its signatories definite duties in the event of any outbreak of war. There may be room for different interpretations of those duties, but it is certain that the Covenant lays upon every member of the League obligations which, if carried out, would be wholly incompatible with neutrality as understood in pre-League days. The Stimson interpretation of the Kellogg-Briand Pact would likewise rule out the possibility of neutrality (in the pre-League sense) for any signatory that adopted it, in the event of a breach of the Pact. Hence, wherever and for whatever reason war were to break out in the world, the Dominions and the United Kingdom, as loyal signatories of both the Covenant and the Pact, would be faced with the same general obligations, although to what extent they would contribute armed forces or otherwise actively participate would depend on their own decision, guided by circumstances. If it were duly held that a breach of the Covenant had occurred, no Dominion could remain neutral without a breach of its international engagements.

The Future of Foreign Policy

III. THE FUTURE OF FOREIGN POLICY

ACCORDING to this rationale of the Commonwealth, a very vital part is played in the relations between its different members by the principle of support for the collective system, at present represented by the League and the Kellogg Pact. It is worth quoting in full the report of the rapporteur of the main Commission of the Toronto Conference on this issue:

There was universal agreement in the Commission that the two systems—the Commonwealth system and the international system—were complementary and in no sense alternative. The discussion did not turn on the question of a choice to be made between the two, but on the nature and conditions of their interdependence. The view of the Commission on this point was perhaps best expressed by a Canadian member when he declared that he dissented entirely from the trend of thought which suggests that there is something antagonistic between the League of Nations and the British Commonwealth. "I believe," he continued, "that the collective system offers the best guarantee for the permanence of the British Commonwealth and for the maintenance of world peace"

The influence of all the members of the British Commonwealth together, whether exerted in the councils of the League or elsewhere, is far greater than the aggregate influence of each of them acting separately on the strength of its own size, power and prestige. Hence, as long as the Commonwealth remains a loyal supporter of the principles of the collective system, the latter profits by its existence, while at the same time the system and its principles provide an acceptable warp for the fabric of Commonwealth foreign policy, into which the several British nations can weave the varied pattern of their choosing.

The attitude of the different Dominions towards the League naturally varies according to their geographical position and political and racial history. Dominion opinion

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is generally opposed to the idea of military sanctions. No Dominion is much interested in the League as schoolmaster in Europe, and all regret its incapacity, through the absence of the United States and Russia, and now the defection of Japan, to act or speak with authority outside Europe. Whereas Australia, New Zealand, and also India, regard the League as of quite subordinate importance in relation to their own defence, the other Dominions are inclined to place more faith in it, not as a direct military guarantee but rather as an index to world opinion, which would inevitably swing the Powers against the aggressor. The better informed public of every Dominion, however, recognises that the contingency of war through a direct quarrel between the Dominion and a foreign country is far more remote than the possibility of engagement in some world war, arising originally from a quarrel between two foreign Powers in Europe, in the north Pacific, or elsewhere. It is in the prevention, or at least localisation, of such outbreaks that Dominion opinion perceives the chief task of the League, and it is on that account that the Dominions, like ourselves, sincerely believe in the collective system as the first principle of their foreign policy.

That principle is not, however, easily elaborated into a definite corpus of foreign policy. The first and most important difficulty is that the collective system as it exists at present is neither universal in membership nor definitive in form. The United States and Russia have never been members of the League, and now Japan and Germany have resigned. In our relations with these Powers, at least, we must supplement the machinery of the League, and we might even have to choose, in certain circumstances, between loyalty to the League and the need for preserving good relations with absent Powers. The possibility of such a predicament particularly exercises the Canadian mind, since the maintenance of amicable relations between Canada and the United States must always stand in the forefront of Canadian foreign policy. The signature

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of the Pact of Paris, renouncing the instrument of war on behalf of the absentees as well as the members of the League of Nations, was therefore an event of inestimable value for the British Commonwealth. If the United States continues to adhere to the doctrine laid down by Mr. Stimson in interpretation of the Pact, then the United States may be regarded as a member, in principle, of the collective system, even though she does not formally accept its obligations or participate in its machinery. The modification of the Covenant in such a way as to make it conformable to American public opinion and official policy would be to add strength, not weakness, to the League. That the United States will not adhere to sanction clauses in their present form is certain, but it is equally sure that she will grow in realisation of her world responsibilities and will extend her co-operation with other Powers in the support of a collective system.

In the meantime, since it is clear that conflict between ourselves and the United States would bring disaster upon the world as well as splitting the Commonwealth from end to end, the maintenance of friendly relations with the United States must be ranked with support for the collective system as a cardinal principle of British Commonwealth foreign policy. It is the most logical and most important extension of the first principle of British Commonwealth relations that war between the member-nations is unthinkable.

It is a further grave difficulty in applying the principle of support for the collective system that the League of Nations is weak and partly discredited. The Toronto Conference, it must again be recalled, was held before Germany had resigned, an event which might possibly have modified the views there expressed. Be that as it may, in the sub-commission of the Conference which dealt in detail with the relations between the Commonwealth and the collective system,

..The opinion was unanimously expressed that where failure had occurred it was not due to defects in the machinery, but to two

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main causes. These were, first, the non-membership of certain great Powers, and secondly, the failure of members of the League and parties to the Kellogg Pact to face the full implications of the Covenant and the Pact, and to give effect, in circumstances involving risk to their individual interests, to obligations voluntarily assumed.

It was agreed that a firm determination of the British nations to enforce the collective system would greatly strengthen the system, and that the risk involved would not be greater than the risks necessarily incident to the breakdown of League machinery through lack of the support without which it cannot function.

The principle of the pursuance of peace by way of the collective system fails, indeed, to indicate precise policies; but that does not hinder its service as a co-ordinating factor in British Commonwealth relations. Policies are the product of circumstances, to which principles are applied. It is possible that differences of judgment as to the nature or value of the facts might cause different nations to develop divergent policies even though they respected the same principles. For instance, Canada and the United Kingdom might have different views as to the place of some particular weapon, say aerial bombing, in a disarmament programme. Such a possibility of variety may be counted an advantage rather than a handicap, since differences of opinion, which among enemies might mean the gradual ferment of a quarrel, often serve among friends to elucidate the truth.

Nevertheless, the fact that a common principle is the only existing basis for the co-operation of the nations of the British Commonwealth in the field of foreign policy limits the extent and character of that co-operation. It is neither desirable nor possible that they should have on every issue a common policy. That conclusion is implicit in their separate membership of the League of Nations. The principle itself sets upper and lower bounds to the co-operation required. We, the nations of the Commonwealth, ought to substitute our joint weight for the lesser sum of our individual weights in support of the collective system and the maintenance of world peace. To that end, we should take pains to know each other's minds, and to

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avoid unnecessary conflicts of policy such as would neutralise our combined force. On the other hand, it would be an injury to the collective system if, for the sake of a narrower loyalty, any individuality of view were suppressed. Any member of the Commonwealth, even though in a minority of one, may be able to contribute the whole or a portion of the truth. Further, any member may have special regional interests which do not affect the others. What is essential is that in everything its action and policy should conform to the principles and forms of the collective system. The only other safeguard is that, in order to avoid the chance of subsequent misunderstanding, every other member, however remotely concerned, should be kept fully informed.

IV. THE MACHINERY OF CO-OPERATION

JUST as the common principle does not indicate precise policies, it equally fails to point out the exact form of machinery required for the purposes of co-operation. Again, however, there are upper and lower limits. The discussions at Toronto made it clear that, if the delegates were at all representative of their countries, the upper limit must be the avoidance of any centralised foreign office, bureau or secretariat for external affairs. Any plan which even savoured of determining a common policy, to which the Dominions would be as much as morally committed, would be instantly rejected by important influences in the Dominions. The lower limit, on the other hand, is set by the absolute necessity of complete interchange of information on foreign affairs. Common action, even consultation, is impossible or dangerous unless it succeeds a course of constant and immediate communication of information.

Within these limits, the machinery of Commonwealth foreign relations seemed to the Conference to need development in two directions—towards better means of co-

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operation among the members of the Commonwealth, and towards the fitting of those members for the responsibilities that they have assumed by attaining the status of independence in external policy. The second line of advance is every bit as important and urgent as the first. The High Commissioner of a Dominion in London, for instance, is not merely a channel of communication between the Dominion and the United Kingdom, but he has also frequently to represent his Dominion at Geneva or upon other international occasions. That he should be a person of such character, status and training as would fit him for the discharge of semi-diplomatic international duties is just as essential for the latter purpose as for the former. Again, the despatch of information on foreign affairs by the government of the United Kingdom to those of the Dominions is waste of time unless the Dominions have Ministers and departments prepared to deal with the information as it deserves. One of the most important suggestions in this field made at the Toronto Conference was that a Dominion Minister of External Affairs should not hold any other portfolio, in order that he might be free to spend a considerable part of his time abroad, as the British Foreign Secretary properly does, and especially to lead the Dominion's delegation to the Council or Assembly at Geneva.

No elaborate new machinery is required, but rather a fuller and better use of existing machinery. Again, that involves questions of personnel and training more than questions of administrative reorganisation. The first essential, whether it is in our own representation in the Dominions or in theirs in the United Kingdom, or abroad, is that there should be the right men with the right training, from junior secretary to High Commissioner. An adequate supply of High Commissioners, Ministers plenipotentiary, and other exalted representatives of the Dominions, of the requisite ability and training, can only be assured if there is a regular channel of preparation and promotion, if, that is to

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say, a young man can make a career in the external affairs of his Dominion, with the ambition of ultimately becoming one of its representatives in foreign or Dominion capitals or in the Mother Country. Now the Dominions cannot afford and do not need foreign offices, departments of overseas trade, and so forth, on anything like the scale of those maintained by the United Kingdom. That is all the more reason why the resources of the United Kingdom, in experience and in variety of external contacts, should be fully available to the Dominions and should be fully exploited by them. This has a particular significance in the realm of colonial administration, in which the interest of the Dominions has been vastly increased by the mandatory system.

Interchange of personnel, among the offices of the United Kingdom and of the Dominions concerned with external affairs, is one method which obviously deserves further trial. It raises, however, another vital issue for the Dominions, whose civil servants frequently possess a status, education and emoluments inferior to those of the Administrative Division of the British service. In Australia and New Zealand, for instance, if a permanent civil servant is possessed of a university degree, it is usually because he has acquired one by extra-mural study while already a full-time member of the civil service. There is no need to elaborate the problem which is thus raised for the Dominions by their assumption of fresh responsibilities.

Comparison, however, with the services of the United Kingdom brings to mind another important point. The importance and international status of the United Kingdom have required her to be fully represented, commercially and politically, in every country of the world. Our diplomatic, consular, and overseas trade services extend wherever British interests are lodged. The Dominions, faced with no such necessity, have been content, for the most part, to make use of British services for their own representation abroad. Even in border cities of the United States, for

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instance, it is to the British consular officer, not to any representative of his own Dominion, that the Canadian citizen in distress must apply. The issue raised by the Dominions' assumption of external independence and equality has sometimes been presented as a choice between the creation of complete consular and other external services by the Dominions, on the one hand, and on the other the establishment of joint British Commonwealth services, towards the finances and control of which every Dominion, as well as the United Kingdom, would contribute. If, indeed, our mutual relations were those of foreign Powers, there would be no other reasonable alternative—but we are a British Commonwealth, united by more than constitutional formulæ and administrative arrangements. The United Kingdom is the metropolis of the Commonwealth as well as the equal colleague of the Dominions. If her overseas services, which she maintains for what she conceives to be her own and imperial purposes, can be of service to the self-governing Dominions, she is gratified and demands no recompense. The initiative for a change is entirely with the Dominions. It is significant that when this point was raised at Toronto, a very widespread opinion was expressed by certain members of all the Dominion groups that some payment should be made in recognition of services rendered; but that the United Kingdom group replied "that there was no shadow of criticism of the Dominions in the United Kingdom for not contributing, and that contributions, other than fees for special services, might even lead to demand for an embarrassing share of the service." These apprehensions will, perhaps, not be universally shared. In certain instances (such as that already mentioned), where the major part of the British representative's work is on behalf of Dominion citizens, a desirable solution may be the reversing of the rôles of the Dominions and the United Kingdom, the latter gratefully accepting the services of the Dominion emissary.

The problem of defence is in some respects similar.

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Just as the Dominions have properly established their own representatives in countries with which they have special economic or political ties, so each Dominion undertakes the measures it thinks necessary for its own local defence. The United Kingdom, meanwhile, accepts the responsibility, in peace time, for the defence of the Commonwealth as a whole, maintaining a navy which is ready to defend any Dominion becoming involved in military conflict. The extension of direct or financial contributions by the Dominions towards the naval defence of the whole Commonwealth is recognised at present as a matter for their decision. The breakdown of the collective system, if it were to occur, might compel them as well as ourselves to review their whole defensive problem. For the moment, at least, our hopes lie rather in the opposite direction, namely, that the progress of international disarmament may diminish the load of imperial defence upon the shoulders of our peoples, and remove that problem into the outer fringes of Commonwealth affairs.

The further, therefore, that we pursue the implications of the 1926 and 1930 resolutions in the field of Commonwealth co-operation, the plainer become the hypotheses that their authors consciously or unconsciously assumed. They were evolved against the background of a world in which the collective system played the leading rôle in international affairs, and seemed likely to grow in strength as the years passed; in which disarmament by international agreement was an object of expectant faith rather than barely legitimate hope. Could they survive as the constitutional foundation of the Commonwealth in a world without a collective system, and in which international disarmament had been indefinitely postponed? That was a question to which the Toronto Conference offered no direct answer.

THE PROBLEM OF SOUTH-EAST EUROPE

VIENNA and the neighbouring regions have recently celebrated the 250th anniversary of their release from the Turks. It was a glorious victory, which was to bring peace and ease to the peoples along the Danube and eternal glory to the Hapsburgs. Yet to-day the Hapsburgs are deposed, and the peoples of their old empire distracted. And so from all sides, from within and from without, remedies are being urged with the object of restoring normal life to the Danubian region—urged with all the anxiety of doctors with a case which is not only grave in itself but also carries with it a danger of epidemic disease.

In all this there is a twofold paradox. The first is that such distress should afflict a part of Europe which formerly constituted one of the oldest and proudest of modern empires; and, second, it is still more paradoxical that all these plans for recovery should be intended for the very region which was the most thoroughly reorganised of all only fourteen years ago at the peace settlement. This is hardly a flattering reflection on that settlement. Yet it is not enough merely to throw stones at the peace treaties. If the attempt at a settlement which those treaties represent has been unhappy, it is largely because the problem is so unwieldy. But in saying this we have no more desire to supply an apologia for the peace settlement than we have to launch an attack upon it. The proof that the difficulties are for the most part inherent in the nature of the problem is that the would-be reformers, whether friends or critics of the present arrangement, have

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so far been unable to suggest any plan for reviving the life of Danubian Europe which would not again do more or less violence to its economic fabric or to the national sentiment of one or other of its parts.

The problem which statesmen have to face in the region in question is, in fact, two hundred and fifty years old. One may say, in a general way and from a political point of view, that while modern European history is the story of the creation of national States, the story of the Danubian basin is essentially a chronicle of the failure of that process in a particular region. The Hapsburgs successfully removed the first obstacle to national consolidation by checking the advance of the Turks, but after that achievement they failed in their next—the real—task. They never succeeded in welding the various territories and peoples whom they ruled into a political community. The war effort of the Allies was successful in that it broke the shackles that bound so many Danubian nations unfairly together, but the peace settlement failed to provide a new basis which would permit those nations to live peaceably side by side. And now the Nazi revolution has once more brought the problem to an acute stage, and, as on former occasions, with the crisis it has brought an opportunity.

There is a crisis because national differences and antagonisms are being violently inflamed, largely by the action of racial and religious elements which, generally speaking, had lain dormant ever since the retreat of the old Turkish empire, but have now been stirred into life again. At the same time, as a result of the all-round aggressiveness of the Nazi policy, the neighbouring peoples are facing their common problems anew in the cold light of reason, and the old susceptibilities, reservations and unadjustable ambitions are, to a large extent, giving way to a sense of reality. Above all, Nazi policy has thrown Austria back upon her neighbours, and she will now have to be included in any healthy Danubian system both for economic reasons and as a way of reducing the restlessness

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of the important German minorities in Czechoslovakia, Transylvania and the Vojvodina.*

Thus it comes about that after the failure of the Hapsburgs to solve the Danubian problem imperially, and the failure of the peace treaties to settle it on a national basis, the present political situation has brought a third opportunity of settling it on rational lines before it again starts festering and once more calls for the surgery of conflict.

I. THE DANUBE CORRIDOR

AT a juncture such as this, it may be useful, even in a short article, to take stock of what may be called the bricks and mortar of the Danubian problem, so as to see what one could make of them. A problem which has so obstinately refused to shape itself into something fairly workable in the general process of the political development of Europe must obviously present exceptional difficulties in its very materials. Who could fail to be struck, for instance, by the unparalleled mixture of races in the Danubian basin? What chance was there of peaceful building with such materials in this era of nationalism? Why, in the face of such obvious difficulties, did the rulers of that region not devote all their skill and energy to putting their own countries in order, instead of being drawn away, as it were, by some diabolical mirage into schemes which have only made the national issues still more complex and disruptive?

However much their conduct may be put down to swollen ambitions and wrong policies—and the history of both the Austrian and the Ottoman empires is full of errors of this kind—no picture which failed to take into account the fateful part played in this matter by geography could be either fair or complete. If State-building has been made difficult by the mixture of peoples, that mixture was itself

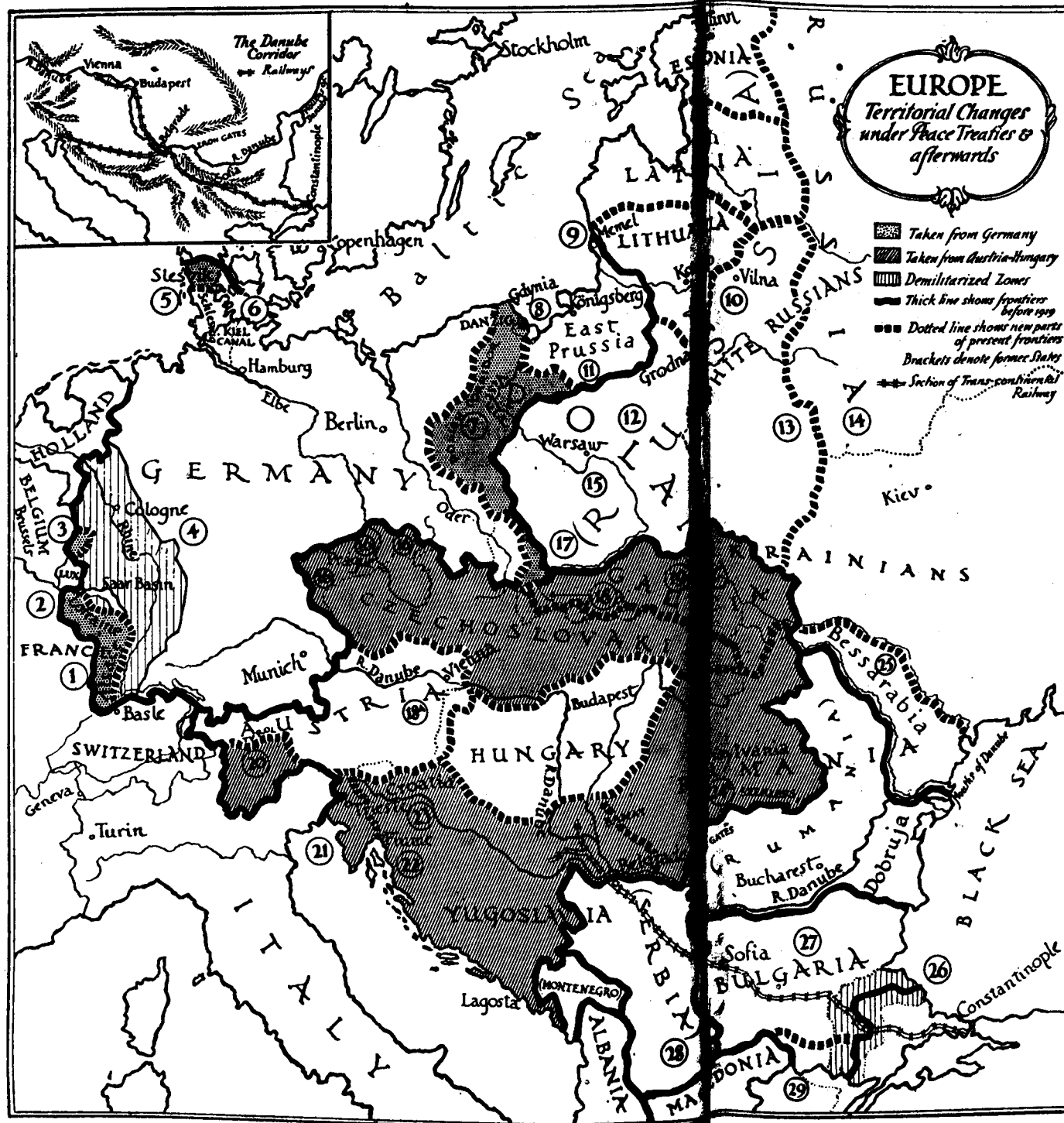
* The Vojvodina is the Yugoslav part of the Banat.

The Danube Corridor

in the first instance the product of geography. Take a map of Europe* and hold it at arm's length, so as to be able to take in the main features of the southern half of the continent, and you will at once become aware that the Danube, with its valleys, forms a mighty corridor from east to west; and not only from the east to the west of Europe, but also from the eastern to the western continent. This becomes clearer still if one disregards the river's break through the Carpathians at the Iron Gates and follows with one's eye what would otherwise have been its obvious course. After striking the obstacle of the mountains, the Danube would normally have skirted the Balkan range, and flowed down the valley that is now followed by the great transcontinental railway to Constantinople. As it was, neither the lands of the Hapsburg empire, nor the European possessions of the Sultans, formed compact regions convenient for the shelter of a large unitary State. Both were instead strung along the corridor, which has provided a passage for innumerable invasions and migrations, both eastwards and westwards, each movement leaving straggling remnants here and there in its wake.

This result of historical evolution has been aggravated by the policy of a number of rulers, whose difficulties or weaknesses have induced them to try to apply to the national problem the Pasteurian method of fighting disease with its own virus. They broke up the cohesion of national groups by planting among them minorities of a different race, thus making the confusion of populations worse confounded. The Saxon colonies in Transylvania and the Banat, the Szekler colonies along the former Austro-Hungarian border, and all the Turkish settlements in the Balkan peninsula, are cases in point; not to mention the strange way in which, in Bessarabia and Dobrudja, one comes upon French, German and Swiss villages which retain not only their own language, but even the dialects of the places from which they originally came. It is not without importance for

* A map will be found on pages 66-67.



- Alsace-Lorraine—to France (T. of V.).*
 - Saar Basin—under governing commission appointed by L. of N. until 1935, when a plebiscite will be held. Mines ceded to France till 1935.
 - Eupen and Malmédy—to Belgium (T. of V.), confirmed after plebiscite by L. of N.*
 - Demilitarised zone.
 - Slesvik—plebiscite 1920, north part to Denmark.
 - Kiel Canal—internationalised (T. of V.).
 - Polish Corridor—from Germany to Poland (T. of V.).
 - Danzig—free city under High Commissioner of L. of N. (T. of V.).
 - Memel—to Lithuania (Conf. of Ambassadors) 1923. Confirmed by L. of N. 1924.
 - Vilna—by Russia to Lithuania July, 1920, seized by Poles Oct., 1920. Boundary defined by Conf. of Ambassadors, leaving Vilna to Poland 1923.
 - East Prussia—plebiscite 1920, retained by Germany.
 - From Russia to Poland, boundaries defined except to East (T. of V.)
 - To Poland after Russo-Polish war (Tr. of Riga 1920).
 - To Poland, and Eastern Boundary defined (2nd Tr. of Riga 1920).
 - Poland—independence proclaimed 1918, recognised T. of V. Minority population under protection of L. of N.
 - Bohemian Germans.
 - Silesia—plebiscite 1921, dotted part to Poland.
 - Teschen, Otava and Zips—part to Poland and part to Czechoslovakia after plebiscite 1920.
 - Burgenland—plebiscite 1921, final award L. of N. 1922 to Austria.
 - From Austria-Hungary (T. of St. G.).*
 - Austrian Tyrol—to Italy (T. of St. G.).
 - To Italy (T. of St. G.).
 - Fiume—Free State T. of Rapallo 1920, to Italy by Italian-Yugoslav Treaty 1923.
 - Croatia—to Yugoslavia from Austria-Hungary (T. of V.).
 - Transylvania—from Hungary to Rumania (T. of Tr.).* Hungarian-Rumanian disputes 1923-27-28.
 - Minority under supervision of L. of N.
 - Bessarabia—from Russia, 1920.
 - Demilitarised zone on Turkish frontier (Tr. of Lausanne 1923).
 - Minority population under supervision of L. of N.
 - Macedonian Bulgars.
 - From Bulgaria to Greece (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.

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the present situation and for our thesis that the post-war governments should have continued to meet a similar problem with similar methods. Yugoslavia, for instance, has made use of agrarian reform to plant extensive Serbian colonies in the Vojvodina and Macedonia, and, with a still pettier purpose, even among her own Catholic Croats. Rumania has let herself in for endless trouble with the Vlach colonists, who were induced to abandon their ancient homes in the Epirus and settled on land taken from its Bulgarian and Turkish inhabitants, so as to "nationalise" southern Dobrudja. History and politics together have thus produced the extraordinary motley of nationalities that one finds in Macedonia and the Banat, in southern Bessarabia and in the Dobrudja, to name only the best examples. One finds in these districts several nationalities, not only inhabiting different villages side by side, but often three or even four of them, with as many different languages and nearly as many different religions, sharing one and the same village. Everybody acquainted with these conditions knows that the principle of national self-determination could never lead to an honest political settlement in the Danubian region.

We may then retain this as our first conclusion. But the same conditions were responsible in the main for another political feature in this region, one that has been repeatedly laid to the charge of the vacillations of the Hapsburg temperament. Yet it does not seem unreasonable to suppose that the apparent inability of the Hapsburg rulers to choose between a western and an eastern policy, to limit their ambitions either to domination in the Germanic west or to expansion towards the east, was really also the result of geography. An empire with an axis formed of such a mighty corridor, important in itself, and indispensable to others, is as powerless to escape the pressure of the different interests concerned as it is to avoid the influx of peoples at either end. If Austrian policy was drawn towards one end by the ties of blood, it was at the other, so to speak, carried

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away by the flood of the Danube. The Turkish empire was in a similar position, astride the continuation of the same corridor towards the Middle East, and it suffered in consequence from a corresponding weakness in its policy. When the westward pressure of the Turks weakened, it was followed by the eastward pressure of the Slavs and the Germans. There is no State in that region which has been immune from similar impulses. Again, it is important to note that the new States in the Danubian region have all of them inherited this particular weakness as part of the Austrian succession. Yugoslavia is as deeply affected by central European as she is by Balkan issues, and she cannot weigh the scales in favour of either without entailing some damage to the basis of her empire. When the predominant Serbian influence in her councils decided upon a Balkan policy, directed towards Macedonia and Salonika, and renounced the Adriatic ports, she took a step which, in a sense, severed the interests of Croatia and Slovenia from those of Belgrade. Nor is Rumania always able to reconcile the interests which draw her eastwards through Bessarabia with those which chain her painfully, through Transylvania, to the fortunes of central Europe. The most sober-minded of statesmen in any of these countries, looking either east or west, would be hard put to it to declare "Here, at this point, the interests of my country stop."

It follows that no rigid political dividing line can be drawn in this region without doing an injustice to the needs of some country or other, or intercepting some line of general intercourse, thereby creating resentment and opposition. An arrogant federation would be as irksome as a "barbed wire" fence, a partial league as irritating as a closed "totalitarian" empire. There is a lesson to be learnt from all the failures to set up a Balkan league, or even an alliance. In the Danubian basin, as in the Balkans, every one of its peoples has, so to speak, a stake in some dispute or other with all the others, and the compounding of one issue is promptly taken to mean that the two parties

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want a free hand, or want to join hands, so as to enable them to deal more forcibly with the questions that divide them from some third party. The conditions are altogether peculiar in this part of Europe. Any separate agreement, useful and innocent though it may be in itself, seems destined always to be countered by some less useful and innocent arrangement between parties which have no part in it. A separate agreement is, at all events, sure to rouse in them deep suspicion; and either result is bound in the end to defeat the purpose of the partial effort. And so we cannot avoid the conclusion that, just as the mixture of races precludes any practicable settlement on the basis of rigid national units, so the mixture of interests condemns in advance any settlement dependent on the existence of particular and exclusive political or economic groups.

II. SCHEMES FOR ASSOCIATION

HERE we have a simple and natural explanation why the numerous post-war schemes for some kind of Danubian association have, one and all, come to naught. Whatever their source and form, they have all had this in common: every one of them was devised to further the aims or to allay the fears of one or other Power or group of Powers. None could be said to have been conceived simply and solely, without any *arrière pensée*, to help the peoples of this region to live and work together again. One can assert this confidently without allowing for any exception. The plan for an Austro-Bavarian union, in the early days after the war, was born in France—like other separatist schemes—with the idea of reducing the power of Germany, and at the same time of re-creating an important Catholic Power in central Europe. The idea of an Austro-Hungarian union was mooted by monarchist elements in France and elsewhere, in sympathy with the exiled Hapsburgs. It was also at times favoured by Italy as a check to the Little

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Entente and French influence; in the same quarters, too, there has been some play with the still more problematical notion of bringing about some working union between Austria, Hungary and Bulgaria—the three victims of the peace settlement. Before the fascist revolution Italian statesmen tried to compass a close political and economic union between Italy, Austria, Hungary, Rumania and Poland which, besides sundry minor advantages, would have formed a solid barrier between the northern and southern Slavs. Quite recently some Hungarian magnates, acting no doubt with Italy's blessing, tested the possibility of effecting a Rumanian-Hungarian union; but the private interview between King Carol and Count Bethlen proved of no avail. Nor can it be said that the more extensive schemes for Danubian federation have been prompted by less narrow motives. Some of them have been made public, others remained stillborn, but there have, in any case, been too many of them to permit of their being mentioned here. The validity of our historical conclusions, however, can be tested by a study of the only group that has actually come into being—the Little Entente.

The intention of its originator, the late M. Take Ionescu, was that the group should include Poland and Greece, but these two countries held back, and their attitude is a good illustration of one of our points. Both countries had interests of a kind in the Danubian region, and they had a great interest in protecting the new peace settlement, but they were as little anxious to involve themselves too closely in central European issues as the other prospective partners were to assume any obligations in respect of the problems which were pressing upon Greece and Poland from the east. Indeed, the Russian issue, which for the border countries towers above all others, was specifically excluded from the purview of the Little Entente, for even the three countries which joined it could not otherwise have worked together in central Europe, had they tried to come to an agreement about eastern Europe. Limited geographically, the Entente

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was thus also restricted in scope. It has, indeed, been little more than a negative alliance for defence. It might have taken up the unfulfilled mission of the Hapsburg empire, but it has been content merely to take up its weapons. Is, then, the Little Entente a more promising association in the new form that it has recently adopted? Though the story of its sudden blossoming into something like a federation for diplomatic purposes has not yet been made public, it is certain that the event came as a surprise and it evoked little enthusiasm. It was, in fact, only an anticipatory defensive move to counter Signor Mussolini's Four Power Pact. The Foreign Ministers of the Little Entente were in conclave at Sinaia when M. Benes—who, with the aid of his war experience, has built up a secret service which has its ear nearer to the ground than that of any other country—got word of what was brewing in Rome and without difficulty persuaded his colleagues that they could preserve the Entente's influence only by transforming it, so to speak, into a fifth Great Power. It was not to be expected that the change would prove attractive to Hungarian and Bulgarian eyes. To them, in the words of the Sofiote *Slovo*, it appeared, "not as an effort to consolidate peace, but as a reaction against the revisionist movement."

Having entered upon this more ambitious road, the leaders of the Little Entente apparently felt bound to consider also the establishment of closer economic co-operation, so as to give substance to the claim that the new compact was destined to be permanent and constructive. Elaborate discussions, assisted by experts, committees and memoranda, took place at Prague in the early summer, and in October M. Benes, at Sinaia, put forward a programme consisting of fourteen points which is to be elaborated into as many conventions. The whole is to constitute a five year plan, which is to begin with the co-ordination of communications by land and in the air, and an as yet undefined co-operation of the three central banks, but is in-

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tended to develop during the five years into something like an economic union. In the meantime Yugoslav breeders complain that Czechoslovak tariffs have disorganised the export of pigs (another significant reminder of the old quarrels with Austria), causing them in a short time a loss of 25 million dinars; but the Czechoslovak agrarians are unwilling to make concessions. On the other hand, the Rumanian Union of Metallurgical Industries has issued a number of statistical studies to show that at present one half of Rumania's needs are satisfied by her own metallurgical industry, which would be ruined if the door were opened to Czechoslovak imports. These studies deal also with the general commercial relations between the countries of the Little Entente, and their conclusion is that an economic union between them is impracticable. Czechoslovakia cannot absorb the whole agricultural surplus of the two other partners, and the latter cannot make use of all the manufactures that Czechoslovakia has for export. So far, indeed, the only visible result has been the creation of an economic secretariat, consisting of three national branches; and sober opinion in the three countries already fears that the search for economic unity may prove rather a pitfall for the existing political union.

This may seem a somewhat unfavourable judgment to pass on the Little Entente, and it is only fair to allow that there were mitigating circumstances. Like most associations, the Entente has made the lowest common denominator the basis of its work. A more far-sighted attitude was not altogether lacking in its councils, and the Prague leaders have often chafed under the strain put upon their principles and their outlook by the conduct of their allies in Belgrade and Bucharest. Broadly speaking, the latter have shown little sense of the responsibilities placed upon their countries by their new position as States with a largely increased territory and a mixed population. They have tried to rule a complex system of extensive and varied provinces as they might have ruled a tribal village.

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But here again another factor has to be taken into account, one that has played, and still plays, a weighty, if rarely a wise, part in the politics of the Danubian region—namely, the intrusion of the Great Powers. They have neither known how to solve the problem themselves, though they had their opportunity at the peace settlement, nor have they left those immediately concerned to solve it themselves as best they might. Innumerable instances could be mentioned to prove this, but they are mostly already within the knowledge of the public. For instance, the “barbed wire” policy imposed by far-off western politicians upon the States bordering on Russia favoured, almost inevitably, a very conservative and semi-military type of government in those countries; and governments of that kind are the least capable of solving the national and social problems of the post-war years. Their policy has, on the whole, been centralist and authoritarian to a degree—they have treated their own new provinces almost like enemy territory. These are strong words, but how else could one describe the policy, to give one conspicuous example, which has for ten years kept Bessarabia under martial law, and thereby more thoroughly prepared the ground for radical discontent than the whole machinery of Soviet propaganda could have done in half a century? Yet when some ten years ago Rumania had a chance of coming to an agreement with the Soviets, M. Poincaré, we are informed on good authority, sent General Berthelot to Bucharest with the stern message that a settlement with Russia would mean the end of all support from France.

At this point we touch a very important aspect of our problem. It is sometimes said that central Europe has been “balkanised.” Yes, but only in the sense that it has become the diplomatic playground of the Great Powers, in the same way as the Balkans have been for a century and more. What a curious distortion of history it is to represent the Balkans as the mainspring of European conflict!

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The Balkan trouble has seldom amounted to more than a rash, caused by periods of high fever in general European politics. The simple truth is that it was the Powers who first delayed the emancipation of the Balkan peoples, and who, when that could no longer be prevented, intervened arbitrarily at every stage and, for reasons of their own, stultified the tolerable arrangements which the Balkan peoples were ready to conclude among themselves. The Balkan problem was never as great a danger to Europe as the European problem has been to the Balkans. And just as formerly the Balkans were the common ground where Austrian and Russian quarrels met, so since the war Italian and French ambitions have clashed on the Danube. Instead of telling these young States “You must settle things among yourselves,” the Powers have usually told them “You must not settle them without our consent.” And that consent was usually given less as a blessing than as a bargain. The political situation at the moment of writing offers a telling corroboration of this argument. While, in the west, the political relations of the Powers have deteriorated into a state of latent conflict, the Balkans are at this very moment the scene of the most promising pacific activities. On August 31 last, the Greek Chamber adopted a resolution instructing its President to take steps to speed up the work of the semi-official Balkan Conferences which lately have met every year to discuss ways and means for economic and cultural co-operation. In consequence, the President of the Greek Chamber has addressed formal but cordial letters to the heads of the other Balkan Governments and to the Presidents of their Chambers, invoking their aid so that the measures on which the Balkan Conferences were agreed might be put into effect with greater expedition.

But the work of the Balkan Conferences, excellent as it has been as a means of preparing the ground, has now been put into the shade by the formal activities recently initiated by Turkey. Under the inspiration of her Minister for Foreign

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Affairs, Tewfik Rushdi Bey, she began by settling in a comprehensive and liberal manner all the issues that divided her from her old enemy, Greece. The pact signed at Angora in August goes much beyond anything achieved so far by the Little Entente States among themselves, not only in removing differences but also in providing for effective co-operation. It was hailed by the Greek semi-official press as a pact of union between the two countries; and it would seem that influential quarters at Angora, in close touch with the Ghazi, actually aspire to a dualist Turko-Greek State, with Angora and Athens as the local capitals and Constantinople as the common capital, with a joint system of defence and other common services—in short, something like the old Austro-Hungarian dualism but with a more liberal spirit and purpose. It is interesting to note that, having come to an agreement with his most difficult neighbour, before suspicion could even raise its head, Rushdi Bey at once took steps to extend his policy to the whole region and to encourage a settlement of the various issues which divide the other Balkan States. As a result, south-eastern Europe has witnessed in the last few weeks the most extraordinary round of visits, ministerial and royal. The Prime Ministers and Foreign Ministers of each country have visited every other; the Yugoslav and Bulgarian kings have met, for the first time since the war, in the station at Belgrade and later at Euxinograd; King Alexander went to Sinaia, and then to Constantinople as the Ghazi's guest; and now King Carol and King Boris have met on the Danube. Even the peripatetic M. Titulescu suddenly discovered the East and made a pilgrimage to Angora. In fact he went there as the spokesman of the Little Entente to give its support to a general entente between Rumania, Yugoslavia, Bulgaria, Greece, Turkey and Soviet Russia, who have many common interests in the Black Sea and the Ægean; and to urge the general extension of the Græco-Turkish pact to the other south-eastern countries, on the basis of the formula defining aggression which is the

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core of the pacts signed in London between Russia and the border States.

It is an extraordinary phenomenon, this emergence of the old bully of the Balkans, the former "sick man of Europe," as the healer of south-eastern Europe! It shows that the leopard can change his spots. It shows still more that even a small State can wield a strong and beneficent influence when it is known to have renounced selfish ambitions, when it takes the lead by the natural right of goodwill and ability rather than by a display of armed strength. It shows, above all, that the much defamed Balkans can set an example in political conduct when the distracting interference of the Powers is absent. And so we discover another essential postulate for the recovery of Danubian Europe: if the problem is to be handled with a chance of a lasting settlement it must be considered without any regard for the balance sheets of outside Powers. Nobody would deny that the Powers have legitimate interests of their own and a right to defend them; but even for them, and from any point of view, there is no more real interest than the pacification of the whole region. That will not be achieved if the immense local complexities are confused still more by the cross-currents of extraneous claims and ambitions.

III. THE EFFECTS OF THE NAZI REVOLUTION

OF all such intrusions since the war, none has been so violent and disturbing, because so incalculable in its aims and actions, as the Nazi revolution. All the three conditions which we have suggested as indispensable for the revival of Danubian Europe have been deeply, and for the most part adversely, affected. The revolution has hardened the lines of national division and the temper of politics throughout central and eastern Europe. First of all, it has naturally stiffened the attitude of the Germanic

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minorities. Even the German minority in Czechoslovakia, which, thanks to the tolerant attitude of President Masaryk, M. Benes and M. Hodza, the Agrarian leader, had been offered all the conditions necessary for a free and active life, including at different times posts in the Cabinet, is beginning to feel the inevitable reaction to the Nazi policy and philosophy. Under the pressure of excesses committed by Nazi sympathisers, the Czechoslovak Government has lately had recourse to restrictive measures which have never hitherto been necessary. Rumania a few years ago set up an under-secretariat for minorities, the first of its kind, and actually placed a Saxon from Transylvania, Dr. Rudolf Brandsch, at its head. But the Transylvanian Saxons have also caught the Hitlerite fever and they have organised themselves into armed battalions; recently, in the presence of Nazi delegates from Germany, they held parades at which the Lutheran bishop gave them his blessing, and all dissentient opinions were rudely silenced.

We have all respect for the minorities (writes the independent and liberal *Adeverul*, of Bucharest), and for their public activities. But the organisation of an armed force on our territory and in the service of another State is a very strange thing indeed. We need only presuppose a conflict in which Germany would be on the other side: we would then have an enemy force behind our front. Is it conceivable?

These Germanic activities could not long remain without an answer from other national camps. In Rumania "Iron Guards" and other preachers of violence are being organised, not altogether without the Government's toleration. For the moment their anti-Semitic policy may give them something in common with the Nazis; but, as in Russia and elsewhere, Jewish pogroms have always been merely the prelude to more general social and political outbursts. A Nazi movement in Poland has already its own well armed Storm troops, dressed in deep-red blouses; and to the "Aryan" clause its programme has added a

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"Slav" clause, which lays it down that in the future Polish Nazi State all people not of Slavonic origin are to lose their rights.

"These tendencies will be more difficult to allay than they have been to arouse, for they are being brought to the surface again in a region where the idea that to live is compatible with to let live was only just beginning to find acceptance in politics. Their effect is all the more grave in that the ways of the Nazi movement are being reflected not only in the popular temper but also in the methods of government. In Austria Dr. Dolfuss has countered the Nazi menace by setting up a dictatorial government of his own; whether the change was necessary or merely opportunist it is not easy to say. There is good authority for believing that the rulers of Yugoslavia had at last come to realise the necessity of doing justice to regional needs and demands, and that they had ready a decree introducing a measure of provincial autonomy, on historical lines, which would probably have satisfied the Croats, and might also have solved at last the cancerous Macedonian question. When, however, the Nazi movement achieved power in Germany, the more intransigent elements gained fresh influence at Belgrade; the proposed reforms were shelved, and instead the Croat leader, Dr. Macek, was sent to prison for three years. Dictatorship was again in favour, and the centre of political gravity had shown a tendency to shift from internal dissensions to a supposed external danger. In the north, a similar movement, said to have been influenced by the German Baltic barons, has suddenly turned Estonia into an authoritarian State. This development, together with Hitler's demand for eastern outlets for German colonists, caused *Izvestia* to write, on October 18:

The fascistisation of Estonia can have only a negative effect on Soviet-Estonian relations. It is part of a preparation for adventures which will be extremely dangerous to the cause of peace.

Russia had not waited for the Estonian incident to show

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how much she distrusted Nazi foreign policy. M. Litvinov used his stay in London during the abortive session of the World Economic Conference to conclude a series of sensational pacts with all the border States,* based upon a formula defining aggression which will make history. A visit to Paris enabled him to set Russo-French relations on much more friendly basis than they had been at any time since the Soviet revolution. Foreign correspondents have reported that Russia has also given Poland an assurance of friendly neutrality in case of a German attack, the offer being made in response to a direct enquiry from Marshal Pilsudski, who had not seen a foreign diplomat for at least three years, but who was now sufficiently disturbed to send for the Soviet Ambassador to Warsaw.

One can say (wrote the *Indépendance Roumaine*, the official organ of the influential Liberal party) that one of the most exposed regions of the Continent has been completely freed from the nightmare of war. From the Baltic to the Black Sea, on a line until now perpetually threatened by a possible attack, all fears have been allayed.

This effect of Nazi policy on Russian policy makes the present situation very much like the old Eastern problem. The border States have been suspicious of Soviet Russia, though perhaps less so than they had been of Tsarist Russia, with its avowed ambitions to expand its territory. Nevertheless, just as formerly the Austro-German *Drang nach Osten* caused the States of south-eastern Europe to look even upon Tsarist Russia as a protector, so the expression of Eastern aspirations by Nazi leaders has thrown the smaller eastern States if not into the arms at least into the parlour of the mighty Russian empire.

It was this aspect of the situation that we had in mind when we said at the beginning of the article that while the Nazi revolution has caused a crisis, it has also created an opportunity. For in the measure in which the line of division between Germany and her neighbours is hardening, the lines which divide the various political groups in central

* Including Rumania notwithstanding the Bessarabia problem.

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and eastern Europe tend to fade. The competition for influence between France and Italy has subsided since the summer to a point at which France appears to have become almost indifferent to the claims of the Little Entente; and the Little Entente itself, thanks to the restless and intelligent activity of M. Benes, is feeling its way towards a reconciliation with Signor Mussolini's standpoint. Nazi policy, so far from being responsible for the recent tightening of the Little Entente, has rather reduced the need for it. That step, as we have already suggested, was really meant as a check to Signor Mussolini's revisionist Four Power Pact, which had been devised for the benefit of the vanquished States—Germany, Austria, Hungary and Bulgaria. Since the Pact was signed, however, the intransigence of Nazi policy has resulted in a visible cooling of Signor Mussolini's sympathy for German aims, and in a definite break between Germany and Austria. Hence the chessmen on the Danubian board are again free for a fresh move. Perhaps it may prove to be a combination of the Italian view and that of the Little Entente. The recent Italian memorandum on the economic reconstruction of the Danubian countries is not very different, in substance, from the programme lately outlined by M. Benes in the article which appeared in the *Observer*, under the title "New Hope for Austria." Both reject the idea of federation (M. Benes insisting that each national unit should retain its integrity), and both rely essentially upon a wider and more systematic development of a network of preferential agreements, which should gradually diminish the economic importance of political frontiers, and bring about a "common economic circulation." Both, again—and this may prove the binding element between the two—are inspired by the crucial aim of preventing an Austro-German *Anschluss*.

The participation of Austria and Hungary is indispensable to any sound scheme of Danubian reform, and Nazi policy has made the Little Entente a present of an Austria more

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willing to come to terms than perhaps ever before. The policy of preventing the *Anschluss* by force could never have succeeded in the long run ; but the whole future of Danubian Europe would loom brighter if the *Anschluss* were to be prevented by an alternative policy of goodwill and co-operation among the Danubian States. Such an alternative would require the condition that Austria should feel at least as well off materially as she would be in a union with Germany, and in that respect the fears of Austrian industrialists that they might be crushed by German competition have now been reinforced by the fears of the Austrian workers that their standards might be depressed by reactionary Nazi legislation (though Dr. Dolfuss might lose this valuable asset if he should follow a similar policy).

Secondly, Danubian co-operation would be ruled out if Austria were to sense any danger to her independence and national character in such a grouping. As far as that is concerned, the odds are at present if anything against the *Anschluss*. For it must not be overlooked that unity of language is one thing, but diversity of history, culture and temperament is another. The Austrians are deeply attached to the Roman Church and can hardly feel attracted by the paganism of the German movement. Wotan and Siegfried never enjoyed a great following in Austria. These differences may count for more now that it would be a question of joining a centralist and "totalitarian" State than they did while Germany was still a federal State. To this must be added the problem of Vienna. Union with Germany would probably mean the utter decline of that great city. In the German Empire it would be little more than an overgrown border town, without life or purpose except as a garrison, destined in the end to share the fate of Fiume. Its main function now is to act as the metropolis of an extensive and variegated hinterland, but that rôle would be difficult to maintain if it were absorbed in the Reich, and with the present

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German ideas and policy it would be impossible. Vienna can never regain its old glamour as the capital of a magnificent empire ; but it was also a centre of intercourse between East and West, and it has suffered from the interruption of that intercourse since the war. At present it is already benefiting from the decline of the Leipzig fair and of other German trading centres, and therefore a revival of economic life in the Danubian region would probably save the city, just as the revival would, in its turn, be served by the existence of the city, and so help to save Austria.

The widespread view that little Austria cannot support such a big centre rests on a misunderstanding ; it is rather Vienna, which itself has always been solvent, that cannot support Austria. Austria herself could play just such a rôle in the Danubian area as Vienna plays in Austria, that is, she will serve as an active link between the German populations and the mixed peoples of central and south-eastern Europe ; but she could do so only if she retained her present position and peculiarities. As the eastern outpost of a huge pushing German empire she would, on the contrary, be an irritating spur pressed against the flank of the Danubian region, always suspected and always avoided. Under the present dispensation the *Anschluss* would in fact re-create the Eastern Question, with Russia and Pan-Germany as the chief antagonists, and with south-eastern Europe once more the field of combat.

We have a touchstone for testing these two broad alternatives in the effect that they would be likely to have on the German minorities in the Danubian region. A Pan-German empire would exercise a violent attraction for them and keep the large German minorities in Czechoslovakia, Yugoslavia and Rumania in a state of restlessness, which could lead only to reprisals against the minorities and to conflicts between the States. If Austria, however, were included in some Danubian grouping, those minorities would value the support of the Germanic province with which, of course, they have had the oldest and closest

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contact ; that support would be based, moreover, on a community of culture, which would reinforce the community of interests with the other nationalities. More important than any material details would be the habit of co-operation and friendly adjustment among those directly concerned. That would not, however, be assisted by outside interference. It would be helped only by free economic intercourse, but at present the necessary economic adjustment would be easier to effect than it was a short time ago or than it may become later on, because many of the artificial industries created since the war are already stagnant.

It would be helped, above all, by a frank recognition that States with mixed populations have no prospect of a happy existence unless all the national groups in the State are content. A "totalitarian" constitution, let alone one pervaded by racial and religious exclusiveness, would be tantamount to a declaration of perpetual conflict in the Danubian region ; whereas the principle of cultural group autonomy, already urged by many far-sighted men in Austria and applied with success in various parts of Europe since the war, would remove from the sphere of public action responsibilities which in a mixed region the State is sure to mishandle. In such a region, Gladstone's dictum that "the first condition of a good foreign policy is a good home policy" has a profound bearing on the prospects of peace.

AUSTRALIA AND JAPAN

THE revolution of the nineteen-twenties, with its system of progressive international co-operation and "government by conference," has been rudely interrupted by the counter-revolution of nationalism, political and economic. Australia, like other countries, is experiencing a change of atmosphere. Australian opinion has never regarded the system of the League of Nations as the essential instrument of world security, as have many of the countries of Europe. But, in the absence of disturbing conditions in our own isolated sphere, the existence of the League, its continuity and its activities in a still disordered Europe have corrected—probably to a greater extent than we realise—the typical national conception of foreign affairs which regards other countries as possible or probable enemies ; and have changed it into one influenced if not dominated by the idea of an international community for peace.

In these circumstances, it was easy not to worry about foreign affairs. But the failure of the international organisation, during the last two years, to act effectively in the Far East, and the withdrawal of Japan from the League, have rather sharply reminded us of the fact that the major States bordering on the Pacific—the United States, Russia and Japan—are all of them outside the League.* There remain indeed the treaties of the Washington Conference and the Kellogg Pact. But the Washington Treaty for the Limitation of Naval Armament will lapse, if any of the parties to it so desires, in 1936. The Quadruple Pacific Treaty, by which the United States, the British Empire, France and Japan bound themselves to respect one another's rights in

* Two years' notice of intention to leave the League is required by the Covenant. Japan gave notice in March last. She will therefore remain a member of the League until March, 1935.

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relation to their insular possessions and dominions in the Pacific, is now terminable by any party at twelve months' notice. The Kellogg Pact has no time limit, but recent events in China and Manchuria show that it is no safeguard against warlike operations. It is therefore time to take stock of our external relations. We can do so conveniently by comparing our situation now with our pre-war situation twenty years ago, when the countries of the world conducted their external relations on the basis of "each country for itself and its allies."

I. RELATIONS WITH THE ORIENT

ON account of her geographical situation, Australia is necessarily affected by Asiatic developments. Distances, it is true, were great enough to prevent close relations with any part of Asia until communications became easy; and it is a result, not of propinquity, but rather of the sparseness of population in Australia and its density in Asia, that our principal preoccupations in external affairs have been with Asia. Our distance from other continents is so great that until the present economic crisis we had few outside problems arising from our relations with them.

(a) *Before the War*

The problems of our relations with Asia were present to the minds of many Australians twenty years ago. In the 'nineties, taking warning from the experience of other countries where whites and coloured people had mixed, and believing that Asiatic countries needed oversea outlets for their inhabitants, all the Australian colonies had adopted the policy of keeping Australia a country of white population. It is unlikely that this aroused much antagonism at the time in Asia, but it was the general opinion in Australia that we must be ready to defend our policy, and this was one of the strongest of the reasons that led to the

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federation of the colonies as States of the Commonwealth of Australia in 1901. The prediction may be hazarded that it will be the strongest of the reasons that will keep the States together now in spite of the disadvantages, which some of them feel so strongly, of remaining in the federal union. In the last years before the war, British apprehensions were for the most part about Germany, and preparations were directed to a war in Europe; in Australian thoughts and preparations Asia had a greater part. The foundations of the efficient defence of Australia on land and sea were laid in 1909; by 1913 the first Australian navy, which consisted of 12 vessels, had been built, training for military service had been made compulsory, and over 120,000 men and youths were in the forces or undergoing training.

Three Asiatic countries were principally affected by our policy of restricting the immigration of coloured peoples—India, China and Japan. Of these, Japan alone had been strong enough to withstand European domination and to extend her influence and territory beyond her own borders. She had lately shown her strength and capacity in two wars, with China and with Russia, and although the war with Russia strained her resources to the breaking point, by 1913 she had recovered, and her trade, population and resources were already steadily increasing. Her population was 53,000,000, while Australia's was less than 5,000,000. Great Britain and Japan, however, were in alliance, and the strength of the British navy was still overpowering, although most of the warships in the Far East had been withdrawn to European waters.

(b) *During and After the War*

In Australia anxiety during the war was not limited to the question of its outcome in Europe. It was known that influential Japanese opinion was not unanimous in support of the Allies. Japan occupied the German Pacific islands north of the equator, which had previously capitulated to the Australian Expeditionary Force at Rabaul. The distance

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between her territory and the coast of Queensland was thus reduced by half; and the Japanese Government, wishing to obtain for Japan's growing trade the benefits that a commercial treaty would bring, pressed the Australian Government to adhere to the Anglo-Japanese commercial treaty—a step which, it was feared in Australia, would lead to the weakening, if not to the breakdown, of the White Australia policy. For the Australian Government and people it was a period of great anxiety, although public opinion was prevented by the censorship from expressing itself. The Australian contribution to the war was the outcome of an intensely patriotic determination, but it was undoubtedly also influenced, so far as the Government was concerned, by the policy of building up solid grounds for claiming help from Great Britain in case of future danger arising for Australia in the Pacific. The Peace Conference of 1919 added to our anxieties about the future. Japan retained, under mandate, the islands in the north Pacific, contrary to all the expectations of the Australian public, who had been allowed by the Government to suppose that Australia would take them over. Japan also sought to have a clause recognising the principle of racial equality incorporated in the Covenant of the League of Nations—aimed, clearly enough, at the policies in force in Australia and along the Pacific coast of North America. These events seemed at first to have more importance for Australia than had even the establishment of the League itself.

When, however, the League began to grow in strength and influence, and when, at the Washington Conference of 1921-22,* the nations interested in the Pacific entered into treaties for the limitation of naval armaments, for non-fortification, for the mutual recognition of rights in relation to their possessions in the Pacific, and for the submission of controversies arising out of Pacific questions to a con-

* An account of the relations of Australia and Japan up to that time is given in "Japan and Australia," by E. L. Piesse, in *Foreign Affairs* (New York), vol. 4 (1926), pp. 475-488.

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ference of all the parties, Australia began to forget her anxieties and to devote all her thoughts and energies to making the best of the prosperity that came from high prices for exports and the orgy of spending in the 'twenties. In the early 'twenties, too, the rate of growth of the population of Japan, always regarded in Australia as an index of the future danger from the Far East, seemed to be slowing down. Australian expenditure on defence was gradually reduced, the obsolete pre-war navy was only in part replaced, and compulsory training for military service was abandoned. These were the tendencies before the world economic crisis began to affect us in 1929, and since then most of our thoughts have been given to maintaining our own economic life.

(c) *The Effect of Recent Events*

By 1932 it seemed that, if it were not for the troubles of the rest of the world, we should have been well on the way back to our former prosperity. But 1933 is closing, if with less uncertainty for our trade and finance, yet with anxious prospects in our international relations. The safeguards the League offered us seem now to be seriously diminished. Europe is occupied with her own troubles; Japan is controlled by rulers whose policy seems to be incalculable and who have given ample evidence during the past two years that they are ready to do whatever seems to them likely to promote the growth of Japanese power and to strengthen their own hold.* Japan too is building warships up to the limit allowed by the ratios prescribed in the Washington Treaty, and she now expects those ratios to be raised in her favour.

* Japan's population is again increasing rapidly; the natural increase, which in the years 1906 to 1916 averaged 1.25 per cent. per annum, rose to an average of 1.48 per cent. for the years 1926 to 1930, and the total population, excluding Korea and oversea possessions, is now over 67 millions and is increasing by nearly one million a year. In twenty years the increase has been about 25 per cent. The average size of families, however, is now declining; if this continues when the present high proportion of the population at the younger ages has fallen to normal, the rate of increase of population will drop.

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What conclusion should Australians draw from recent events in China and Manchuria? The reorganisation and re-equipment of the Japanese army now in progress indicate that Japan intends to consolidate her position there, if not to extend her control to the metals, fisheries and oil of the maritime province and Northern Saghalien. It may be that Japan has enough territory on the mainland of Asia to occupy her energies for years to come, and that she will now feel assured both of supplies of raw materials and of markets sufficient to relieve the ever-increasing pressure of her population on her resources. If so, there seems no reason for her to take any special interest in a region so many thousand miles away as Australia. But there is still a very influential movement, supported by a large body of naval opinion, for Japanese expansion into "Nan-Yo" (the South Seas). Although it is the island groups to the north of Australia that are most thought about, the assumed riches of the sparsely occupied parts of Australia are often discussed in Japan. There may be little economic reason for supposing that Japan will take any special interest in Australia so long as she can continue to trade with the Commonwealth on favourable terms; but the trade relations, as we shall see later, are full of danger, and the White Australia policy, if not a serious injury to Japan, may serve her governing class at any time by providing a grievance. In Australia neither government nor people can be expected to feel indifferent to the spectacle of even a distant country in the Pacific growing so powerful for war—a country, moreover, whose rulers must have the gravest anxiety in their task of providing from scanty home resources for a population of very high density, likely to get out of hand if the struggle for existence becomes too severe.

(d) Trade with Japan

Among the troubles of the present year throughout the world have been those caused by the newly intensified competition of Japanese exports. This competition

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presents features difficult to explain.* That manufactured goods are now sold in Australia for less than the present cost of the raw materials may be explicable by changes in the yen exchange. But it seems past understanding that experienced merchants should offer goods at prices far lower than are necessary to oust all others from the market. When a 15 per cent. cut would drive out competitors, Japanese goods are offered at as much as 50 per cent. below the prices of their competitors, and the Japanese price goes up and down within wide limits in a short space of time. Perhaps at last the Asiatic peril to industry that every magazine used to discuss thirty or forty years ago is upon us—and at a time when the rest of the world is labouring under the strain of the troubles that have followed low prices and insufficient markets. Australia, as one of Japan's nearest neighbours, is affected by this competition in most embarrassing ways. Not only is Japan a neighbour with whom we must, for every reason, remain on good terms; but she is a neighbour who, in these difficult times for countries that produce raw materials and foods, takes increasing quantities of our exports. The following figures (which are for merchandise only) show how much more important for us trade with her is to-day than it was twenty years ago:—

EXPORTS (in £ Australian)				
(ooo,ooo's omitted)				
	1912-13	1930-31	1931-32	1932-33
To Japan	£1.4	£9.5	£11.7	£11.5
To all countries ..	£78.6	£89.8	£108.0	£97.9
Proportion to Japan	1.8 per cent.	10.6 per cent.	10.8 per cent.	11.7 per cent.

IMPORTS (in sterling)				
(ooo,ooo's omitted)				
	1912-13	1930-31	1931-32	1932-33
From Japan	£1	£2.4	£2.4	£3.6
From all countries ..	£79.7	£58.8	£43.5	£56.8
Proportion from Japan	1.3 per cent.	4.1 per cent.	5.5 per cent.	6.3 per cent.

A country which takes so much of our products—principally wool and wheat, but important quantities also of

* For further information on this subject see p. 29.

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metals—is not one whose return trade we can lightly discourage. The duties on most of the imports from Japan are heavier than on imports from Great Britain; nevertheless the prices of many of her products are so low that despite the duties she can undersell imports from all other countries. In some classes of goods the high wall of protection does not prevent her from underselling even the Australian manufacturer. So far as Australian manufacturers are affected by Japanese competition, there is bound to be an acute conflict of interest, already evident in much public discussion, between the graziers and farmers who sell their products to Japan, and who would oppose any steps which might endanger that trade, and the Australian manufacturers whose home market is threatened. The problem of competition between Japan and Great Britain is an even more difficult one. It is our obvious interest—which the Ottawa Agreement has turned into an obligation—to assist Great Britain by buying her exports; obvious because she is the principal market for our own, and because her loss of oversea markets since the war might have the most serious consequences for our defence. But it is even more obvious that we are in no position to hinder Japanese trade with the object of promoting trade with Great Britain. Little has been said in Australia of the difficulty of dealing with this triangular problem; but the Australian Government has announced that it is willing to enter into an agreement, and that Australia is keeping in touch with discussions that are proceeding between representatives of Great Britain and Japan regarding the allocation of markets in which the products of the two empires compete. A fact which adds to the difficulties is that some of the imports from Japan that compete with British goods—such as yarns and piece goods—are semi-manufactured materials for Australian manufacturers, which they naturally wish to buy in the cheapest market. The solution most favourable to Australian manufacturers—to restrict imports, whether from Japan or Great Britain,

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which compete with Australian products, and to let in semi-manufactured materials from Japan—would be doubly injurious to British manufacturers.

II. AUSTRALIA'S CAPACITY FOR DEFENCE

DESPITE the growth of the population from 4,900,000 in 1913 to 6,600,000 in 1933, Australia seems weaker as regards defence than she was twenty years ago. The navy has almost vanished, and it would take several years to restore it even to its pre-war strength; there are now only 33,000 men and youths in the military forces or undergoing training; the men of the A.I.F., like the military equipment that was put in store after the war, are growing old. Industrially Australia is much better equipped—particularly in steel, engineering and textiles—than she was before the war. Financially, however, the position is very different. The public debt is vastly greater, in total and in proportion to population, than it was twenty years ago; and taxation has greatly increased, in proportion both to population and to the value of production.* The cause is partly the increase in debt that does not yield

* PUBLIC DEBT
(partly in sterling, partly in gold £ and partly in £A.)

	1913	1933
States	£294 million	£808 million
Commonwealth	£ 7 million	£397 million
Total	£301 million	£1,205 million
Per head	£ 63	£182
Debt owed abroad	£204 million	£596 million

TAXATION AND PRODUCTION FROM INDUSTRIES

	1912-13	1930-33 Average.
State and Commonwealth taxation ..	£ 22 million	£ 89 million
Per head	£ 5	£ 13
Production	£218 million	£313 million
Proportion of Taxation to production ..	10 per cent.	28 per cent.

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interest (of which increase the war debt is only part), and partly the increase in the scope and cost of social services. Of these, so far as they enter into the finances of the federal government, the most costly are pensions (military, old age and invalid) and the payments that are still being made for the benefit of men who served in the war and their families. For some years before 1931 expenditure due to the war and the repatriation of soldiers averaged £30 million a year. The reduction of interest on debt and the suspension of payments to the British government have lessened the total, but it is still about £20 million a year.

The Commonwealth government has already given signs of recognising that Australia has passed away from the tranquil times of the 'twenties, with their apparent assurance of security abroad and their apparent prosperity at home; probably none of us should expect to see such times again. Expenditure on defence, which in 1912-13 was £4.3 million (in addition to the cost of building the pre-war navy), dropped to an average of only £3.3 million (at a much lower purchasing power) in the period 1930-31 to 1932-33. The estimates for 1933-34 are not yet published*, but the Minister for Defence announced at Sydney on September 25 a programme for additional armaments to extend over several years. His plan is to improve and increase the equipment of coast fortresses, to provide defences against air attack, and to begin mechanising the army. These preparations are designed to provide local defence against coastal bombardments or raids. As regards attacks on our sea-borne trade, said the Minister, Australia must rely on an efficient and powerful Empire navy. The armaments now proposed will involve considerable expenditure; but there is every indication that public opinion would support an even larger expenditure. To make efficient preparation for defence, present rates of taxation would have to be

* In his budget speech on October 5, the Prime Minister made known that defence expenditure for 1933-34 would be increased by £1,462,000 compared with the previous year—*Editor*.

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continued, as well as the present (if not additional) economies in the public service and in social services—in fact the 'Premiers' 1931 plan might have to be continued indefinitely.

Enough has been said to show that the preparation for the defence of Australia may now prove to be a task of paramount importance. Its difficulty cannot be realised unless Great Britain's changed circumstances are kept in mind. Before the war it was usually taken for granted that the British navy and army would be used to defend any part of the British dominions. It is obvious that, as a mere matter of comparative strength, much less is possible in this way to-day than it was a generation ago. What is equally serious is that many Australians doubt whether, among those who are likely to be in control of British policy, there will be the same readiness to come to the help of a distant Dominion. It is true that work on the Singapore Base is still going on, but there is no certainty that it will be completed or that the British public would permit the capital fleet to go so far away from Europe.

With the question of the future of the Australian navy there may have to be considered that of the future control of the Territory of New Guinea, now administered by the Commonwealth under mandate from the League of Nations. Japan has announced that, notwithstanding her withdrawal from the League, she will hold the former German islands north of the equator under a title which she claims to have obtained before the League came into existence. On this footing she may also contend that she is free from the prohibition against fortification set out in the mandate; and if she wishes she can free herself in 1936 from the obligation not to fortify into which she entered in the treaty of 1922 for the Limitation of Naval Armament. (There is a question whether the United States, under her treaty with Japan of February 11, 1922, by which she agreed to Japan's holding the islands under mandate, could claim that, notwithstanding the lapse of the

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mandatory title, Japan would remain under an obligation not to fortify.) Whatever be the treaty position of these northern islands, it will be questionable whether it would not be better for New Guinea to be in the hands of some other white Power stronger than Australia. The administration of this Territory has never ceased to present problems for which previous experience has given the Commonwealth government no special aptitude; and the possession of the Territory has never been of great interest to the Australian public, engrossed as it has been in developing its own home territory, and more recently in paying for mistakes made in that development in the past.

III. THE NORTHERN PROBLEM

THE special problems of tropical Australia have again come up for discussion recently. Early in July, Australian newspapers reported a speech of the Dean of Canterbury, in which he spoke of his "great sympathy for Japan, a vast industrial country, seeking an outlet for her population and still more for her goods."

She sees an empty land (he went on). The United States struck me as an empty country, so did Australia. I should like to have seen a great English gesture in presenting to Japan that part of Australia which we cannot colonise ourselves. I believe that would change the whole atmosphere of the East.

Later, when informed of criticisms in Australia, he was reported to have said:

Australia is so big that her people themselves have no idea of her size. No attempt has been made to colonise her vast unknown areas, yet when it is suggested that people from over-populated lands should settle in those areas, there is an outcry.

Such opinions as these are often heard in Great Britain. Those who hold them are probably unaware that only a

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small percentage of Australia is fit for close settlement; that Australia is not, and except for small areas never has been, a country where immigrants can maintain themselves by mere subsistence farming; that much of the land can support inhabitants only if they can find overseas markets for their products, and that for production of this kind a large expenditure of capital is needed; that not less than £700 million of the public debt of Australia has been incurred as the community's direct and indirect contribution to the capital cost of enabling people to occupy and make a living from the land; and that, for a country without overseas markets for manufactures, Australia's population has grown at a creditable rate. In the twenty years, 1913 to 1933, there has been an increase of 35 per cent. How many countries in the world, whether they depend on agriculture or on manufacturing, can show as high a rate of growth?

But the Dean of Canterbury's remarks probably had reference rather to the northern parts of Australia than to Australia as a whole. His views then invite discussion of what can be done and what has been done with the coastal areas of Australia within the tropics, from Rockhampton on the coast of Queensland to Carnarvon on the north-western coast of Western Australia—for of the large inland areas within the tropics it may be assumed that no one would suggest that anything but the present sparse pastoral occupation is practicable.

Tropical coastal Australia has a length of several thousand miles and a great variety of soil and climate.* Its outstanding features, considered as a tropical area, are that most of it has neither the rainfall nor the vegetation characteristic of the tropics, and that little of it has an altitude high enough to mitigate the heat of a tropical situation. The

* For a full description of geography and climate see Griffith Taylor's *Australian Environment (especially as controlled by rainfall)*, Melbourne, 1918, and his paper "Geographical Factors Controlling the Settlement of Tropical Australia" in *The Queensland Geographical Journal*, volumes 32-33 (1918), pp. 1-67; for a brief account, chap. i of *Cambridge History of the British Empire*, vol. vii, part i (Australia).

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north-western coast of Western Australia is excessively hot, much of it has a low rainfall, and the winter is a period of drought. Inland are the Kimberley highlands, suitable (and most of them already occupied) for cattle and in parts for sheep. Some of this particular area enjoys good soil and a rainfall up to 30 inches, and it would be suitable for agriculture were not half the year rainless; in the river valleys there are tracts which could be used for tropical agriculture.* Much of the Northern Territory also is excellent cattle country and is occupied; but for agriculture—which alone could afford means of life to anything more than the sparsest population—its winter drought and poor soils give little opportunity.† The Barkly tableland, on the border of the Territory and Queensland, attracts the attention of all visitors; but it, too, is cattle country; sheep will not breed there, and the climate is not promising for agriculture. Queensland, round the Gulf of Carpentaria, again is cattle country. Its east coast, alone in tropical Australia, has a considerable area of good soil and a high rainfall; it has, too, a fair area of high plateaux. This region, both the coast and the plateau, is an area suitable for agriculture, and it has been successfully occupied by white sugar-cane growers and dairy farmers to within less than 17 degrees of the equator. The white population of tropical Queensland has grown steadily.‡ Except for the east coast of Queensland, and very small areas elsewhere, the only industry that is possible on any considerable scale in tropical Australia is stock raising, and that will maintain only a small population whatever the race that engages in it.

This general idea of tropical coastal Australia—at all events of the Northern Territory—is not the one that would have

* See G. A. Hobler's *Report on North-Western Australia*, Commonwealth Parliamentary Paper No. 58 of 1920.

† An account of Australian efforts (and failures) to develop and settle the Northern Territory, and of the reasons for the failures, is given in *THE ROUND TABLE*, No. 72, September, 1928, pp. 858–868.

‡ In 1881, the white population was 56,000; in 1891, 109,000; in 1901, 146,000; in 1911, 157,000; in 1921, 181,000; in 1933, 217,000 (estimated).

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been obtained by anyone who reads the official literature of twenty to twenty-five years ago. The Commonwealth Government, which took over the Northern Territory from South Australia in 1911, engaged in a campaign to promote close settlement by white farmers. The Territory's "boundless possibilities"—that stock phrase so often used in any government appraisal of Australian resources—were widely advertised, and the Commonwealth Government's propaganda of that time became more widely known than the cold accounts of the researches of the geographers (such as Griffith Taylor's, already cited), who showed how limited were the opportunities for any sort of close settlement, whether white or coloured, in the north.* The Government is thus responsible in large part for the widespread opinion, evidently shared by the Dean of Canterbury, that here is a large area of fertile land that, but for our assumed policy of keeping Australia to ourselves, would relieve the distress of Asia if we let Asiatics come into it.

Asiatics, it must be remembered, had their opportunity long before white men settled in Australia. There is no doubt that the north coast was constantly visited by Malays.† Flinders, sailing the Arafura Sea in 1803, met a fleet of their praus from Macassar, engaged in fishing on the

* Geographers, unaccustomed to find white settlement in tropical regions in other parts of the world, allowed themselves to be carried away by their task of exposing the errors of official publications, and did less than justice to the success of white settlement in northern Australia. It has frequently been said that Queensland is unhealthy for the white race. The facts are that the unhealthiness of the tropics is due rather to endemic diseases than to climate and that Queensland is free from nearly all of the usual diseases of the tropics. See the report of the Australasian Medical Congress, Brisbane, 1920, in the *Medical Journal of Australia*, September 18, 1920, pp. 291–299; Dr. A. Breinl, "A Comparative Statistical Inquiry into the Prevalence of Diseases, Death Rates, Infantile Mortality and Birth Rates in Queensland" in the *Medical Journal of Australia*, September 2, 1921; and, exposing some errors of Ellsworth Huntington's, a paper by C. H. Wickens (then Commonwealth Statistician) on "The Vitality of White Races in Low Latitudes" in *Proceedings of the Royal Society of Victoria*, Vol. 40 (1927), pp. 17–24.

† Sir Baldwin Spencer's Presidential Address in the Report of the Australasian Association for the Advancement of Science, 1921, p. lxxxiii.

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coast. They are used to pioneering, and they had the opportunity to settle, if they wished. There is no evidence that any but castaways ever remained in Australia. The reason need not be sought beyond what has already been said about the climate and the soil. Anyone who suggests that the Japanese could now take over and develop this region must justify his view from their performance elsewhere. Are they well fitted for the pioneer settlement of a new country? Have they had experience of life on poor soil in a hot climate with a winter drought? Have they ever lived successfully in a tropical climate? Is it not the truth that they do not flourish except in a warm temperate climate? Formosa is too hot for them; they have done well in Hawaii, just within the tropics, but Hawaii has a climate tempered by sea breezes; their settlement at Davao in the Philippines—about as far north of the equator as Darwin is south—has been seriously hampered by their difficulty in accustoming themselves to the climate.

In face of these doubts, is an English publicist justified in asking Australia to take the risk of the mixed population that would be the almost certain result of bringing in a large coloured immigration to settle the north? Lancashire, through Japanese competition in cotton, is now able to appreciate the strength of the reasons that have led Australia to shelter her workers from the competition of those who can live more cheaply. England has no comparable experience which would enable her to share our fears for the future of our whole social and economic structure if we had a large coloured element in our population. These fears have already been well stated in these pages*. Bryce's view in *Studies in History and Jurisprudence* (1901) may be recalled:

Racial differences and animosities . . . are usually dangerous only when the unfriendly races occupy different parts of the country. If they live intermixed, in tolerably equal numbers, and if in addition they are not of different religions and speak the same tongue, the

* See THE ROUND TABLE, No. 42, March, 1921, p. 312.

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antagonism will disappear in a generation or two by social intercourse and especially by marriage . . . But in one set of cases no fusion is possible; and this set of cases forms the despair of the statesman. It presents a problem which no constitution has solved. It is the juxtaposition on the same soil of races of different colour . . . A community in which there exist two or more race elements physically contrasted and socially unsuceptible of amalgamation cannot grow into a united State.*

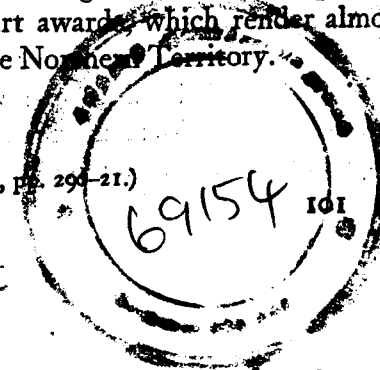
It remains to mention that in July the Prime Minister announced that the Commonwealth Government was considering a plan for the development of Northern Australia, which contemplated the formation of two chartered companies. The project included the granting of land tenures under favourable conditions, the creation of a low tariff or non-tariff area, exemption from land tax and income tax, and safeguards for the full protection of the aborigines. There was scope, he said, for two companies—one to operate in the country lying to the south of the Gulf of Carpentaria, including the Barkly tableland; the other in the region of the Victoria river, with which, if the Government of Western Australia agreed, could be included part of that State (the Kimberley highlands) with Wyndham for its port. The project seems to have received considerable comment in London but little in Australia, where its announcement has excited surprise rather than interest. Its possibility seems to depend on the future of the European market for beef, the present indications of which would not justify any large expenditure in the north, even if it should be proved that a solution of the problem of carrying chilled beef to compete with Argentine beef in London has been found. Comment in London, too, draws attention to the fact that nothing has been said of wages and working conditions, at present subject to Arbitration Court awards which render almost all industry impossible in the Northern Territory.

Australia.

September, 1933.

(Vol. 1, pp. 290-21.)

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WAS MOSES RIGHT ?

(From a Contributor)

MOSES forbids the Hebrews, in the twenty-third chapter of Deuteronomy, to take interest on money lent to one another—though they may take it on money lent to Gentiles, who in this as in some other points of his legislation seem to be regarded as lawful prey. Aristotle, in the first book of his Politics, also condemns the taking of interest on the ground that money is meant to be exchanged for other things and not to breed more money.

Since the teachings of Moses and of Aristotle have been the two main influences on the thought of the Western world for the last two thousand years, it is worth enquiring why this particular precept, on which they are both agreed, has been completely thrown overboard in theory as well as practice. For modern opinion, except in the Mahomedan world, goes much further than to condone the taking of interest as a venial error : it exalts it as a positive virtue. Are the moderns right or the ancients ? Is there any sound reason behind the view of Moses and Aristotle ; or must we brush it aside as a mere eccentricity of two otherwise sensible men ?

I. THE CULT OF THRIFT

THE defence of interest which is generally put forward is that it is necessary to encourage the practice of thrift. For, it is said, a man will be less inclined to deny himself present enjoyment and save part of his income instead of spending it if all that he gets back in the future is the

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principal amount of his saving. He must have some return besides in the way of "rent on his capital." Otherwise not much capital will be accumulated, and the accumulation of much capital is necessary to the welfare of the world. The supreme necessity of thrift and of increasing capital is an axiom of orthodox political economy. Let us consider its foundations.

The praise of thrift was illustrated in the Victorian age, and even earlier, by continual reference to the merits of the ant and the bee—the author has not found any mention of the squirrel—as compared with those improvident animals which live from day to day and consume what they get as fast as they get it, and which consequently fall from time to time on periods of scarcity.

Now the thrift of these provident insects consists in laying up for future consumption stores of the things which they actually consume. Human beings who do this are not regarded to-day as benefactors but as pests to the community. The farmer who produces more wheat than the world can eat at the moment ; the planter who produces more coffee or rubber or sugar than can be consumed ; the miner who produces more copper or tin—these are the only people who actually follow the example of the ant and the bee. But these are not praised but abused as a source of economic trouble. The people who are praised for thrift are those who lay up a store not of goods but of money. Money cannot be consumed. It can be exchanged for consumable goods, but these have yet to be produced. Thrift, therefore, as it is preached to and practised by mankind, is not the accumulation of goods for future use : that is called over-production and is blamed. It is the accumulation of claims on goods which have yet to be produced. Mankind as a whole does not—and cannot except to a very limited extent—practise thrift in the sense that the provident insects practise it. It accumulates not consumable goods but claims on consumable goods.

Where is the advantage in this from the point of view of

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the community ? The advantage from the point of view of the individual accumulator is obvious. But if the only result of thrift is that certain individuals accumulate claims against the future production of goods by themselves or by other individuals, it is not clear how the community benefits.

The answer of the orthodox economist will be—thrift is in fact as you describe it. But its value to the community is this, that without it capital cannot accumulate ; and unless capital accumulates new enterprises cannot be undertaken : unless new enterprises are undertaken production cannot be increased. The public justification of thrift is this : that those individuals who are willing to refrain from consuming all the goods that they can command, and to devote a part of them to building up the means of future production, are public benefactors and should be rewarded and encouraged by every means. The means which has been devised is to give them not only the future use of all that they save now but something in addition—and this additional benefit is what we call interest.

We shall understand the emphasis laid on thrift by the nineteenth-century economists if we remember that all their speculations were dominated by the Malthusian theory. This theory, broadly speaking, is that the population of the world tends to increase faster than its means of subsistence, that the world therefore has to face a continual and increasing risk of starvation. The argument runs thus. A certain number of people can support themselves by their labour on a given piece of land. But let their number be doubled and they can by no means support themselves on the same land. Though they can apply double the labour, it will not double the produce or anything like it. They must either improve their methods or bring outlying land under cultivation—and that will be less fertile and will need more than the same labour to give the same produce as the first piece. Generally speaking, argued the economists, you can get a certain production of anything by expending a certain amount of labour, but if you wish to double that production

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you must much more than double the labour. This was known as the law of diminishing returns.

It followed from this that if the world was not to starve the machinery of production must be constantly improved ; for the mere labour of an increasing population, using the same methods, would not support the new numbers. Hence the welfare of the community demanded the greatest possible amount of thrift—not for the purpose of accumulating claims by some individuals on the future production of others, for that would be futile, but for the purpose of devoting as large a proportion as possible of the goods produced from day to day to the improvement of the means of production, instead of to present enjoyment. In other words, it was held that production should be diverted from consumers' goods and turned towards capital goods.

It is hardly necessary to point out that the Malthusian theory can no longer be accepted as the guiding star of all economics. Our problem now is not to provide food for hungry mouths but to find hungry mouths for the food which we have—or rather to get the food to the mouths. On the one hand, the tendency of population to increase has slowed down and seems likely to disappear. On the other hand, it is now recognised that the law of diminishing returns does not hold true in many fields, and even where it does hold true it has not the importance that used to be attached to it. Steam, electricity, the internal combustion engine, the development of new inventions in machinery, have made the limitations of human labour a matter of little moment. The law of diminishing returns plainly does not apply to many kinds of production. According to that law, Mr. Ford, if he wished to double his output of motor cars, would have to treble his labour force. In actual fact he would have to increase it not by 200 per cent. but by 50 per cent. or even less. Indeed we might say that for a great deal of present day production there is a law of increasing returns. Even in those fields where the law of diminishing returns still holds good, the substitution of mechanical power,

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which does not need to be fed, for man power, which needs to be fed, cuts the bottom out of the Malthusian argument.

But if neither the Malthusian theory nor the law of diminishing returns is true for to-day—however true they may have been for the conditions of the time when they were formulated—then the foundation of a great part of the orthodox political economy is swept away. In particular the proposition that the practice of thrift is wholly commendable from the point of view of the community as well as from that of the individual loses its main support, and it is open to us to enquire whether thrift is an unqualified economic good for the community as well as the individual, or whether on the contrary it may not sometimes be an economic evil. But if the latter theory is tenable then it follows that thrift is not always to be encouraged. And if we come to that conclusion then the chief ground hitherto alleged and accepted in support of interest is taken away. For if thrift needs no encouragement, but perhaps even repression, the practice of giving and taking interest is no longer required on public grounds, and it may even be permissible to ask if the views of Moses and Aristotle—which presumably had something to support them in the conditions of their own time but were not considered applicable when those conditions changed—may not after all have some validity now that conditions have changed yet again.

II. EXCESSIVE SAVING

LET us consider the possible evils of excessive thrift. Even for the individual thrift can be pushed too far. Take the case of the miser who lives all his life in squalor and buries his money in the ground. No one thinks him wise or admirable. And is not the world in much the same case when it goes on heaping up money and refusing to spend it and in consequence cutting down its production and consumption of goods, and falling into a lower stan-

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dard of living, which for many hardly exceeds that of the miser ?

It has been pointed out by an American writer that excessive saving, while it increases the nominal amount of a community's capital, can actually diminish its real value. For the real value of capital lies in the return that it gives in the way of consumable goods. Imagine an isolated community whose annual output of goods is valued at £1,000,000. Its practice has been to save 20 per cent. of this amount and to reinvest it in its producing plant. It is assumed that this reinvestment is sufficient to keep the plant in good condition, that is, to cover depreciation. The plant is valued at £10,000,000. That value remains constant as the depreciation written off equals the new investment each year.

Now suppose that the community decides to save 50 per cent. of its income every year instead of 20 per cent., and to apply the additional amount to enlarging its plant. The nominal capital value of the plant will go up because the new expenditure on it now exceeds the depreciation. But the amount which the community can spend on consumers' goods produced by the plant has been reduced from £800,000 to £500,000 a year. Therefore the plant will only be able to turn out £500,000 worth of goods every year instead of £800,000 worth as before—for it will have no market for more. But the real value of the plant to the community consists in the consumable goods it produces. Its real value therefore has been reduced by nearly 40 per cent. although its nominal value has been substantially increased. The only result of the additional saving is to increase the capacity of the plant but to reduce its actual output and therefore its real value.

We have taken the most favourable case—where the whole additional saving is applied to the provision of additional capital goods. Here, at any rate, there would be new productive capacity provided though it would lie idle. It is conceivable that after a period of financial readjustment

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some means might be found—by the lowering of prices and the cutting down of the return on capital—to bring the increased capacity into play and so in the end to increase the real value of the plant to the community. But suppose that the additional saving is not applied to capital goods at all—or ceases to be so applied when it appears that the purchasing power of the community has fallen off and that there is no demand for additional production. In that case the additional savings would lie in the banks and would be put to no use at all. The community would have more nominal capital—for it would have its plant plus money in the bank—but the real value of its total capital—that is, its yearly output of goods—would be less than before.

Here it must be stated that in the world of fact expenditure on capital goods generally translates itself into expenditure on consumers' goods at one or more removes. If A. decides to build a new factory with his savings, a substantial part of the money is spent on the wages of the construction crew. They in turn spend it on consumers' goods. Most of the rest of the money is spent on material—bricks, steel, etc. Again a substantial part of this goes for the wages of the brickmakers and foundrymen and is by them spent on consumers' goods. At a further remove, the money spent by the steel company in purchasing ore and coal goes partly to pay the wages of miners. The result of the whole process is that A.'s expenditure, which was originally on capital goods, is turned into expenditure on consumers' goods except for such part of it as the various recipients save as they go along.

The same holds true when the capital goods are not of the kind called reproductive—for example when they are such things as schools, roads, bridges and public works in general. It follows that any increase in saving, which merely causes the diversion of purchasing power from consumers' goods to capital goods, does not in practice much lessen the purchasing power applicable to consumers' goods. For, as things work out, a great deal of the expenditure on

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capital goods translates itself at one or more removes into expenditure on consumers' goods.

But for this to happen it is necessary that the savings should be actually applied to the acquisition of capital goods, *i.e.*, that they should be spent on new construction in some form or another. If they are not—if they merely lie idle as bank deposits—then we get the second case in our illustration. The purchasing power applicable to consumers' goods is diminished by the amount of the saving; the output of these goods is diminished; and the community as a result of its saving becomes actually poorer in terms of real value, that is, in its day-to-day production of goods.

III. THE INFLUENCE OF INTEREST

IT is at this point that the influence of interest may become mischievous—in its tendency to bring about this second state of affairs, in which savings lie unemployed and goods fail to circulate or to be produced for want of a circulating medium. New capital, *i.e.*, savings, has learned to expect as its proper prerogative rent, which is called interest, and that at the current rate. If it cannot get this rate it will lie idle.

Everyone, therefore, who proposes to use capital reckons on having to pay interest—to others if he borrows; to himself if he uses his own capital. In these circumstances no one will undertake a reproductive work unless he can see his way to earn at least the current rate of interest on his expenditure and something over for his risk. But the current rate of interest, as will be shown below, is generally higher than reproductive works will yield except when business is at its most active. And excessive saving will reduce the activity of business, for it will have lessened purchasing power. So it will create the very position which stands in the way of its own re-employment.

As regards non-reproductive works, these are generally

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undertaken by governments and public bodies. Here the undertakers have to raise the money by loan and to reckon on paying interest as well as ultimately repaying the capital. They can only get this interest through the levy of taxes. But when business is poor tax yields fall off, and they hesitate, if they are prudent, to impose new burdens on their revenue. Here again we have the same effect. Savings reduce purchasing power unless they are at once re-employed on capital goods. But the reduction of purchasing power causes poor business. And poor business prevents the re-employment of savings, because it diminishes or destroys altogether the probability that the current rate of interest will be earned or, in the case of public works, the probability that tax revenues will prove sufficiently elastic to meet the added strain.

We have indicated that current rates of interest are higher than can be borne except in the most favourable times. Let us consider how this comes about. We will go back to the conception of interest as rent on capital. Rent on land must not be higher than the surplus which the tenant has left out of the produce of the land after paying his reasonable living costs and the cost of keeping the land in good condition. Otherwise cultivation will decay. Where the rack-rent system has prevailed, that is to say where the last farthing has been squeezed out of the tenant, this has been the result. Now the tendency of capital is always to work on the rack-rent system, that is, to exact all the rent that it can. As entrepreneurs are always wanting capital—just as the whole population of Ireland a hundred years ago wanted land—and as the pressure on democratic governments for public services and amenities makes them also eager borrowers, capital is able to make its own terms. If it cannot for the time being obtain those terms it can carry on a sort of informal strike and refuse to invest, letting its money lie idle. In this point capital has the advantage over the landlord. For the landlord, generally speaking, cannot let his land lie idle if he cannot get the

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rent that he asks. If he did it would rapidly deteriorate. Moreover, it is probable that if cultivable land were withheld by its possessors from cultivation on a very large scale, merely because they could not get the rent they required, such action would be considered anti-social and would be dealt with by legislation.

Let us suppose that the whole assets of the world were capitalised in terms of money. A greater interest on this capital could not be expected than the annual increase in the world's wealth. The rate of this increase differs, of course, in different countries and at different times ; but it has been estimated that the average annual rate of increase over the whole is between 2 per cent. and 3 per cent. Even if the whole of this increase were applied to rent on capital—which would mean that no one except the owners of capital could possibly improve their position—it would not suffice to pay any rate of interest that has been current in modern times. The lowest current rate of interest on the very best risk, for example, the old Consols, was over 2 per cent., and the average rate has always been substantially higher than this.

How then, it will be asked, has the world gone on paying a rent on capital which it could not afford ? The answer is that the assets of the world have only been very partially capitalised and even now it is only in the so-called progressive countries that the process of capitalisation has gone very far.

The farmer who owns his farm goes on working it so long as it provides him with a subsistence. He does not know nor ask what interest it is paying on its capital value. It may be that in many years it is little or nothing, *i.e.* that after providing his livelihood there is nothing left over. It is the same with an individual business. But if the farm or the business is turned into a limited company and capitalised, then the shareholders expect at least 5 per cent. return on the capital after providing for working expenses. If the capital is wholly in the form of shares the company

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may go on though no dividends are paid. But if the capital is partly in the form of debentures, then when the interest on these is not earned the company is bankrupt and the undertaking may become derelict.

The enormous growth of joint stock companies in England and the United States has led to the capitalisation on a very large scale of most forms of property and most forms of business activity. The figure of capitalisation tends to be based on the productiveness of exceptional periods. An interest return is expected on this higher than the rate paid on the government or municipal loans. This latter rate in turn is kept high by the constant borrowing for public improvements, which is a leading feature of modern government. This borrowing is not necessarily to be condemned: for it means the utilisation of the community's surplus production for the purpose of providing public amenities: which is better than letting the surplus lie idle. But, as pointed out above, one result of it is that interest rates are kept higher than either business or taxation can bear. This becomes apparent from time to time and then new capital goes on strike and remains idle.

It may be pointed out that the unduly high rate of interest which prevails in the modern economic world in itself leads to excessive saving. For appetite grows with eating. A man who has accumulated a large capital, and receives as rent on it a large claim on the world's annual production, is likely in most cases not to exercise the whole of this claim by taking and using consumable goods (including the services of others). Any instincts of thrift which he may have by nature are reinforced by the doctrines of orthodox political economy. The spirit of accumulation is still regarded as praiseworthy as long as it does not turn to absolute miserliness. A man who has an income of £50,000 a year and spends only £5,000 of it and saves the rest would be acclaimed almost everywhere as a useful citizen. Consequently the more capital ac-

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cumulates, and the higher the rent of it is, the greater is the proportion of the community's income which is not spent on consumable goods but is put aside in the form of savings. Moreover in a capitalist world everyone who has the opportunity strives to become a capitalist, and the savings of the rich are augmented by the savings of the moderately well-to-do and even of the poor. All this mass of saving is nothing but a claim on goods which has not been exercised but is held in reserve. If this claim were applied forthwith to the acquisition of capital goods there would be little mischief in it. For such expenditure would necessarily translate itself into expenditure on consumable goods, which would accordingly go on being produced. But when savings are held out of use—as they are for considerable periods, and in great volume—whenever neither reproductive works nor public works can offer the current rate of interest which they expect, then the channels of production and distribution are blocked and the damage to the community is manifest, whatever may be the result to the individual saver.

IV. THE ERROR OF ORTHODOXY

THE orthodox economist will reply at once: "All this may be so. But if savings now frequently refuse to work because they cannot get as high an interest as their owners want, how do you better matters by abolishing interest altogether? Would not the result obviously be that savings would be hoarded, not periodically but all the time? If a man is not going to get any rent on his savings he will prefer to keep them in the form of money in the bank, instead of lending them to someone who will merely undertake to repay the principal at a stated period or periods. So you will get your immobilisation of purchasing power as a permanent condition, whereas now it merely happens from time to time."

Was Moses Right ?

The dilemma is a real one for a highly industrialised society, in which the full use of its productive powers depends on the maintenance of a constant flow of money. Nor can it be met if we assume that money, as a form of property, is peculiarly sacred and can never be subjected to the obligation which is imposed on most other forms of property—that of being kept in use. No organised society would allow land-owners as a whole to say: "We have other means of subsistence ourselves and we will allow no crops to be grown until rents rise to our liking." Or coal-owners to say: "No coal shall be mined until royalties go up." Apart from anything else other forms of property are taxed whether they are idle or in use, and this alone compels them to be kept in use. Money is exempt from this form of pressure at present; it can remain idle without deteriorating and without being taxed so long as it is not used. But this exemption is a matter of convenience, not of right. If it were taken away the power of savings to hold up the business of production would disappear.

But, it may be said even if you can get over this difficulty, the further difficulty still remains that savings will not be made at all—and therefore you will have no new capital, without which progress is impossible—unless they are attracted by the inducement of receiving interest, and a high rate at that. People will not deny themselves present enjoyment and withhold a part of their claim on consumable goods, if all that they are to get in the future is the principal amount of what they save now.

But is this true? The ant and the bee save from a prudential instinct. They get no rent on their savings but only the use of the principal when they need it. Would not the same inducement be enough for mankind? All the ordinary motives for saving would remain unimpaired—to provide for old age, or for the time when leisure was preferred to work—to hand on property to children—to hold purchasing power in reserve—to enjoy the pleasure which comes from great possessions, or even

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from the consciousness of a bare independence. All these motives would apply to the accumulation of claims on future production, whether such claims carried a rent with them or not. The rate of saving might be slowed down: but that might be an advantage rather than an evil from the community's point of view. Enough would surely remain to finance both new enterprises and new public works. The difference would be that the man who employed his own savings on reproductive works would have to take the position and the risks of an entrepreneur or a partner in enterprise. He might lose his capital or increase it. The man who wished to make sure of his principal would be able to get that and no more. Repayments would be periodical. In other words borrowers, instead of paying interest, and repaying the principal amount as well, would pay a sinking fund but no interest.

It is not the intention of this article to propound dogmatically a revolutionary theory of finance, or to suggest that the complete and immediate abolition of interest is a measure which can or ought to be undertaken forthwith. It is desired, however, to suggest that the excessive growth of so-called "capital" and its excessive expectations in the way of rent, which is called interest, are more responsible than sunspots for the periodic convulsions which shake the modern economic world. That the burden of interest has increased, is increasing and ought to be diminished. And that there is little likelihood of this happening so long as we rely implicitly on a financial system and financial dogmas which are based on theories framed to suit world conditions quite different from those now prevailing—theories which, even if they were true for the time when they were framed, are certainly not true for our time.

"THE DOLE"

I. THE PROBLEM OF UNEMPLOYMENT

THERE has been no more harassing problem for successive British Governments since the war than that of unemployment. Time and again the electors, disgruntled by the failure of one Government to find any effective solution, have returned its opponents to power, only to find themselves further disappointed, until they seem to have relapsed into smouldering disillusionment. Meanwhile the grim army of the workless, never less than a million strong and mustering over three millions in the trough of the depression, has been a reproach to our economic system and a menace to social and political stability.

The maintenance of the unemployed has been an extremely heavy charge upon the resources of the community. The policy of the "dole" has often been vigorously arraigned on an indictment of subsidising idleness and pauperising the working class. At home and abroad, it has been represented as betokening the decay of British character and the decline of British power in the councils and the markets of the world. To rebut such exaggerated accusations is not difficult, for one has only to demand whether their framers would have let the unemployed starve, or whether, had no provision for the support of the workless been made beyond the exigent confines of a deterrent poor law, Great Britain could conceivably have escaped some social upheaval. It is sufficient answer that the dole system was originally instituted to provide for

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men, who had come back from the war, expecting "a land fit for heroes to live in," and found no jobs awaiting them, and was continued because the dearth of employment imposed itself as much upon the industrious as upon the indolent, for reasons beyond their power to remedy.

Nevertheless, in order to answer more moderate and coherent charges of waste, it is necessary to enquire further into the character of unemployment relief. In the first place, our present system embodies a scheme of genuine insurance, in which the three parties to industrial and social risk—employers, workpeople and the State—contribute to a fund out of which is paid, as of right, compensation to those unfortunate contributors for whom the risk has become a reality. "Dole" is an altogether false title for such insurance benefit. In the second place, the dole was gradually grafted on to the insurance plan by a series of temporary expedients, each devised in the expectation, which was shared by all political groups, that high unemployment was an evanescent creature of abnormal conditions.

On that point we are now entirely disillusioned, but we must nevertheless analyse the composition of unemployment before criticising or propounding possible methods of relief. The unemployed, even the basic million below which the total has never fallen since the 1921 slump, are not a continuing body composed always of the same persons. Since 1920 over 60 per cent. of insured workers have been registered as unemployed at some time or other. A sample analysis of the insured population in July, 1930, showed that 44·2 per cent. had drawn no benefit in the previous seven and a quarter years, 23·9 per cent. had drawn benefit for less than 100 days out of a possible 2,259 days, and a further 10·6 per cent. had drawn benefit for between 101 and 200 days. The Ministry of Labour concluded from the analysis that

More or less continuous unemployment is confined to a very small section of the insured population which cannot include more than

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about 100,000 men and 3,000 women. This group represents the maximum size of the "standing army" of the unemployed.

That conclusion by itself, however, would be misleading. A test of employability, applied by sample, indicated that in February, 1931, some 467,000 men and 120,000 women were "unsuitable for submission to an employer for a local vacancy without exceptional features." Of these, about 374,000 men and 97,000 women were handicapped by age or other physical defect, sometimes accompanied by inadequate industrial training, the remainder being handicapped by the latter disability only. The records of continuity of unemployment given above make clear that the "too old" group of the "unemployable" class changes in personnel quite rapidly, and that most of the remainder of the class get some work from time to time. Nevertheless, the 600,000 men and women coming within the Ministry's classification do form a real "hard core" of unemployment.

Another part of the hard core is laid bare by examination of the figures of unemployment in the different industries. About two-thirds of the workers rejected under the above test of suitability for employment are attached to industries with exceptional unemployment, where their disabilities are enhanced. Certain industries including over three million insured workers suffer from far more than average unemployment. If their unemployment from 1927 to 1931 inclusive—a period which included both improving and sagging industrial conditions—had been no higher than the average of all other insured industries, the number of unemployed would have been 430,000 less. The industries in question include some, like docks and public works contracting, which always have a high level of unemployment because they tend to be the refuge of unemployed from other industries; but the greater number are industries like coal, heavy iron and steel, shipbuilding, pottery, and textiles, in which, for a variety of reasons peculiar to the post-war period, capacity has largely exceeded the available market. The recent Royal

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Commission estimated the redundant labour force of a group of seven large industries with abnormally high unemployment at 400,000 at least, and possibly 700,000.

The problem of unemployment is therefore not nearly so simple as some of the diatribes against the dole would suggest. The army of unemployed includes, among other important elements, the aged and infirm, untrained young people, the intermittently employed workers in casual or seasonal industries, those temporarily unemployed through normal shifts of production in every industry from firm to firm, and from area to area, and the redundant labour force of the depressed industries. These elements obviously call for different kinds of remedial treatment, as well as of maintenance. One of the chief charges levied against the dole system has been its failure to put the unemployed to work. Critics demand that the relief of idleness should be associated with the relief of destitution, for a number of different reasons—because such a measure would test the willingness of the unemployed to work, because it would give the Government something to show for its money, or because it would restore the physical and moral stamina of the unemployed. The example of some continental countries, especially Germany, has been adduced to illustrate our own backwardness in this matter. The extent, however, of the provision of "remedial" work in these countries has been much exaggerated. An investigator on behalf of a London daily newspaper, whose sympathy with the German endeavours was unmistakable, wrote about them as follows:—

While the State schemes find occupation for some 750,000 people—a great proportion of them under open-air and countryside conditions—and while it seems plain that the same energy and initiative shown in Great Britain would immensely ease our problem—there must remain in Germany some 5,000,000 at least who are completely idle. And their rates of unemployment pay are far below ours. . . . Enormous numbers are living on little more than bread and potatoes.*

* J. L. Hodson in the *News-Chronicle*, December 1, 1932.

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The capacity of this country to emulate the Continental work schemes is limited by three main factors: the high standard of life maintained and insisted upon by workers and workless, the urban concentration of population, and the character of the unemployment from which we suffer. Finance has played a very big part. The returns of the Unemployment Grants Committee show that, in round figures, it cost £1,000,000 to keep 4,000 men in employment for twelve months. Unemployment benefit paid to the same number of men for the same period would have cost only about £220,000 at current rates of benefit. “It is doubtful,” commented the recent Royal Commission, “whether the economic value of the work done approaches the difference between these sums.” It is clear, furthermore, that setting men to work on the land or on public schemes is neither a practicable nor a desirable expedient to apply to most of the constituent groups of the unemployed. When we turn to the question of training for new employment, and transference to new areas, we meet this insurmountable difficulty, that just when the need is greatest the opportunities are least. Almost invariably, when the depressed industries are at their most depressed, the more prosperous industries are also suffering from abnormal unemployment. This argument, however, loses much of its cogency when applied to the training of juveniles. The opportunities, moreover, do not end there. The work of the Society of Friends and other voluntary associations in providing occupation for the unemployed on work of social, though of low commercial, value has won the admiration of the country. The local authorities have also done something in the way of providing centres where instruction is given in physical drill, the repairing of boots and clothes, gardening, and so on; but provision of this kind is generally felt to have been hopelessly inadequate. The first, because the most urgent problem of unemployment is that of maintenance; but scarcely less urgent and no less important is that of restor-

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ing the morale, the strength, and the civic and industrial capacity of the chronically workless.

II. “THE DOLE” AND THE POOR LAW

WITH the publication of the Government's Unemployment Insurance Bill, the problem of the able-bodied poor reaches a new and perhaps a final stage. In 1908 the majority and minority reports of the famous Poor Law Commission agreed that a system of unemployment insurance should be established, and further, that able-bodied unemployed not covered by insurance should be granted relief on special conditions; but they differed on the question, which is now in the forefront again, by what means such relief should be administered, the minority favouring a national system and the majority preferring the use of existing agencies of poor relief.

In 1911 a system of national unemployment insurance was established, under which the employers and employed in the insured industries, and the State, contributed weekly to a fund out of which unemployment benefit was paid; but it was not until 1920 that the scheme was extended to cover all industries except agriculture, domestic service, and such trades as might contract out. By this time the principle of insurance was already being clouded by the attachment to the scheme of non-insurance reliefs, granted, in the first instance, to those demobilised from war services, but later applied, as a result of the 1921 slump, under the title of “extended benefit,” to those who had exhausted their insurance rights through prolonged unemployment.

There were three main reasons for thus burdening the insurance scheme with non-insurance doles. The first was a vain expectation that the excess unemployment would be a temporary phenomenon. The second was the undesirability of laying upon workers who were genuinely seeking employment the personal and social stigma of

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application to the poor law, which would otherwise have been their only available resort. The third reason was the financial and administrative desirability of keeping all the unemployed under a single authority, responsible for remedial measures and for the employment exchanges.

The Exchequer paid the cost of "extended benefit," but even so trade depression drove the insurance fund into debt. The conditions of benefit varied from time to time, but from 1928 onwards, following the report of the Blanesburgh Committee, each applicant for benefit was required to pass the unexacting test of having made thirty weekly contributions in the past two years. Until March, 1930, he had also to show that he was "genuinely seeking work." Subject to these conditions there was no time limit to the grant of benefit. "Transitional" benefit, found by the State, was granted to unemployed persons who could not pass the insurance test, but could show that they had made eight contributions in the previous two years or thirty at any time.

The finances, however, of unemployment insurance deteriorated rapidly as the world depression set in. In the course of 1930 the Labour Government set up three bodies to discuss the problem of unemployment insurance: a three-party parliamentary committee, a committee of the Economic Advisory Council, and finally a Royal Commission. Each of these bodies concentrated on the twin problems of putting the unemployment fund on an "insurance basis"—that is, of making the contributions balance the outgo, over what might be actuarially regarded as an average period—and of making special provision for those who exhausted their claims on the fund. The Royal Commission presented an interim report in June, 1931, by which time the debt of the unemployment insurance fund exceeded £80 million and was increasing rapidly. The Commission proposed a reduction of benefits and an increase of contributions, stricter limitation of the period both of insurance and of transitional benefit, and the

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application of the "means test" to transitional beneficiaries. The Labour Government went out of office in August, 1931, partly by reason of its failure to face the issue thus presented, after passing an "Anomalies" Act which tightened the terms on which married women, part-time and seasonal workers, and other special classes might draw unemployment benefit.

There is little doubt that the insolvency of unemployment insurance finance, which was given such outstanding emphasis by the May Economy Committee, provided one of the chief causes of the flight from the pound in the summer of 1931 and the consequent abandonment of the gold standard. The so-called "dole" system has also been heavily criticised abroad, especially in the United States before adversity forced on that country the practical consideration of the same problems, on the ground that it demoralised the recipients of benefit and sapped the industry of the working class. Unfortunate, however, as the effects of the dole may have been in that direction, they can hardly have been more demoralising than unemployment relieved only by the possibility of a resort to the poor law. Moreover, the unemployment benefit system had the great advantage in a time of business depression that it kept alive the circulation of money among classes of people and in industrial areas where the only alternative was the complete destitution, not merely of the unemployed themselves, but also of tradesmen and others dependent on the expenditure of their incomes. In this way, the system had an important effect in counteracting the dismal cycle of monetary deflation.

Meanwhile a further step towards the "nationalisation of the poor law," which had been adumbrated by the minority of the Royal Commission of 1905-8, had been taken outside the sphere of unemployment insurance. Mr. Neville Chamberlain's comprehensive Local Government Act of 1929 abolished the old boards of guardians and placed the administration of poor relief under public

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assistance committees of the county councils and the councils of the great cities. At the same time the "block grants" made by the Exchequer in relief of these authorities' funds were regulated according to a formula in which an important factor was the level of local unemployment. When, later in 1931, the main recommendations of the Royal Commission's interim report were adopted by the National Government, the application of the "means test" to transitional beneficiaries was handed over to the public assistance committees.

The Royal Commission on Unemployment Insurance produced its final report* in November, 1932. The majority proposed to establish the solvency of the unemployment insurance fund by a cut in the benefit to single persons, by limiting the period over which insurance benefit could be paid, and by imposing more stringent regulations on the grant of benefit to partially employed workers. Their calculations were based on the very cautious hypothesis of three million unemployed. Otherwise, they did not recommend any major changes in the character or administration of the insurance scheme proper, though they suggested that it might prove possible to set up a special scheme for agriculture. Their most striking recommendations related to provision for those able-bodied unemployed who for one reason or another fall outside the insurance scheme. In this connection they saw no reason for differentiating between workers who normally work in insurable employment and those who normally work in uninsurable employment. The majority of the commission felt that the system of discretionary payment adjusted to individual needs, under the administration of local authorities, should be continued, but they regarded the actual system of administration as unsatisfactory in five respects:

1. The means test was not administered on uniform principles.
2. Some of the areas of administration were too small.

* Cmd. 4185.

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3. The central authority had insufficient responsibility for standards of administration and could not exercise effective control.
4. The central authority concerned (the Ministry of Health) was not primarily an industrial authority and was not otherwise directly concerned with unemployment.
5. The local authorities had no financial responsibility for the administration of the means test.

They recommended the appointment of a statutory commission which would keep the insurance scheme constantly under review and suggest changes necessary to keep its finances on a sound basis. The statutory commission should also maintain a close watch over the development of the arrangements for unemployed workers outside insurance, and, before issuing general directions with regard to those arrangements, the Minister of Labour should seek the commission's advice. Non-insurance benefit should be administered, under such central direction, by new statutory committees of the local authorities, separate from the existing public assistance committees. Since the majority of the Royal Commission regarded it as desirable that each locality should retain a financial interest in its own employment situation, and as undesirable that local authorities should administer funds in which they had no financial interest, they suggested that each area should bear the cost of unemployment relief up to the extent of a 4d. rate. They thought that this burden would be balanced by the removal from the ordinary public assistance scheme of workers not at present insurable and therefore not entitled to transitional benefit.

It will be observed that the majority report followed the lines of the majority report of 1908, and of the temporary expedient introduced by the present Government in 1931, in turning over to local authorities the administration of a scheme which would be governed by national rules and paid for almost entirely out of the national Exchequer. The minority of the Royal Commission, on the other hand, held that the division of the unemployed into two classes

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was fundamentally unsound, and proposed, therefore, a single scheme giving a statutory right to benefit to all workers who should comply with the general conditions imposed. The scheme, which would be administered by the Ministry of Labour through the employment exchanges, would be financed partly by contributions from employers and workpeople, but the remainder of the cost would be borne by the Exchequer without any contributions from local authorities. The minority were opposed to a means test, but if one were applied it ought to be administered at the labour exchanges under rules laid down by Parliament.

III. THE GOVERNMENT'S BILL

IN principle, the measure presented to the House on November 8 stands midway between the majority and minority reports of the Royal Commission. While rejecting the minority's plan for a unitary service in which the distinction between insurance and non-insurance benefit would disappear, the Government have decided on a national system of administration, as opposed to the reliance on local authorities favoured by the majority of the Royal Commission. It is credibly reported that they were compelled to take their decision by the refusal of some Labour-controlled local authorities to administer unemployment relief on the terms laid down in the Bill, that is to say, under a test of household means. Whatever the motives of the Government may have been, the most important feature of their Bill is that it will take all but a very few of the able-bodied unemployed definitely outside the local poor law. Local authorities will no longer have either the duty or even the right to relieve those who come within the unemployment assistance scheme.

The first purpose of the Bill is to establish a solvent insurance system proper. A Statutory Committee is to

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be set up to report from time to time on the financial position of the insurance scheme and to recommend any changes required to meet a deficit or dispose of a surplus on the insurance fund. The Minister of Labour is given power, subject to parliamentary approval, to bring the recommended changes into force. Another duty of the Statutory Committee is to make proposals for insuring agricultural workers against unemployment, but legislation will be necessary before any such scheme can become operative. The balance of the income and outgo of the unemployment insurance fund is assured for the time being by specific financial provisions, which aim at the amortisation of the present debt of £115 million in 40 years or less. There are to be no changes in the present rates of contribution, and no general change in the rates of benefit. However, the terms of benefit are to be relaxed in several directions—a concession made possible by the steady earning of surpluses by the fund at the present level of unemployment. The present condition that a claimant who has paid 30 contributions in the past two years may draw up to 26 weeks of benefit in a year is to be continued, but in addition it is provided that a claimant will be entitled to extra weeks of benefit in proportion to his contribution record in the past five years. The age of entry into insurance is to be lowered to the school-leaving age, at present 14, and the age at which benefit becomes payable is to be lowered to 16, while parents are to draw dependants' benefit on account of children between 14 and 16 who are unemployed for reasons beyond their control. These provisions are accompanied by a wide extension of instruction courses, which is estimated to cost the Exchequer about £850,000. Attendance at junior instruction centres will be compulsory for all unemployed youths and girls between 14 and 18 unless there are good reasons why attendance should be excused. In addition to these courses for juveniles, the Minister of Labour is given power to provide training courses for persons over 18,

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and attendance may be made a condition of the receipt of benefit.

Apart from the choice of a national system of administration, the most important feature of the provision for the unemployed who cannot claim insurance benefit is its inclusiveness. By including the able-bodied unemployed who would normally follow any occupation in respect of which contributions are payable under the Widows', Orphans', and Old Age Contributory Pensions Acts, it adds another 4 million to the 12 million persons at present covered by the unemployment insurance system. The scheme will work under a new central authority called the Unemployment Assistance Board, which is to take over all the duties of public assistance committees in regard to transitional payments and the administration of out-relief to the able-bodied unemployed. It will consist of not more than five members and will work through its own local officials, from whose decisions there will be a limited power of appeal to local appeal tribunals. These will each consist of a member appointed by the Board, a representative of the workers, and a chairman nominated by the Minister.

The Minister of Labour will be responsible to Parliament for the general policy of the Unemployment Assistance Board, but he will have no responsibility for individual decisions. While parliamentary approval will be required for the regulations governing the application of the means test, application to individual cases is to be a matter for administration by the Board. The omission of certain classes of resources from the calculation of means, for instance disability pensions, which was granted in the Determination of Needs Act of last year, is to be continued. The Board is to co-operate with the Minister of Labour in providing courses to enable unemployed persons to regain physical fitness, and (subject to the applicant's right of appeal) they may require him, on penalty of forfeiture of benefit, to attend a work centre specially provided for the purpose, or in recalcitrant cases to enter a

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workhouse. It is estimated that the provision of training courses will cost the Board £750,000 per annum, in addition to the present charge on the Ministry of Labour vote.

Apart from cases of sudden necessity, local authorities will no longer have the power to give out-relief to those who are entitled to apply to the Board; but they will continue to provide for the sick, the aged and infirm, and they will also be responsible for the medical needs and institutional or clinical treatment of persons who otherwise come under the Board. There is no final financial settlement in the Bill, but it is proposed that local authorities should pay to the unemployment assistance scheme three-fifths of what they would have spent, but for the present Bill, on the out-relief of the able-bodied poor.

Although the Bill has been generally welcomed by journals supporting the Government, and was described by the *Manchester Guardian* as "a better Bill than most of us would have expected this Government to introduce," it has certainly not escaped criticism. The following are among the more important objections raised:—

(a) It is unfair to saddle the unemployment fund with a debt incurred at a time when, in fact, the fund was distributing disguised relief as well as benefit.

(b) It will prove impossible in practice to leave to an extra-parliamentary authority the operation of the means test and the decisions of appeal tribunals, especially as the Minister's representative would have to decide disputed appeal cases.

(c) The administration by a central board will tend to be bound by order and regulation and to lose its elasticity.

(d) The new assistance scheme ought to have been more closely integrated with the machinery of the employment exchanges.

(e) There is inadequate parliamentary authority over the Statutory Commission which controls the finance of the insurance scheme.

(f) The continuation of the means test, and the powers of the Unemployment Assistance Board to make the grant of relief conditional on the claimant's attendance at a training centre, or entry into a workhouse, render the Bill "an instrument capable of being used with the greatest harshness and injustice by a Tory Minister."

(g) More bluntly, the unemployment assistance scheme, with its

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means test and penal provisions, is a "glorified poor law system," a "measure to pauperise the unemployed."

The fact is that Labour has set itself implacably against the means test, by whomsoever it may be applied, and the agitation against it has already led in certain areas to a minor breakdown of local administration. The Government will face a bitter fight over their Bill, and there is no end in sight to the long struggle between those who regard the relief of destitution as the duty of the State and those who regard it as the right of the destitute.

INDIA : THE TRAIL OF ANARCHY

I. MR. GANDHI AND THE CONGRESS

THE last ROUND TABLE article from India took note of the existence of marked dissensions within Congress and of the bewildered criticism of its leaders, arising from Mr. Gandhi's refusal to accept the failure of the civil disobedience movement and from his decision, while temporarily abandoning mass action, to pursue the movement in its "individual" form. His next move was naturally awaited with anxious interest, and rumours were rife that he intended something highly spectacular—something in the nature of a wholesale immolation of himself and of his devoted followers of the Sabarmati Ashram* in a fast unto death. What actually occurred was far more prosaic. He announced his intention of setting forth on the morning of August 1, with some of the inmates of the Ashram, on a march to the village of Ras in Kaira district to urge the inhabitants to practise "individual" civil disobedience. In the early hours of the appointed day he and his followers were duly arrested under section 3 of the Bombay Special Emergency Powers Act of 1932. He was transferred to Poona and, after being served with a restraint order under section 4 of the same Act, was released. On his making it clear, however, that he intended to disobey the order, he was rearrested and subsequently tried and sentenced to one year's simple imprisonment.

The projected march bore a curious and ominous re-

* A semi-monastic institution for retreat and study.

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semblance to that which he conducted with such devastating effect in 1930 with the intention of breaking the salt laws at Dandi. It must have been as plain to Mr. Gandhi as it was to the country generally that Government, profiting by the lessons of the past, would promptly rearrest him, and the conclusion is therefore irresistible that his decision sprang not so much from any faith in its aggressive value or in the continued amenability of Government as from a very human desire to "save face."

The response to his lead was meagre, and the only prominent Congressmen who followed him into prison were Mr. Aney, Mr. Rajagopalachariar and Mr. Jairamdas Daulatram. A few lesser lights were arrested in other parts of India; half-hearted efforts were made in some places to revive the picketing of foreign cloth shops; and some slight recurrence of activity by Red Shirts was evidenced in the North-West Frontier Province; but, taken by and large, the reaction was negligible.

It was not, of course, to be supposed that Mr. Gandhi would do anything so humdrum as to accept his return to prison with the true resignation of a *satyagrahi*. To do so would have been to deny the politician in himself and to ignore the immense possibilities of agitation offered by the coming maturity of the proposals for the reformed constitution. It will be remembered that, during the latter part of his previous detention, that is, after the ratification of the Poona Pact, he was granted special permission to do *harijan** work in jail. He now demanded, on August 4, the same facilities, remarking that this work could not be interrupted except at the peril of his life. On August 16 he was informed of the authorities' decision that, to facilitate the purposes of work strictly confined to anti-untouchability, he would be permitted to receive newspapers and periodicals, but not to give interviews for publication in the press, whether with press correspondents or with others;

* *I.e.*, work for the untouchable movement.

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to see not more than two visitors a day; to send instructions or contributions to the editor of the *Harijan* three times a week and a limited number of letters to other correspondents; and to have at his disposal a convict typist and books and newspapers needed for *harijan* work.

Professing to regard these facilities as giving him inadequate scope for his labours against untouchability, Mr. Gandhi decided once again to fast. Government, in a communiqué, explained that, in the exceptional circumstances prevailing immediately after the Yeravda Pact, they had permitted Mr. Gandhi special facilities as a State prisoner, in order to enable him to inaugurate a movement to which he appeared to be devoting his whole attention, but pointed out, in the first place, that permission to do *harijan* work in prison was in no sense inherent in the Pact, and second, that the circumstances of his present detention were very different in that, after a brief period of freedom, obtained on a non-political issue yet employed almost exclusively for political ends, he had courted imprisonment by a deliberate breach of a law totally unconnected with untouchability. He had therefore no title to any privileges over and above those allowed to an "A" class prisoner. They were, however, reluctant to take action which could be regarded as unreasonable interference with the work of social reform or to take their stand too rigidly on the fact that Mr. Gandhi was, of his own deliberate act, a prisoner convicted of a breach of the law. In spite of the inconvenience to jail discipline and the anomaly of the position, they had allowed Mr. Gandhi such facilities for pursuing his work of anti-untouchability as enabled him to make important and effective contributions towards it. They pointed out that his present claim to be allowed from prison to carry on his *harijan* work without "let or hindrance" amounted to a refusal to accept for himself the normal concomitants of imprisonment, and was, in effect, a claim to dictate its terms. They were satisfied that the facilities which they now allowed were ample to enable

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him to conduct such work in favour of the removal of untouchability as was, in the circumstances, reasonable.

To the unbiassed observer, the line taken by Government was unexceptionable and, indeed, generous, but it came in for the usual criticism from pro-Congress newspapers, which took exception to the distinction drawn between Mr. Gandhi as a State prisoner and Mr. Gandhi as an ordinary political convict. They considered that exceptional facilities, having once been given him, should have been continued, and that, as one paper put it, "Government had now introduced irritating and insulting restrictions which were merely an ebullition of bureaucratic petulance generated by a complacent sense of power." In other quarters, however, Mr. Gandhi's unreasonableness was appraised as an unjustifiable attempt to obtain preferential treatment, or, alternatively, as providing a means of escape from the politically restrictive walls of his prison.

The next development was what was expected. To prevent Mr. Gandhi from committing suicide in jail, he was released on August 23. Government countered any misunderstanding of their motives by making it clear that the release had been effected purely for medical reasons, and that, should Mr. Gandhi, on recovery, resume activities in furtherance of the civil disobedience movement, he would be arrested again, and on conviction would be permitted no greater facilities for *harijan* work than he was allowed on the last occasion.

The immediate result of his fast and release appears to have been generally damaging to his prestige. It was pointed out that he took conspicuously little interest in the *harijan* movement when he was last at liberty and that he appeared to interest himself exclusively in it only when in jail; that, although claiming to be the representative of the poor and lowly, he seemed incapable of accepting with them the consequences of imprisonment, and that by means of his fasts he had twice within four months regained his personal liberty, leaving behind him

Mr. Gandhi and the Congress

many followers who neither asked for nor obtained special privileges in jail and who went there solely at his instigation.

With his release and, shortly afterwards, that of Pandit Jawahar Lal Nehru—on the expiry of his sentence—the clamour for the adoption by Congress of some "constructive" policy was redoubled. It was hoped that, if Mr. Gandhi was not to be weaned from civil disobedience, at any rate Pandit Jawahar Lal Nehru would not be slow to propound some fresh policy for the party. The two leaders conferred in private from September 9 to 12, and subsequently exchanged letters through the press. These, however, were so void of constructive proposals that they served only to increase the bewilderment of their followers and to render more strident the complaints of those who desire a reorientation of Congress policy based on decisions reached at a meeting of the All-India Congress Committee.

In this correspondence both Mr. Gandhi and Pandit Jawahar Lal Nehru were agreed that Congress stands for complete national independence, which the Pandit regards as including full control of the army, of foreign relations and of the purse; but, for the rest, their letters were obscure, consisting, on Mr. Gandhi's part, of insistence on the fostering of communal unity, the removal of untouchability and the universalisation of *khaddar*, and, on the Pandit's, of advocacy of a semi-communist programme. Both were agreed that no useful purpose was to be served by holding a meeting of the All-India Congress Committee.

These letters had an astonishingly bad press. Not a single nationalist newspaper of importance showed any enthusiasm about them, and several of the most influential pro-Congress and liberal papers, such as the *Bombay Chronicle*, the *Leader*, the *Tribune* and the *Hindustan Times*, frankly and emphatically condemned the policy outlined in them. The main ground for dissatisfaction was that the statements completely failed to suggest any practical programme for a Congressman to follow. The "individual" civil disobedi-

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ence programme, even at that date, was generally recognised to be altogether moribund; and it was realised that so long as the movement was nominally retained as an item in the Congress programme it was bound to obstruct, if not actually to paralyse, any constructive political activities that Congressmen might endeavour to take. The refusal of Mr. Gandhi and Pandit Jawahar Lal Nehru to consent to a definite abandonment of the movement was therefore felt by a large number of followers to be a grave strategical error. Further, Pandit Nehru's preoccupation with theoretical socialist or communist doctrines was considered premature and dangerous, since, by antagonising three powerful sections of Indian society, namely the Princes, the landlords and the industrial magnates, before the Congress goal of independence of Great Britain had been attained, it would needlessly and inevitably postpone political advance. The Congress rank and file, therefore, continued energetically to clamour for a meeting of the All-India Congress Committee to consider a fresh programme and to restore the principle of democracy in the Congress organisation.

The *Pioneer*, an Indian-owned paper of Lucknow, pointed out that while Pandit Jawahar Lal Nehru had been cautious enough to refrain from challenging the Mahatma's title to leadership, he had left no doubt as to the fact that they had come to the parting of the ways. While accepting Mahatma Gandhi's methods he repudiated the fundamentals of his political philosophy. His plan clearly was to organise an economic movement in which the Congress has not so far been primarily interested.

If Pandit Jawahar Lal Nehru's views find favour (the paper said), the Congress must necessarily become a changed organisation, drawing its support in quarters very different from those to which it looks at present; the trend of its activities must be towards class war.

The *Hindustan Times*, a pro-Congress paper in Delhi, declared that, in his passion for the abolition of privileges

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in human society, Pandit Jawahar Lal Nehru made light of the fact that for any equalitarian plan of redistributing wealth it is essential to capture the political machinery; that so rigid are the sanctions of traditional law with regard to property in India that it is impossible to correct mal-adjustments by extra-legislative processes; and that, against the plea that levelling down has a direct political objective, there is the argument that these are affairs of domestic adjustment which could be pursued only after the power vested in outside hands was re-acquired by the nation. The Pandit, in a recent statement to the press, has afforded further occasion for criticism of this kind by a destructive analysis of the capitalist system and by a blunt indication of his preference for a programme which, by "divesting vested interests," would aim at establishing a socialist proletarian state.

Whither, we must ask then, is Congress trending? Will it abandon civil disobedience and the negative policy of destruction? Or will it once again toe the line drawn by Mr. Gandhi? Has civil disobedience failed? Or will it be revived in opportune season? It may be of profit, in considering the welter of confusion which now is Congress, to concentrate attention on what is tangible. There is the decision of Mr. Gandhi, after an exchange of views with Jawahar Lal Nehru, not to seek imprisonment for the period of a year; until, in effect, the term of his last sentence would ordinarily have expired, and until, moreover, the time when agitation against the reformed constitution can most effectively be whipped up. There is his re-affirmation of his faith in the efficacy of civil disobedience. There is Jawahar Lal Nehru's support of this policy and his present comparative passivity, in face of much exhortation to action and criticism of inaction from the body of Congress. There is the patent unwillingness of both leaders to call a meeting of the All-India Congress Committee.

What does all this portend? Here we have two leaders,

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completely irreconcilable to the measure of self-government which, in reasoned opinion, is all that India can digest, deliberately pursuing a policy of inaction and deliberately evading any measures that might permit Congress to effect a change of policy. Is Mr. Gandhi a disillusioned old man clinging piteously to a discredited theory and the shreds of his diminished prestige? Is Jawahar Lal Nehru robbed of incentive to aggressive action by his communist leanings and his knowledge that their furtherance would split Congress in twain? Or are they both more long-sighted than their critical and impatient followers, and do they see in the revival of civil disobedience at a more convenient time greater possibilities of influencing the final form of the reformed constitution than could ever be achieved by any form of present action which discarded this weapon? Each of these theories has its adherents. It is, of course, argued that recent experience has shown that, with firm handling, civil disobedience has proved emasculate. But does Government wish to introduce the reforms in an atmosphere of intensive agitation, with the dark cloud of a threatened revival of civil disobedience in the background? And do Mr. Gandhi and Pandit Jawahar Lal Nehru intend employing that threat in order to extort further concessions, or will they try to utilise the agitation to render the reforms unworkable? And can civil disobedience be said to have failed, when it has driven Great Britain so far along the path of reform, and when it has instilled far and wide an aggressive militancy which bodes ill for a reasonable attitude towards the new constitution? As one paper recently remarked: "Congress is supposedly dissolved but the Congress spirit is widely present." Never has Mr. Gandhi's stock stood so low; but it would be unwise, in view of the many obvious difficulties with which the Government of India will be confronted in the next year or so, to assume that he will find no opportunity for raising it.

Terrorism in Bengal

II. TERRORISM IN BENGAL

THE growing confidence in the efficacy of the measures adopted by Government to combat the terrorist menace in Bengal received a rude, if temporary, setback with the news of the murder on September 2 of Mr. Burge, the District Magistrate of Midnapore. Remarkably successful captures of arms and ammunition by the police in the last few months had indeed given cause for disquiet as well as for satisfaction, and an attempt on July 25 to blow up the Governor of Bengal's special train had suggested that optimism was certainly premature; but the actual news of the murder was received with a horror accentuated by the fact that Mr. Burge was the third successive District Magistrate at Midnapore to die at the hands of political assassins, his two predecessors, Mr. Peddie and Mr. Douglas, having been shot in 1931 and 1932 respectively. The feeling of nausea engendered by this most recent instance of political perversion was for a few brief days so patently general as to induce the hope that a new era had dawned, in which Congressmen would join forces with their political enemies in the creation of a sane public opinion, and condemn the vileness and the futility of these outrages.

The leading articles in pro-Congress papers, particularly in northern India, were at first unexceptionable in tone, and an unusually large number of resolutions denouncing the outrage were passed by public bodies. Almost the only discordant note was sounded by Mr. Gandhi, whose qualified condemnation of the crime was rightly described by one newspaper as a back-handed attempt at the justification of murder. It soon, however, became apparent, with the infliction on Midnapore of the necessary protective and punitive measures, that Congress opinion, in Bengal at any rate, was swinging back once again to a tacit encouragement of terrorism by resistance to, and criticism of,

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the steps essential to combat it. The result has been a definite embitterment of feeling and a violent criticism of official action at Midnapore after the murder on the ground, on the one hand, that Government resorted to indiscriminate searches, and on the other, that it took an inordinate time in making those searches. The measures that are now being taken include an increase of the annual police force by a hundred men (at the expense of the inhabitants for one year at present), an increase in the local intelligence staff, and the application of the rules in force in Chittagong under the Suppression of Terrorist Outrages Act. This last provision will enable the authorities, should they so desire, to control the movements of suspects and to impose a curfew order when and where required.

The tragedy was rendered more poignant by the personal character of Mr. Burge, who was kindly, accessible and friendly to Indian aspirations, and by the circumstances in which he was shot ; in aggravation of the constant risk he ran of assassination, he was about to play football for one Indian team against another.

III. THE MEERUT CASE

THE judgment pronounced on August 3, in the appeals by the twenty-seven persons convicted in January last in the Meerut communist conspiracy case, whereby nine accused were acquitted and the remainder sentenced to terms of imprisonment greatly reduced below those awarded by the Sessions Court, revived once more the criticisms that had appeared in the press on the subject of the severity of the original sentences, the length of the trial and the wisdom of Government in having initiated it. On the whole, however, the reaction to the judgment in India was satisfactory, and a good deal of the criticism has been directed less to the merits of the case than to the question of the defects in the criminal laws which made it

The Meerut Case

possible for the trial to be so protracted. To the extent that these criticisms serve either to induce a salutary pruning of the tedious processes of the law, which were prolonged in this particular instance by the obstructive tactics of the accused themselves, or to point to the need for more definitive legislation against communism, they are of value. But the attacks on the political wisdom of Government in embarking upon the trial betray ignorance both of the text of the High Court judgment and of the peculiar conditions of India. The High Court stated that they had "no hesitation in saying that Government were fully justified in starting the prosecution which had resulted in a dangerous conspiracy being broken up," and they ascribed the limitation of the activities of the accused to the alertness and strict vigilance of the police. They repudiated the idea that Government had initiated the prosecution for the purpose of "suppressing opinions, ideas and education." With regard to those whom they acquitted, they remarked that "the accused themselves were largely to blame for their prosecution. Their seditious activities and their association with communists had created a natural suspicion that they were engaged in a conspiracy with the other accused."

To anybody having experience of the anxieties which the civil disobedience movement caused, it must appear a matter for congratulation that, by the timely action in removing this coterie of communists, the Government partially sterilised forces which, under cover of the widespread turmoil that followed, might have done untold damage. That the sterilisation had only temporary effect is evident, not only from the theoretical vapourings of such leaders as Pandit Jawahar Lal Nehru but also from the obvious and ever increasing attraction towards communism of Indian youth, of Labour, of the left wing of the Congress, and of terrorists. Observers of the Indian political situation who know only England or other countries where the urge towards communism is offset by an intelligent

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appreciation of its inherent dangers and its inevitable reactions, by civic experience and by a well-founded faith in the beneficence of constitutional progress, can have little conception of India's receptivity to communism. In this country, those factors are largely lacking; education is defective, and civic experience in its infancy; and faith in constitutional progress is damped by the knowledge that complete national independence, constitutionally obtained, is a thing of the very distant future, dependent on the resolution of a multitude of communal and social animosities to which time alone can supply easement. Communism, in its negation of religion and imperialism, offers to heedless impatience a short-cut to the goal of independence. Herein lies its great attraction for educated Indian youth, and its great danger to the British connection. Sever the latter—though, of course, it cannot be severed—and you emasculate communism in caste- and tradition-ridden India.

Upon this very generous soil has been scattered the seed of the mass idea, so sedulously sown by the non-co-operation and civil disobedience movements. It is often said that the politics of Mr. Gandhi are the surest safeguard against the spread of communist doctrine. Nothing could be further from the truth. His way has been parallel to that of communism, not divergent from it. Communism threatens to begin where he leaves off. This is not to say that he inclines to communism but that communism aims at out-running him and reaping the crop of his sowing.

This depressing appreciation of tendencies would be misleading without reference to one, in particular, among other factors which lighten the prospect, namely, the European reaction against bolshevism. Sauce for the communist has become sauce for his opponent; the violence of the masses is being resisted by the violence of the classes. The spread to India of the determination to oppose the imposition by violence of any new political or economic creed, however worthy, is only a matter of time,

The North-West Frontier

and it will manifest itself just so soon as communism in the country emerges from the chrysalis stage. There is likely to be an Indian reaction to Indian communism, and it will borrow strength from the innate conservatism, religious and social, of the Indian. It is none the less imperative that, in order to prevent the spread of a movement which can only disrupt India, it should be uprooted whenever it openly manifests itself.

IV. THE NORTH-WEST FRONTIER

WE will conclude this article with a brief description of the disturbances on the North-West Frontier. It will be remembered that in March last, at the instigation of the Lewanai Faqir and his companions, a few thousands of the tribes in northern Waziristan made an incursion into Khost in Afghan territory. On the threat of firm action by Government, the tribal *lashkars* were recalled from Khost and tranquillity was restored. The Faqir and his associates, however, succeeded in making good their escape into the country adjoining the Durand line. The exact whereabouts of the Faqir himself were not known, but one of his emissaries, with two associates, made their way to Bajaur territory, and there commenced to foment trouble. In order to nip it in the bud and to avoid a repetition in this territory of the incidents which occurred in Khost, an ultimatum was presented to the Khan of Bajaur demanding the surrender of these three men by July 29, after which date the Government would be reluctantly compelled to take strong action to enforce compliance with their orders.

As no response was made to this demand, on July 30 warning notices were dropped by aircraft near the village of Kotkai to the effect that, unless the Lewanai Faqir's emissary, who is looked upon by his followers as a pretender to the Afghan throne, and his associates were surrendered

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by a specific date, the village would be bombed. As nothing came of these warnings bombing was resorted to on the first three days of August, and the bridge carrying the road over the Panjkora river into the Bajaur valley was strengthened in anticipation of further developments. This action was effective, and although the pretender and his two associates have not been surrendered by the Bajauris, they are no longer in the neighbourhood of Kotkai, and are incapable for some time of fomenting dangerous agitation.

More or less simultaneously with this trouble in Bajaur territory there has been other trouble elsewhere in the tribal area, arising out of tension between the Upper Mohmands and the Halimzai Mohmands. It was due mainly to the pressure the former had been bringing to bear on the latter not to serve as government *khassadars* or allowance holders. The trouble suddenly came to a head on July 21, when a *lashkar* of about 1,500 Upper Mohmands crossed over into Gandab, forty miles northwest of Peshawar, and attacked the Halimzais, burning three of their hamlets. The latter, assisted by detachments of Musakhels and Tarakzais, succeeded after heavy fighting in driving back the hostile *lashkar* across the border, inflicting some twenty casualties. As a precaution against further attacks by this hostile tribe, it was decided to send a column into the Gandab valley to assist the Halimzais, and in connection with this move to construct a track fit to carry motor transport from the administered territory into Gandab.

On July 29 it was reported that the Upper Mohmands were collecting *lashkars* in the Bedmanai area. On the same day a cavalry regiment and one section of armoured cars was moved up from the Bajaur to Shabkadr, and this was followed by the rest of the Gandab column including the Peshawar Brigade, which encamped at Ghalanai, and the Nowshera Brigade, which spread out along the route to this camp. On August 6 a reconnaissance aeroplane flying over Upper Mohmand territory was fired at by a

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group of some sixty tribesmen and hit three times. It retaliated by dropping a bomb and the sniping immediately ceased. On August 11 the Halimzais were again attacked by the Upper Mohmands, and the fighting is said to have lasted for about five hours. The Halimzais sustained a reverse and several of their villages were burnt. The Gandab column immediately moved out from Ghalanai, but neither the Air Force nor the column succeeded in locating the whereabouts of the *lashkars* that day.

On the 12th, however, the column, while advancing towards the Khapak pass, was fired on from its eastern slopes. The column replied vigorously and artillery was brought into action. The enemy after a while ceased firing, and retreated over the pass. A later report showed that they sustained a number of casualties. In addition to this clash with the enemy *lashkar*, Dand, the headquarters of the Nowshera Brigade, was heavily attacked, and there was again sniping on the nights of August 14, 15 and 16, which resulted in one casualty. On August 16 the Peshawar Brigade column was engaged in a brisk action with 200 of the enemy on the hills north of Katsai.

Thereafter the situation markedly improved and, apart from a certain amount of desultory sniping, no hostile action of importance was taken by the Upper Mohmands. Reconnaissance by troops and aeroplanes has indicated that their *lashkar* has dispersed. At a *jirga* held on September 17, the two main Upper Mohmand groups of the Baezais and the Khwaezais definitely accepted a settlement on the lines asked for by Government, and there is reason to believe that serious trouble is at an end.

India.

October 27, 1933.

GREAT BRITAIN: LIGHT AND SHADOW

I. EXTERNAL PROBLEMS

THE parliamentary recess has been distinguished by no very remarkable developments at home. Although the National Government can no longer count on that overwhelming support on which it rode into office, there is no evidence that the country reposes any ardent confidence in any possible alternative. As Section III below describes in detail, trade and industry have shown striking symptoms of recovery, and unemployment steadily decreases; these are factors which are bound to exert a powerful influence on the Government's fortunes. Attacks on the Government have been directed mainly against its external policy. While the Joint Select Committee pursues its meticulous enquiry, the faction of Mr. Churchill and Lord Lloyd has continued its agitation against the White Paper scheme, though apparently it makes little headway. One newspaper magnate denounces the Locarno treaties because they might force us into war against France, another because they might force us into war on her side, a disagreement which rather stultifies the anti-Locarno campaign. Meanwhile the Labour press has raised a war scare, accusing the Government of provocative re-armament. Less extreme opinion recognises that the Government is facing problems abroad scarcely less difficult and fateful than those which crowded upon Sir Edward Grey in 1914, and that on the handling of those problems will depend the verdict, not only of the electorate, but also of posterity, on the present Administration. The prospect beyond our shores is indeed gloomy.

External Problems

Germany's resignation from the League has doubled the difficulty of an already baffling disarmament problem, the Government's handling of which has not escaped considerable criticism. It is significant of the intensification of economic nationalism that the tariff truce has been denounced by the Netherlands, the Irish Free State, Sweden and Switzerland, and has been hedged about with reservations by France and Denmark; His Majesty's Government, regarding the truce as "no longer of practical value," has therefore effected our own withdrawal. The sluggishness of the economy of the United States in responding to the latest stimuli given by the Administration, and the fluctuations of the dollar exchange, render the international economic outlook even darker than before. In addition to these world-wide difficulties, the Government has been faced with the recurrence of two stubborn problems in colonial administration. In Malta, the determination of the Government under Sir Ugo Mifsud to re-introduce the teaching of Italian in the elementary schools, contrary to the terms of the Letters Patent of 1932, resulted in the dismissal of the Government, the dissolution of Parliament, and the indefinite suspension of the constitution. In Palestine, Arab rioting in protest against the increased immigration of Jews has resulted in some loss of life—the ill-feeling being this time apparently directed against the mandatory government rather than against the Jews themselves. German anti-semitism has once more laid bare the inherent conflict between our two duties under the mandate for Palestine—to make it a national home for the Jews and to protect the rights of the indigenous population.

On the other side of the account, there must be set against the unrest caused by the Nazi revolution the greater readiness of the United States to co-operate in international affairs through League machinery, and the relaxation of tension in the States on the borders of Russia and in south-eastern Europe that has followed the pacificatory diplomacy

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of the Soviets, and also that of Greece and Turkey. As for the war debts, their final settlement has been brought little nearer by the Washington conversations, but if there had to be further procrastination the agreed token payment must be counted the most satisfactory expedient available.

II. HOME POLITICS

THE Conservative and Labour party conferences, held early in October at Birmingham and Hastings respectively, provided little excitement. Neither meeting voted any decisive novelty in national policy, and interest centred rather round the internal dissensions of the parties. At Birmingham the Right wing attempted another assault on the Government's India policy, but a majority of over two-thirds of the conference preferred a motion congratulating the Government on its success in maintaining law and order in India, approving the caution with which it is proceeding in framing its proposals for a new constitution, and refusing to come to any final conclusion on the matter until the Joint Select Committee should have reported. The Right wing was more successful, in the absence of defence Ministers, in securing the acceptance of a resolution recording "grave anxiety in regard to the inadequacy of the provisions made for imperial defence." At Hastings, the expected clash between the trade unionist and the "bourgeois" sections of the party over the methods required to achieve socialism came to very little. The Socialist League, for whom Sir Stafford Cripps is the recognised spokesman, had "set the party's teeth on edge," in Mr. Shinwell's phrase, by urging, among other things :

(a) The immediate abolition of the House of Lords.

(b) The immediate passing of an emergency powers Act enabling the Government both to take over or regulate the financial machine and to put into force any measures that the situation might require for the immediate control or socialisation of industry and for safeguarding the supply of food and other necessities.

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(c) The revision of the procedure of the House of Commons and the machinery of government so that a rapid transition to socialism might be carried through constitutionally and a dictatorship avoided.

At Hastings, however, Sir Stafford Cripps avoided the chance of a split on these issues by agreeing that the Socialist League's views should be taken into consideration by the party executive in the subsequent twelve months. The conference expressed at once its faith in democracy and its dissatisfaction with the present machinery thereof in accepting a report of the executive on constitutional procedure, whose recommendations were chiefly in the direction of increasing the control of the party over the Prime Minister and the Cabinet. For the rest, the programme adopted combines a social policy which is generally acceptable to the Liberals—who have now crossed the floor of the House—with a socialist policy which is not.

Electoral contests have recently given some indication of the trend of public opinion. The Opposition, and the House as a whole, must congratulate themselves on the return of Mr. Arthur Henderson at Clay Cross, whose 15,000 majority was not unduly disturbing to the Government, for Clay Cross is one of the safest Labour seats. More notable was the bye-election at East Fulham on October 25, at which the Labour candidate was returned with a majority of 4,840 over his Conservative opponent, a supporter of the National Government. At the last general election the National Conservative candidate beat his Labour opponent by 14,521 votes, the Liberal candidate securing 1,788 votes. On this occasion Liberal electors were significantly advised both by their local party organisation and by the Liberal press to vote for the Labour candidate. A variety of explanations has been found for the result—the usual Conservative apathy; distrust of the so-called Locarno policy of international commitment for the guarantee of peace; and the personal handicaps of the loser. None of these seems sufficient in itself,

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although there may be a portion of truth in each. As an owner of working-class houses, the defeated Conservative was probably made a scapegoat by some of the electorate for the inadequacy—in their eyes—of the Government's housing policy. Some Right wing Conservatives may have felt disgruntled on account of what they regarded as the Government's treacherous concessions to the Left. There seems to be little doubt, however, that the contest was fought largely on the international issue. At the moment when Germany's resignation from the League obscured the immediate future of world affairs, the election of an avowed pacifist and internationalist must be held to express the apprehensions of the people lest their attitude towards the possibility of war should not be fully recognised by the Government in its conduct of foreign affairs. The result in the bye-election at Kilmarnock was less decisive. A National Labour supporter succeeds another member of the same political group in an old Labour seat. The combined polls of two warring opposition Labour candidates, however, would have topped the list by a considerable margin, and the issue was still further obscured by the intervention of a Scottish Nationalist, who polled over 6,000 votes but was bottom of the poll.

The result at Skipton on November 8 was more distinctly encouraging to the Government. It is true that in a four-cornered contest (in which a Communist candidate received only a handful of votes) the National Conservative was returned by a minority vote, and with a majority reduced by nearly 11,000 from the level of 1931, when there were only two candidates; but comparison with 1929 indicates that the National forces still retain the allegiance of an appreciable number of Liberal and, possibly, of Labour voters. The annual municipal elections, to one-third of the seats in city and borough councils, showed a big swing to the Left. Labour achieved a net gain of over 200 seats, and won control of the councils of several big cities. Equally striking gains were recorded for Labour

Home Politics

in the Scottish municipal elections. Social policy always plays a big part in these contests, but it is at any rate apparent that the particular causes which swung the pendulum so violently to the Right, both in national and in local politics, two years ago, especially the fear of financial disaster, have now lost most of their force.

The Government may also have been caused some uneasiness by certain developments in connection with its agricultural marketing policy, which has again been "in the news." In particular, difficulties have been encountered by the bacon scheme. At the end of August there were reports of a danger of a bacon famine, through the failure of farmers to make good the cut enforced on imports, and a temporary supplemental quota had to be granted to foreign producers. Two months later, the supply of home-grown pigs so far exceeded expectations that curers were faced with the prospect of a heavy deficit between the prices procurable for bacon and the contract prices payable to farmers. The Government was compelled to insure the curers against losses on their contracts up to the end of February, the sums advanced to be recovered later by means of a levy on pig producers. This measure was followed by a further cut of 16 per cent. in the permissible quota of foreign imports, an action to which it proved impossible to obtain the consent of the Danish producers. The incident shows how easy it would be for a turn of the wheel, resulting in scarcity accompanied by exceptional increase in the price of an article such as bacon or pork, to produce a situation which might involve the Government in considerable unpopularity.

Following a decisive poll of milk producers, in favour of the continuance of the milk marketing scheme, the Milk Marketing Board assumed control on October 6, since when it has been a penal offence, except in special circumstances, to sell milk otherwise than on the terms approved by the Board. Buyers, whether for liquid milk distribution or for manufacture, must make their payments to the Board, which charges a levy and distributes the

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proceeds in compensation to those areas where the manufacturing percentage is high. The difficulties of such intervention in competitive trade are illustrated in the comment of *The Times*, that had it not been for the dry summer and the consequent reduction of the milk supply, the Board might have been faced with considerable reluctance on the part of wholesale buyers to purchase, at the prices prescribed, all the milk available for manufacturing purposes.

The Government has not been exempt from criticism in respect of its housing policy, which was summarily described in the last issue of *THE ROUND TABLE*.* In answer to questions in the House on November 9, the Minister of Health stated that 1,176 local housing authorities out of a total of 1,717 had submitted slum clearance programmes, involving the provision of about 44,000 houses a year over the five-year period. This compares with a total of only 20,000 houses previously erected since the war in connection with slum clearance schemes. Application had been made for rehousing guarantees under the 1933 Act in respect of about 13,000 houses, but a definite figure could not be given until local authorities had made the returns due on December 31. What is in question is the adequacy of new building, now that the Wheatley subsidy on "Class C" houses has been discontinued. In the year ended September 30 last, 218,313 houses were built, including 167,880 built without State assistance, but this figure includes houses of a higher rental value than is payable by poor tenants. It has been reckoned that a million houses which may be let at less than 10s. per week, including rates, are now needed, before taking into account the annual requirements of the natural increase of the population and the deterioration of existing houses.

The other aspect of social policy that has been to the fore in recent months, unemployment insurance, is dealt with in a special article in this issue.†

* *THE ROUND TABLE* No. 92, September 1933, p. 859.

† See p. 116.

The Trade Improvement

III. THE TRADE IMPROVEMENT

THE external situation during the last few months has produced little that was encouraging to British trade. The increasing difficulties encountered by the United States with her recovery programme and the growing expectation of inflation, the failure of the debt discussions to reach a permanent solution, the shock of Germany's repudiation of the League, the receding hopes of a resumption of the World Economic Conference, the breaches in the tariff truce—all these things gave Mr. Montagu Norman full warrant to speak, in the early days of October, of "dark clouds overhead." Now, in November, the sky is no brighter; the American confusion has intensified, and many things wait on America.

Yet if we ignore a slight access of caution and doubt in the last few weeks, this country has never since the slump began seen more cheerfulness or better signs. The evidences of recovery in Great Britain are imposing and extensive. There may be checks in its progress, even periods of regression, but there is little doubt that we are a year (if not two years) away from the trough of the depression, and that the mistakes of Governments will have to be disastrous indeed if they are to prevent the continuance of the slow upward climb.

The first important feature is that the improvement is not confined to this country. The League's *World Economic Survey*, 1932-3, bringing its account down to the middle of this year, conceded the probability of a "more solid core to recovery" than in any earlier hopeful interlude of the depression. Its striking chart of the "development of the depression" found only one of the thirty principal countries, Yugoslavia, in a condition of "accelerating aggravation" in the second quarter of this year; only five (Austria, Greece, Norway, Rumania, Argentina and Brazil) in a state of "uniform aggravation"; only two

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(the Dutch East Indies and Egypt) showing "diminishing aggravation." All the rest except one were put in the stages of "upward turn," "uniform improvement," or "accelerating improvement." The exception was New Zealand which, after an "upward turn" last year, showed "diminishing improvement." Great Britain, along with Belgium, Finland, South Africa and India, falls into the "accelerating improvement" group. The developments of the last few months have been patchy; Austria, Norway and Brazil appear to have passed the turning point, and New Zealand has followed Australia's advance, but the autumn setback in the United States has had parallels in some other countries.

While the recent League survey of *World Production and Prices* suggests that the lowest point of the depression in the world's productive activity was passed about the middle of 1932, the *Economist's* valuable new index of business activity puts the turning point in Great Britain at November, 1931. Half the ground lost since the onset of the crisis had been regained in this country by April, 1932; the pace then slackened until the spring of this year. The advance of recent months has been so rapid that in September the index number was only 1 per cent. below the average of 1930, and 4·6 per cent. below the level of 1929. Making all reservations for the caution induced by the recent downward trend of the prices of primary commodities, and the uneasiness about the American situation, there is a great deal on which to congratulate ourselves.

The way in which the Exchequer profits by expanding trade is illustrated in the revenue returns. Up to November 11 they showed an increase of £13,602,000 in the total of ordinary revenue as compared with last year, and a fall of £29,140,000 in ordinary expenditure. These figures must be regarded with caution in view of the facts that the Chancellor budgeted for a drop of £33,400,000 in ordinary expenditure, apart from the suspension of the sinking fund, and that the effect of the return to the system of

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paying income tax under schedules B, D and E in two equal instalments, which was estimated to cost £12,000,000, will not be felt until after December 31. Nevertheless, the figures are distinctly encouraging. Stamp duties and customs, which are good indicators of trade conditions, have both produced so far a considerably higher yield than they produced last year.

The decrease in unemployment has been continuous (with a slight check in July) since January. The number of the insured unemployed has dropped from 2,876,605 on January 23 to 2,271,137 at the end of October, a fall of 605,468. The drop in October was less than the average. Seasonal influences made for higher unemployment in the south-western and south-eastern regions, and there was a slight increase in Wales. Most of the non-seasonal industries, however, showed a reduction on the month, though there was a setback, the first for some months, in the iron and steel trade. The following table will illustrate the changes in some of the principal industries:—

Unemployment in Great Britain on October 23.

		Increase or Decrease			
		since September 25,		since January 23,	
		1933.		1933.	
		Number	per cent.	Number	per cent.
Coal mining	.. ..	— 13,171	— 4	+ 35,091	+ 12
Iron and steel	.. ..	+ 2,778	+ 5	— 19,943	— 26
General engineering	.. ..	— 6,608	— 5	— 49,453	— 30
Metal goods manufacture	.. ..	— 6,979	— 8	— 43,457	— 35
Motor vehicles, etc.	.. ..	— 5,024	— 13	— 12,395	— 27
Cotton	.. ..	— 7,405	— 6	— 15,619	— 13
Wool	.. ..	— 2,993	— 13	— 28,464	— 59
Hosiery	.. ..	— 2,204	— 26	— 10,752	— 63
Pottery	.. ..	— 2,175	— 14	— 11,851	— 46
Building	.. ..	+ 1,015	+ 1	— 145,810	— 47
Public works contracting	.. ..	+ 1,023	+ 1	— 4,192	— 3
Shipping		+ 5,007	+ 11	— 5,809	— 10
Distribution		+ 4,069	+ 2	— 26,576	— 10
Total of all trades		— 38,902	— 2	— 605,468	— 21

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The trade figures are equally encouraging. In the third quarter, retained imports of raw materials were 26 per cent. greater in volume than in the third quarter of 1932, and 19 per cent. greater than in the third quarter of 1930. They were, indeed, the highest recorded in any third quarter in recent years. In the first nine months of the year iron ore imports were at their highest figure since 1930; timber, cotton, wool and hide imports all reached or exceeded the level of the pre-crisis years, 1928-9. Manufactured imports, on the other hand, though 4 per cent. greater than in the third quarter of last year, were 49 per cent. less than in 1930. (An instance of the effect of the tariff is the fall of 86 per cent., compared with 1930, in imports of woollen and worsted yarns and manufactures; other groups with declines of over 50 per cent. were iron and steel, electrical goods, machinery and silk manufactures.)

The export side of the picture is rather different. The rise in the imports of raw materials was not accompanied by a corresponding rise in the exports of finished goods. In the third quarter their volume was 11 per cent. greater than a year ago, but 16 per cent. less than in 1930. Up to the end of September the linen and motor industries alone advanced beyond the 1928-9 level. Exports of woollens reached the best total since 1930 (in the third quarter they were actually higher); cotton exports were better than in 1931 but less than last year; iron and steel exports showed a decline compared with 1932, though in the third quarter there was a comparative rise; machinery exports showed no signs of recovery, and in the third quarter were only 56 per cent. of their volume in 1930. Of our other main exports, coal has displayed an improving tendency in recent months; the volume in the third quarter was nearly 5 per cent. greater than last year, but 23 per cent. below the 1930 figure.

The above figures relate only to the first nine months of the year. The October returns make the picture still more

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favourable. The seasonal increase was proportionately less than in 1932, but it followed an extremely active September. Exports were carried to £38,702,000, the highest monthly figure since April, 1932, which in turn was the best month since January, 1931. Iron and steel exports increased in volume by 22 per cent. on the month, and for the ten months now exceed the total for the same period of 1932, although they still fall below the 1931 level. The figures for cutlery and hardware, motor cars, chemicals, and non-ferrous metals and their manufactures were also good, and machinery took a welcome turn for the better. The improvement was, indeed, fairly general. While it is still true that in the main British recovery has been domestic, there are cracks in the ice of the frozen export channels.

The rail traffic figures and the production figures of the principal industries are also satisfactory. One of the most useful non-statistical sources is perhaps the cross-section of industry given by the reports from branches which the joint-stock banks publish in their monthly reviews. A few extracts from the Midland Bank's review for November will illustrate the optimistic trend. The Birmingham report is typical of the metal industries:—

Iron and Steel.—Prospects of a continued expansion in the Midland iron trade are regarded as favourable, but much headway has still to be made. The call for pig iron by the light foundries is maintained, owing to an increase in orders for builders' castings and kindred products. The heavy engineering foundries are slightly busier, although their activity is still below the average. There is an increased output from the furnaces to meet demand, and stocks no longer cause anxiety. . . . Home trade in small steel bars and semi-finished material is buoyant. . . .

Non-ferrous metals.—Conditions show a continued though slow improvement, and competition for business is keen. Imports from the continent tend to increase, as the import duty of 10 per cent. fails to offset the cheaper costs of production abroad. Empire trade is more satisfactory. . . .

Engineering.—General engineering, more especially in the lighter branches, shows an increased output, and mechanical engineering is

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also busier. . . . The general position is better than a year ago, although inquiries on the whole are from small undertakings. The heavy branches are benefiting to some extent from the general improvement, but the constructional section remains dull.

Electrical industry.—The improvement reported a month ago is well maintained. In some branches business is brisk, manufacturers of radio receivers in particular experiencing difficulty in coping with demand. . . . Although the improvement in the heavy electrical engineering side is not pronounced, the turnovers for the past six months are above those for the corresponding period of last year. Export orders for electrical plant maintain their comparatively high level.

Motor-cars and cycles.— . . . Light car firms are busy. . . . Demand for the home market is maintained, and export business is reported to be greater than a year ago. . . . The motor-cycle industry remains steady. . . . The pedal cycle trade is maintaining its position.

Hardware.—The better conditions recently noted in the general hardware trade continue to prevail, overseas trade in most sections being brighter, while improvement is noticeable in the home market.

Jewellery, Silver and Electro Plate.—The recent improvement in the jewellery section has now spread and is being shared by the manufacturers of higher-class goods. Producers of the cheaper lines are busy for the most part, and in the silver, enamel and electro-plate trades the seasonal demand appears to exceed that of twelve months ago. The general outlook is decidedly better.

What is true of Birmingham is also in the main true of Wolverhampton, Sheffield, the iron and steel towns and the centres of light engineering and miscellaneous metal trades. The heavy branches of the metal industries—railway and shipbuilding material, constructional engineering, locomotive engineering—have still no striking improvement to report. All textiles except cotton make a good showing. Huddersfield reports “a definite shortage of woollen weavers”; Dundee jute spinners and manufacturers are “comfortably booked for several months”; in Belfast “many factories are working to capacity”; rayon production has reached new high records and lags behind demand. The general impression one gets is of a varied revival fed from many sources—increase in building activity, repair work, renewal of equipment, extension of electricity, the

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starting of new small industries. But apart from iron and steel and wool—which are catering in the main for the home market—the old staple industries are moving slowly. The emphasis in the reports is on the home market, with the Dominions next, and exports to foreign countries a bad third. It is only too apparent that the conditions of a healthy revival in overseas trade are still wanting.

The most spectacular improvement has been in the iron and steel industry. It is, however, difficult to say how far it is the counterpart of the all-round improvement also noted in other countries and how far the effect of the British tariff, which should be making itself felt now that imported stocks are running down. In the first nine months of this year imports of “iron and steel and manufactures thereof” were only a third of their value in the corresponding period of 1930. Up to August, Germany and France saw an even greater proportionate increase in the production of steel than did this country, and there is ground for thinking that the full effects of the tariff on British production have not yet been experienced. Internally the industry has reported several important developments—for example, the laying down of a new plant at Cardiff to employ 1,500 men in the manufacture of billets and steel bars. The company reports show activity in modernisation and concentration, and there may be hope that now that the industry is becoming more prosperous it may fulfil more quickly the conditions upon which the tariff was granted—the carrying through of a full measure of reorganisation. The recovery in steel is symptomatic, but its limitations must be remembered. As the chairman of Steel Industries of Great Britain and United Steel Companies said on October 25: “There has been no improvement in demand for shipbuilding and railway material, very little improvement in the case of steel for constructional work, and there has been no improvement in export.”

Once we leave the protected trades the changes are less obvious. Shipbuilding has raised its head a little

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above its recent stagnant condition, but that is all. The merchant tonnage in hand at the end of the September quarter was 303,762 tons, as against 287,502 tons at the end of June, 252,401 at the end of March, and 225,497 at the end of 1932. This is only a fourth or a fifth of what could be considered normal, and half the present total is tonnage on which work has been suspended. Still, the tonnage on which work was started in the September quarter, 39,670 tons, was larger, with one exception, than in any quarter of 1931 or 1932, and Great Britain is doing 40 per cent. of the world's shipbuilding, such as it is. Naval work has kept the shipyards rather more fully employed than the merchant tonnage figures suggest. In the main, however, the yards are dependent on a revival of demand for replacements of merchant shipping, and this must wait on a rise in freights and an increase in world commerce. Shipowners are still actively pressing the Government for action against shipping subsidies by our competitors, subsidies which are increasing rather than diminishing.

There are two views of the exporting position of the coal industry. The Government claims, in Mr. Runciman's words, that the trade agreements have made the coal markets "secure," and the Secretary for Mines describes how the agreements have increased the proportion of imports of British coal from 43·5 per cent. to 80 per cent. in Denmark, 56 per cent. to 77 per cent. in Iceland, 38·7 per cent. to 70 per cent. in Norway, 23·6 per cent. to 47 per cent. in Sweden, 28·4 per cent. to 75 per cent. in Finland; and there are other agreements to come. Against the comfortable conclusions that might be drawn from this evidence, it is argued that the recent improvement in exports to the northern countries is due mainly to currency factors and to the fairly general increase in industrial activity; that our competitors are putting up a strong resistance by price cutting; that we must offset the loss of nearly 60 per cent. of our exports to the Irish Free State; that

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Germany is gaining ground in Brazil and Italy; and that new trade barriers are threatened in some of our remaining markets. Optimism among coal exporters is highly qualified. The industry has failed again to agree on the proposals for amending the coal marketing schemes under the Act of 1930 by which it was sought to prevent flagrant evasions and to safeguard the interests of the export trade. The Government will now be compelled to step in and save the owners from the consequences of their disunity. An interesting scheme for securing the advantages of colliery amalgamations without financial merging has been launched in West Yorkshire, but has met with some obstacles. It is looked on favourably by the Coal Mines Reorganisation Commission as an experimental half-way house to the complete regional amalgamation hitherto advocated by the Commission.

The cotton industry has little improvement to report, although it has shared in the recent increase of production common to all manufacturing countries. Its initial advantages from currency depreciation have been considerably lessened by the competition of the still more depreciated Japanese currency. Expectations that the pressure of Japanese competition would be relaxed have not been fulfilled.* There have been three months of commercial diplomacy on the part of Great Britain, India and Japan, on the lines described in the last issue of *THE ROUND TABLE*,† but the experiment has not yet produced concrete results. A Lancashire delegation went out to India, where it failed to get any agreement with the Japanese delegation, but agreed with the Bombay millowners (though not with their more prosperous and go-ahead rivals of Ahmedabad) on the principle of preference and lower duties for Lancashire cotton goods in exchange for a promise to India of equal treatment with Lancashire in Great Britain's commercial agreements, and of greater Lancashire pur-

* An article on Japanese competition will be found on p. 29.

† See *THE ROUND TABLE*, No. 92, September 1933, pp. 825-830.

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chases of Indian cotton. The negotiations between Japan and India for a new commercial treaty have dragged on, the stumbling block being the terms of the quota which India is prepared to allow to Japanese cotton goods in return for the quota of Indian cotton that Japan will admit. The outlook for a successful marketing bargain with Japan is precarious, and not much is expected from the conversations between Lancashire and Japanese representatives which are now taking place in London.

Other evidences of the drift of the textile industry to the East are the buying up of Lancashire spinning mills and the bodily transfer of their machinery to Egypt, where a great cotton undertaking is to be established; the project for setting up cotton spinning in the Dutch East Indies; and the orders given by the Governments of Persia and Canton for British cotton spinning and weaving machinery for new State undertakings. The need for the internal reorganisation of the Lancashire industry becomes ever more acute. There has been some experimenting with price rings among spinners, a renewal of interest in amalgamations, and much talk about the inevitability of some form of statutory control, or rather, one should say, industrial self-government under statutory authority. With the disintegration of customary wage-standards and the cut-throat competition to which this has led, the weaving section of the industry has been brought again to the edge of a wages dispute, the outcome of which will probably be a demand for government intervention to give the industry power to enforce discipline and order. So far the Government appears to have taken the view that its duty ends when it has given the industry a monopoly of the home market and regulated a few of the channels of foreign trade. The recent experience of the cotton and coal industries suggests that this is much too limited an interpretation of the State's responsibilities.

We return therefore to the threadbare point that while in this country we have all the advantages of financial

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confidence, cheap money, and a generally optimistic industrial psychology, we must hesitate to count on a long continuance of the pace of recent improvement until external currency conditions reach stability, and until there is a definite movement for the reduction of trade barriers, and a relaxation of political tension.

IRELAND : MR. DE VALERA'S OBJECTIVE

I. THE NATIONAL GUARD

MR. de VALERA must by this time deeply regret that he removed General Eoin O'Duffy from the position of Chief Commissioner of the Civic Guard last February, for this false move has had far-reaching results.

General O'Duffy is an Ulsterman by birth, and an engineer by profession. He took an active and leading part in the Anglo-Irish struggle, and was a prominent officer in the Irish republican forces under Michael Collins. After the Treaty of 1921 he had charge of the I.R.A. forces in Ulster and, during the civil war, he became Chief of the Staff in the Free State army. Selected by Kevin O'Higgins to organise the Civic Guard, the new police force, he was called back to take command of the army during the military crisis of 1924, but returned after a short period to the command of the Civic Guard. He has devoted his spare time in recent years to a movement for the development and encouragement of Irish athletics. He is a man of tireless energy, and has the reputation of being a good organiser and leader. He has very little political experience, but this defect can be easily remedied if he has the sense to learn by his mistakes, and to take the advice of his very competent lieutenants. He is, moreover, nearly as good a "showman" as Mr. de Valera himself, and has that theatrical sense which is so valuable to a political leader, particularly in Ireland, and which Mr. Cosgrave never cultivated. When he was elected leader of the Army

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Comrades Association, last July, which then changed its name to the National Guard,* it soon became obvious that a new and dynamic force had appeared in Irish politics.

The first reaction of the Government to this new situation was to cancel the firearms licences held by ex-Ministers of the Cosgrave Government and members of the National Guard, and to demand the return of any arms in their possession. Several of these people had been until quite recently under military protection and, feeling that their lives were in danger, refused to surrender their weapons. Mr. Ernest Blythe, former Minister for Finance in Mr. Cosgrave's Government, said that the whole business was a scandalous abuse of authority, and that he had no intention of making himself a defenceless target at the behest of Mr. de Valera, or of any of his colleagues. In view of what the Government had done, by speech and action, to encourage the retention of firearms by the I.R.A.—which included many cowardly murderers—he could only conclude that it was the policy of the Government to inspire and facilitate the assassination of its political opponents.

When the Government's action was challenged in the Dail Mr. de Valera declared that they would not tolerate any private armies. Questioned as to his views about the Irish Republican Army, he replied that since the removal of the oath of allegiance there was now no reason for its existence. There was no excuse for anybody to use force or possess arms. The Government would not allow the public display of uniforms or guns. It was not their policy, however, to organise raids for arms. As far as they could, they would stop any organisation of a military character that threatened authority in the country. This statement made it quite clear that the Government were contemplating further action against the National Guard, which had adopted an official uniform of blue shirt and black beret, and that they were determined first to deprive them of their arms.

* See THE ROUND TABLE, No. 92, September, 1933, p. 880.

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The nature of this action was soon disclosed. The National Guard had arranged to hold a ceremonial parade in Merrion Square, Dublin, on August 13, in front of the cenotaph erected by Mr. Cosgrave's Government to commemorate Griffiths, Collins and O'Higgins. This parade had been carried out officially each year by the previous Government, but Mr. de Valera allowed it to go by default. On the previous day the Government proclaimed the National Guard demonstration, on the ground that it was likely to interfere with the maintenance of law and order, and, as the I.R.A. were actively preparing to attack General O'Duffy's followers, there can be no doubt that this statement was justified. At the same time they put into force Article 2 A of the Constitution—the Public Safety Act, passed by Mr. Cosgrave's Government shortly before its defeat*—which virtually creates a state of martial law, and gives the Government almost unlimited powers of action against any association it declares to be illegal. General O'Duffy, who had previously stated that it was his sacred duty to head the National Guard on this occasion, from which duty he would not flinch come what might, now wisely decided that discretion was the better part of valour, and cancelled the parade. At the same time he announced that his organisation would hold church parades throughout the country on the following Sunday, an arrangement which he had also to cancel, as being contrary to ecclesiastical law. Finally, he ordered, in spite of a warning from the Government that it would lead to the proclamation of the National Guard under the Public Safety Act, that private parades should be held in each district on Sunday, August 20, in honour of the dead leaders. At these parades, which were duly held in each county, a message was read from General O'Duffy to the effect that no good could come to Ireland from the frantic squabbles of warring parties. In a previous interview he had stated that the policy of the National Guard was to establish

* See THE ROUND TABLE, No. 85, December 1932. p. 142.

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vocational instead of territorial representation in the Dail. "The present election system, he said, would be replaced by one which would constitute a Dail composed of vocational groups, such as farmers, educationalists, journalists, etc. At the end of a few years he hoped there would be no politicians and no party politics in the country.

These, and similar statements of a rather vague and bombastic kind, were used by the Government as an excuse for suggesting that the gallant general, or some of his supporters, meditated a *coup d'état*, to meet which contingency they enrolled an armed auxiliary police force of ex-I.R.A. men who had fought in the civil war on the republican side, supplying it with rifles, machine guns and armoured cars, and placed it on guard over the government buildings. This new force has been nicknamed the "Broy Harriers," after Colonel Broy, the new head of the Civic Guard, and the famous Bray harrier pack. On August 22, following the parades held by the National Guard, the Government proclaimed that body an unlawful association under the Public Safety Act, and appointed the special military tribunal required by that measure. The personnel of the tribunal is exactly the same as that appointed by Mr. Cosgrave's Government in October, 1931, which proves that the army, at all events, is apparently trusted to hold the scales of justice evenly as between all political parties. This action, which was like employing a steam hammer to crack a nut, was ignored by General O'Duffy, who cautioned his followers not to permit their organisation to be driven underground, and proceeded with his work of organising the country, offering at the same time to disband the National Guard if the Government would agree to proclaim the Irish Republican Army, and the Communists, unlawful associations. When, on the motion of Sir John Keane, the Government's action was debated in the Senate Mr. Rutledge, the Minister for Justice, stated that the National Guard was a heavily armed force, and that arms were being imported into the Free

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State. Mr. McEntee, the Minister for Finance, denied that there was any suggestion of hesitation on the part of the army to act in co-operation with the Civic Guard, and added that on grounds of the highest policy the Government would refuse, unless driven to the last extremity, to bring out the army against the Irish people, no matter what section might be involved.

In spite of the proclamation, General O'Duffy held uniformed meetings of his organisation in various places, but one which he had planned to hold on August 27 at Beal-nablath, County Cork (the place where Michael Collins was ambushed and killed during the civil war) was prevented by the police. On the same day, however, he eluded his police guard by a clever ruse, and addressed a big meeting in the streets of Bandon. On August 30, the Government being apparently anxious to make some show of action, a police raid was made on the headquarters of the National Guard in Dublin, shortly after a raid had been made on an I.R.A. camp near Dublin. This last performance, which was apparently staged to prove the Government's impartiality, aroused the wrath of the I.R.A. Council, which denounced the Government for exercising coercion against republicans, and stated that it had no more claim to the allegiance of the people than the "imperialist junta ruling in the six counties." They appealed to all republicans to unite in repudiation of the Treaty, and the establishment of the Irish republic. In spite of these excursions and alarums, no serious action was taken by the Government against the National Guard or the I.R.A., and no evidence produced to justify the tremendous powers it had invoked.

Meantime there had been some further developments in the Anglo-Irish situation. On July 25, Mr. Lemass, the Minister for Industry and Commerce, speaking in the Senate during a discussion on the Government's legislation for making permanent the emergency duties imposed as a retaliatory measure against British goods, announced that the Free State Government was prepared to raise the

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emergency duties immediately if the British Government would do likewise. The Free State, he said, would go further and remove them now, if there was any indication that the British Government would remove them soon afterwards. To this overture Mr. Thomas replied, in the House of Commons on July 27, that if it meant that the Treaty obligations would be fulfilled and the annuities paid then there was no difficulty whatever. Overtures of any sort or kind made on behalf of the Irish Free State would be examined sympathetically by the Government. The statement was repeatedly made that the people of Ireland were adapting themselves to the changed circumstances. It was equally true with regard to the people in Great Britain. But that, instead of helping matters, only aggravated them; it merely widened the breach. The British Government, he insisted, would lose no chance or opportunity of effecting an honourable settlement.

In spite of these statements, and unofficial discussions which are believed to have taken place, it soon became obvious that Mr. de Valera's obstinacy still blocked the way to any chance of fruitful negotiations. His real purpose was further revealed by three Bills to amend the constitution, introduced early in August, which are all calculated to bring the Free State closer to the republican ideal. The first transfers from the Governor-General the formal function of recommending the purpose of the appropriation of money. The second proposes to abolish the Governor-General's theoretical right to withhold the Royal Assent to a Bill passed by both Houses, although, in fact, no Governor-General could now exercise this right, unless the Government in the Dominion concerned so advised him. The third, and most important, proposes to abolish all appeals to the Judicial Committee of the Privy Council, a step which Mr. Cosgrave's Government had seriously contemplated, and done their best to secure by consent. In fact, these three Bills are only a logical extension of the policy followed by the Cosgrave Govern-

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ment, and could not be, and were not, opposed by the Opposition. The Judicial Committee of the Privy Council has quite recently granted leave to appeal against a decision of the Free State Supreme Court concerning fishing rights in the river Erne, but it would be better for all concerned to realise that, as far as the Free State is concerned, the right of appeal is dead, and can never be revived. Nor is there much chance of any Free State Government agreeing to any alternative imperial tribunal. Whilst these Bills were under discussion in the Dail, Mr. de Valera stated that he could not guarantee that they completed his programme of alterations in the constitution. Mr. MacDermot replied that he could not imagine anything less intelligent and patriotic than to keep the Treaty in existence for the purpose of chipping bits off it whenever the Government wanted to create excitement.

During the recent debate on the vote for the Governor-General's establishment, Mr. de Valera said that he hoped to be able to abolish the Governor-General's office completely and absolutely. In the meanwhile his functions would be just what the Executive Council told him to do—nothing more, and nothing less. The present Governor-General of the Free State might, indeed, be described as a person who gets something for being nothing.

Another indication of the Government's attitude towards the King is given by the fact that the Department of Defence thought it desirable to contradict officially a statement that a prominent Free State army officer had honoured the toast of the King at a dinner in Trinity College. All these things, some of them relatively small in themselves, clearly indicate that the Government is not prepared to come to any settlement with Great Britain which involves the fundamental recognition of the Treaty of 1921.

The United Ireland Party

II. THE UNITED IRELAND PARTY

WHILST General O'Duffy and Mr. de Valera were still manœuvring for position, the various Opposition parties in the Dail, alarmed by the threat of an early general election, and, apparently realising at last the weakness of their position, entered into negotiations for fusion. These negotiations were brought to a speedy conclusion on September 8, when conventions representing Cumann na nGaedheal and the Centre party agreed to join with the National Guard in forming a new United Ireland party, under the leadership of General O'Duffy. It was also agreed that the vice-presidents of the new party should be Mr. Cosgrave, who is to act as its parliamentary leader, Mr. Frank MacDermot, the leader of the Centre party, and Mr. James Dillon, a son of the late John Dillon—one of the leaders of the Irish Parliamentary party—who was also a member of the Centre party. A manifesto, issued on the same day by General O'Duffy, stated that the new party stood for a voluntary reunion of the Irish nation as a paramount constitutional issue in Irish politics, and considered that to achieve this end the first essential was solidarity of purpose among the citizens of the Free State. It maintained the fundamental right of the Irish people to decide for themselves at all times their constitutional status, and rejected, as fatal to Irish unity and in every way disastrous, the Government's double-faced policy of retaining the present constitutional position and at the same time discarding its advantages. The United Ireland party had been founded to enable all patriotic citizens to co-operate in remedying the situation so created. Looking to the future while rooted in the best traditions of the past, it would stand for the wiping out of party animosities arising either from the Anglo-Irish war or from civil conflict. These objects are fundamentally those of the

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Centre party. But it is to Mr. Cosgrave that the greatest credit for the fusion is due, because he has undoubtedly sacrificed his personal position for the good of the country.

It would be easy to exaggerate the importance of this new party, which Mr. Lemass, the Minister for Industry and Commerce, has humorously, if not accurately, christened the "cripple alliance." Although it does not comprise all the Independent members in the Dail, it has undoubtedly consolidated the Opposition and revived its spirit. Moreover, it enables General O'Duffy to amalgamate the National Guard with a perfectly constitutional party, in which his young men can still display their blue shirts in "storm troop" formation should the occasion demand. Their activities can now be directed to securing freedom of speech and vote. Although the new party is at present unlikely to attract many new votes, it would in a general election undoubtedly secure, through unity of purpose and with properly chosen candidates, a very real advantage. If General O'Duffy's ability as an organiser is equal to his reputation he may be able to give it that efficient political machinery which Mr. Cosgrave's party so sadly lacked. It has certainly saved the various Opposition groups from individual destruction. On the other hand, it has driven Mr. de Valera to a closer alliance with Labour, which has been cemented, if not procured, by promises of immediate legislation dealing with widows' and orphans' pensions, unemployment, housing schemes, workmen's compensation, and factories. The Unemployment Assistance Bill, which has already been introduced, provides for relief to every unemployed person out of a fund derived partly from urban taxation and partly from the national exchequer. The necessity for some such measure is a strange and ironical commentary on the Government's economic policy, and is proved by the increasing and impossible burden thrown on the local authorities by public assistance. This is now costing the ratepayers over £2,300

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a day. The number of people so relieved was, in June last, 33,622 more than at the same date in 1932.

Having secured the support of Labour by these measures, it is very unlikely that Mr. de Valera will now incur the risk of another general election, because it is difficult to see what advantage he could gain by doing so. If and when he introduces a Bill for the abolition of the Senate an election may be considered imminent, for the certain rejection of such a measure by its proposed victims would undoubtedly be the signal for a final and decisive struggle in which he would, if victorious, be able to remove the last obstacle to the full development of his policy. The Senate has not increased its chances of survival by inserting an amendment in the Economy Bill exempting the Civic Guard from the proposed cuts, an amendment which the Government, in spite of the opposition of Mr. McEntee, the Minister for Finance, were reluctantly forced to accept in order to save their faces, because the Labour party would have voted for the Senate's amendment. The Bill would, in its original form, have reduced official salaries and wages by about £300,000, and the Senate's amendment will reduce this sum by £35,000, which must be found by fresh taxation or by borrowing. The Senate also amended the Land Bill by providing that the 40,000 farmers who are not in arrear with their annuities should be relieved of paying them during the period 1933-39, and that, instead, the payments for that period should be funded, as is proposed to be done in the case of those already in arrear. They also passed an amendment relieving local ratepayers of responsibility for defaulting annuitants. The Dail refused to accept these amendments, and the Senate did not persist in its attitude.

Other and more serious difficulties have been created for Mr. de Valera by the action of the I.R.A. Not satisfied with the policy of Mr. de Valera's Government towards British imports, which they consider to be weak and unsatisfactory, they have embarked on an aggres-

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sive and intensive campaign against British goods, directed principally towards the products of Messrs. Bass. In pursuit of this policy, advertisement signs have been broken, public house owners warned, and a large amount of drink destroyed. One unfortunate publican was removed to the top of a mountain near Dublin and stripped of everything save his shirt and a pair of drawers, on which was painted the legend "Boycott British Goods," which is the I.R.A. slogan in this campaign. When some of the youths responsible for these antics were brought before the courts noisy demonstrations took place and large forces of police had to be employed to keep order. Some of those convicted went on hunger strike, but the Government on this occasion actually refused to release them, and they eventually desisted from their fast. Speaking at Dundalk on September 10, Mr. de Valera said that those republicans who had been creating disorder and damaging property under the pretext of prosecuting the economic war were playing into the hands of the enemies of Irish independence. If he were Mr. Thomas, and wanted to bring about the speedy defeat of the Irish people in this struggle, there was nothing, after the antics of General O'Duffy, Mr. Cosgrave, and Mr. MacDermot, which would give him more pleasure than the raids on publicans and subsequent scenes inside and outside the courts. He warned those republican opponents of the Government that their present course might very well lead to national defeat and disorder. But the I.R.A. entirely ignored this reproof, and their official organ, *An Poblacht*, declared that the only tactics which would save the situation were those of direct attack on the enemy. British goods must cease to be imported as a first step in Irish industrial reconstruction. The agricultural community must be given the waste and idle acres, and credit and capital with which to build up their homes and farms. The system of industrialism in the cities and towns must give way to a control more stringently regulated by the State in the interests of the whole com-

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munity. Only a revolutionary policy with a revolutionary leadership was adequate, they claimed, to deal with these urgent tasks, and the I.R.A. alone supplied that leadership.

The truth of the matter is that in this matter Mr. de Valera is hoist with his own petard. If he had practised in opposition what he preaches in power his position would be very different. He refused, however, to conform to "the will of the people" when it was not to his liking, he stirred up dissension, and showed himself prepared, to quote the words that he applied to his opponents, to "bring ruin and anarchy on the country in order to attain party ends." He was not then disturbed by fear of what he now describes as "weakening the elected Government of the country for the meanest of party motives." The I.R.A. are naturally surprised and pained by his denunciation of their mischievous campaign, for they might justly recall his silence when public buildings and private residences were burnt by his comrades as part of the work of national regeneration during the civil war. The chickens hatched in Mr. de Valera's nest have come home to roost, and it is not surprising that he at last disowns the ugly brood. If there be, as he complains, a conspiracy not to pay rates, it was he who preached and practised the repudiation of obligations. If private armies exist in the Free State, it is because Mr. de Valera's Government have tolerated and parleyed with a revolutionary force—for which he claims to have nothing but sympathy and brotherly love—whose existence and activities have led naturally to the formation of a rival organisation. His policy of killing the I.R.A. with kindness and ignoring its activities has given us a year of comparative peace, but it was dearly purchased, as the condition of semi-anarchy now prevailing clearly proves. The Waterford farmers, who were charged with conspiracy to prevent the payment of rates, were haled before the Military Tribunal and kept in gaol for a month awaiting trial on a charge which, even if they had been found guilty (which they were

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not), was after all only an extension of Mr. de Valera's own conduct in refusing to pay the land annuities. But the armed conspiracy of the I.R.A. to overthrow the State itself only meets with a mild rebuke. When the Government are finally forced in very shame to protect the public against the destruction of private property, carried on by the satellites of this armed organisation, they treat the offence as one of minor importance.

It is no wonder that, emboldened by their success, the I.R.A. have extended their activities. On September 21, at Dingle, a member of the National Guard was fired at by men with rifles and seriously wounded; on September 23 determined attempts were made to attack a meeting of the United Irish party in Limerick, several people being seriously injured and some motor cars burnt; on September 26 the offices of Messrs. Bass in O'Connell Street, Dublin, were attacked and the windows broken; on September 30 the military and police had to be called out to keep the peace in Cork, where General O'Duffy was holding a meeting and the I.R.A. had organised a rival gathering. But worse was to come. On October 6, whilst walking through the streets of Tralee to attend a convention of his party in Kerry, General O'Duffy was assailed by a band of hooligans and struck on the head with a hammer, the hall in which he was holding his meeting was subsequently attacked by an organised mob, his motor car was burnt and, as the Civic Guard were either unable or unwilling to tackle the situation, troops had to be brought from Cork to restore order. The General's subsequent statement that the attack on him was made by "ex-British army men of the corner-boy type," even if accurate, was hardly tactful. During these proceedings a Mills bomb was thrown into the hall but, fortunately, did not explode. On the same night the Civic Guard barracks at Tralee were fired into with rifles and a machine gun.

Speaking at Castlebar, on October 8, General O'Duffy said that the Free State was fast being brought under mob

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law, and Mr. de Valera was only kept in office because he pandered to the mob.

When the Dail met on September 27 after the recess, Mr. MacDermot, on behalf of the new party, moved a vote of censure on the Government for their alleged misuse of the Public Safety Act. This was defeated by 15 votes, as the Labour party, swallowing its past denunciations of the Act, voted with the Government. Mr. MacDermot declared that it was an Act of appalling severity, and that its use could be defended only on a plea of overwhelming necessity. The Government could not escape the imputation of injustice and oppression unless they could show that there was a widespread prevalence of serious crime, and that the resources of the ordinary law had been exhausted. Pointing out that the National Guard had committed no crimes, he said that the Government, having obtained their dictatorial powers, did not stop short at using them against the no longer existent National Guard. Powers that were not considered necessary for dealing with terrible acts of sabotage during the railway strike,* or with the activities of the I.R.A., were being used against farmers who had been driven to desperation by the ruin which the Government's policy had brought upon them.

But the sensation of the debate was provided by the statement of Mr. de Valera that the Government had definite information that General Mulcahy, the former Minister of Defence in the Cosgrave Government, had had conversations in Glasgow with Lord Hailsham, the British Minister for War—the implication, of course, being that General Mulcahy, who was a prominent member of the National Guard, had been conspiring with Lord Hailsham to procure British military assistance for a *coup d'état*. This absurd story was promptly denied by both General Mulcahy and Lord Hailsham, and on October 4 Mr. de Valera, who had promised to set up a tribunal to inquire into the matter, admitted that the person who had given

* See THE ROUND TABLE, No. 91, June, 1933, p. 649.

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the information had refused to come forward, and that the information he had given was untrue. He also apologised to General Malcahy for giving publicity to this falsehood, but refused to allow any further inquiry into the matter. It is a strange commentary on our narrow political mentality that both Government and Opposition apparently consider it an act of high treason to have any converse with a British Minister. The situation is both tragic and absurd.

The most serious menace to the Government's position is, undoubtedly, the reluctance of the farmers throughout the country to pay their rates. In an official circular to all the county councils, published on October 13, the Secretary of the Local Government Department points out that although, granted efficient collection, the proportion of the entire year's collection of rates lodged at this period should have amounted to one half, in no county has one-third been reached, and the general position is that less than one-eighth of the rates have been collected. The county council elections, which were to have been held in November, have now been postponed to July, 1934. The reason for this postponement is ostensibly to enable the Government to bring in legislation applying the city manager system, which the Cosgrave Government started in Cork and Dublin, to the county councils. The real reason, however, is suspected of being a desire to avoid an immediate election on the limited occupation franchise, which applies to local elections in which the Government's candidates might fare badly. The attitude of the farmers is well exemplified by the story of the six Clonmel heifers. These animals, which are likely to become historic, were seized for non-payment of rates and succession duty from a farmer near Clonmel. It was found impossible to sell them locally, and they were then removed to Dublin, where their sale was the occasion of exciting scenes. No *bona fide* bids were received, and they were finally knocked down for £14 to a detective disguised under the name of John Brown, who

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lost his trousers while attempting to escape from the infuriated farmers. "John Brown's trousers" are likely to become as famous as "John Brown's body." In connection with this occurrence Mr. P. Belton, T.D., a member of the United Ireland party, Mr. Cronin, one of its secretaries, Mr. P. Ryan, chairman of the South Tipperary County Council, and Mr. F. B. Barton, a prominent gentleman farmer from Kildare, who were present at the sale, were charged before the Military Tribunal, and found guilty of interference with the enforcement of the law and of unlawful assembly to disturb the public peace. They were fined £25 each and £25 costs.

III. THE ECONOMIC POSITION

THE trade returns for the twelve months ended August 31, 1933, prove that we are still suffering the natural consequences of the Government's policy. The total volume of trade during that period had fallen to £55,790,116, as compared with a total of £80,366,644 for the year ended August 1932; a total of £90,658,730 for the year ended August 1931, and a total of £107,546,897 for the year ended August 1930. In other words, our trade is nearly £25 million down on the last year. Great Britain and Northern Ireland still maintain their positions as the Free State's leading customers. The effect of the "economic war" is shown in the export trade in live animals. In the first eight months of this year the total value of all live animals exported from the Free State had declined by £4 million. Even Mr. de Valera's paper, *The Irish Press*, bewails the fact that although we buy from foreign countries they take very little in return. The mirage of alternative markets to Great Britain for our produce and live stock has now completely disappeared. Two recent developments illustrate in an amusing way the nature of the Government's economic policy. They agreed with France to take

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10,000 tons of wheat, in exchange for which France was to take the equivalent in value of Irish butter. Unfortunately, when the time for delivery arrived, it was found that no butter was available for export, and as France would only supply last year's wheat at an absurd price, the whole deal fell through. Again, the farmers, urged by the Government, have this year grown more oats. This year's crop will be about 650,000 tons, and there is a surplus from last year of 100,000 tons, making a total of 750,000 tons available for sale. But the most the grain merchants and millers can possibly use is 200,000 tons, so that there is a surplus of 550,000 tons, which is virtually unsaleable, and cannot, in face of British and foreign tariffs, be exported. These are two excellent examples of the knots into which the Government have tied themselves in their amateur efforts to reconstruct our agricultural economy.

Speaking recently in the Dail, Mr. Lemass, the Minister for Industry and Commerce, claimed that the Government by their tariff policy had transferred from foreign to Irish factories, within a period of slightly more than twelve months, trade valued annually at over £5,000,000, and they hoped to double that figure within the next twelve months. Yet these results could have been obtained without any dispute with Great Britain. Mr. Norton, the leader of the Labour party, pointed out in the same debate that the unemployment problem was still as serious as it was twelve months ago, and that in some trades, such as the wholesale clothing industry, there were considerably fewer persons employed now. The truth is that, whilst the Government have by their tariffs benefited certain relatively small existing industries and encouraged the starting of others, they have also by their quarrel with Great Britain almost achieved the ruin of our main industry, agriculture, on which our whole economic existence depends. Moreover, any foreign manufacturer who cares to do so has been able to avoid the Government's rather childish schemes to prevent the introduction of foreign capital and foreign

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enterprise. It is indeed notorious that the unsettled state of the country, both politically and economically, is a definite deterrent to the initiation of new undertakings, and has caused the departure of many people who, in spite of their reluctance, think it wiser to realise their property and to leave the country.

The Dail has now adjourned until November 15. During the adjournment debate Dr. O'Higgins appealed to both parties to discourage any endeavour to interfere with the rights of others, and Mr. de Valera promised that all the forces of the Government would be used to preserve order. After admitting that the country was in a serious position, he said that there could be no progress if there was disorder, and that any such thing as mob law would be the end of them all, and the end of all the efforts of the nation. In some quarters it is believed that another general election will take place before the Dail reassembles, but it may be doubted if Mr. de Valera's party, should he consult it, will agree once more to put its political life in jeopardy under existing conditions.

The Irish Free State.
November 1933

CANADA

I. CANADIAN LABOUR

LABOUR in the broadest sense includes all economic activity. In Canada economic activity is carried on over an enormous stretch of land, the occupied farm lands alone extending over an area more than twice as large as the British Isles. And away beyond the farm lands are hundreds of thousands of square miles of unoccupied lands available for scientific forestry or open to prospectors for minerals. A part of the forest lands may be expected to become farm lands in the future, while other lands now inaccessible to settlement may be expected to be cultivated when mining or lumbering towns grow up in their vicinity, or when the advent of railways and good roads supplies the settlers with a market for their produce. In spite of the present depression and in spite of all the labour-saving inventions of the period, the time will come when Canada will need a larger population to exploit her still largely undeveloped natural resources.

Immense as is the area of Canada in proportion to its population, more than half of that population lives in about three per cent. of the area, that is, in the area of about one hundred thousand square miles included in Old Ontario and the thickly settled strip along the St. Lawrence Valley in Quebec, between Montreal and Quebec City. This region constitutes the industrial heart of the Dominion. Indeed nearly one quarter of the total population of Canada is to be found in Montreal and its environs together with the Toronto and Hamilton district, Ottawa and Hull and Quebec City and suburbs, which are all included in the area just described.

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Outside this area there are only two considerable agglomerations of population—Winnipeg and Vancouver, with their respective suburbs. While Halifax and Saint John in the maritime provinces, Regina and Saskatoon and Calgary and Edmonton in the prairies, are important towns, the bulk of the population in the remaining area, which is more than 95 per cent. of the total area of Canada, lives close to the land and other natural resources. This population is the typically Canadian population depicted in the novels and in moving pictures of the prairies and the great forest areas. Life in these parts is, for the most part, not so far removed from the life of the pioneer. Climate and its vicissitudes play a great part in the life of the people, and since production is largely for export, transportation facilities are a matter of supreme importance.

(a) *Characteristics of Canadian Employment*

As Canada is still a new country, offering in normal times considerable inducements to immigrants, it is natural enough that her population should include a large number of people of the working age. The constitution of the population in respect both of sex and of age is affected by the very large number of immigrants. The disproportionately large number of males of working age, together with the transfer of females from domestic life to other spheres of activity, results in a proportion of gainfully occupied people which is one of the highest in the world. Thus in 1931 the gainfully occupied male population was over three and a quarter millions, or more than three-quarters of all males ten years old and over. In the same year, the gainfully occupied females were one in six of all females ten years old and over. The total gainfully occupied population numbered nearly four millions out of a total population of ten and a third millions.

Again, the total gainfully occupied population is very considerably larger than the wage-earning population. Out of three and a quarter millions of gainfully occupied

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males, little more than two millions were classified as wage-earners at the census of 1931, although "wage-earners," according to the Canadian census, include all salary-earners up to the Prime Minister of Canada and the President of the Canadian Pacific Railway, not to mention large numbers of civil servants and teachers and other professional men. The remaining million and a quarter of gainfully occupied males are either "workers on own account" or employers of others, the former being the great majority. This million and a quarter includes nearly three-quarters of a million operating farmers of whom 90 per cent. were the owners of their farms. Probably 150,000 others operated retail stores or service establishments. Even of the two-thirds of a million gainfully occupied females, more than one hundred thousand were "workers on own account" or employers of others. Finally, it is quite common for those who are "workers on own account" at one time of the year to be wage-earners at another, as in the case of the pioneer farmers on the frontier of settlement who often work in the lumber camps in the winter.

All this means that the transition from wage-earner to "worker on own account" or employer is not so very difficult in Canada, though it is more difficult than it used to be, particularly in the manufacturing industries, where large-scale production is gaining ground, and also in transportation and finance. However, a large number of the more ambitious wage-earners in the agricultural industry, in the fisheries, in the saw-mills and even in many small manufacturing industries may quite reasonably expect to be their own bosses later on. This ambition is more likely to be realised by the native Canadians than by the British-born or foreign-born workers because the Canadian-born worker is more alive to the opportunities before him, and is likely to have more assistance of the kind that comes from old school friendships and family relationships; again, he is more in love with economic independence. Yet large numbers of British-born immigrants have attained

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independence or responsible positions. The foreign-born worker has greater difficulties, as he is likely to be exploited both by the baser sort of Canadian and by his own better informed countrymen.

Rising to be one's own "boss," however, is not quite all that it is sometimes represented to be. In the great depression, on account of the disproportionately large fall in the prices of agricultural commodities, the independent farmer who works his own farm has had to face more hardship and privation than the reasonably efficient urban workers who have steady jobs. The farmers have on the whole fared worse than the train workers who have carried their products to markets. Such reversals of fortune have produced general discontent which tends to increase in proportion as the discrepancy is long continued. The raising of farm prices nearer to the level of prices of manufactured products would tend to restore the economic equilibrium and lessen economic friction in Canada.

Another characteristic of Canadian employment is that throughout far the greater part of Canada the "jack of all trades" is more in demand than the master of one trade, who may not find a field for his specialised operations outside the industrial region between Lake Huron and Quebec. The handy man, who can turn his attention to any one of a hundred jobs from painting a garage to repairing a tractor, is the man who is wanted in the greater part of Canada, and sufficient self-confidence with a certain amount of mechanical aptitude will cover a multitude of imperfections in a man's work. Thus Canadian labour is to a large extent unspecialised and intensely individualistic.

From what has been said, it follows that trade unions are relatively weak because of the small number of specialised workers. The total trade union membership is only a little over three hundred thousand, a figure which includes some unions of the industrial type. The strongest trade unions are in the railway trades, the iron and steel trades, the textile and the printing and publishing trades. Again,

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the trade unions are weakened by the loss of their most intelligent members, who become employers or "workers on own account." It is significant that many of the leaders of the Canadian trade unions are British-born, inasmuch as the British are more class-conscious than the native Canadians. Moreover, the majority of the trade unionists of Canada are members of international unions with headquarters in the United States, a fact which is causing some searchings of heart at the present time in view of the attitude of the United States Administration toward trade unions. There the Government has adopted a policy of higher wages, shorter hours and the recognition of trade union organisations, and this is likely to make Canadian trade unionists more intransigent in their attitude towards their employers, who at a time like the present have many other difficulties to face in bringing about a national revival.

Again, the Canadian labour force, especially the non-Canadian-born, is to a considerable extent nomadic, wandering from place to place out of a love of adventure and a desire for more favourable conditions. Thus in former times many Canadian farmers' sons made their first acquaintance with the Great West by going there as labourers in harvest time—a habit facilitated by extremely low rates on the railways, and often leading to the establishment of new farms on the prairies. To-day, however, wandering labourers either "ride the rods" in spite of official prohibitions, or "hitch-hike" through the kindness of motorists. All this *Wanderlust* will throw very great difficulties in the way of the administration of any system of unemployment insurance that may hereafter be devised. While skilled labour of an industrial character usually "stays put," the farm labourer, the construction labourer, and the worker in the lumber camps and mines, who are really in the greatest need of a system of unemployment insurance, will continue to go where fancy calls them, thus increasing the difficulty of collecting from them any con-

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tributions provided for by such a system, and also making it difficult to test the bona fides of their unemployment when they apply for what may be due to them. Indeed, it is a question whether the obstacles to the adoption of a system of unemployment insurance are not, for the next ten or twenty years at all events, insuperable.

(b) Brighter Employment Figures

The high point of industrial activity in Canada was reached about August 1929, after the whole of the stimulus of the enormous harvest of 1928 had been absorbed into the economic system of the country. Further, many Canadians had made money as the result of the great boom in the United States and the Canadian stock markets. New construction, always a very important element in the economic life of a young country, reached the record total of 577 million dollars in 1929. Even after the break came, it was generally believed that only a temporary readjustment was involved. The business forecasters continued to repeat their classic formula that "prosperity is just around the corner," and no one was disposed to be very much concerned over the fact that the use of the combined harvester and thresher had cut down the demand for extra agricultural labour in the West. Rather were the observers disposed to consider this as tending toward a stabilisation of employment—a boon rather than a bane.

The most comprehensive measure of the employment situation in Canada is the monthly return of the aggregate number of employees made by some 8,000 of the larger employers of Canada to the Dominion Bureau of Statistics. These firms, which employed almost 1,100,000 workers at the peak level of employment in August 1929, employed only 1,043,000, 956,000 and 792,000 in August 1930, 1931 and 1932, respectively. Indeed, the decline continued until April 1933, when the low point of 698,000 was reached, practically 400,000 lower than the high mark of 1929. This

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was the experience in spite of a gradual increase in the number of reporting firms.

Seasonal movements of employment are considerable in Canada, owing to climatic conditions. Thus the firms reporting to the Bureau of Statistics employ on the average nine persons at the high point of the year, which is usually in August, for every eight persons they employ at the low point, in January. The difference would be greater if it were not for the inclusion of "logging," which is a winter industry, in the figures. Further, it should be noted that the very considerable variation between winter and summer employment in agriculture is not reflected in the figures.

The low point of the depression, as reflected in the absolute numbers employed, was reached in April, 1933, but the gain between April and June was not as large as the usual spring gain, reckoning by the experience of the last twelve years. However, between June and October there has been a steady increase in employment, even after seasonal variations have been eliminated, and the grand total number of workers on the staffs of the reporting firms has increased to 834,000. It looks as if the worst were over, though unquestionably the approach of winter finds employment still at a low ebb and a large amount of direct relief will have to be provided. Parallel with the increase of some 35,000 in the number of the people employed reported by various firms during recent months—an increase which is indicative of an increase of some 275,000 in all sorts of employment—there has been a decline from 1,522,000 to 1,000,000 in the estimated number of persons on relief. The number shows a slight increase, however, in September and may be expected to increase further during the winter.

Generally speaking, the depression has been deepest in the construction industries, though its severity has been considerably mitigated by relief employment on public works. Thus employment on construction has not declined as much as might have been expected. Apart from relief

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works, the general state of the construction industry may be realised from the fact that in the first nine months of 1933 contracts awarded for this sort of work had an aggregate value of only \$63,500,000 as compared with \$442,000,000 in the same period of 1929, a decline of about six-sevenths. Of course, it has also to be remembered that building costs were much lower in 1933 than in 1929.

Among industries which make monthly returns of employees manufactures are the largest group. Here there has been an absolute increase of employment each month from January to September in 1933, the total number of workers reported by about 5,000 firms rising from 369,000 in January to 431,500 in September, or an increase of over sixty thousand. The figures of this group are not directly affected by relief work, and after allowing for seasonal variation there is an increase of about ten per cent. between April and September. The increase in manufactures is one of the brightest spots in the general business situation.

Employment in the transportation industries has been very generally reduced as a consequence of the falling off in the quantity of commodities to be transported, the relatively stationary character of transportation costs as compared with prices, and the relatively high wages paid to certain classes of workers on the railways, in consequence of which the latter economise on their labour force. In recent months, it is true, the number of employees in the transportation industries has increased to some extent, and a substantial increase has also been recorded in wholesale and retail trade.

Mining is also affording increased employment; coal mining is showing at least a seasonal increase in activity, and the mining of other non-metals, as well as of metals, is increasing. Some 7,400 workers have been added to the staffs of the reporting firms in recent months.

On the whole, therefore, the last six months have seen a substantial increase in the numbers at work, and from this it would appear that the worst of the depression is over,

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though there will probably be some seasonal decline of the still low level of employment during the winter.

II. THE BANFF CONFERENCE.

DURING the past summer Canada has been the scene of an unprecedented number of conferences of a non-professional nature. The British Commonwealth Relations Conference at Toronto is described elsewhere. Both the Liberal and Conservative parties held summer schools for the first time, and they were of a studious rather than a party character. A non-partisan conference on political and economic questions was held at Lake Couchiching, not far from Toronto. These meetings brought together a number of men and women interested in various aspects of contemporary problems, both Canadian and international; and while one may concede some degree of wasted effort, there can be no doubt of the benefit that will come from an earnest and detached study of the complex and varied ills that beset the modern world, a study which these conferences made possible.

Not the least interesting of the meetings was the fifth biennial conference of the Institute of Pacific Relations held at Banff, Alberta, from August 14 to August 26. The general scope and nature of the work of the Institute will be familiar to readers of *THE ROUND TABLE*. It is an unofficial and non-partisan body, comprising citizens of those States which border on, or have possessions in the Pacific Ocean, and was created for the purpose of studying problems affecting all or some of the countries concerned. There is a permanent staff at Honolulu, and each "national group" makes itself responsible for local organisation and research. Thus the biennial conferences have as a background a body of research work which in turn is stimulated by each succeeding conference.

Two of the four previous conferences—those held at
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Honolulu and Kyoto—have been described in previous numbers of *THE ROUND TABLE*.* The fourth conference met at Shanghai in the troubled days of 1931, and the fifth, while geographically removed from the scene of the struggle in the East, met under the shadow of the Manchurian struggle and the Japanese withdrawal from the League. In 1931 the Institute was faced with the problem whether a conference was feasible when hostilities had actually broken out, involving two of the principal participating States; and the success of the Shanghai meeting showed that it was not only possible but of added value during such a time. Dr. Hu Shih, chairman of the Chinese group at Banff, made a happy reference to this issue:

Two years ago, in my opening speech as President of the Conference, I said: "It is not saying too much that the opening of this conference to-day will long be remembered, not only in the annals of our own Institute, but also in the history of all sister institutions of an international nature, as having set up a splendid precedent that all those who in peaceful times pride themselves as being internationally-minded must not desert the ideal of calm thinking, patient research and open-minded discussion at a time when folly reigns and passions carry the day." It is, indeed, gratifying to see while folly still reigns and passions still carry the day, we, members of the Institute of Pacific Relations, are once more assembled here to do our work in calm thinking and open-minded discussion on the various problems which have set the nations of the Pacific at variance one against another. The precedent set up by the Shanghai Conference is now apparently accepted by all member-groups of the Institute without a murmur, and individual members from countries between which relations cannot be strictly termed "pacific" have come to this Conference with very little of that doubt and hesitation which had prevailed during the weeks just before the opening of the Shanghai Conference.

The agenda for 1933 provided only incidentally for discussion of the political question in Manchuria, but references were made from time to time to this pressing aspect of Pacific affairs. While the Institute undoubtedly has succeeded in bringing together in friendly discussion men and women from States some of which are at political

* See *THE ROUND TABLE*, No. 69, December 1927, and No. 78, March 1930.

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variance, there was evident at times at Banff some feeling of restraint caused by the political situation in the Far East. In the "critique" of the Conference, Mr. Wellington Liu, referring to the discussions at the round tables as a whole, urged more frankness. The Institute, he said—only partly humorously—may yet have to offer martyrs to the cause of free discussion of international issues.

Many Canadians have never thought of Canada as a Pacific Power, and the fact that the Institute met at Banff may well have served to remedy this deficiency. The selection of Banff had, perhaps, a further advantage (apart from the beauty of the surrounding Rocky Mountains) in that it made it more clear that the Institute is concerned with the whole Pacific area and not only with the Far East. In this respect there was some compensation for the change from the vivid atmospheres of Kyoto and Shanghai.

Much of the success of any conference depends on its personnel, and in this the Banff Conference was very fortunate. All the groups were of high calibre, and representative, too, of various schools of thought in the countries from which they came. Australia, Great Britain, Canada, China, Japan, New Zealand, the Philippines and the United States sent groups as before; groups, too, came from France and the Netherlands, and were made full members of the Institute. Observers were present from the League of Nations, the International Labour Office, and the Institute of Intellectual Co-operation.

Two subjects were discussed by the four round tables: "international economic conflict in the Pacific area: its control and adjustment," and "problems of education." The first of these received the lion's share of the time of the Conference, and, indeed, was sufficiently wide and engrossing to occupy a longer period than was available. Four main questions appeared in the agenda for the guidance of round tables:—

1. What types of conflict are there in the international economic relations of the Pacific area?

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2. Why do the types of conflict revealed in (1) occur? What are the major causes of conflicts?

3. What important methods have been practised for dealing with international economic conflicts?

4. To what extent have these methods been effective? What are the limitations of their scope?

The four round tables approached these problems simultaneously, fortified by the large number of agenda papers which had been written on various aspects of the subject. Although general sailing directions were provided in the agenda, each round table followed a somewhat different course. Furthermore, the Institute expressly avoids the passing of resolutions; and while this procedure adds to the freedom and purely studious character of the discussions, it accentuates the difficulty of analysing them.

The word "conflict" offered a problem in definition of which the solution adopted by one of the round tables—"international competition in an advanced stage but short of actual warfare"—met with general acceptance. Certainly there was no question as to the existence of economic conflicts, and each round table proceeded to examine them, using varying examples, depending to some extent on the knowledge and experience of individual members. The influence of the sugar, cotton, rubber, shipping and other industries on international relations was brought out, as were the problems arising from the unequal distribution of food and raw materials. Tariffs, boycotts and subsidies were discussed as forces contributing to international friction. The Ottawa agreements, the N.R.A., and the possible "closed door" in Manchuria were carefully considered. Serious attention was given by some of the round tables to population problems, such as over-population and migration. Connected with this were interesting discussions of the varying standards of living, and the factors that went to make up the divergent standards in East and West were analysed.

The discussions of causes of conflict revealed a highly

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complex situation in which political, economic and social forces were inextricably intertwined. In seeking to define the methods of controlling the conflicts that arose, the round tables were faced with an equally intricate problem; and some of them gave more time to consideration of solutions than did others. One of the round tables analysed its findings in this way: that the peace and prosperity of the Pacific area required that certain questions—such as currency stabilisation, tariffs, access to raw materials, migration and peace machinery—should be effectively dealt with; that this might be achieved either by voluntary co-operation between governments, by agreement between groups of private interests, or by—what has not yet been tried—international government. It was felt that, while international government was not an immediate possibility, some approach might be made to it, one of the principal avenues to saner relations being through education.

By this comparatively logical transition, two round tables turned to consider "problems of education." Education was considered in its widest sense as the formation of public opinion, and in this connection the influence of the press, of the cinema and of school-teaching was discussed. Emphasis was necessarily placed on the importance of accurate and unprejudiced information, and the dangers of propaganda of an emotional character were pointed out.

Other aspects of the work at Banff can, for lack of space, be only mentioned. At the opening and closing sessions speeches were delivered by the president and other members of the Conference. Three evening sessions were arranged: one on "currency and financial problems of the Pacific area" and two on the National Recovery Act of the United States. Special round tables were convened on "educational techniques" and "communications and news dissemination." There were also meetings of a special round table on international legal questions, and at this

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round table was introduced a paper of great interest—"some considerations of the future reconstruction of the peace machinery in the Pacific." Throughout the Conference the various committees met and drew up tentative plans for the continuation of research work and for the 1935 Conference.

As has been mentioned, on the last day the Conference looked at its work in the form of a "critique," and various valuable suggestions of possible improvements were made for the benefit of future conferences. It may, perhaps, be taken as the general feeling of the Banff Conference that the Institute had done something, and by continuing its work could do more, to aid in the understanding and solution of the vast and complex problems of the Pacific area.

III. THE BRITISH COMMONWEALTH RELATIONS CONFERENCE

THE British Commonwealth Relations Conference at Toronto is dealt with in its broader aspects elsewhere.* The purpose of what follows is merely to say something about the repercussions of the Conference in Canada.

The Conference took both the public and the press by surprise. On the great North American continent it is unusual for even two or three to be gathered together without a maximum of publicity, and when without any preliminary blare of trumpets public and press suddenly awoke to the fact that distinguished men from various parts of the Empire were here among us, gathered to take part in a conference, there was considerable mystification. When it became known that the meetings were private and that the only thing to be given to the press was a prepared statement, the surprise and mystification were intensified, and in the case of some of the newspapers there was a tendency to irritation as well. The Toronto

* See page 42.

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Evening Telegram, for instance, a Conservative paper, said "If the purpose of the British Commonwealth Relations Conference is to foster Empire solidarity, it seems unfortunate that the sessions are being held behind closed doors," while the *Telegram* complained that the reports issued to the press were "inadequate and inane." This, of course, was bound to be the newspaper verdict on any report which, as in this case, eliminated personalities and incidents and merely gave a summary of the arguments used.

The personnel of the Conference gave rise to considerable comment. The names, already well known in Canada, of Lord Cecil, Sir Herbert Samuel and others of the United Kingdom delegation, and of Mr. Downie Stewart from New Zealand, who attended the Ottawa Conference a year ago, immediately gave the Conference a standing in the eyes of the public, and it was soon realised that the other visiting members, though not previously well known in Canada, were men of position.

The personnel of the Canadian delegation was not so fully accepted. Sir Robert Borden, Mr. N. W. Rowell, K.C.K., Sir Joseph Flavelle and Sir Robert Falconer were men whose views and attitude of mind have been familiar to the Canadian public for a considerable period of time, but there the views of many of the delegates were quite unknown, and as the Conference proceeded it became clear that not a few of them were men of a rather highly intellectual type, who expressed with great freedom opinions of a much more radical nature about the subjects under discussion than had been customary at previous meetings of this kind.

The proponents of these views felt it highly desirable that the other delegates should have a change from the diet of sentimental imperialism which is so often the only fare provided for visitors from the rest of the Empire, and while they assumed that the Empire would continue in being, they were determined to let the other delegates know of the existence in Canada of what may perhaps be described

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as a North American continental view tempered by a recognition of Canada's obligations in and to the League of Nations.

As soon as it became known that this point of view was being put forward, questions and protests began to appear in the Conservative press, though Liberal newspapers apparently contented themselves with merely reporting the proceedings of the Conference.

Thus the comments of the *Mail and Empire*, a Toronto Conservative newspaper, were as follows :—

The British Commonwealth Conference, held at Hart House under the auspices of the Canadian Institute of International Affairs, is subject, and we think properly so, to considerable criticism on one count. There is a widespread feeling that some of the Canadian speakers, who by no means represent majority public opinion in this country, were unduly cold in their attitude towards the Mother Country and the rest of the Empire. These speakers belong to the separatist school, which is as vociferous as its numbers are small. Little Canadians in their outlook, they seem to be wholly lacking in imagination, in respect for Imperial traditions, and in an adequate conception of history. They appear to delight in belittling the glorious work accomplished by the British League of Nations on behalf of humanity, even going to the length of denying that the Mother Country and the British Navy have done much for Canada. We believe that such sound Canadians and Imperialists and peace-lovers as Sir Joseph Flavelle and Hon. N. W. Rowell, who had to listen to the harangues of these men, must have grown restless under the ordeal. The Canadian autonomists had the support of one or two South Africans, but the delegates from Great Britain, Australia and New Zealand took a strong stand against them.

Again, take the *Orillia Packet and Times*, an independent organ :

It would appear (said this paper) that the "delegates" who undertook to speak for Canada were disposed to emphasise the independence which has been conferred on the Dominion by the Statute of Westminster. In this attitude we are inclined to question whether they represented either the general opinion or the highest interests of the people of Canada. This whole independent nation agitation is a hothouse movement, inspired by two small groups—first the politicians who want to add to their own importance ; and secondly the group of

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intellectuals in the universities who are enamoured of internationalism and who see in any intra-Empire development a rival tendency. The mass of Canadians value the privilege of being British subjects, and have no desire to see the ties of the Empire weakened. If we are not mistaken, there is a growing feeling that the loosening process has gone too far already, and a realisation that Canada's best chance in the midst of a distracted world lies in the direction of a more closely knit Empire.

Delegates to the British Commonwealth Relations Conference, meeting at Toronto, (remarked the *Halifax Herald*, an independent Conservative newspaper, in an article headed "'Status,' Again") have been discussing the question, "Is the King one, or is he several?" In other words, "Can the King be at war and at peace at the same time?"

The Conference, we read, disposed of the question for the time being by referring it to a committee of lawyers.

Toronto despatches containing a summary of the proceedings of the Conference go on to explain that:

Under the new doctrine of equality of status of the Dominions with the United Kingdom, the problem of war and its possible effects on the Empire is regarded by the delegates as of vital importance. Some delegates took the view that the completely self-governing nations of the Empire had really resolved themselves into six separate and independent kingdoms with a common sovereign and that the King's acts as King of Canada need have no relations to his acts as King of the United Kingdom or of Australia.

Thus, it is added, "the King of Canada might declare war on a foreign Power, while the King of Australia remained friendly."

But why should this school of constitutional thought confine its suggestions to the declaration of war "on a foreign Power"? If, as they contend, the countries of the Empire have "resolved themselves into six separate and independent kingdoms," then, *reductio ad absurdum*, the King of Canada would be quite able to declare war on the King of Australia, or the King of New Zealand would have the power to declare war on the King of the United Kingdom.

It is becoming increasingly difficult for the average person to follow the reasoning of certain types of the "constitutional mind." And despite all that constitutional experts may say about it, there is no equality of status as between the Dominions and the Mother Country—not even under the provisions of the Statute of Westminster.

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The *Toronto Saturday Night* (Independent), in an article entitled "The War Power Question," expressed a different standpoint:

Ever since the Hart House Conference (it said) we have been deluged with letters from readers—in spite of the fact that we do not make a practice of printing letters from readers—denouncing one or other of the "attitudes" expressed at that Conference on the subject of Canada and war. The majority of these express strong disapproval of both the Leaguist attitude and the Monroe Doctrine attitude, and their writers appear entirely satisfied with the pre-1914 system under which, whenever the Parliament of the United Kingdom declared war, the Dominions were automatically in a state of war. This simple and easily comprehensible system worked very well for a long time (partly because the Dominions did not have to spend any money on most of the wars declared by the Parliament of the United Kingdom, and therefore did not mind being in them), and is presumably the system which theoretically at all events is working to-day. But it is a little too simple to last for ever.

For one thing it involves a complete negation of responsibility by Canadians for all serious questions of external policy. The motto, "My country right or wrong," is open to criticism, but the possessive pronoun at least implies a recognition of responsibility, of the citizen's duty to share in the determination of national policy. The motto, "Somebody else's country right or wrong," is fundamentally immoral, being an acceptance of complete irresponsibility in the most important sphere of national action, and it is the real motto of all those who tell us that Canadians must now and always and automatically be committed to war and peace on the strength of a vote of the House of Commons at Westminster.

It was observed on an earlier page that the Conference took Canada by surprise. Canadians who had already reached maturity at the end of the war were inclined when peace returned to feel that they could now apply their minds for a time to the urgent problems of economic restoration. What with the years of readjustment, the boom of 1925-1929, and the subsequent depression, most of us, notwithstanding a growing sense of the importance to Canada of European tranquillity, have concentrated on our own domestic problems. Even those who might normally be expected to take an interest in international affairs, and who

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before the war would have been anxiously concerned about imperial relations, have failed on the whole in these last years to give any serious or continuous attention to important Empire matters and international relationships. This is also true of those in public life.

The Conference did a good deal to stir people up to grapple once more with the problem of our external relations. It is perhaps unfortunate that much of the discussion centred around the British navy, as this tended to accentuate differences of opinion. Australians and New Zealanders—not merely the intelligentsia but the man in the street—one imagines, live day by day in the consciousness of the fact that their daily life depends on the strength and efficiency of the British navy; but they should not expect us in Canada to have this feeling in the same vivid form. Living on the North American continent in juxtaposition to the United States has inevitably had its effect on our minds. This is not to say that what the *Saturday Night* calls the “Monroe Doctrine” attitude* represents any important section of Canadian opinion. The writer believes that there is no doubt that this view, though expressed by men of high quality, whose reaction from the sentimental imperialist point of view cannot be wondered at, is foreign to the man in the street, first because it represents an over-intellectualised attitude, and second, because, however little its exponents may so intend, it depicts Canadians as rather suspicious and ungenerous people, which is far indeed from their true nature. To say, as one delegate did, that Canadian officers should not go to British Staff Colleges and that the Canadian Chiefs of Staff should not confer with the British War Office because such action implies that Great Britain and Canada have a defensive alliance which is not accepted by the people of Canada, is to say something which is meaningless and unreal to the man in the street. He would feel that if and when the

* The assumption that in view of this doctrine Canada need not be concerned about external dangers.

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time comes when we shall have to assume the responsibility of going to war the natural way is for us to co-operate as a part of the Empire.

Notwithstanding the statement in the *Toronto Saturday Night*, that the majority of its correspondents “appear entirely satisfied with the pre-1914 system under which whenever the Parliament of the United Kingdom declared war the Dominions were automatically in a state of war,” it is probably safe to say that the number of those who take this simple view is on the decrease. “Somebody else’s country right or wrong” will not be a permanently satisfactory working rule.

The great contribution that the Conference made to Canadian thought was to make much more real, to a certain number at any rate, our international responsibilities. Notwithstanding some rather naïve “boys-of-the-bulldog-breed” talk at the Conference, the all-important fact is that there was unanimous approval of the principle that the only war in which members of the Empire could be expected to engage was a collective war or a League war.

If, as one hopes, the result of the Conference is to make people think seriously on these momentous and immediate questions (how immediate we know much better now than we did even a month ago when the Conference adjourned) it will have served a most useful purpose. Thoughtful people, who, after all, even in a democracy, will count in the long run, are certainly not members of the imperialistic school any more than they are of the “Monroe Doctrine” school. They recognise their responsibility as well as their rights in the Empire (the “Monroe Doctrine” exponents incidentally are as keen as anyone on their “rights” as British citizens, which mean so much to Canadians as soon as they step out of Canada, and particularly as soon as they step off the North American continent).

It is their view that the participation of Canada in any war should come only as the result of a definite assumption of responsibility on our own part. On the

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other hand they recognise that our natural avenue of co-operation in time of war is as a member of the Empire, and desiring, as they do, to co-operate in peace time as well, they wish to include in that co-operation consultation as to what military measures are to be taken in the event of war.

Canada,
October, 1933.

AUSTRALIA: THE BRITISH SETTLERS IN VICTORIA

THE source of this trouble can be traced to those years just after the war when imperial sentiment not only smouldered but flamed in the minds of many political leaders. Unemployment had by then made itself felt in Great Britain, but the world was still very short of reserves of raw materials, and primary production was, in general, reasonably remunerative. Very few observers then had any substantial doubts that the world would be able to continue to absorb the products of the land in increasing volume. Serious economic studies of agricultural enterprise were rare in most parts of the Empire, particularly in Australia. The minds of politicians were more impressed by the vast potentialities of the wide open spaces than by the economic difficulties of their development. Even the judgment of those officers particularly concerned with land settlement was somewhat clouded by the prosperity which high prices had brought to many rural districts. In these circumstances it was quite natural that some attempt should be made to stimulate migration and thus assist in a redistribution of population.

In 1921 the Commonwealth and the States had agreed to co-operate in the matter of migration. From 1922 onwards various agreements dealing with migration were made between Victoria and the Commonwealth and between the Commonwealth and Great Britain. The State was to settle the migrants, using loan money raised by the Commonwealth, while Great Britain subsidised the movement and otherwise assisted it. The selection of the settlers in England was under the control of the Agent-General for Victoria.

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Between 1923 and 1928 about 800 approved migrants arrived in Victoria under the scheme. About 440 of them took up land in various parts of the State. Some engaged in wheat growing, others in the production of dried fruits or fruits for canning, some in dairying; some were settled in irrigation areas, and some were not.

During the ensuing years many of the settlers found themselves unable to make a success of their farming ventures. Those who were growing wheat encountered a series of very dry seasons, and in some cases the prices of the commodities produced fell. But apart from such general troubles many came to the conclusion that they had been deceived and unfairly treated by the authorities responsible for the migration scheme. As time advanced they became clamorous. Simultaneously, in many districts of the State the returned Australian soldiers were equally dissatisfied with the circumstances in which they found themselves from 1928 onwards; and it is highly probable that the latter groups provided a considerable stimulus to the former. Although there was a good deal of discontent in some rural areas, there is no justification whatever for the idea that the men were starving. Sustenance has not been denied by the Government to any settler who has not been guilty of definite malpractices, or who could not support himself or his family from other sources. Nor were there any untoward incidents; common sense prevailed throughout.

After a certain amount of pressure by the representatives of the British Government, the Victorian Government agreed to an impartial inquiry, and in December, 1930, they appointed a Royal Commission to inquire into the matter. The cost of this Commission was shared between the British, Federal and State Governments. The Commission reported in March, 1933. It found that "the expectations of intending settlers were almost certain to be unduly inflated" by "turgid panegyrics of farming conditions in Victoria—somewhat like the salesmen's

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puffing generalities which most people have learned to discount largely when not uttered on behalf of Governments." The fundamental point in the settlers' case must, therefore, be taken as proved. The Commission considered that "the Government of the State, by reason of its obligations to a complainant arising out of or under the agreement, was bound to offer him suitable blocks for settlement if he so required," and further that the State should not have undertaken the obligations if land of suitable productivity and nature were not available.

As regards the actual farms allotted to these men, the Royal Commission considered that "the State was not entitled to place such persons anywhere without information justifying the assurance that, on the average, the seasons would be such as to make likely for the settler the achievements indicated." It was also urged that the particular blocks were specially unsuitable. In regard to one district the Commission reported as follows: "Making all allowances we think that the State should not have allowed migrants, to whom it owed a special obligation of protection, to be settled on the blocks allocated to the complainants." And, what is more serious, "in general it appears that owing to the competition for blocks by Australians, who received preference because of their experience, the migrants were placed on inferior or more remote blocks." The Commission also considered that the instructional services provided were "not sufficient to be a complete fulfilment of the State Government's obligations arising out of . . . the agreements."

Falling prices doubtless aggravated the trouble to some extent, but it is significant that the complaints originated before the depression had become at all acute. On this matter the opinion of the Commissioners was that

The State Government . . . being a planner of land settlement, with the obligations to the complainants . . . could not reasonably assume that the then existing prices of farm products would continue. It should have anticipated that a considerable reversion

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towards pre-war prices would probably happen, and have allocated blocks accordingly. To anticipate this reversion was the only safe course, and was suggested at the time by some people, including a writer in one of the State Government's own publications.

The Commissioners reported that "although the complainants may have no rights under the agreements enforceable in law, there are special circumstances . . . which give them a just claim upon the State." Neither the Victorian Government nor the press suggested that that just claim should be overlooked, but manifestly the situation was too involved for immediate definitive action.

The settlers began an intensive propaganda campaign in the press both in Great Britain and in Victoria. Numerous references which did less than justice to the Victorian attitude were made in the House of Commons. The settlers were insistent on the responsibility of all three Governments, inasmuch as all three had sponsored the scheme in one way or another. It is certain that the plan was given fairly wide publicity in England by responsible persons not directly connected with Australia, but this publicity was based on the assumption that the statements issued by the Victorian Government were as good in fact as they almost certainly were in faith. If the British Government were to be held responsible they were only so because they had been misled by the Victorian Government. In the House of Commons Mr. J. H. Thomas denied the liability of Great Britain, which Mr. Maxton alleged existed. The liability of the Commonwealth is more definite. Its political leaders had been urging a policy of Empire development. It had agreed to co-operate in the settlement of migrants. Some of its political leaders, when in Great Britain, had acclaimed the scheme. The Government should have been in a position to estimate the soundness of the Victorian proposals. Later it appointed the Development and Migration Commission, which had as one of its main duties the examination of schemes for land settlement. That in itself is almost a factual acknow-

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ledgment of liability. On July 27, the Commonwealth Government refused to accept any liability; later, however, it agreed to the appointment of a judge of the New South Wales Supreme Court to act as arbitrator between itself and the Victorian Government.

Meanwhile discussions as to means of meeting the position took place between the State and Federal Governments. At these discussions the representative of the British Government was present in order that whatever was decided might have the approval of the British Government.

On August 15 the Premier announced that an agreement as regards the basis of adjustment and compensation to the settlers had been reached. Under this agreement an independent assessor is to be appointed. Settlers who have left, or want to leave, or who in the opinion of the assessor ought to leave their blocks are to be given a cash payment of between £200 and £500 each; further, their liabilities to the State and to local authorities are to be cancelled, their farms reverting to the State. Settlers who want to remain, and ought to remain, as farmers are to have enlarged areas or new farms allotted to them where practicable. They are also to receive the benefits of various other concessions which are available to other settlers at the present time. They are to receive a benefit, partly in cash and partly in reduction of their liabilities, equivalent to what they would have received if they had vacated their blocks.

The settlement has been denounced by some of the settlers, but its terms strike the independent observer as being an honest attempt to remedy the results of a most unfortunate lapse of judgment. Those who have endeavoured to depict the Government as callous and unsympathetic are not in touch with the realities of the position. It seems likely that the majority of the men will elect to stay on their blocks when the adjustments are made.

Parliament has not yet passed the legislation necessary to give effect to the settlement, and there is little doubt

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that any attempt to agitate for more favourable conditions might result in the settlers' obtaining their bare legal rights, which are probably negligible. So far the attitude of the Victorian press has been reasonable and restrained, but ill-directed agitation by the migrants might well lead to a rapid change in the feeling of the people as a whole.

The State is facing a most difficult position in respect of its closer settlement policy. The depression has accentuated that difficulty. The administrative heads of the two departments most concerned with these activities have both died during the last three years, and the whole system of the administration of closer settlement is undergoing reconstruction. The last few years have seen a slight change of attitude on the part of some of the public towards the land. Many now realise that land settlement is bound to be commercially unsuccessful except at times when the prices of commodities are progressively rising—unsuccessful, that is, if judged from the same standpoint as industrial enterprise, inasmuch as it would be unable to yield interest at normal rates and to pay the basic wage. It is ridiculous to guarantee the basic wage to settlers, who in normal times can no more expect to earn it during their early pioneering years than could their predecessors of fifty years ago. A closer study of the technicalities of the agricultural problem in new districts will well repay a considerable outlay, and it is receiving some attention in a few, but very few, quarters. In the past, Victoria has in many cases provided roads, a water supply and railways into the district before or soon after settlement. Research stations have usually been set up at a much later date—sometimes for the purpose of trying to clear up the mess.

Australia.

October, 1933.

NEW ZEALAND

I. CENTRAL BANKING AND EXCHANGE

HOPES that a speedy solution of the economic difficulties under which the world is labouring would be found by the Economic Conference have been disappointed, but on the whole New Zealand has taken philosophically the breakdown of the Conference, whether it be permanent or temporary. Mr. Forbes, the Prime Minister, and Mr. Masters, the Minister for Education, who represented New Zealand at the Conference, returned on September 18. It was not expected that there would be much more to tell us of the proceedings and the results than had already appeared in the daily press, though doubtless attendance at the Conference would have enabled delegates to view the difficulties of their respective countries in their true proportion, an advantage which was recognised by the Prime Minister at a citizens' welcome to the delegation, presided over by the mayor of Wellington.

In listening to the statements of their economic difficulties submitted by the delegates from the various countries (said Mr. Forbes), one cannot help being impressed by the similarity of their troubles, whatever difference there was being one of degree only. If there could be any consolation in the fact that in comparison our troubles in New Zealand were light, that consolation was amply provided by these statements.

Australian visitors to New Zealand have remarked that New Zealanders seem unduly oppressed by the depression, and certainly there has been considerable anxiety lest our remedial measures should have cut away the moral foundation

New Zealand

of our business life. Reflection on the timely words of the Prime Minister may assist to restore our somewhat distorted perspective. He expressed his sense of the value of the opportunity he had had of discussing matters affecting Empire trade and finance with British Ministers and economists. He described the commanding influence of the British delegation at the Conference, and he summed up his impression of Great Britain in a world of economic chaos in these words :

When everything in other countries seemed to be on shifting sands, British institutions stood as solid as a rock. There was no doubt that Britain was the most solid nation in the world. For centuries she had been the financial centre of the world, and the reason for this was to be found in the character of the British people, who had been responsible for her financial policy. For this reason she would remain the financial centre of the world.

Mr. Forbes's appreciative reference to British stability had hardly been made when news arrived, on September 22, of commendation by London authorities of the manner in which our own finances had been handled. This is likely to have considerable effect upon the fortunes of the Government, and in particular upon the *mana* of the Minister of Finance. The cable in question quotes the following words from an editorial in *The Times* :

Meanwhile it is satisfactory to note that the finances of New Zealand are showing definite signs of recovery. . . . Negotiations are proceeding for the conversion of the £5,000,000 loan in London which matures early next year, and there need be no fear that New Zealand will be robbed of the fruits of the cautious and responsible financial policy which she has pursued, in spite of recent difficulties, for so many years. The credit of New Zealand deservedly stands high in the London market, and it would certainly be a pity if any acute controversy over the reserve bank measure, which has been framed in accordance with the best expert advice, were permitted to impair her excellent financial reputation.*

A tribute from such a source to our credit and to the way

* *The Times*, September 21, 1933.

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in which our financial position is being handled is very welcome at this juncture. It is only natural that public opinion should be apprehensive of novel legislative efforts to meet the position. At so great a distance from the centre of things, it is idle to expect public opinion to be well informed, or other than doubtful about the ability of its government to deal with complex economic questions outside the range of its experience. As a result, a demand has arisen for informed opinion from such parts of the British Empire, especially Great Britain, as have already had to deal with similar issues, or have been accustomed to cope with economic problems in a larger sphere. Partisan interests have resorted to leading economists outside New Zealand to support their contentions. In some cases the value of such opinion has been impaired by doubt as to whether a full and impartial survey of the essential factors has been presented.

Mr. J. G. Coates, the Minister of Finance, has adopted two main planks for his policy. He has fixed the exchange premium on sterling at 25 per cent. and he has proposed the institution of a central bank. In both proposals he has been accused of forcing his policy upon a somewhat reluctant Cabinet. The Government's determination to raise the rate of exchange led to the resignation of Mr. Downie Stewart, the former Minister of Finance, and those who had faith in him as a safe guardian of the country's finances have not shown themselves ready to extend the same confidence to his successor. The Bank of New Zealand has publicly condemned the central bank proposals, and the other banks, with one exception, have allowed the public to believe that they do not approve of them. Opponents of the fixed rate of exchange, led by the New Zealand Importers Association and supported by many chambers of commerce, have persistently demanded that the exchange should be allowed to find its natural level. The pros and cons have been daily argued in the press. It has been claimed that in British eyes the Government

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has not only broken the spirit of the Ottawa agreements, but has also seriously damaged New Zealand's credit in London. According to this side of the controversy, the British demand for the imposition of a quota on our butter was instigated by the British farmers' resentment at the raising of the rate of exchange. The Labour party has announced its opposition to both measures ; to the high rate of exchange on the ground that it increases the cost of living ; to the central bank proposal on the ground that it removes from Parliament the control of the country's currency.

In the absence of the Prime Minister in London, the Minister of Finance has had to answer these criticisms. His answers have been uncompromisingly direct and have shown that the Government is not to be deflected from the course it has decided upon, that it will persevere with its central bank proposals and will not lower the rate of exchange until the increase in export prices is sufficiently high to admit of a gradual reduction.

Both questions were expected to play their part in a bye-election for the Lyttelton seat, rendered necessary by the death of the sitting member, Mr. J. McCombs. Mr. McCombs had held the seat for twenty years in the Labour interest. He was a prominent member of the Labour party, and an able parliamentarian. His widow was selected to succeed him as the Labour candidate for the seat. The Coalition party selected, as their candidate, Mr. F. W. Freeman, who opposed Mr. McCombs at the last general election in the interests of the Reform party. An independent Labour candidate, Mr. E. L. Hills, also stood. At the last general election Mr. McCombs was returned with a majority of 32 over Mr. Freeman. At the election held on September 13 Mrs. McCombs was returned with a majority of 2,600. Mrs. McCombs thus becomes the first woman to be elected to the New Zealand Parliament, and her success is acclaimed by women's organisations throughout the Dominion. New Zealand, the first country in the

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British Empire to grant women the right of election, has proved, as it has turned out, one of the last actually to return a woman to Parliament. The Labour party have claimed the victory of their candidate as a vote of no-confidence in the Government. Supporters of the Government are surprised, not so much at the large vote polled by Mrs. McCombs, to which many easily understandable factors contributed, as at the fall in the vote accorded to Mr. Freeman compared with the last general election. The result cannot be put down to a lack of effort on the part of the Coalition candidate. Not only the leaders and members of the Labour party took part in the campaign, but also many members of Parliament belonging to the Coalition party, including Mr. Coates himself, the acting Prime Minister, and Mr. Ransom, the Minister of Lands. To some extent the fall in the Government vote must be attributed to the high exchange policy. Opponents of these measures regarded the result as a clear indication to the Government that it must change its policy. Disheartened by their failure to convert the Minister of Finance to their views, they trusted to being able to convert the Prime Minister. They assumed that he would have heard so much criticism of the high exchange and central bank policy in London that he would come back prepared to consider a change of policy, and that the result of the Lyttelton bye-election would be sufficient to convince him that, if he wants to remain in office, the Government's policy on these issues must be changed. Mr. Forbes's statements are quite definite enough to dash these hopes to the ground.

According to him English expert and banking opinion was agreed that in the circumstances, as far as they could see, the New Zealand Government could not have avoided raising the rate of exchange, and bankers had advised him to be in no hurry to lower it. There was no present intention, he added, of lowering the rate of exchange, and when the time came to lower it, it would be done gradually as increases in the prices

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of our exports justified it. In regard to central banking, he said :

The universal opinion was that the necessity of a central bank as part of the financial machinery of a country admitted of no argument, and that the unsettled state of currencies and exchanges throughout the world made its functions more than ever necessary.

Fortified with these opinions, the Prime Minister will clearly make no attempt to change the policy of the Government so far as exchange or central banking is concerned.

In its editorial of September 21 *The Times* dealt with New Zealand's proposal to establish a reserve bank and denounced the objection, raised by the Bank of New Zealand, that such a bank would subject New Zealand's monetary policy to British dictation.

There has been a feeling in certain quarters (it said) that the creation of a reserve bank has to some extent been inspired by a desire on the part of the British monetary authorities to dictate to New Zealand in matters of monetary policy. Nothing, in fact, could be further from the truth. The creation of a central bank, which has everywhere been recognised as the symbol of financial maturity, is, on the contrary, the surest guarantee of independence, and from the business point of view has the undeniable advantage of centralising the cash resources of a country in such a way as to render them most easily available in times of need.*

On September 8 the Minister of Finance had published a comprehensive survey of the advantages and functions of a reserve bank.† In it he dealt with current published criticisms, and set out the functions and conditions of a central bank as summarised by Sir Ernest Harvey, Director of the Bank of England, when he visited Australia in 1927. It is the Minister's contention that a central bank will promote stability and result in cheaper money. He disposes of the criticism that vested interests will control the bank by pointing out that provisions in the Bill would effectively

* *The Times*, September 21, 1933.

† *The Dominion*, September 8, 1933.

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prevent any one section of the community from dominating the policy of the board of directors,* and he describes as fallacious the contention of the Bank of New Zealand that the proposal means placing the control of our currency under the domination of the Bank of England. The main purpose of the Minister has been to remove misunderstanding of the functions of a central bank and to dispose of the idea that the policy of such a bank would be subject to government control and interference.

It is really (says the Minister) a national institution set up to maintain the stability of the currency, and carry into effect the monetary policy as determined by Parliament. This is its real function, and, to ensure that it acts solely in the best interests of the country, the reserve bank, in the absence of binding traditions (which obviously could only be acquired over a long period), is hedged round with various stringent restrictions designed to keep it free from other interests and any bias or influences other than economic considerations.

Press comment has been favourable both in England and in New Zealand.

The recent rise in export prices seems to mark the end of a period, and the central bank Bill seems to be the last piece of major legislation that the Government has in contemplation to meet the economic crisis. It has announced its intention of passing the Bill during the present session.

Opposition to the high exchange policy cannot be expected to cease, but the spokesmen of that opposition will have to rely on grounds other than that which probably did most damage to the Government, namely, the effect of the policy on English financial opinion. Supporters of the Government in Parliament, on the other hand, will feel that their confidence in the Minister of Finance has been justified. Public opinion seems, indeed, to be now prepared to give

* The position resulting from amendments in Committee now is that the Government is to appoint three directors, and the shareholders are to elect four, the governor and deputy-governor being appointed by the Governor-General in Council on the recommendation of the Board.—*Editor*.

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calmer consideration to the record of the conduct of affairs by the Government and Parliament during three of the most difficult years in our history. As was to be expected, novel and disturbing legislation has subjected the Government to constant criticism, and conservative opinion has felt the greatest possible anxiety as to the ultimate results of the interference with contract effected by the Mortgage Relief Acts and the National Expenditure Adjustment Acts. The ability of Parliament to deal with economic matters has been called in question, and we have had in New Zealand the same demand for changes in our system of government as has been raised in other countries. On the whole, however, it is doubtful whether sane opinion has had any real belief in the value of the nostrums put forward. It is by no means inconceivable that in the eye of history the Government and their supporters will emerge from difficulties, as great as any other Government and Parliament in New Zealand have had to face, with a reputation for steadiness, courage and vision, equal to that of any of their predecessors.

II. UNEMPLOYMENT

COMPARATIVE studies of the methods devised in various countries to deal with unemployment are apt to be misleading in so far as the success or failure of those methods is inferred from the increase or decrease in the number registered as unemployed.

The publication of the number of those to whom one or other of the New Zealand plans for employment applies as the total of the unemployed is misleading, inasmuch as out of that number a large proportion are wholly employed, and the remainder partially employed. The latest registrations of so-called unemployed published in the daily press show that a peak figure of 78,627 has been reached. If this meant that out of a population of approximately 1½ millions, 78,627 people were without employment of any kind, the

Unemployment

position of unemployment in New Zealand would not compare with the position in some other countries as favourably as it is entitled to do.

The policy in New Zealand is to find employment and to see that the best possible remuneration is given for the work done, as opposed to the policy of paying cash without a labour equivalent. Our policy is thus based on a conception of moral principle as well as on economic necessity, to the end that while the necessities of life are provided, idleness shall not be allowed to sap the intellectual and physical vigour of the individual.

The administration of employment schemes is conducted through the Unemployment Board, which opens bureaux where all those in search of employment, whether they are in partial employment or not, can register. From the outset, the list of unemployed contains numbers who, while not wholly employed, can obtain partial employment or have means on which they can maintain themselves. This is a factor of which account must always be taken in a final analysis of the figures. The number now on the register not at present eligible for relief is 4,517. The first simple duty of the Board is to place employees wanting work with employers wanting workmen. This function, which is an expedient for normal times and not a part of the special procedure designed to deal with unemployment caused by the depression, is at present practically dormant. The Board to-day functions by :

- (a) Subsidising the wages in certain primary and secondary industries in cases where the provision of the subsidies to agricultural or industrial work will involve the employment of a certain number of men.
- (b) Indirectly acting as the employer of men in various industries.

Where employment is given under these schemes it is full-time employment.

Of the present total (78,627) of registered unemployed, 24,811 are now employed in this manner. The following is

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a broad analysis of the numbers so engaged on different classes of work :

On private farms	9,867
Single men :—	
In land improvement and development	1,907
Highways and backblocks roads	1,264
Afforestation	1,199
Public works (married men)	4,370
Building	2,017
Gold prospecting	4,595
Miscellaneous (subsidised employment)	3,852
Miscellaneous (subsidised employment)	110
Total	24,811

Where subsidies to wages are given, the object of the Board is to ensure to the worker the customary, or award, rate of wage that rules at the time for that occupation. The subsidy paid by the Board is the sum necessary to bring the wages paid by the owner up to that normally paid for the class of work undertaken. For example, under the building subsidy scheme, the Board offers a subsidy of one-third of the direct wages expended on the building as an inducement to the owner to undertake the work, and to find work for labour ; in farm development work, under what is known in New Zealand as the 4B scheme, where the contract has been approved by the Inspector of the Agricultural Department, the Unemployment Board pays a subsidy amounting to half the wages-cost of development contracts arranged between farmers and groups of unemployed workers.

Gold prospecting is encouraged by giving unemployed who want to engage in this occupation a sustenance allowance of 30s. a week in the case of married men, and 15s. a week in the case of single men. If gold is obtained the allowances so given are recoverable by means of a levy of 10 per cent. on gold deposited with the banks. Subject to this levy, any gold won belongs to the prospector.

Unemployment

The records of the Unemployment Board show that works undertaken under these schemes during the twelve months of 1932 included many valuable road construction schemes and improvements, and the construction and development of parks and reserves in closely populated areas. In country districts 250 miles of dray roads were built, widened or metalled ; 1,000 feet of bridges and culverts were constructed ; 2,300 acres of land were stumped and logged up. A further 45,000 acres were cleared of scrub, and 2,300 acres of bush were felled. In addition, drains of a total length of 156 miles were improved or newly dug ; 85 miles of fencing was erected ; 70 acres of willow tree obstructions were cleared from stream and river beds ; 10,000 cubic yards of stop-banking was carried out in one area, and in another, where the work was measured by distance, it totalled eleven miles ; 170 acres of trees were planted, quite apart from the more extensive scale on which similar work has been carried out by the State forest service by means of subsidised unemployed labour ; 130 acres of sand-dunes were also reclaimed ; noxious weeds were cleared from 4,900 acres of farm lands and from 700 miles of roadside ; and 30,000 cubic yards of boulders were cleared from farm lands.

The work done under these schemes, the recital of which is by no means complete, is all valuable to the country. Its economic value lends considerable credibility to the claim of the Minister of Labour, that from the Board's expenditure of some £4 million in 1932, the country has been supplied with assets to the value of £2 million.

The case of the unemployed for whom no place can be found in any of the subsidised schemes—amounting to 49,299, according to the latest figures—is met by a scheme under which partial employment, and sometimes whole-time employment, is given to them by local bodies throughout the country on local public works ; the local bodies receiving direct grants of money from the Unemployment Board, which enable them to perform this service. The rate

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of pay for workers so employed is determined according to the following classification :

	Maximum pay per week.
(a) Single men without dependents	15s.
(b) Man and wife only	25s.
(c) Man, wife and one child	30s.
(d) Man, wife and two children	35s.
(e) Man, wife and three or more children	40s.

The nature of the work undertaken by the local bodies is very varied, and unquestionably in the past some of it has been of no great economic value to the country. The Unemployment Board takes the view that local bodies should be able to show a valuable return for the grants given them, and it is to be expected that in their own interests local bodies will in future take greater care to see that this is done. The claim of the Minister that the country, as a whole, is recouped to the extent of approximately half its outlay, by means of assets arising out of its expenditure, has been criticised on the ground that the work done, being necessary for the development of the country, should be paid for at award rates throughout. The answer of the Minister is that in so far as the work is done under the subsidised schemes, the wages paid are based on present ruling prices for the same class of work ; in the case of work undertaken by local bodies the answer is that, however necessary it may be, it could not, at present, be carried out except by means of a borrowing policy in which the country is not in a position to indulge.

On the whole, the Unemployment Board can claim for its administration a large measure of success, and can point to a maintenance of economic and moral values which it would be hard to maintain under a "dole" policy. The members of the Unemployment Board are entitled to great praise for the energy, industry and initiative they have displayed.

It is encouraging to find that there are grounds upon

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which the Minister can sustain his claim that the unemployment tax, which amounts to such a large annual sum, and is drawn from all classes of the community, is to some extent increasing the national assets. If this claim can be established, the continuance of the present tax will be more readily accepted by the public. The Minister in charge of unemployment (Mr. Adam Hamilton) has shown marked aptitude for the work of his Department. His sympathy and understanding, coupled with his realisation of the necessities of the economic situation, have obtained for his administration of this very difficult problem an unusual degree of confidence.

III. LONDON INTEREST ON LOCAL LOANS

THE decision of the Court of Appeal in England in *The Broken Hill Proprietary Company Limited v. Latham and Others*, delivered on December 19, 1932, has unfortunately raised the question whether the contracts of local bodies in New Zealand, who have raised money in London, are to be performed by payment of interest in sterling or in New Zealand currency. With the premium on sterling at 25 per cent., the question has assumed great importance. In the Broken Hill case the Court of Appeal held that where the debenture-holders of an Australian company had an option to require payment in Australia or in London, and where the option to require payment in London was exercised, the redemption and payment of interest on the debentures should be made in Australian currency converted into sterling at the rate of exchange current in London on the due date for payment thereof. The judgment was a majority judgment of Lord Justices Lawrence and Romer, Lord Hanworth, Master of the Rolls, dissenting. The judgment reversed the decision of Mr. Justice Maugham, the Judge in the Court of first instance.

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Local authorities, whose debentures have been subscribed in London, and contain a similar option as to payment in New Zealand or London, have been advised by their solicitors that, in view of this decision, a payment of interest in other than New Zealand currency would be illegal, and that members of a local body making such payment in sterling would be personally liable for the difference between the amount in New Zealand currency and the amount in English currency. At the first intimation that New Zealand local bodies were bound to pay in New Zealand currency, London bondholders immediately protested that they would regard payment in other currency than sterling as a breach of contract and a breach of faith. London opinion apparently did not appreciate that it was the decision of the English Court of Appeal that seemed to make such action necessary on the part of New Zealand local bodies. The position was complicated by the fact that a great number of local body loans raised in London have been guaranteed by the Government, and by reason of that guarantee are listed as trustee securities. The Government have viewed the proposed action of local authorities to pay in New Zealand currency with alarm, fearing that New Zealand credit will be seriously threatened.

The case of the Auckland Transport Board debentures was the first to bear on the issue. The Board itself was apparently of opinion that good faith with the bondholders demanded payment in sterling. They were advised, however, that they could not legally pay in sterling. In this particular case the matter seems to have been dealt with by the promise of the Minister of Finance to introduce legislation protecting the members of local bodies, who, in such circumstances, should pay in sterling. The action of the Government in taking steps to see that our credit was maintained in these cases has been widely commended, and it has been the general view that, whatever the legal obligation, the moral obligation is to pay in

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sterling. The case of the Southland Power Board has now arisen, and has reached an acute stage. The Southland Power Board apparently take the view that their moral obligation does not exceed their legal obligation, and that if the legal obligation is to pay in New Zealand currency they can be expected to fulfil that obligation and no more. Their representatives have interviewed the Minister of Finance, who had intervened to the extent of advising the Southland Power Board that the Government deemed it necessary that, in order to preserve New Zealand's credit in London, local bodies whose loans had been guaranteed by the Government should pay in sterling. The Minister intimated that if the Southland Power Board refused to pay in sterling, the Government would itself pay the difference between sterling and New Zealand currency, and would introduce legislation under which the Government could recover the amount so paid from the Southland Power Board. The Southland Power Board have resented these threats and have announced their determination to pay in New Zealand currency. They are apparently fortified by the opinion of their local legal adviser, and also by that of Sir Gerald Hurst, K.C., who appeared for the debenture-holders in the Broken Hill case.

The opposing views on the action of the Southland Power Board are fairly set out in two letters to the *Evening Post*, both headed "Law and Morality," the first of which appeared on September 22, and the second on September 26, the second being an answer to the first. The first is from the solicitor advising the Southland Electric Power Board. The writer states that the Power Board is advised, both in England and in New Zealand, that the principles laid down in the Australian case apply to the Southland Power Board loan, and that the interest is payable in New Zealand currency.

This (he says) seems to be accepted as the legal position, and it is not seriously suggested that in paying its interest in New Zealand currency the Board is not fully discharging its legal obligations.

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He concludes his letter by saying :

It is not, however, as I have said, a question of morality ; it is a question of law. But if moral issues are to be raised, then it can, I think, be demonstrated that not only the morality but the justice of the matter is all in favour of the Board.

The second letter, which is written anonymously, makes it plain that there are factors in the case of the Southland Power Board which distinguish it from the Broken Hill case, and that all the factors necessary to determine whether the Broken Hill case governs the Southland Power Board case have not been published. The writer of the letter, from facts not stated but obviously in his possession, says :

The borrowing and lending contract was made in England and the money was paid over in England, and the parties to the contract must both have known it was English money (sterling) that changed hands at the time. Any exchange difference as between the English pound and the New Zealand pound, whether favourable or otherwise to the Southland Electric Power Board at the time, would be entirely at the risk of the borrower, and the ruling rate of exchange between England and New Zealand, even if at parity (which it was not), would not come into the transaction, as it was an English contract made in London.

The fact that an extraordinary decision has been given by the second highest Court of the Empire on a somewhat similar case between Australian borrowers and English lenders, does not settle even the legal aspect of the matter, and certainly does not settle the moral.

It appears that the opinion expressed in this extract is that generally held by the press in New Zealand, and is probably the view held by the Minister of Finance. The Government has to consider the question from a somewhat more general point of view than that of the Southland Power Board. As guarantors of many local body loans, some of which are due shortly for renewal, it is vitally concerned that its credit as a whole should not be questioned. The Government, again, when it borrows money in London, pays in English currency, and it takes the view that London lenders rightly believe that money advanced in London to the Government, or on Government guaran-

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tee, will be repaid in sterling. The advantage of having local body loans listed as trustee securities is not to be abandoned lightly and is a matter of public concern. The view of the Government seems to be that it must intervene in the public interest, and from what has been said by the Minister of Finance, the decision in the Broken Hill case will not deter the Government from putting through legislation to ensure that local bodies pay in sterling.

IV. DEFENCE

ALTHOUGH comment on the discussions just concluded at Banff and Toronto on Pacific problems and imperial relations must be deferred till the return of our delegates, Mr. W. Downie Stewart, M.P., Mr. H. F. von Haast and Mr. W. Nash, M.P., the discussions on defence that have been reported in the cabled news, and the visit of the Australian fleet to New Zealand waters, have raised afresh the question of our defence forces. Competent military critics in New Zealand express the fear that our defence system will decay beyond repair if the activities which were stopped by the economic situation are allowed to remain dormant too long. A military authority is of opinion that the foundations upon which our whole system of military defence depends are beginning to crumble, and that the system is in danger of coming to exist only in the Statute Book.

The commitments of the New Zealand Government, entered into at the Imperial Conferences of 1923, 1926 and 1930, are, roughly, as follows :—

- (1) To maintain two cruisers (lent by the Admiralty).
- (2) To be entirely responsible for local defence, *i.e.*, mine-sweeping, anti-submarine patrol, coast watching, etc.
- (3) To pay £1,000,000 towards the cost of the Singapore base.

In order to fulfil these commitments, a progressive programme of expenditure on stores, training, etc. (including the purchase of a second mine-sweeping vessel), necessary

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for carrying out item (2), has been laid down. Owing, however, to the necessity for rigid economy, the Naval Board has agreed to a postponement of the progressive development of the scheme which should have taken place in accordance with the approved policy, and which would have involved an annual expenditure of approximately £565,000.

Well-informed opinion in New Zealand holds the view that the commitments entered into at the Imperial Conferences ought to be carried out in full, and that expenditure should be correspondingly increased. A policy of marking time in the face of the present unrest in Europe, in the Far East, and in many other parts of the world, can only be justified by the most desperate financial situation.

Of our military forces, the permanent staff is a small but very efficient service. So long as compulsory training was the rule, the Territorial Force was doing remarkably well. The present voluntary system cannot be expected to retain the nucleus of highly-trained officers and non-commissioned officers necessary for expansion in time of need. Voluntary enlistment is not able to provide a division fit, in respect of training, equipment or material, to take its place in an Imperial system, which was the objective that New Zealand set before herself as the result of her wartime experience. That objective has been abandoned for the time being. It is to be hoped, however, that our defence policy will be reconsidered, and a policy adopted which will enable New Zealand to contribute effectively to the British Commonwealth forces such a unit as may be agreed upon. Any hope that this object can be reached by the present system of voluntary enlistment has been destroyed by the experience of the last two years. The time has come to reconsider the question of compulsory service, if not on its former scale at least on a scale to meet a definite plan. At present we have no plan.

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October 2, 1933.

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Nº 94. MARCH MCMXXXIV 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).

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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.

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 EMPIRE, THE LEAGUE, AND SECURITY

IT is evident that we are rapidly approaching the time when very far-reaching decisions will have to be taken by the nations of the British Commonwealth in the realm of international policy. The next Imperial Conference may prove to be the most momentous that has taken place since 1911, when for the first time the Dominions were admitted to the secrets of the already dangerous pre-war situation. For two major issues now confront us. The first is whether the collective system for dealing with international problems, represented by the League of Nations and the Kellogg Pact, on which the Empire has mainly based its foreign policy and its sense of security since 1918, can be restored so as to be an effective instrument for maintaining international liberty, prosperity and peace. The second is whether, in the present state of the world, our naval, military and air preparations are adequate either for making effective the collective system, or, if that system breaks down, for the defence of the members of the British Commonwealth or of the free institutions upon which it rests.

I. THE COLLECTIVE SYSTEM

DESPITE all that has happened in the last few years, we stand unrepentantly behind the League or collective system of dealing with international affairs. In its present form it may seem to be somewhat disabled. But the alternative is to drift back to the international anarchy,

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the competitive armaments, and the military alliance system that inevitably both undermines liberty and ends in world war. It may well be that the present reaction from the collective system may prove to be valuable in the end. It takes a long time to educate popular majorities, whether they support democratic governments or dictatorships. It may be that only when they have looked back into the abyss of reaction, terror, dictatorship, poverty and war, which a return to anarchy implies, the nations, or at least the liberal nations, will realise that they must make the collective system a success or lose the free basis of their civilisation.

The weakness of the League hitherto has been twofold. In the first place the two largest world Powers, the United States and Russia, never joined it, and now two other first-class Powers, Japan and Germany, have left it. No collective system can ensure either peace or security so long as four world Powers remain outside. In the second place, even in the heyday of the League, none of its more important members really relied upon it for their own security or took seriously their obligations to ensure the security of others. The British Commonwealth relied primarily upon its navy. So did Japan. Italy relied upon her army and her alpine frontier. And France relied upon her army and her military alliances with Poland and the Little Entente.

The League, indeed, has hitherto been in great measure but a project of a League. It has done a great deal to make nations understand the world and one another's difficulties. It has proved a focus for world opinion. It has given the small nations a status and an influence they never had before. It has solved successfully a large number of difficult international problems. It has developed in high degree the technique of international conference. But it has never yet given security to its members, either by producing universal disarmament or by creating effective guarantees against aggression, and until it succeeds in doing these things it will never be more than

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the project of what the League of Nations was intended to be.

Signor Mussolini has declared that if the League is to survive it must be reformed. That the Covenant may require some modification is possible. For instance, it would clearly be wise to separate the Covenant from the Treaty of Versailles. It ought, like a political constitution, to be outside and above all treaties or ordinary legislation. Signor Mussolini suggests that the great Powers should have a special position, on the ground that it is they who in the last resort make the serious wars or maintain peace. There is something to be said for this view. We are inclined to think that the original composition of the Council was sounder than its present composition, and that the smaller Powers over-played their hand when they insisted, in 1926, on being given more seats. There may, too, be something to be said for bringing the text of certain articles, such as Article 10, into line with what has become the agreed practice of the League in the light of experience.

But when all is said and done, these are quite minor matters. Any league system that is to fulfil the ideals of 1918 must have two primary characteristics: it must be universal, and its pacific procedure must be made effective through the existence of trustworthy sanctions against those who take the law into their own hands by going to war. Unless it has these characteristics it cannot do its work. One or two great Powers outside its membership can paralyse its capacity to give security in certain parts of the world, just as the abstention of the United States, by immobilising the British navy, has paralysed the effectiveness of Article 16 as a security for European peace. And unless the league can build up some system of mutual guarantee against aggression which nations can trust, disarmament will be impossible. Every nation will be forced to rely for security upon its own armaments, and, if these do not suffice, on alliances with other menaced Powers, with the inevitable result that the world will be divided

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into rival groups instead of being united in a single organisation seeking to give security, justice and peace on equal terms to all. On the other hand, if the league can give security to its members, the fear of war will abate, national animosities will subside, and the question of revision of treaties and frontiers, which is almost impossible in the present state of world tension, will become manageable.

But there is another aspect of any effective league that cannot be left out of account—the economic side. In the original scheme of the League it was intended that it should lessen impediments to, and promote, international trade. It is probably true to say that while the abstention of the United States has been the main reason for the failure of the League, the second reason has been the unemployment and economic distress caused by unrestrained economic nationalism, reparations and war debts. Nations have so dislocated the world balance between supply and demand by obstructions to commerce and by excessive demands for debt and reparation payments, regardless of the effect on themselves, their neighbours or the world as a whole, that economic suffering has provoked domestic revolutions and dictatorships, and has made international political co-operation and good will almost impossible. The first condition of a sound world order, as of order within a nation, is security against those who try to get their way by violence. The second is security against ruin recklessly wrought by economic war. It ought to be an element of any true league system that, just as armaments should be limited by agreement, tariffs and other obstructions to trade should be the result of international negotiation and not be altered unilaterally, to the detriment of others, except after prior conference with those affected. Such a system is quite compatible with a large degree of national control over internal development and even of self-sufficiency, but it would mean that the external effects of tariffs and other restrictions would have to be considered at the same time as their internal effects, and that there

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would be an end of the present ruthless and reckless international economic warfare.

II. SECURITY TO-DAY

THESE considerations show how far removed the League as it exists to-day is from being an effective instrument for peace, security and prosperity. How far are we likely to make it into such a true collective system at the present time? The answer will depend mainly upon the outcome of the present disarmament negotiations. If a treaty can be signed that stabilises, say for ten years, the armaments of all nations at a defensive level that gives to each of them reasonable power to defend itself against aggression, and makes the chances of sudden and successful aggression extremely small, and if the signatories bind themselves to take effective sanctions against a violator of such a treaty, the foundation will have been laid upon which the other sides of a true collective system can be confidently developed during those ten years. We therefore in general support the proposals put forward by the British Government on January 31. They are not ideal proposals. The ideal basis would have been the abandonment by all nations of the "offensive" weapons forbidden to Germany under the Treaty of Versailles. A universal treaty on such a basis would have implied a real "change of heart" among the nations and a real possibility of a new and better international order. It would have freed the world from the fear of militarist aggression and have been an earnest of the nations' conviction that they can solve their difficulties and revise their treaties by the pacific procedure of the League, that is by conference, arbitration and judicial process. At the same time it would have made far smaller both the risk and the burden of the obligation to take "sanctions" against an aggressor.

But it seems quite clear that such an ideal consummation

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is now out of reach. The first condition of any progress is an armament agreement acceptable both to France and to Germany. There will be no basis for reconstruction in Europe until Germany is given "equality," that is, until she is no longer by treaty rendered defenceless against her neighbours. The British proposal is an attempt to find the *via media* between "equality," which is the irreducible minimum of the German demand, and "security" against a Power potentially stronger than herself, by reason both of its population and of its industrial resources, which is the irreducible minimum of the French demand. It gives to Germany "defensive equality" at an early date and it endeavours to give to France security not only by allowing her a certain advantage in armaments, but also by making any infraction of the disarmament convention, once it is established by a permanent supervisory Commission, a matter for immediate international conference by all the signatories, and by requiring the return of Germany to membership of the League as one of the conditions of the ultimate convention. We do not propose to discuss here the technical details. The central issue is whether, while giving to Germany the "equality" to which she is inherently entitled, the nations, and especially the great Powers, are willing to make security a reality by binding themselves to take action that will be effective against a violator of the disarmament convention or an aggressor. If so, we shall begin to move forward again towards international peace and a true collective world system. If not, we shall inevitably move closer to the system of finding security by military groupings and alliances, which must weaken the collective system even on the diplomatic side and which in the end almost inevitably spells war.

There are many difficulties in the way of an effective system of international sanctions against an aggressor or a disarmament treaty violator. How are you to define the aggressor? Who decides when the *casus fœderis* has arisen? What happens if there is an acute difference of

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opinion or if some signatories refuse to come into line? What is the most effective form of international pressure or "sanctions"? Unless it is so overwhelming as to make compliance certain it may only precipitate world war. Can any form of economic or financial sanctions be effective unless the whole of the rest of the world combines to sever financial and economic contracts with the aggressors? These problems, also, we do not propose to discuss in this article. We would only say that the root problem is not technical but how to create the will among the Powers to act simultaneously and effectively against an aggressor. If the great Powers really mean business, if, instead of relying upon their own armaments alone or on military alliances with one or two Powers, they decide that their own security can best be attained by resolute combination to prevent resort to war, they will be able to find the means appropriate to the circumstances of each particular case. But if that will is not there neither Article 16 nor any other similar assurances will work, even if the smaller Powers and one or two great Powers are willing to do their part. The value of "sanctions" depends upon their being really collective. It is the fact that all other nations combine against an aggressor that makes them overwhelming and so preventive of war. For one or two nations to be willing to take "sanctions" by themselves gives no real "security" and probably only spells war.

What does this mean so far as the British Commonwealth is concerned? The nations of the Commonwealth are already wholly pledged to the League system and the Kellogg Pact. They are parties to almost all the treaties that provide for pacific procedure and arbitration. They are committed to Article 16 of the Covenant. We consider that they should now be willing to enter into whatever system of collective sanctions against an aggressor may be necessary to make a disarmament treaty possible or pacific procedure effective, provided, in the first place, that the United States is also a party

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to such a system, and provided, in the second place, that so far as Europe is concerned both Russia and Germany, as well as France and Italy and the smaller Powers, are also parties to it. For the issue before us is not between collective sanctions and glorious disentanglement and isolation. It is between an obligation that is the beginning of a move towards an ordered, free, and peaceful world, and an entanglement in a system of high armaments and alliances or *ententes*, in which every nation is liable to be dragged into war, not in order to defend world law and order, but because one of its allies in self-defence has been forced into war, or because its own vital interest or some strategic position, vital to its own security, is threatened by a war in which other Powers alone are at first engaged. But we are against their entering into any such obligation unless the United States and the other great Powers are also committed, for reasons given in the preceding paragraph.

We do not believe in any of the proposals for international armies, or police forces, or internationalised aviation. The only body that can raise, pay and give effective orders to such forces is a government, with powers to tax and make laws for its citizens. No occasionally meeting council representing a number of sovereign States, with no revenues under its own control, could either recruit, maintain or use effectively forces capable of acting decisively and successfully against any of the larger nation States of to-day, even though it had limited its armaments to a reasonable level. Such ideas are a mirage. If international sanctions are to be effective they must be carried out by the governments of the nations concerned, who alone can wield the power or call upon their nationals to make the sacrifices necessary to make such sanctions effective. Whatever the far future may bring forth, the collective system can only be made effective to-day by the loyal and prompt co-operation of the nation States of which the League and Kellogg Pact system are composed.

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III. THE PROBLEM BEFORE THE COMMONWEALTH

THERE are thus two problems of the first magnitude looming up before the British Commonwealth. The first is whether its members are sufficiently earnest supporters of the League-Kellogg Pact system to undertake to enforce the sanctions against an aggressor, or a violator of a disarmament convention, without which the collective system cannot ensure either peace or security, provided the United States and the other major Powers are willing to undertake similar obligations. We think that the nations of the British Commonwealth, being already committed by Article 16 of the Covenant, are so resolved. If there is any doubt upon the subject the sooner an Imperial Conference is summoned the better; for it is now the vital issue on which depend the hopes of disarmament and of putting upon an effective basis that collective system which it has been the first principle of Empire policy since 1918 both to promote and to rely upon. It is essential that we should know exactly what obligations we are now under or are willing to undertake.

But there is a second question that may also be presented at an early date. Even if the British Commonwealth is willing to play its part, the other Powers whose co-operation is necessary to make international sanctions effective may not be willing to play their part. From our point of view the most important of these nations is the United States. As experience since 1918 has shown, without her co-operation, or at least toleration, the use of the British navy to give effect to the economic sanctions provided for under Article 16 of the Covenant is impracticable. Yet there is no sign, as yet, that the United States is willing to assume any kind of obligation which, under any circumstances, might involve her in hostilities in Europe or Asia. The furthest her official

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spokesmen have ever gone was the declaration of Mr. Stimson, President Hoover's Secretary of State, in August, 1932, and the declaration made by Mr. Norman Davis on behalf of President Roosevelt at the Disarmament Conference in May, 1933. Mr. Stimson*, in effect, said that it would be impossible for the United States to claim neutral rights in the case of a violation of the Kellogg Pact. Mr. Norman Davis, turning this general thesis into a formal offer, stated that, under a finally agreed disarmament convention, the United States would be willing to confer with other nations with a view to the maintenance of peace if the Kellogg Pact were violated. Further, under such circumstances she would, he said, refrain from any action that would tend to defeat any collective action that other States might take against an aggressor, if she were in agreement with their designation of that aggressor. The utmost, therefore, that both Republican and Democratic Administrations have seen their way to propose is that if a disarmament convention is signed the United States will not claim her old neutral rights against a combination of other States seeking to take sanctions against a violator of the Kellogg Pact, if she and they are agreed as to the aggressor. Yet that is an advance, and if a disarmament treaty were signed and all the great Powers except the United States really committed themselves to use sanctions against a violator of the treaty or of the Kellogg Pact, and if the United States bound herself as proposed by President Roosevelt, we should be in favour of the British Commonwealth's undertaking the full obligation of taking sanctions against an aggressor. We cannot say, however, that we think this is very likely at the present time, especially in the light of the recent Franco-German exchange of Notes. We have certainly to face the possibility that the project may fail. What then?

Mr. Walter Lippmann, perhaps the most authoritative interpreter of American policy, in an Armistice Day address

* See THE ROUND TABLE, No. 86, September 1932, p. 701.

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made some extremely interesting comments on America's present-day attitude to international problems.

There are no differences of opinion on the fundamental decision to employ our armed forces in Europe or in Asia. No service can be rendered to the cause of peace by disguising or qualifying the singleness of American purpose in this matter. Were we in any way to fail to make this clear we should be practising a cruel deception which could only aggravate the situation abroad.

Mr. Lippmann then went on to discuss the difficulties that now confront the United States in maintaining her neutrality if a new war breaks out. "In fact, we learned during the war that in a world war neutrality for a great trading nation is eventually impossible." If, then, the United States is determined not to participate in a war in Europe or Asia, yet cannot maintain her neutrality in a world war, and "since we are not prepared to throw our whole might into the scales to prevent war," what is the practical policy for her to adopt? It is, in Mr. Lippmann's opinion, to try to localise these European and Asiatic wars and to prevent them from becoming world wars. When, then, does a local war become a world war? When, says Mr. Lippmann, the British Commonwealth of Nations is engaged. "With Britain fighting, we can be neutral only by yielding our rights or by challenging British sea power; with Britain neutral, the overwhelming weight of the world's naval armaments and of the world's seaborne commerce are on the side of neutral as opposed to belligerent rights." Mr. Lippmann then concludes:

Anyone who looks these things clearly in the face will conclude that by the circumstances of geography, by the destiny of history, and by the deep intermingling of our interests, it has become an absolute necessity both for Britain and America that they have the same policy in the event of another war. It is not necessary to have a treaty. It is necessary only to understand the facts. Thus it is only by understanding Anglo-American relations, and how in the supreme test our interests and the interests of the other English-speaking peoples are identical, that it is possible to have an effective policy of non-entanglement in another war,

or for that matter to avoid an Anglo-American war.

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There is deep significance in these words. We, in the British Commonwealth, might put the thesis somewhat differently. But what it amounts to in practice is this: Assuming the breakdown of an effective collective security against war, because either the United States or other Powers are unwilling to play the full part necessary to its success, what is the alternative? The alternative is an Anglo-American understanding to the effect that a threat of war anywhere is, under the Kellogg Pact, a common concern to both; that they retain a free hand to deal with such a situation unrestrained by any military commitments and entanglements with other Powers; that if there is to be intervention to bring a local war to an end, or for any other reason, they will use their sea power together; and that pending such joint action they will jointly sustain neutral rights against the belligerents. Such a thesis clearly raises difficulties for Great Britain and the Dominions under the Covenant, and for Great Britain under the Locarno treaties. But there are probably even greater difficulties and dangers for both Great Britain and the Dominions if they have not a clear understanding with the United States as to the use of sea power in a world in which there is once more likelihood of large-scale war in Europe or Asia. For instance, a policy involving entanglements in Europe without an understanding with the United States is a policy that may embroil us in war not only with Europe but with the United States also. The Anglo-American issue is one that will require earnest consideration during the next few months no less than our relations to Europe. There were many who said in 1920 that the League could succeed only if it had the wholehearted support of the United States. Since 1920 we have attempted to regularise our relations with Europe and Asia while leaving our relations with the United States undefined. Should the present attempt to restore the universal collective system break down, our primary duty—if the most disastrous of all wars, an Anglo-American war, is to be avoided, if we are to avoid becoming

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part of a European balance of power, if there is to be any centre of gravity in the world at all—will be to regularise the relations between the British Commonwealth and the United States. For the world *pax* that was maintained by Great Britain from 1815 to 1914 can no longer be sustained by Great Britain alone, but only by the British Commonwealth and the United States in co-operation.

This ultimate question of Anglo-American relations may, then, come rapidly to the front if an effective system of universal sanctions fails to be created behind a disarmament convention in the next few months. It will in any case have to be faced in connection with the Naval Conference next year.

But an even more immediate issue will be forced upon us in the same eventuality. The Disarmament Conference itself may end not, perhaps, in a renewed competition in armaments but in a considerably heightened level of armaments all round. Indeed re-armament is going on apace almost everywhere to-day. Certain great Powers, too, have rejected not only the machinery of the League but even the general philosophy of international co-operation that lies behind it, and have apparently embraced militarist and imperialist ideals. Under these conditions, are the mutual obligations and the defence preparations of the members of the Commonwealth itself adequate, either to enable it to play its part in what may be left for the time being of the League system or in the last resort to defend the various members and their free institutions within the Empire itself? For it is quite certain that weakness never maintained either peace or free institutions.

These questions have never been seriously raised since 1918, for the assumption has been that the League system, backed by the British navy, was sufficient to protect the Commonwealth from any visible menace. That is no longer true. Nobody can any longer say with assurance that no major war is in sight for ten years. Yet the problem raises very far-reaching issues. In the probable

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state of world armaments in 1935 or 1936, what should our naval strength be? What type and distribution of vessels are required under modern conditions? What part should be played by the new air arm? There are those who say that despite our present expenditure on armaments we are not getting anything like proper value in security for the outlay because we are only the fifth air Power and because our naval equipment is not suited to post-war conditions. What should be the relative rôles of Great Britain and the Dominions, on the sea and in the air? Is it possible to combine a purely Commonwealth defensive system with a system of oceanic security such as was outlined in the last issue of *THE ROUND TABLE*?* These are vital issues and they may become urgent issues also.

IV. THE NEED FOR AN IMPERIAL CONFERENCE

WE have said enough to show what momentous questions lie behind the negotiations for a disarmament convention now in progress. They may lead to a reconstruction and strengthening of the collective system. They may force a reconsideration of our relations with the United States and of our own armament standards. Our sole conclusion to-day is that in any event the decisions to be taken must be Empire decisions, whether the problem to be considered is the establishment of a strengthened system of security based on sanctions or whether it is the situation that will arise from a breakdown in the present negotiations. As soon as the outcome becomes clear, an Imperial Conference should be held to consider the situation, including the policy to be pursued at the Naval Conference of 1935. It is the main purpose of this article to provoke discussion about the issues that will inevitably face such a conference, so that when it assembles public opinion will be alive to them.

* See *THE ROUND TABLE*, No. 93, December 1933, pp. 6-13.
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SHIPPING : AN EMPIRE PROBLEM

I. THE SHIPPING CRISIS

THE British public seems suddenly to have woken up to the existence of an urgent shipping problem. It is one of the things that the majority of people prefer to forget—like the slums. A rare community of opinion in the shipping industry itself has been, perhaps, the principal means of rousing public opinion lately, but as any problem grows ever more serious it is bound eventually to force itself upon the unwilling attention. This problem is not new, nor has it essentially altered, save by intensification, in the last year or two, but every day makes its solution the more imperative.

In large part, it is a world problem, in which Great Britain shares along with other seafaring nations. That fact we must bear in mind at all costs. Our shipping industry is terribly depressed, but so—to judge from the figures of idle tonnage*—is that of every other country in the world, with the possible exception of Japan. World trade has shrunk to a fraction of its former self, as a result of the economic crisis directly, and also of the accompanying rise of tariffs and quotas. Our own protective policy, imperative as it may have been for other reasons, has contributed a great deal to the difficulties of our shipping industry. To take a limited but illustrative example, it is calculated that eight ships formerly engaged in the Birkenhead-Ireland trade will be permanently laid up as a result of the recent cut of 50 per cent. in cattle imports from the Irish Free State. The more successful protection is in

* See *THE ROUND TABLE*, No. 92, September 1933, p. 838.

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fostering domestic production for domestic consumption, the more desperate must grow the condition of our mercantile marine. Obviously the first principle of a policy for shipping must be the strenuous advocacy of greater liberty of international trade everywhere.

Yet even if world trade had not been subjected to the disastrous attrition of the past five years, there would still have been a considerable surplus of shipping available.* For that fact several reasons are responsible—the great expansion of the shipbuilding industry during the war, resulting in a seriously excessive output afterwards, when the submarine no longer stood the shipbuilder's friend; government promotion of shipbuilding activity in one way or another; the inability of the shipping owners to earn sufficient depreciation on their fleets, and hence their reluctance to scrap redundant tonnage; and the greater efficiency of modern ships per unit of tonnage, through higher speed, more economical use of cargo space, and equipment for more rapid "turning round." These are world-wide problems, and must be tackled, eventually, on a world-wide scale. Some of them are capable of partial solution by national action, and all of them must be borne in mind when we consider national policies designed to meet other difficulties. Any suggestion for action that did not take account of the redundancy of world tonnage—a misfortune to which the British mercantile marine has contributed, if anything, rather less than its proportionate share—must be discarded at once.

Nevertheless, there is also a specifically British problem, one which this country, an exposed island at the heart of a scattered empire, neglects at its peril. Our relative position is growing steadily worse. The share of the United Kingdom in world shipping business has fallen, not merely as compared with pre-war days, but even during the last few years. In 1914 we owned 41·6 per cent. of the world's tonnage; in 1932 our share had fallen to 28·2 per

* See THE ROUND TABLE, No. 92, September 1933, p. 837.

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cent., and last year to 27·5 per cent. It is true that, having regard to carrying capacity, speed, refrigerated cargo space, and other technical factors, the existing shipping of the United Kingdom, taken as a whole, is substantially superior to that of 1913, but it is the trend that is significant. If we are gradually losing ground to our competitors, it will become increasingly difficult for us to maintain even our present level of efficiency. Whereas between 1914 and 1933 world tonnage increased by 21,224,000 tons, British tonnage fell by 300,000 tons.

It needs but a moment's contemplation for us to realise how grave a calamity the failing strength of our mercantile marine would be for the British Commonwealth. We are dependent for our barest subsistence needs upon overseas sources of supply. If they are to be assured to us in the event of war, we require not only a navy strong enough to defend our trade routes but also a merchant fleet of our own to carry men, foodstuffs, fuel, munitions, and naval and military supplies. Even ruling out the possibility of war on a grand scale, shipping is the greatest of our invisible exports, a vital provider of the means to buy foodstuffs, raw materials and manufactured goods from abroad. It may well be described as the key to the key industries.

We should be crying for the moon were we to demand a return to our pre-war supremacy in world shipping—an aim as impossible as the Victorian ideal of remaining "the workshop of the world." Just as other nations have learnt our industrial technique, so other nations have set up in the ocean carrying business. In particular, the war gave the United States and Japan their opportunity to build great mercantile marines, and we cannot conjure away the war now. But there is no reason why that process should be indefinitely prolonged, and certainly no reason why we should submit to its being artificially stimulated. The British mercantile marine can and must meet all legitimate competition; if it cannot do so, in perhaps the least sheltered industry in the world, it will

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have to go under, or we must pay a heavy price indeed for keeping it afloat. On the other hand, competition based on subsidies, government aid to shipbuilding, replacement bonuses, and other artificial support demands special defences which individual shipowners are wholly unable to construct. Over £30,000,000 a year is now paid by foreign governments in subsidies to their ships, and the menace spreads even to those imperial trade routes which have been peculiarly our own province.

One notorious example, which was described in a recent issue of *THE ROUND TABLE*,* deserves to be quoted again. The Matson line, trading from the United States to Australia *via* Honolulu and New Zealand, has been subsidised heavily by the United States Government, to the serious injury of the British lines long established on the same and associated routes. Not content with this, the United States forbids any but American ships to carry passengers or cargo from San Francisco or Los Angeles to Honolulu, save as part of a through voyage; whereas the Matson line is quite unrestricted in its competition with British ships on the comparable passage between New Zealand and Australia.

II. THE BATTLE AGAINST SUBSIDIES

BYOND doubt, the best solution would be international agreement for the mutual abolition of shipping subsidies and all similar devices. Indeed, in the long run this is the only possible cure for a disease from which all—subsidising countries and others alike—are suffering. It must be the basis of our long-range policy and the test of our short-range policy. Whatever else we decide, our programme must include an open offer to the world of a “pact of non-aggression” in shipping matters. Unfortunately, the deliberations of the World Economic Conference

* See *THE ROUND TABLE*, No. 92, September 1933, p. 843.

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committee that considered the question of shipping subsidies gave little ground for hope that such a pact would secure general adherence within a reasonably short period. The problem was shelved, on the French plea that it could not be considered in the absence of exchange stability, but not before the United States Government had made it quite clear that no argument in general terms could shake their determination to continue a policy of subsidies.

In default of a world-wide agreement, there are but two alternatives before us: to do nothing, or to take defensive measures either on our own or—far better—in co-operation with other maritime countries having the same main objective as ourselves. To stand idle may possibly be the least evil of two unfortunate choices, but let us be clear what it means. It probably means the gradual displacement of British by foreign shipping, starting with the trade between different foreign countries but extending even to the coastal trade of the United Kingdom. That displacement may be a slow process, but it becomes more and more inevitable as bad times in the British shipping industry handicap the replacement of out-of-date tonnage by new and faster ships. Doing nothing certainly implies dealing unfairly by the great industries of shipping and shipbuilding, which are injured by every measure of protection granted to other trades, and which have, in addition, to meet continuous foreign “dumping.” Manufacturing industry has its tariffs, agriculture its quotas and subsidies; is shipping alone to go unaided?

Yet if we turn to the shipping industry itself in order to learn what compensation or protection is required, we hear a confusion of voices. For this lack of unanimity two broad reasons may be discerned. The first is the fear of retaliation, allied with the general prejudice of the shipping industry in favour of free trade. Every barrier to trade is regarded with suspicion by those who know too well from hard experience the perils involved in wars of commercial policy. We are still the world’s greatest ship-owners, and

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therefore the most vulnerable in the event of counter-attack. Already we possess 90 per cent. of the carrying trade between different parts of the British Commonwealth and 60 per cent. of the carrying trade between British countries and foreign countries ; for the sake of the margin that we might gain in these fields, are we to jeopardise all our foreign connections and risk provoking flag discrimination in foreign ports ?

There is a second reason why ship-owners do not speak with one voice. Their interests are divided. Hitherto, the liners have not suffered nearly so disastrously as the tramps, because foreign competition in that class of tonnage has been restricted by the conference system of fixing fares and cargo rates, and also because liners have picked up a good deal of trade that would otherwise have come the way of the tramps. Tramps and liners very largely compete with one another—even the formal distinction between the two is blurred, so that for statistical convenience a tramp is often taken as any vessel below 5,000 tons gross. The liner interests, in brief, fear the grant of subsidies to tramps both because that would enhance the competition of the tramps with themselves and because any foreign retaliation would largely recoil on their heads.

Nevertheless, there has recently been evidence that a large proportion of the various shipping interests have sunk their differences to the extent of agreeing that some concerted action must be taken forthwith. The Council of the Chamber of Shipping, for instance, accepted with only three dissentients at the largest meeting of the Council ever held a resolution which was based on the report of their Tramp Committee, and which acknowledged the principle of a temporary subsidy for any section of the British mercantile marine that could prove its necessity. "Sections of our mercantile marine," said the chairman of the Orient line at the annual general meeting of his company in December, "are threatened with ruin by the concentrated attack of foreign nations, and it appears to us not only proper but the

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duty of His Majesty's Government, here and in the Dominions, to maintain the British position by temporary subsidies or other means until they shall have restored normal conditions." The chairman of the P. and O. company likewise spoke at length about this problem, demanding specific defensive action as part of an Empire-wide policy.

When we turn, however, from the urgent call for action to the question of what form that action shall take, we are in the field of controversy and speculation. Three broad lines of action are open to us. One is the imitation of many of our principal competitors on the seas by the grant of subsidies ourselves. The second is an attempt to maintain our ocean-carrying business by reserving for British bottoms certain classes of trade—for instance, the coastal trade of the United Kingdom, the trade between different parts of the British Empire, or a minimum proportion of our trade with countries with whom we have commercial treaties. The third possibility is a plan of flag discrimination, by differential port dues or other means, specifically directed against countries pursuing a policy of subsidies.

There is no gainsaying that each of these alternatives carries danger and difficulties. It is true that the grant of subsidies, which is on the surface far the simplest of the solutions, would be unlikely to involve immediately any cut-throat economic war with particular countries, since it is already so largely practised by our competitors themselves. But who would deny that if we, the greatest ship-owning nation in the world, were to pursue such a course, every other seafaring country would eventually be bound to follow—Norway, Sweden and the rest ? There is a further indisputable consequence which is even more disconcerting. The tramp class, for which alone subsidies are now demanded, cannot in practice be isolated from the liners. British liners could not live, competitively, between the shears of subsidised foreign liners and subsidised British tramps. Sooner or later, the conference system, which

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leaves ample scope for competition in facilities of all kinds, is bound to prove an inadequate safeguard for the liner interests. They, too, would have to be given subsidies, and the mere £3,000,000, which the tramp owners estimate their scheme would cost, would be multiplied manifold. It is asserted that the United States, with a mercantile marine little more than one-half the size of ours, spends £17,000,000 a year on shipping subsidies. Who dares say, once we had started on a course of subsidies, that the beneficiaries, often mutually in competition, would cease pressing for more till they were subsidised on much the same scale as the United States? The stakes are too high for us to enter such a hazardous game.

Above all, subsidies merely aggravate the fundamental problem, the excess of world shipping tonnage. In their enthusiasm, the tramp-owners claim that their proposals for operating and laying-up subsidies would bring into commission one half the British tramp vessels at present laid up. At whose expense? Is it to be expected that foreign ship-owners would diffidently consent to be supplanted by subsidised British tonnage? Even if no retaliatory subsidies were forthcoming, private competition would certainly be intensified, and freight rates driven lower than ever. The net result might very well be but a very slight improvement in the British share of world shipping business, coupled with a depression of freight rates equivalent to little less than the amount of the subsidy. From the point of view of shipping as a whole, a replacement subsidy would seem much more desirable than a subsidy on voyages with cargo. It is worth considering whether part of our shipping policy ought not to be modelled on the Japanese plan of subsidising each ton built in exchange for two tons scrapped.

In general, subsidies on operating and laying-up must be regarded as pernicious even from the point of view of the immediate beneficiaries. The same considerations are not, perhaps, quite so forcible if the subsidies are granted as

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temporary expedients, though they still retain some weight. The Tramp Committee of the Chamber of Shipping ask for subsidies only until conditions in the industry improve. It may, indeed, prove necessary to grant subsidies as a temporary palliative, but the form of limitation proposed is extremely dangerous, since the industry might long remain depressed for many reasons other than those to meet which the subsidy was originally awarded. It might be depressed by the increased competition of previously laid-up tonnage brought into commission by the subsidy itself; or by a decline in the comparative efficiency of British shipping; or by world economic forces of indefinite duration. If subsidies are to be given temporarily, they should continue only until a permanent policy has been adopted.

Subsidies, it has already been indicated, involve a risk of retaliation, a risk which is still greater in respect of other defensive measures—reservation of certain classes of trade for British bottoms, or discriminatory port and customs dues. It is a risk that we must face and consider carefully before embarking on any scheme. But if it is weighed against the risk of the steady deterioration of British shipping, which we run if we elect to do nothing, it fails in the balance. The President of the Board of Trade used as an argument in favour of caution the figures already quoted showing the high proportion that we already possess of the carrying trade to and from British countries. These same figures, however, can be used to lend point to an opposite argument. If we could recover one half of the trade that we do not now possess between different British countries, and between British and foreign countries, we could afford to lose over two-thirds of the rest of our shipping business.

The reaction of the rest of the world to such policies as are suggested by the Tramp Committee and others would be presumably the less serious by reason of the fact that they would be mostly belated copies of what other countries

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are already doing. The United States, France and other great nations reserve their coastal trade for their own ships. Among our own Dominions, Australia has done so for many years. The United States notoriously applies this restriction to trade between home ports and outlying American territories, for instance between the Pacific coast and Honolulu. There would thus be no innovation of principle even if, by agreement with the Dominions, we were able to reserve trade between them and the United Kingdom for ships under British flags. There is likewise ample American precedent for discrimination against tonnage concerned in a policy to which objection is taken. The White-Jones Shipping Act provides that where any American line is not included in a shipping conference anywhere in the world it can bring a complaint before the Federal Shipping Board, on whose report the Government of the United States must take action to exclude from all American ports the ships of the lines running the conference, and all their subsidiaries. The French import quota system, again, has provided examples of reservation of certain trades, or proportions thereof, for ships flying the national flag; but this is not a suitable precedent for us, with our widespread system of commercial treaties based on the most-favoured-nation principle. In order to adopt the suggested plan of contractually reserving certain percentages of the carrying trade between ourselves and the other parties to our trade pacts, we should have to scrap our whole commercial treaty system, an undertaking which would obviously be fraught with grave perils.

All these suggestions have to be considered on their merits, and in relation to the broader issues involved. Perhaps the most important test by which they must be judged is the fact that the need for government action is created by the impact of unfair methods of competition, of which subsidies are typical. The aim of our policy must be to abolish, not to participate in, those methods. It follows that action must be concentrated, as far as pos-

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sible, against the offending countries. The most hopeful line of policy that has been suggested is the imposition of surcharges on port dues—possibly on cargoes also—in respect of all tonnage entering British ports under the flag of subsidising countries. There is obvious difficulty in deciding which countries do come under that head; the onus of proof, however, need not fall on us but on the alleged offending governments, who would be invited to furnish proof that they did not subsidise ocean-going ships, directly or indirectly, before their tonnage could be made subject to the normal tariff of port charges and import duties. It would have to be an all-or-nothing policy; we could not adjust the penalty to degrees of the offence.

III. A PROBLEM FOR THE COMMONWEALTH

IT is not our purpose to indicate precisely what policy should be adopted. On the contrary, it is our profound belief that the question of policy cannot be properly considered within the limits of a purely British view. The opinion of the whole Commonwealth should be consulted, and its co-operation enlisted, before any decision is taken. This is beyond question a problem for the Commonwealth—perhaps the most unmistakable occasion for the development of an agreed imperial policy that has arisen since the Dominions achieved legislative autonomy.

Here on this very issue, perhaps, we have come to a parting of the ways. In the course of constitutional devolution in the Commonwealth, governmental unity has been replaced by voluntary co-operation on matters of common concern, as the bond between the several members. If voluntary co-operation is neglected, the Commonwealth politically is nothing. Its future lies between regeneration and oblivion. Where is a matter more obviously of common concern than the preservation of British shipping? Failure to adopt in this instance the course of mutual consultation

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and joint action could not be blamed upon the Dominions, whose nationalistic tendencies form too easy an excuse for our own failure to pursue an Empire policy, but upon the United Kingdom herself. If war comes, we and they must stand together, constitutional formulæ and international commitments notwithstanding. If, when that happens, our mercantile marine has been supplanted by the ships of foreign Powers, the Dominions must share our weakness, even as now they share the advantages of our ocean strength. To imagine that this problem can be settled by consultation between the Board of Trade and the shipping industry—which does not even know its own mind—is to betray a foolhardy carelessness about the future of the Commonwealth. Hitherto, its development has been dominated by centrifugal forces, which may eventually destroy it altogether, unless at opportunities such as these they are vigorously counter-acted.

The complicated issues involved affect each member of the Commonwealth differently, so that a policy adopted by the United Kingdom based on her own immediate needs might easily conflict with the interests of the Dominions, and, by arousing their antagonism, ultimately defeat its own ends. The recent subsidy* granted by the South African Government to Italian lines trading to East and West African ports and the Mediterranean proves how foolish would be the assumption that, on all points, the Dominions are of like mind with ourselves. The Union Government, in explaining its attitude, repeated its declaration (made at the World Economic Conference) that it could not support a general condemnation of the principle of subsidies, including those for shipping. In India, where the service rendered by subsidised Italian lines is also an important factor, the question of reservation of coastal traffic for Indian-owned ships is an acute political issue. Australia has a special problem of high

* This topic is discussed at length in an article from South Africa, below, p. 435.

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wages and favourable working conditions, which has caused her to reserve all her coastal trade (including trade between the mainland and Tasmania) for Australian ships. She is intimately concerned with the question of subsidised American lines on Pacific routes,* and her Minister of Commerce recently hinted that "it might be necessary for the Government to take steps to ensure that parallel conditions were enforced on both sides of the Pacific." He was, he added, personally opposed to any extension of the subsidy system. Subsidised American shipping on the Pacific is even more peculiarly a New Zealand problem, since the two chief British competitors on the Australian-North American routes are New Zealand concerns, though they are in the P. and O. group. Canada, again, has a special problem, created by her neighbourhood to the United States, and the close economic interdependence of the two countries. American retaliation against British shipping might injure her interests more swiftly than those of other Dominions.

If for no other reason, the defence of shipping is a Commonwealth problem, because—provided we can light upon a united policy—the extent of the commerce of the British Commonwealth in relation to total world trade, and the critical importance of its ports for world traffic, give us a tremendous power far exceeding that which any member of the Commonwealth could wield alone.

There are those who argue that we should summon for consultation and joint decision not only the Dominions but also all those foreign Powers who are likely to be on our side in the battle against subsidies. Certainly there is no room for exclusiveness in a matter such as this, and once we have found a Commonwealth policy it must be open to any country to participate on equal terms. But our policy must first be founded on an Empire investigation. Does the existence of the British Commonwealth mean anything at all, or are the relations between its several members

* See p. 244.

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merely those of friendly foreign Powers ? Sentiment and history apart, defence shouts the answer when it is shipping that is concerned. At the end of the war, well over one-third of British ocean-going tonnage was directly employed on military and naval service, including $1\frac{1}{2}$ million tons serving the military forces of the Dominions and colonies. An ocean Empire without a common policy on the seas is a contradiction in terms. There is another important, if narrower, reason why these deliberations should be confined in the first place to the Commonwealth. Whom, among the foreign Powers, should we invite to the council table ? Plainly not all, for the World Economic Conference showed that, for the moment, universal agreement is out of the question. If we made a selection, those omitted would either grumble at not being consulted or denounce the whole procedure as particularist economic aggression directed against themselves.

In the British Commonwealth, machinery is ready to hand. Admittedly, the Imperial Shipping Committee, created in 1918 to inquire into, and report upon, matters connected with the development of sea communications between the different parts of the Empire, is not ideally suited for the present purpose, being a very specialist and official body. In 1923, however, the Imperial Economic Conference passed the following precisely relevant resolution:—

In view of the vital importance to the British Empire of safeguarding its overseas carrying trade against all forms of discrimination by foreign countries, whether open or disguised, the representatives of the Governments of the Empire declare :—

(1) That it is their established practice to make no discrimination between the flags of shipping using their ports, and that they have no intention of departing from this practice as regards countries which treat ocean-going shipping under the British flag on a footing of equality with their own national shipping.

(2) That in the event of danger arising in future to the overseas shipping of the Empire through an attempt by a foreign country to discriminate against the British flag, the governments of the Empire will consult together as to the best means of meeting the situation.

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The governments of the Empire must indeed consult together, but unless there is to be a special Imperial Conference, drawing Prime Ministers and Ministers of Commerce from all the Dominions to London, it is plain that the governments alone cannot give the problem the detailed and arduous consideration that it deserves.

What is wanted is a small *ad hoc* committee, representative of all parts of the Commonwealth, composed not of shipping experts with their diverse special interests, but of men of affairs capable of reviewing the problem in its broader aspects. The Committee's agenda should include all sides of the problem—liners, tramps, shipbuilding, the conference system, subsidies, and a score of other matters. It should take time to investigate circumstances and opinions in every part of the Commonwealth. If necessary, an interim report might be presented on the emergency issues.

It is, indeed, an emergency problem with which we are faced. Yet even more dangerous than delay would be the adoption of a limited national policy, before we had consulted the Dominions or enlisted their help. Whatever we do, we are bound to arouse enmity in certain quarters abroad ; it would be a disaster if, for want of following the principles of Empire co-operation which we freely acknowledge, we were to arouse dissatisfaction or distrust among our fellow members of the British Commonwealth. The Balfour resolutions and the Statute of Westminster founded a new Commonwealth upon the principle of free co-operation, a principle which is translated into practice according to the needs and traditions of each branch of public activity. If, when so clear an occasion arises for its exercise, it is deliberately neglected in favour of unilateral decision by one member, we may be forgiven for fearing that the principle itself will gradually wither into an obsolete formula, leaving of the Commonwealth nothing but a memory and a name.

NEWFOUNDLAND

I. THE CAUSES OF COLLAPSE

AFTER enjoying responsible government for over three-quarters of a century, in February of 1934 Newfoundland ceased to be a self-governing country. This strange occurrence in the affairs of the British Empire clearly demands an explanation.

Though legislation by Parliament at Westminster was required in order to accomplish this change in the Island's status, it is not by any arbitrary act of the British Government that self-government has been withdrawn from a Dominion. That would have been impossible. It has been a long recognised practice, emphasised for all the Dominions and made statutory for some Dominions in the Statute of Westminster, that the Mother of Parliaments cannot pass any law applying to the people of a Dominion, let alone one to take away their self-government, except with the consent and at the request of that Dominion. The Newfoundland Parliament, in fact, by a unanimous vote, petitioned the King, asking him to issue new Letters Patent which would suspend parliamentary and responsible government in the Island and establish government by a Commission in its place. Self-government did not die by a murderer's hand; the verdict must be suicide while temporarily insolvent.

Newfoundland's proudest boast was not that she was a Dominion, but that she was the oldest British colony, a historic claim of which no constitutional changes can deprive her gallant people. The Island is not much smaller in area than England, but is sparsely peopled, its population being estimated at 282,000 souls. Of these, 40,000 live

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in St. John, the only large town in the place, while the remainder are distributed amongst some 1,300 small settlements, scattered for the most part along the 6,000 miles of coast. About 100,000 of the inhabitants are engaged exclusively in fishing or else as fishermen-farmers. The prosperity of the Island depends to-day, as it has always done in the past, almost entirely on the fishing, and a foolish neglect of the interests of this prime activity is one of the main causes of the fate that has recently befallen the community.

There is no mystery about the origin of the series of events that culminated in the present pass. It began in 1931 with an appeal from the Newfoundland Government to the United Kingdom Government to send out a financial adviser to help them to grapple with grave difficulties which had already been allowed to develop too far. The Island suddenly found itself unable to pay from its own resources the interest on its overseas debt. The steps by which this position was reached can be described in a few sentences. At the close of the world war, in which the humble fishermen of Newfoundland had shown a loyalty and courage as great as were displayed in any part of the Empire, the public debt of the Island totalled \$43,000,000. In every year from 1920 to 1932 its budget was unbalanced. The average annual revenue for this period was \$9,250,000, the average annual expenditure \$11,250,000, and the average annual deficit \$2,000,000. In each of these years an external loan was raised in order to enable the Government of the day to liquidate this perpetual deficit. But that was not all. The Government, with almost sublime contempt for the dictates of financial prudence, also used large parts of these loan funds each year to embark upon costly new schemes of capital expenditure, not one of which has proved directly remunerative. As a result of this dual process of fiscal profligacy, the public debt within a dozen years more than doubled itself, rising to \$97,638,772 by the end of July, 1932. At the moment when Lord

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Amulree's Commission presented its report, the debt stood at a little under \$101,000,000, and the payments for interest on it, including provision for exchange fluctuation, amounted approximately to \$5,200,000 per annum, or about 65 per cent. of the annual revenue. It was the Government's failure to obtain any money when for the thirteenth year in succession it endeavoured to raise a loan that brought the community face to face with the fact that it could not pay its debts and was heading swiftly for bankruptcy. Superstitious people may attribute this disaster to the malign influence of the unfortunate figure thirteen, but for others the explanation will be more simple.

It is not possible in the space of this article to enter into the details of this astonishing financial policy. There is only one possible excuse for it that approaches the reasonable. As has been said, Newfoundland's well-being had always depended almost entirely on the success of one industry, fishing. That was, and still is, a serious weakness. The fortune of the fishermen was sometimes good and sometimes bad. There was never much certainty about it, and a series of bad seasons would spell disaster. It would have been better for the Island had there been other industrial activities of sufficient importance to help to smooth out the fluctuations in its prosperity that followed the whims of the fisheries. Much of the wild capital expenditure between 1920 and 1932 was, indeed, incurred upon attempts to attract other kinds of industry. The Government spent large sums of money on taking over and improving the railway, on an ambitious scheme of high-road construction, on the expansion of the telegraph and telephone services, on the construction of a dry dock, and so on. But these efforts proved of no avail, and, important though they are in some respects, the paper mills and the great iron mine that do exist in the Island yield comparatively little either in employment for the people or in revenue for the Government.

Worse still, while money was being poured out on these

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fancy schemes, the one industry whose prosperity and development were a matter of life and death to the country was neglected. Loans amounting to over \$50,000,000 were raised after the war, yet less than \$1,000,000 of the money was devoted to stimulating the industry that was of chief importance. Whilst Newfoundland's principal fishing rivals, Iceland and Norway, were steadily improving their methods both of catching and of marketing their fish, and were reaping rich rewards for their perspicuity, often at the expense of Newfoundland, those in control in the Dominion allowed their own industry to go from bad to worse. They did nothing to check the rule of individualism, which was a bar to all progress.

Fishermen and merchants had done well during the war and in the brief period of prosperity that followed it. But within a decade the position had been completely reversed, and the effect of the world trade depression on this weakened industry was disastrous. At the best of times the fishing season had not lasted through many months of the summer and autumn, but under a régime in which the industry failed not only to create new opportunities for itself but even to preserve old ones the season contracted until "the average fisherman is faced with the problem of earning enough in three or four months to last him a year." His chance of doing this was already handicapped by the vicious credit or truck system by which he did his business with the merchant, and three successive seasons from 1929 to 1932 in which fish prices, like most others, fell to extremely low levels reduced the vast majority of the Island's population to abject poverty.

There have been recurrent periods in the Island's history when the failure of the all-important fisheries have necessitated the supply of public relief on a large scale to the fishermen's families all round the coast. For though one passage in Lord Amulree's report describes in almost lyrical terms the life that is possible in the Island, and

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holds out a great hope for the future, circumstances in the past have conspired to destroy the pleasant prospect.

Each man (says the report) is quite capable of building his house; the sea supplies him with food, both to eat and to sell; his little plot of land provides him with vegetables; the countryside each summer is alive with wild fruit; and an occasional rabbit or duck adds variety to his fare. He pays no local rates or taxes for there is no local authority or direct government tax; as a rule he pays no rent for he generally owns his own house and a plot of land. . . . Provided that the fishing season is good, and he can obtain a reasonable price for his catch, he is content, in essentials, to continue in the ways of his fathers.

Apart from other factors, such as the truck system and indirect taxes, which weigh heavily on him, the price that the poor fisherman has received for his catch in recent seasons has ruined him, with the result not only that since 1932 all the fishermen have been in debt, but also that the national budget has been swollen by huge sums paid out in relief. During the winter of 1932, for instance, no less than 70,000 persons, or one-quarter of the entire population, were in receipt of public relief, other than poor relief or relief for the aged poor. Despite the fact that this relief was of the most meagre kind, consisting of rations of pork, flour, tea and molasses to the maximum value of \$1.08 per head per month, its cost in that one year alone amounted to \$1,100,000 or one-seventh of the revenue of the country. When this burden is added to that of the public debt, the hopeless financial straits of the Island can be imagined.

Even if the authorities had been blessed with wisdom in spending the money they rashly borrowed, their folly in raising it would have found them out when the world depression descended upon their little Island. While times were normal the weakness of their financial policy did not show itself, and people deluded themselves with hopes that the money spent in endeavours to attract other industries to the country would bear fruit and soon begin to bring in a return. But the awful trade depression, which brought some far more powerful communities

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to their knees, inevitably struck at this people a blow that was mortal.

That is the main thread of the story. But there are other relevant factors in the general situation, and two amongst them must be particularly though briefly noted. First, the administrative machine, which should play an important part in maintaining good government in the country, has been largely destroyed, owing chiefly to the intrusion of the spoils system into the civil service. It had been customary for administrative posts, high and low, to change hands for purely political reasons as Governments rose and fell, with the results that civil servants enjoyed no security of employment, that disinterestedness, experience and ability among them often counted for nothing, and that the service inevitably became inefficient and demoralised. Secondly, the electorate generally have little experience of practical political affairs; outside St. John there is no municipal government which might help to train them in their responsibilities as voters; and under a paternal system of government they have, in fact, been accustomed to support whichever candidate made the largest promises of material help to his own constituency, regardless of any wider considerations. The deterioration of the political system in recent times is one of the major problems of Newfoundland.

The islanders made a desperate effort to ward off disaster when its imminence was plain for all to see. They secured the assistance of experienced British financial advisers with wide powers of control. They agreed to humiliating terms with the Canadian banks who first came to their rescue when suddenly their borrowing power in the public market ceased and default stared them in the face. They sold the exclusive rights to import gasoline (a commodity essential to every fisherman) to an external private company in return for further aid. They drove out their old Government and returned by a vast majority a new set of Ministers in the hope that they might perform miracles,

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and these new leaders courageously wielded the economy axe with unprecedented sternness (salaries and pensions of all sorts, for example, being cut by various amounts ranging from 20 to 45 per cent.). Finally, in return for advances from the Canadian and United Kingdom Governments to tide them over two further dates when payments of interest on the public debt were due, they agreed to the appointment of a Royal Commission to enquire into the whole position, financial and otherwise, of the Dominion.

II. THE AMULREE COMMISSION

THE report of the Commission is a document of high importance. Its authors, after an exhaustive examination of their problem, reported that Newfoundland had indeed received a blow from which it would be extremely difficult for her to recover. They concluded that:—

1) The estimated expenditure of the Government for the year 1933-34 was \$11,565,889, the estimated revenue \$8,284,338, and the estimated deficit therefore \$3,281,551.

(2) Economies had been so drastic that expenditure could not for long remain at its present low level, while revenue for some time was more likely to decrease than to increase.

(3) While world conditions remained abnormal, there was likely to be a recurrent annual deficit in the neighbourhood of \$3,000,000 (or nearly 40 per cent. of the revenue) so long as the country was saddled with its present burden of debt and was unable to recapture its lost foreign trade.

(4) Without a "long-range programme of reconstruction" the country would have little power of recuperation even when times improved.

(5) The existing burden of public debt was wholly beyond the country's capacity, and must be lightened if it was to be saved from imminent danger of financial collapse.

Having made up their minds that these were the deplorable but unescapable facts, the members of the Commission considered carefully the various means by which the situation might be saved. They themselves had

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defined the problem; affairs were so bad that it would not be enough simply to devise financial means of overcoming budget deficits during the immediate crisis; without a "long-range programme of reconstruction" the country would stand little or no chance of recovery at all, even when world conditions became normal again. What was required was not simply a piece of sound and ingenious finance, but a comprehensive policy of constructive statesmanship.

In the light of this they examined the possible alternative methods of dealing with the situation, first considering whether Newfoundland could find unaided, out of her own resources, the answer to the conundrum. Here there were two main possibilities: the country might default on the full interest payments on its excessive public debt, or it might sell or lease Labrador, that undeveloped but potentially rich territory which, as a result of the famous litigation of 1927, had been confirmed in its possession.

Proposals for default the Commissioners rejected because of the damage that such a policy would do to the Island and its inhabitants. They urged that its first effect would be to shatter the country's credit, causing a decline in trade and a check to all development. Not only would this destroy the prospects of increased employment, higher wages and improved social conditions generally; a decline in the trade of an island dependent on imports for a large proportion of the necessities of life would result in a lowering of the existing standard of life. In fact the worst sufferers from default would be the fishermen and their families themselves. But in addition to this the Commissioners had to take into account a wider consideration.

We have been content to dwell (they wrote) on the consequences of default to the Island itself and to pass over the effects which default by a part of the British Empire would be likely to produce on other parts of the Empire and even elsewhere. . . . Default by a British community would be without precedent, and such a step would at once retard the general recovery and tarnish the good name of the British Commonwealth.

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The sale of Labrador offered no better prospect of solving the problem. In fact, the suggestion was not a practical one, for apart from any other consideration neither Canada, the proposed purchaser, nor Newfoundland, the proposed vendor, was willing to play its part. Therefore it was impossible for the Island to overcome its difficulties by resort solely to its own resources. The Commissioners turned to examine various means by which external aid might be brought to the rescue.

They first considered the old suggestion that Newfoundland should join a political and economic union with Canada. But whatever intrinsic merit it might possess, this proposal, too, was outside the field of practical politics. For various reasons the people of Newfoundland would not listen to the suggestion, and it must be remembered that the country was a Dominion, that its people enjoyed responsible government which could not be taken away from them by any external authority, and that therefore any proposals that the Commissioners made would need to win the support of these people if they were to have a chance of being tried in practice and proving successful on trial.

By a process of elimination Lord Amulree and his colleagues were left to consider various means by which the United Kingdom could bring the necessary aid to Newfoundland. In their minds all the time was their great objective: the country needed not only financial arrangements which would mean a considerable reduction in its burden of debt but, what was of less immediate but of far greater ultimate importance, a Government with the wisdom and power to pursue sane policies of economic reconstruction and development which would gradually set the community on its own feet once more. Any reliance on the old system of government would be more than likely to defeat that purpose. It was clear that the new Government must attack the old evil of the credit system, reorganise time-honoured methods of conducting

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the fishing industry, establish a proper system of civil service, and in many directions act drastically and boldly.

In the end the Commissioners themselves led the way by making bold proposals. They rejected as inadequate all suggestions for half measures (such as that Great Britain should provide the necessary financial aid in return for Treasury control of finance within a patched-up system of self-government). They recommended a scheme of wholesale reform consisting of two interdependent groups of proposals, financial and political, the latter of which meant for an indefinite period the end of self-government in the Dominion. They proposed, in accordance with correct constitutional practice in such an extraordinary situation, that the Newfoundland Government should make an immediate appeal for the sympathetic co-operation of your Majesty's Government in the United Kingdom in the execution of a joint plan of reconstruction of which the following would be the main features:—

(1) The suspension of the existing form of government until such time as the Island may become self-supporting again.

(2) The creation of a special Commission of Government, which would be presided over by the Governor, would be vested with full legislative and executive authority, and would take the place of the existing Legislature and Executive Council.

(3) The Commission of Government would be composed of six members, exclusive of the Governor, three of whom would be drawn from Newfoundland and three from the United Kingdom.

(4) The Government Departments in the Island would be divided into six groups. Each group would be placed in the charge of a member of the Commission of Government, who would be responsible for the efficient working of the Departments in the group, and the Commission would be collectively responsible for the several Departments.

(5) The proceedings of the Commission of Government would be subject to supervisory control by your Majesty's Government in the United Kingdom, and the Governor-in-Commission would be responsible to the Secretary of State for Dominion Affairs in the United Kingdom for the good government of the Island.

(6) Your Majesty's Government in the United Kingdom would, for their part, assume general responsibility for the finances of the Island until such time as it may become self-supporting again, and would, in particular, make such arrangements as may be deemed just and practicable with a view to securing to Newfoundland a reduction in the present burden of the public debt.

Newfoundland

III. RECONSTRUCTION

CARE had been taken to see that every interest in the Island was consulted while these proposals were being evolved, and that whatever the recommendations of the Commission might be they would command the approval of the Government and people of Newfoundland as well as of any other Government or people concerned. The Commission itself had consisted of one member selected by the Newfoundland, one by the Canadian and one by the United Kingdom Governments. So well had they done their work that when they presented their report no one sought to escape the conclusions that they reached. The Parliament and Government of Newfoundland accepted their findings and recommendations, and though time prevented the taking of a plebiscite of the whole population, all who are in touch with public opinion in the Island agree that such a vote would have resulted in an overwhelming majority for the Commission's scheme.

The politicians who led the country in accepting the new proposals showed an unselfish patriotism, and the people who followed them displayed good sense. For Great Britain acceptance of the scheme meant new financial burdens and a considerable addition of political responsibility, but here, too, imperial patriotism and common sense prompted acceptance of the scheme with all its consequences. The necessary legislation providing for the suspension of the old constitution and the establishment of the new, and for the proposed financial arrangements concerning the public debt, was passed through both Houses of Parliament as soon as the Newfoundland Legislature had itself accepted the proposals and petitioned the King.

Under the new constitution the British Government is generally responsible for the finances of the Island. The Royal Commission had made it plain that even a reformed

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system of government there could only hope to succeed in its difficult work if the burden of the country's public debt was reduced. The first task of the Home Government was to achieve this reduction. The plan adopted took the form of an offer to holders of the bulk of the existing debt of Newfoundland to exchange their securities for a new 3 per cent. Newfoundland stock, redeemable at latest in 1963 at par, and fully guaranteed as to principal, interest and sinking fund by the United Kingdom Treasury. Thus although the new rate of interest was substantially below that borne by the old securities—most of which were at 5 per cent. or more—the capital value of the new stock was designed to represent approximately the equivalent of the principal surrendered. Legislation passed by Newfoundland provided that no interest should be paid or accrue on securities not exchanged into new stock (other than those securities which had trustee status in the United Kingdom) so long as Newfoundland was under any liability in respect of advances made by the United Kingdom. The trustee securities, in so far as holders preferred to retain them instead of converting them into the new guaranteed stock, were given specific priority over all other Newfoundland obligations, including the guaranteed stock. Arrangements were also made to pay off a few loans affected by special considerations.

As a result of the whole series of transactions Newfoundland should be left with a debt consisting of some £17,000,000 to £17,500,000 of 3 per cent. guaranteed stock and about £2,000,000 of trustee securities (less such amount as may be exchanged for guaranteed stock). It is calculated that this will afford a relief of about £350,000 (or \$1,750,000) per annum to her annual interest burden, subject to the commencement of a sinking fund of 1 per cent. on the guaranteed stock not later than July 1, 1938. In so far as the revenues of the Island are insufficient, during the period of government by Commission, to meet the expenses of administration, including the service of the

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debt, a vote of Parliament will be needed to make good the deficiency.

Thus an astonishing change in the status and government of Newfoundland has been accomplished. Such drastic measures were bound to have their critics. Some urged that the Governments were only interested in protecting the bond-holders, and that the Dominion should have been left to default. But the Governments shared the view of the Commissioners not only that default would be a serious blow to British credit generally, but also that the severest sufferers from this policy and its inevitable consequences would be the Newfoundland fishermen and their dependants. It was mainly in their interest that default was avoided. Other critics were nervous lest this should be taken as a precedent for other Dominions' coming to the United Kingdom for help if and when they got into serious financial difficulties. But Government spokesmen in the House of Commons made it clear that this was not to be regarded as a precedent, pointing out that a condition of their coming to the aid of Newfoundland had been that self-government in the Island should cease. Other sceptics asked what positive benefit the people of Newfoundland were to get from the new system of government. Anyone who studies carefully the Royal Commission's analysis of the present situation and their suggestions for promoting economic rehabilitation and development in many directions—in the fisheries and agriculture and elsewhere—and for political reforms, such as the development of a proper civil service, will recognise that if the new government can carry through this "long-range programme of reconstruction" the people will gain much. It is with that object that the Englishmen and Newfoundlanders who are partners in this Commission of Government are entering on their work. Time alone will show whether they will succeed.

Perhaps the shrewdest criticism came from those who argued that though the people of the Island now felt favour-

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ably disposed towards the new undemocratic government, with the passage of time their ardour might cool, and for various reasons they might regret and resent their loss of self-government. When that happened the new system would be in danger. Would it not be a good idea, it was asked, to include in the new constitution from its early days some form of popularly elected assembly, with limited powers, which should enable public opinion to express itself? One of the conditions, however, that Lord Amulree and his colleagues felt most strongly to be essential, if the country was to have a chance of getting on its feet again, was a cessation of party politics for a period. It is true, on the other hand, that the new Government must keep closely in touch with public opinion. Therefore the authorities who selected the small and able team of men who are to conduct the government chose them for their political as well as their administrative gifts. In this connection it is of great importance that three of them are political leaders in Newfoundland. The whole experiment is to be a work of co-operation between Newfoundland and Great Britain; and the ultimate objective is to re-establish in the Island conditions that will enable it one day again to enjoy the status and rights of a Dominion.

AN AUSTRALIAN ECONOMIST LOOKS AT THE UNITED STATES

IT is related that a motorist once enquired of a traveller the way to Cincinnati. The traveller, in obvious doubt, suggested first the road to the left, then the road to the right. Finally he snapped out at the bewildered motorist, "Your question is absurd. If I were going to Cincinnati, I wouldn't start from here at all." The writer has every sympathy with the traveller at the White House, who is now showing 125,000,000 motorists the way to the Cincinnati of 1926 prosperity. Whether they find it reasonably soon will depend upon his ability to direct cars of widely varying size and capacity along the right road and in the right proportions. It is a task of far greater complexity than any traveller has ever essayed before, and its successful completion is a matter of great moment not only to the 125,000,000 motorists in the United States, but to motorists all over the world.

In the welter of economic experiment that gives its substance to this directing process in the United States, we may recognise five main roads. There is the monetary road, the surface of which is being made sufficiently soft to absorb the shocks that motorists with creaking automobiles and impaired strength can no longer endure on the hard roads of old times. There is the public works road, running parallel to the monetary road, but capable of taking only rather light traffic, because its bridges are weak and tolls fixed on the old standard still survive. Also closely connected with the monetary road is a new road which bears on its signpost the strange device, "This way to

The President's Task

liquidity without tears." This is the road along which distressed debtors travel—a mixed company of farmers, home-owners, mortgagors of all kinds and even bankers. For the moment they skim over the smooth surface, a delightful contrast to the pot-holes of their recent experience. These three roads apparently go direct to the goal, but no one yet knows whether they are really parallel and therefore destined to meet only at infinity, or whether they converge at a reasonable distance. Two other roads take a more circuitous route, but the motorists career along them with enthusiasm. Their respective signposts bear the letters N.R.A. and A.A.A.—signs which, at first sight, look familiar to the motorist, though they are really quite new. The first road leads to the National Recovery Administration, and the second to the Agricultural Adjustment Administration. The first starts off at right angles to the three roads already mentioned, and the second at an angle of 45 degrees. No one in the United States has traversed the full length of either road, and it is as yet by no means certain that either of them will ultimately reach Cincinnati. If they do not, the directing traveller may tell you that he has experienced two difficulties with these two roads. First, he had no choice as to the starting point, and, second, he is by no means certain whether Cincinnati or some more distant and quite new city is the goal.

I. THE PRESIDENT'S TASK

AT this stage we may drop a somewhat clumsy analogy. President Roosevelt has in nine months improvised a policy and an administration that would do credit to any war Government. In his inaugural address he spoke with unexpected frankness: "This nation asks for action, and action now." Again, "I assume unhesitatingly the leadership of this great army of our people, dedicated to a disciplined attack upon our common problems." His most

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bitter opponents concede that he has at least lived up to his words. He has directed a most vigorous attack on the five fronts indicated above—monetary ease, public works, relief of debtors, ordered industrial relations, and agricultural adjustment. He has closed the ranks of the nation in support of this attack. Though the news from all the fronts is not uniformly good, there is little loss of morale behind the lines, and no sign of ennui in the trenches. There has never before in history been an economic campaign comparable in magnitude or in complexity. In Australia we had a task of bewildering difficulty, but we started earlier, we had institutions that had already proved their strength, and our economy was much less complex. Moreover, we had a plan, whose component parts fitted nicely into the whole, and we were not unduly embarrassed by attachment to standards of prices and incomes belonging to the era of prosperity.

The President and his advisers have been improvising a plan; they took up the task at a moment of actual, and not prospective, financial and economic collapse; they have been forced to establish new and untried institutions; and they are still embarrassed by the doctrine that the standards of the era of prosperity are inviolate. There are yet other differences—social and political—that make their task formidable. The population is heterogeneous; the constitution prevents complete freedom of action with regard to contracts; there is a conflict between long and short period policy; and there are wide differences of opinion in the so-called "brains trust" itself. Finally, a tradition of individualism and a gross exaggeration of the possible defects of government control and management lead to distrust of measures that would be taken as a matter of course in Australia. Some of these differences are of more interest to the political scientist than to the political economist, but both critics and friends of the President must take them into account in comparing the Australian experiment with that now in progress in the United States.

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The President's attack is made, of course, upon an economic depression of unparalleled magnitude. Its causes are not perhaps yet agreed upon among economists, but its symptoms are too obvious to admit of any dispute. Fundamentally, there are gross distortions in the price and income structure, a collapse of investment and a tremendous overburden of debt. This is quite familiar in these days, but the spectacle of 125,000,000 people, occupying perhaps the most favoured area in the world, and employing a technique unexcelled by other nations, yet almost overcome by their financial and economic plight, is surely one of the most remarkable sights of all time. The splendid resiliency of the country had lifted it out of many a hole in the past. Why not also to-day? The hole is larger, it appeared more suddenly, and it is by no means clear that the economy has its old-time buoyancy. A fall of prices of the order of 50 per cent. in four years is something new. We had it in Australia, but we cut short its debilitating effects by swift if unorthodox action. The United States, with heavier responsibilities as an international creditor, was anchored to gold, and was denied the freedom of action required in the circumstances. She was also effectively tied to traditional ideas in banking and finance until March 4, 1933. Always hoping that prosperity was just round the corner, President Hoover and his advisers failed to realise that an enormous dead-weight of debt and a distorted price structure destroyed completely all possibility of new investment, which is the invariable source of recovery. It is by no means certain that President Roosevelt and his advisers recognise the importance of investment, but they at least understand the need for the liquidity of existing debt as a preliminary to the restoration of investment. They are not content to allow so-called natural forces to solve the problem in time, because they instinctively feel that this solution involves needless delay, much distress, and protracted financial disorder.

Consider the facts. National income fell from 85

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billion dollars in 1929 to 40 billions at the end of 1932. Fixed interest-bearing debt was estimated at 155 billions in 1929, and it was still 134 billions at the end of 1932. No doubt some adjustments of interest had been made and many debtors were not paying interest, but the outstanding fact was that fixed debt had fallen by 15 per cent., while national income had fallen by over 50 per cent. This was symptomatic of the national difficulties. Variable prices and costs had been cut in half, fixed charges had fallen but little. Every cost, in its reverse aspect, represents income to somebody, and there was consequently a gross inequality in the effects of the depression upon the several groups of incomes. These inequalities aggravated the depression because they left the debtor classes as a whole with a hopeless task of falling prices and increasing real costs. The creditors were impotent because they suspended their constructive function of making new investments. This was perhaps the real substance of the President's inaugural declaration—"Yes, the money changers have fled from their high seats in the temple of our civilisation." A deplorable and devastating credit deflation was in progress. It was the old-time scramble for liquidity, and it could end in only one way—financial malaise.

II. ORDERED INFLATION

THE President could choose one of two courses—ordered deflation or ordered inflation (reflation as some people prefer to call it). He chose the latter. He has been severely criticised, as was Australia in 1930, for not preferring deflation, but his critics rarely stop to think of the overwhelming difficulties of that course. A wholesale reduction of debts, including bank deposits, insurance policies, and public debt, of the order of 40 per cent. would be logically the first step in deflation. Can we assert with any degree of confidence that the President could have

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overcome the constitutional and psychological obstacles? And if he had, can we ignore the bitterness that would have endured for years? If deflation was to be carried out with consistency and vigour, the debt reductions should have been accompanied by an all-round cut in incomes—a measure which the country had no means whatever of enforcing. Perhaps the President could have tempered deflation with some justice by providing machinery for debt adjustment, but he had no faith in deflation as a way out. Australian experience suggests that on the whole he was right. We deflated on a comprehensive and limited scale. The President inherited a situation in which partial and unlimited deflation had wrought havoc. He decided to reverse the swing of the pendulum.

His emergency banking measures do not call for comment here. We are concerned with his attack on the five fronts already mentioned. Let us consider the salient points in this attack.

1. Monetary Policy

It is probably correct to say that the President drove the United States off gold as part of his plan. Be that as it may, the refusal in April to issue licences for the export of gold was followed by a depreciation of the dollar, and by the granting of specific power to the President to devalue the dollar down to a minimum of 50 per cent. In October, when the dollar was growing stronger and recovery was flagging, the gold buying programme was started. This was followed by legislation in January setting devaluation limits of 60 per cent. to 50 per cent. of the old gold content of the dollar, establishing a \$2,000 million fund to control the exchanges, and appropriating the gold reserves and the profit thereon for the Treasury. By his declaration of January 31, fixing the price of gold at \$35 an ounce, and purchasing all gold offered in New York, the President completed his plan for effectively depreciating the dollar by approximately 40 per cent. The effects of this declaration upon international currency conditions will be

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discussed later. The President set out to depreciate the dollar, and he has succeeded. It is significant that he is given the right to use the equalisation fund to strengthen the bond market, if necessary. Much has been made of the consequences of a weak bond market, and the President has apparently been disturbed by the criticism. He may feel more secure with this new weapon at his disposal, but it is by no means certain that it is effective or that it is his only weapon.

2. Public Works

Under the National Industrial Recovery Act of June 26, 1933, a sum of \$3,300 million was appropriated for public works. Later the Public Works Administration (P.W.A.) was created. Since all provisions for self-liquidating projects under the supervision of the Reconstruction Finance Corporation (R.F.C.) had been eliminated in the new legislation, it was expected that expenditure would proceed rapidly. The expectation was unreasonable. To plan a large programme of public works requires time, and only a small sum had been expended by the end of 1933. But the P.W.A. had been very busy preparing plans and letting contracts. Meanwhile the President had established the Civil Works Administration (C.W.A.) with an appropriation of \$400 million for special winter relief for four million people. Rates of pay in excess of the ruling competitive rates were granted on these relief works. This is one of many outcroppings in the recovery plan of the doubtful doctrine that old standards of the era of prosperity can be revived. The C.W.A. is continued under a fresh appropriation in the 1934-35 budget. How much it will spend this year is not clear, but a reasonable estimate places it at from \$1,000 million to \$1,200 million. This also is the probable expenditure of the P.W.A. in the current year.* The C.W.A. is undoubtedly a form of

* According to present official policy, it is intended to terminate C.W.A. expenditure on May 1. If this is done, the total expenditure on relief and public works will fall short of these estimates.

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special relief expenditure. How much the expenditure will add to national income it is impossible to estimate. Little attention has been given in the United States to the "multiplier"; that is, to the ratio of the final increase in national income to any direct addition by way of capital expenditure. At its maximum rate of expenditure the P.W.A. will be employing directly some 750,000 men, so that for the present the total works programme accounts for 4,750,000 men. The indirect increase in employment from the P.W.A. will be considerable because there is a much greater demand for materials than in the C.W.A. It would be not unreasonable to assume another 750,000 new employees in accessory industries. The total of the C.W.A. and the P.W.A. direct and indirect employment cannot be less than 6,000,000 when the two are running at their maximum rate of expenditure.

We must note in addition the Civilian Conservation Corps (C.C.C.) with over 1,400 camps and about 325,000 men engaged at \$30 per month, plus sustenance, to work on the national forests. The C.C.C. has an appropriation of \$300 million for 1934-35, and offers a special form of relief to war veterans at economical rates.

The funds for the P.W.A., the C.W.A. and the C.C.C. come from the R.F.C., that giver of all good things, whose multifarious activities, started under Hoover, have been greatly increased under Roosevelt. In the days of the Hoover Administration the R.F.C. passed all projects for "self-liquidating" public works, but this saving clause was eliminated in the National Industrial Recovery Act, from which the P.W.A. derives its authority.

3. Liquidation of Debt

Very important measures have been taken to deal with the debt problem. We may discuss them under the two headings of bank liabilities and mortgages. The banking problem perforce engaged the early attention of the President. The R.F.C. had been established by President

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Hoover on February 2, 1932, partly in order to provide relief to banks. Direct loans were made by it to weak banks. By December 31, 1932, it had lent \$850 million to 5,582 banks. When this fact became known to the country in the R.F.C.'s quarterly report in January 1933 the information was, as Messrs. Beard and Smith remarked in their admirable study* of the New Deal, "almost unbelievable." Under President Roosevelt the R.F.C. purchases preferred stocks or capital notes of the banks. In the case of non-member banks these purchases are conditional upon adequate inspection by the R.F.C. Up to the end of 1933 no less than \$800 million of preferred stock or capital notes had been so purchased, and in the 1934-35 budget provision is made for the purchase of another \$400 million. This is a much more satisfactory form of assistance than direct loans. It increases the control of the R.F.C. over the whole banking system, and strengthens bank capital, which is the ultimate safeguard for the depositor. On the other hand it adds to the responsibilities of the government, but with a banking system like that of the United States this steady encroachment of government is inevitable.

Under the Federal Deposit Insurance Corporation (F.D.I.C.), plans have now been made for liquidating the deposits of closed banks and insuring deposits in all member banks of the Federal Reserve system, and in such non-member banks as desire to enter the insurance scheme and can meet the conditions laid down by the F.D.I.C. For the moment, these two measures—purchase of preferred stock and deposit insurance—have, as one authority remarked, placed the banks in "good shape" for meeting all demands upon them.

Next in order of importance in the liquidation of debt is the organisation of the Farm Credit Administration (F.C.A.). This new administration co-ordinates all the federal agencies dealing with farm credit. Among the

* Charles E. Beard and G. H. E. Smith: *The Future Comes* (The Macmillan Company, New York), 1933.

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new measures of farm credit policy now being put into operation, by far the most important is the re-financing of mortgages and farm debt. The F.C.A. is empowered to borrow \$2,000 million for this purpose in bonds at 4 per cent. These bonds are now guaranteed as regards both principal and interest by the Federal Government. Similar measures are being taken for urban mortgages through the Home-Owners Loan Corporation (H.O.L.C.), which is also empowered to borrow \$2,000 million in 4 per cent. bonds guaranteed as to interest by the Government.*

Mr. Roosevelt is apparently a firm believer in Walter Bagehot's maxim that a crisis demands an expansion and not a contraction of credit. Above all, it demands liquidity in the debt structure. By strengthening the banks and by assisting distressed debtors, the Government is making an important contribution towards this task of liquidating debt.

4. Industry under N.R.A.

Three reasons may be given for the early emphasis upon codes of fair competition organised under the N.R.A. First, competitive conditions during the depression raised once more the problem of child labour and the sweat shop in an acute form. Prices were ruinously low for businesses with substantial over-head costs, and the small man defended himself by imposing severe exactions upon his workmen. Second, while the anti-trust laws prevented open agreements between businesses, there was need for some "cartelisation" to protect the industrial structure from competitive deflation. Third, belief persisted in the doctrines of higher spending power as an aid to recovery and in reduced hours of work as a cure for unemployment.

In the propaganda for the codes the last reason was by far the most powerful, but it may be doubted whether employers as a whole did not attach much more importance

* It is suggested that the bonds of the H.O.L.C. might also be guaranteed as to principal.

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to the first and second reasons. Nevertheless, the doctrine of spending power has greater vogue in the United States than in any other country, and it has received very little critical attention from the economists. In Australia this doctrine was rejected by the Commonwealth Arbitration Court, to some extent on the evidence of economists. It was held that costs in industry should be reduced in order to lighten the costs of the export producer and to increase his real spending power. In this way the demand for industrial products, and for labour in industry would expand. In the United States, on the other hand, the President's "blanket code" of June 19, 1933, raised the supply price of labour and increased the prices of secondary products, especially of retail goods. It has done nothing to ease the position of the farmer and export producer or to restore investment. Yet from these two sources will spring the expansion in real spending power that will ultimately bring recovery. The doctrine of spending power is another outcrop of the faith in the old standards of living as the rightful inheritance of every citizen. These standards may once again be realised if export production can be restored, if agriculture can attain its old position in relation to the rest of the country's economy, and if public and private investment can reach their former volume. A lowering of individual standards in industry may well be necessary to attain these objectives swiftly.

5. *Agricultural Adjustments*

The A.A.A. is perhaps the most revolutionary of all the recovery organisations. It involves for the time being a rigid control over the production rather than over the marketing of the leading agricultural products of the United States—cotton, wheat, hogs and corn. Like N.R.A., it is concerned more with long period adjustment than with problems of immediate recovery, but unlike N.R.A., its driving force is derived from the need for special action to give the farmer relief from the burdens of depression.

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Agriculture has long suffered from the reduction in the export demand for American farm products, and the shift of internal demand caused by changes in diet. According to the annual report of the Secretary of Agriculture, the reduction of output to meet marketing requirements "is admittedly a temporary method of dealing with an emergency." The contraction in demand through internal depression and interruptions in international trade is to be met by a swift contraction of output, but the methods adopted are not satisfactory as a long-term solution of the problem. The A.A.A. aims at restoring the real purchasing power of the farmers to its level in the base-period, August 1909—July, 1914. Its weapons are (a) voluntary cuts in output, (b) the purchase of surpluses for emergency relief expenditure, and (c) marketing agreements.

The first method is by far the most important and is now being applied to wheat, cotton, corn and hogs. For the crop year 1932-33, the cotton acreage was reduced from nearly 41 million to 31 million acres. This year it is proposed to reduce the acreage still further to 25 million acres, a reduction of 40 per cent. With wheat the reduction is to be 15 per cent., in accordance with the terms of the international wheat agreement. Corn acreage is to be reduced by 20 per cent., and the production of hogs by 25 per cent. These plans involve the withdrawal from production of from 40 to 45 million acres. Over a long period the reduction required to bring farm production within the limits of present demand is semi-officially estimated at 50 million acres, but the distribution of acreage restriction will differ substantially from this emergency programme. Cotton is not considered to have a large permanent surplus, whereas wheat restriction may have to go further than it does in the present plan. Other goods, notably dairy products, may have to be brought into the restriction scheme, but these are largely long-term planning projects and do not concern us here.

Farmers are paid to restrict their production. Under

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the farm allotment plan, payments are made according to the acreage abandoned, after the farmer has signed a contract agreeing to specific restrictions. Funds are raised by processing taxes,* and for the current year it is estimated that the total disbursements will amount to not less than \$650 million, of which cotton will account for \$150 million, wheat \$130 million, corn and hogs \$350 million, and less important crops like tobacco at least \$20 million. The taxes are, as the Secretary of Agriculture remarks in his annual report, passed on to consumers and enter into the costs of living and ultimately into the costs of industry, but they increase the farmer's income directly more than they increase costs, and their indirect effects in raising farm prices through restriction of output also give additional benefits to the farmer. With farm products for which demand and supply are fairly inelastic, restriction of acreage is considered to be an effective instrument for raising prices and farm incomes. This is a sound point, but it does not establish the case for agricultural restriction as a valuable aid to general economic recovery. Farm income for 1933 is estimated by the Secretary of Agriculture at \$6,400 million, as compared with \$5,143 million for 1932 and \$6,911 million for 1931. The increase is substantial and encouraging, but no one can say how far it was due respectively to dollar depreciation, to recovery in the volume of employment, to agricultural restriction or to expansion of credit.

The powers granted to the A.A.A., together with those of the F.C.A., involve by far the greatest measure of government control over agriculture in the history of the United States, if not in the history of all countries that have retained democratic institutions. The authors of *The Future Comes* rightly conclude that "the Government has so penetrated the institutions and procedures of the industry, from the highest national groupings to the smallest

* i.e., taxes on processes of manufacture (flour-milling, for instance) to which the products in question are subjected.

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local units throughout the land, as to gather into its hands absolute control over every act of production, processing, manufacturing and marketing of practically all agricultural and associated commodities." This is more than a recovery plan. It is an experiment in a planned economy the fate of which may have important consequences for old and new countries alike.

The emergency programme for public works and debt liquidation involves an expenditure on capital account estimated at \$6,000 million for the current year. This suggests an extravagant fiscal policy, and is in striking contrast to the earlier budget policy of the President. He cut wages of federal employees by 15 per cent. in 1933 and substantially reduced the veterans' bonus. "Too often in recent history," he remarked in his budget message to Congress, "liberal governments have been wrecked on rocks of loose fiscal policy." In his latest budget message, that of January 4, 1934, he planned for a deficit of \$7,000 million in 1934, and of \$2,000 million in 1935. "We should plan," remarked the message, "to have a definitely balanced budget for the third year of recovery, and from that time on seek a continuing reduction of the national debt." The public debt of the United States fell from \$26,600 million in 1919 to \$16,800 million in 1931. On Mr. Roosevelt's programme it will grow from \$24,000 million on June 30, 1933, to \$32,000 million on June 30, 1935.

Is such a rapid increase in the debt prudent in the circumstances? Certain facts have to be borne in mind in answering this question. First, the increase in the debt is an integral part of the President's recovery programme. It is thus open to him to argue that, if his recovery measures succeed, national income will rise and provide the funds from which the increased annual debt charge of approximately \$230 million will be met. National income was \$85,000 million in 1928. It fell to \$40,000 million in the low point of the depression early in 1933, and has recovered substantially since. If the President restores a level of

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prices and a measure of economic activity that furnish a national income of \$65,000 million, he may well consider that he has not expanded the debt beyond the capacity of the country to pay.

In the second place, he may point to the fact that his emergency public works and relief expenditure, are, for the time being, supplanting the expenditures that normally were undertaken by States and municipalities. If they resume their borrowing activities, the Federal Government can automatically withdraw from the field of public works. Finally, a substantial part of the emergency programme is for purchasing bank preferred stock, and re-financing mortgages. With moderate recovery, the assets should provide a large percentage of the debt charge on this part of the public debt created by the recovery programme.

It is perhaps relevant to draw on Australian experience. With a moderate recovery of national income in 1932 and 1933, the Commonwealth budget showed a substantial surplus, and taxation to the amount of £5.5 million was remitted, while a restoration of expenditure to the extent of nearly £1.5 million was possible. It is true that the State budgets were out of balance by an amount slightly below the annual contribution to the sinking funds. But the crisis policy of Australia produced a floating debt of £80 million, the interest on which has to be met out of the normal budget expenditure. On the wealth and population standard of the United States, this £80 million would be equivalent to between \$7,000 million and \$8,000 million. Viewed in this light the President's emergency expenditures are not so alarming as they seem at first sight.

III. CRITICISMS AND REFLECTIONS

THE immediate problem of financing the emergency expenditure has raised considerable doubts as to the ultimate success of the programme itself. With a fluctuating currency and a large budget deficit, the bond market

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tends to weaken. In January, United States bonds had an effective rate of interest of about $3\frac{1}{2}$ per cent., and all long-term interest rates were high. In these circumstances the President could not contemplate long-term borrowing. He has therefore been forced to resort to an increase in the floating debt as the principal method for financing his programme. The situation has, however, been altered by his more recent exchange policy, which brought about a reduction of the New York "bank rate," and by the increasing confidence of investors in the United States that long-term rates of interest will fall. He now has power to increase the supply of funds on the market, and thus to force down interest rates.

Here again the experience of Australia in a much more limited field is reassuring, and seems likely to repeat itself in the United States. Unfortunately there does not seem to be sufficient attention given in the United States to the joint problems of lower interest rates and increased private investment. It now seems certain that a substantial fall in long-term interest rates is under way, but the question of new investment is by no means resolved. Apart from the normal lag in the recovery of investment, there is the special influence of the new Securities Act. Like other parts of the President's programme, this Act is to a large extent a much needed long-term reconstruction measure. New issues of securities amounted to \$10,000 million in 1929. They fell to \$644 million in 1932, and to \$356 million for the first eight months of 1933. This demonstrates the importance of securing a recovery in investment. While under-writers are uncertain as to their liabilities under the Securities Act, the latter may well be a deterrent to a revival of the new capital market.

There is another part of the President's programme that is rightly considered to have impeded recovery. Critics have perhaps devoted too much attention to the effects of N.R.A. in raising costs. They are, however, drawing attention to a fundamental issue involved in any plan for

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promoting recovery from a serious depression. It is true that the object of recovery measures must be to raise prices, but care should be taken to specify the particular prices that it is desired to raise. These are the prices of raw materials, mostly primary products. In a depression these prices fall much more seriously than other prices, and the disparity between primary and secondary prices is one of the most important problems to be solved by the sponsors of a recovery plan. Unfortunately, in the "ballyhoo" that was started by General Johnson in support of N.R.A., and to some extent encouraged by the President himself, indiscriminate arguments about price-raising were employed. The result was a rise in the wrong price level. For example, an index of department store sales showed that selling prices rose from 69.6 in March, 1933, to 88 on December 1 in the same year. Though dollar sales were up in December, 1933, compared with December, 1932, the sales adjusted for price changes (that is to say, the estimated volume) were down from 83 to 77. Again, we may quote the experience of farmers, who found their prices raised by 36 per cent. between March and December, 1933, while the prices of the products they purchase had gone up by 18 per cent. The recovery plan had thus not contributed very greatly to removing the disparity between their costs and prices. This emphasis on the wrong price level was indeed a good example of too much devotion to the fallacy that recovery can be secured by raising the incomes of the people in work rather than by adding new people to industry. It is from the new employment offered that the expansion of spending power will come. As spending power increases from this cause, the price of raw materials will rise without any great increase in the price of secondary commodities. It was an integral part of the Australian recovery plan to close the gap between primary and secondary prices in this way.

The policy of raising internal prices could not fail to interact with the external value of the dollar. The Presi-

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dent seems to have started on the assumption that a strong currency is a handicap to recovery. In a depression, when investment is languishing and floating funds seek refuge in strong currencies, the countries that become the repository of these funds may well complain that they suffer from an embarrassment of riches. The race for liquidity sets in motion strong deflationary forces. The effort to maintain convertibility into gold destroys all chance of a constructive credit policy. In driving the United States off gold, the President opened the door for an enlightened credit policy. He also raised his raw material prices considerably and swiftly. An index of the prices of twelve "international commodities" (wheat, cotton, tobacco, cocoa, coffee, tea, lard, silk, copper, tin, rubber and raw sugar) showed a rise from 100 on February 28, 1933, to 152 on January 2, 1934. Its high point was reached at 188 on July 18. This rise largely reflects the depreciation of the dollar. It is often argued that depreciation cannot be effective in the United States because the proportion of domestic commerce to foreign commerce is so great. There is certainly a vast difference between the situation in the United States and that in Australia, where export production is to a large extent the controlling factor in the internal economy. But the argument is not conclusive for the following reasons:—

1. The rise in the prices of exportable foodstuffs and raw materials gives relief where it is most needed.
2. The rise in the prices of imported goods does not raise real costs to the farmer or producers generally, because all costs do not rise proportionately.
3. Detaching the anchor from gold leaves the banks free to chart a course that avoids further deflation and stimulates enterprise.
4. Ultimate stabilisation takes place at a higher level than is otherwise possible.

For these reasons the President's gold policy may be commended. His task is mainly an internal one. He has to restore enterprise without the tedious business of a

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wholesale writing down of debts. The commodity dollar is his main solution. For the moment this means a dollar worth much less in gold than the old dollar. If the strength of the dollar is too great because the United States is a creditor country, the logical course is to weaken the dollar. This can be done by deliberate control of the exchange rate *on gold* and by inflation behind the undervalued dollar. Provided that the inflation is active and determined, the depreciation of the dollar can be successfully maintained. This inflation is to be accomplished by (a) public works, (b) the re-financing of debt on better lines and (c) the expansion of bank reserves through the operations of the exchange equalisation fund. But the inflation must be active. Half measures will not suffice. Apart from psychological or political fears, as we like to call them, the President's inflationary policy cannot injure the outside world. By cheapening the currency of the world's greatest creditor and promoting internal prosperity he is, indeed, exercising a constructive influence.

In a comparatively short period of twelve months the President has succeeded in depreciating the dollar to its new low level. If he wishes to make this depreciation effective in promoting internal recovery and in assuring recovery abroad, he must proceed with internal inflation to the point at which the dollar is no longer undervalued. At this point there is no competitive currency depreciation. The President indeed may well claim that he did not desire to have competitive currency depreciation. He was interested in lowering the gold content of his currency. If this gave him an exchange rate that favoured United States exports compared with the exports of other countries, it would be open to the other countries to move their own exchanges to a point at which the advantage was destroyed. This, in fact, is what has happened to the pound. With the price of gold in London rising, and the pound standing near its former parity with the dollar, the trade relations of Great Britain and the United States return to their old

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basis. The President could, of course, have waited to depreciate his dollar until his spending programme had been effective in raising prices, but it takes time to create the organisation necessary, and there was an impatient demand in the United States for a higher price of gold. He therefore pursued the policy of depreciating the dollar in terms of gold during the interim period while he was building up his spending organisation. The two parts of the programme may thus be considered to have gone hand in hand. They should lead to cheap money and to a recovery in investment, if other obstacles can be removed. Great Britain has consistently pursued a policy of cheap money, and sterling has depreciated against gold to practically the same extent as the dollar. But Great Britain has not embarked upon a heavy spending programme. If she did, there can be little doubt that British and American policy together would exercise a powerful influence in promoting trade recovery.

NORTHERN IRELAND AND PARTITION

I. THIRTEEN YEARS AGO

THE Imperial Parliament's attempt to solve the Irish problem in 1920* was a political experiment. In the south it failed, and now, at the end of thirteen to fourteen years, it is perhaps worth while to consider how far it has succeeded in the north. It had a good chance of success there, for the scheme had already been accepted by the Ulster Unionist party, who had an imposing majority in Northern Ireland. It was, for them, Home Rule with a difference. Complete autonomy was granted in all internal affairs, but there was reserved to the Imperial Government the imposition and the collection of customs, excise and income tax, and the control of the post office. Hence in these important respects Northern Ireland remained a part of the United Kingdom, and for this reason retained its representation in the Imperial House of Commons—a principal recommendation of the scheme to the Ulster Unionist stalwart.

It was evident that the scheme was regarded as a temporary measure, and that it was hoped and expected by its authors that with time and opportunity North and South would sink their differences and come together. The bridge was provided in the shape of a Council of Ireland, to be elected by the members of the northern and southern Parliaments. Northern Ireland built her end, but the

* For a description of the Government of Ireland Act 1920 and of the way in which it was adopted in Northern Ireland and rejected in the rest of the country, see THE ROUND TABLE, No. 43, June 1921, p. 507.

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southern Parliament was stillborn, and the bridge was never completed. A further attempt to get rid of partition was made in the Act that implemented the Irish Treaty. The Irish Free State, as then constituted, comprised the whole of Ireland, but Northern Ireland was given the right to opt itself out, and it lost no time in doing so. Since then the removal of the boundary in Ireland has been, at one time at least, the expressed policy of the British Labour party, and it is an open secret that the Free State embarked on its economic war with Great Britain with the same end in view. It is therefore interesting to enquire whether there are any signs of change in the attitude of the Six Counties towards partition.

If it was the opinion of experienced politicians in Great Britain that Northern Ireland would not long be able to maintain its status as an independent entity, that was also the hope of the Ulster Nationalists and the foreboding of many Ulster Unionists. Many circumstances combined to favour such a view. It was doubtful whether the area and population of the Six Counties were sufficient to justify the establishment of all the machinery of parliament, of government and of a civil service, and whether the resources of a small and comparatively poor State would not be overtaxed in order to support them. There was in the area but one large city, Belfast, inhabited by a full third of the entire population,* and there was therefore a natural fear that the new Government, when it became established there, would be so much under the influence of the metropolis that its policy would be in the main dictated by the city, to the neglect of the interests of the rest of the province.

There were other considerations. It was evident not only that the British Cabinet would sooner or later grant Home Rule to Southern Ireland, but also that if the grant was to be acceptable it must include the fiscal auto-

* The population of Northern Ireland is given in the 1926 Census as 1,256,561, that of Belfast as 415,607.

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nomy denied to the North. The imaginary line of the boundary would then become a real barrier, and trade between North and South would be seriously hampered. This expectation was soon to be realised. One of the first acts of the Free State after its establishment was to impose a heavy tariff on most of the common articles of consumption, with the result that the consignments of clothes, boots, groceries and tinned goods that were formerly sent from Belfast and Londonderry to all parts of Ireland now no longer cross the border. A few firms had the foresight to establish branches in the Free State and have so been able to evade the restrictions, but speaking generally the distributing trade from the North to the South has gone. Further, the Free State, freed from the whole burden of war debt, was able to start its career with an income tax much lower than the British income tax paid by the Ulsterman. The anticipation, still more the realisation of these financial drawbacks of partition, caused many to prophesy that the hard-headed Northerner would soon reconsider his position in regard to the South.

Before these forecasts had materialised, however, there was further criticism. The new Parliament was in the main composed of inexperienced members, and the abstention of the Nationalists left the Government without the salutary check of a real Opposition. The members of the Cabinet were, with two exceptions, new to office and to the business of administration, and the untried team did not lack detractors, among both friends and foes.

But whatever the Mr. Croakers might say or think, the new Government of Northern Ireland was based on two very solid foundations. One of them was the Unionist man in the street, who was prepared to take any risks and to support any Northern Government so long as it maintained the link with Great Britain, and so long as it stood between him and his lifelong bogey, a Home Rule Parliament in Dublin. The other was the Prime Minister, Lord Craigavon, as he now is, James Craig, as he then was

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and always will be in Ulster. He possessed and still possesses the confidence of every member of his party. Some might think him narrow, hidebound, reactionary, but no one could deny that the passion of his life was Ulster, and that his passionate Unionism was the expression of his conviction that union with Great Britain best served the interests of his native province. He had the gift of clear and unmistakable speech, the outcome of equally clear and unmistakable principles and conclusions. His singleness of purpose and his steady common sense gave him an authority over his followers that enabled him at once to restrain the hotheads and to encourage the faint-hearted. Many years at Westminster both on the Ministerial benches and in Opposition had made him a master of parliamentary procedure and tactics, and his capacity as an administrator had been proved at the Admiralty and in the Ministry of Pensions. A Government and a Parliament of novices could have had no better mentor.

One might sum up the situation when the Northern Government began its task by saying that while the Nationalist minority practically refused it recognition, the Unionist majority accepted it, though with some misgivings as to the outcome. Have the events of the succeeding years altered that situation?

II. CHANGES SINCE 1921

THE most important change that has taken place politically has been the establishment of the Irish Free State. That event had been preceded by years of violence and disorder, the period known in the South as the Irish Civil War. The accounts of that campaign that the Northern Unionist read had not impressed him with any admiration for its heroes, and when the war was carried through the North and into Belfast in 1920-21 his first-hand experience confirmed his opinion that Sinn Féin military tactics were merely another name for organised

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murder. He was not prepared to condone the acts either of the leaders or of their subordinates, and when those leaders were set the task of governing the newly formed Free State he awaited with somewhat grim expectancy their essay at the restoration of order in the South. He had to admit and even to admire the courage and resolution with which rebellious and turbulent factions were suppressed, and peace and settled government were established. In no long time he had to allow both initiative and ideas to the rulers of the Free State, though he regarded some of their economic measures as unsound, and others as directly levelled against himself. He saw with pleasure that Protestants who held high office in the law and in the civil service had been confirmed in their appointments. But as year after year the Free State became more settled, he noted with some uneasiness that one high Protestant official after another was retiring, and that the Protestant population of the South was dwindling rapidly. He did not like to see the Sinn Fein tricolour replace the traditional green of Ireland. He failed to understand why the "Soldiers' Song" should be the national anthem of a country with so many glorious melodies of its own. It offended his sense of the fitness of things that the King's health was no longer the first toast at public functions. These were small things, but each of them meant a good deal to him, and while he watched events in the South with interest he was not attracted. When Mr. de Valera came into power he was frankly puzzled. He had seen the Irish Free State obtain a measure of autonomy that would have more than satisfied every Home Rule leader for the past century. He had seen an Irish Government set up without interference from Great Britain, and neighbourly, even friendly, relations established between the two countries. It seemed to him that the tenuous suzerainty still held by the Crown need not have offended the susceptibilities of the most ardent Nationalist. Mr. de Valera's victory could only mean that

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the antipathy of the majority in Southern Ireland to Great Britain was such that not even a shred of the British connection could be endured. And he asked himself—he is still asking—"In a State so avowedly hostile to everything British, what would be the place and what would be the lot of a community whose political watchword is loyalty to the King and the Union Jack?" Yet Mr. de Valera kept declaring that he would never be satisfied until the North was brought in.

If Mr. de Valera's politics are little to the taste of the Northern Unionist, his economic policy is even more displeasing. Nor does the Northerner see much to hope for should the new party, with General O'Duffy at its head, ever attain power. So far as he can make out, the General differs from Mr. de Valera on one point only. The present Free State Government would gladly cut the painter at once. General O'Duffy prefers to wait until the sea is calmer and land is in sight. Both are agreed on one point—Northern Ireland must be in the boat; and the Northern Unionist wants to know what business he has in that galley.

Perhaps the results of the general election held last November for the fourth Parliament of Northern Ireland best show how little the sentiment of the province has altered, and how strong is the support of the Unionist Government. An absolute majority for the Government was returned unopposed (27 out of 52 members), and in this number were included the Prime Minister and every member of the Cabinet. The final result was that the Government has a majority of 36 in a house of 52. Even this does not represent the full strength of Unionism, for three of the Opposition are returned as Independent Unionists.

Let us now consider the Nationalist minority. It would be equally correct to speak of the Catholic minority, for Catholic and Nationalist, Protestant and Unionist, are so nearly interchangeable terms in Northern Ireland that

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party organisers seldom enquire after a voter's political beliefs. A religious census gives a sufficiently accurate forecast of the poll.

To the mind of the Irish Nationalist the 1920 Act was a grim travesty of the Judgment of Solomon. The child had first been cut in two, and then offered to the claimants. Northern Ireland had proved her claim spurious by accepting her portion. Southern Ireland had shown that she was indeed Ireland by refusing to be a party to the partition.

The Northern Nationalist fully shared this view, and to mark his disapproval refused to have part or lot in the Northern Parliament, giving to the Northern Government no more than a sullen and forced obedience. To his mind the situation had altered only for the worse. Under the Union, with the country administered from Dublin Castle, there was at least the hope that a sympathetic Ministry might be in power at Westminster, and that benefits, both material and moral, might be gained. The composition of the population of the new province left him no room for illusion. Both government and administration must for years, probably for generations, be in the hands of his secular and hereditary opponents, and he knew that the largest and most powerful section of that party was avowedly antagonistic to his religion, and that if its voice was listened to in high places, Roman Catholic claims, as such, would at best get even-handed justice. He could foresee a further grievance. Every Irishman has a natural liking for a government job. Under the old régime it had been an unwritten law that patronage should be shared, as far as possible, equally between Catholic and Protestant. But he well knew that, while the British Government had observed this rule, it was far otherwise with the bodies to whom Irish local government was entrusted. There every appointment was canvassed on party lines, and not even a rate collector could hope to get a job unless in religion and in politics he was in agreement with the

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majority of the Board. It was only too much to be feared that the new Government would be guided by the same principle, and, even if it were not, that by the time the claims of its own supporters had been satisfied there would be little left for a Catholic opponent.

The lapse of years has done little to improve matters from his standpoint. When the new State was formed, the North had been free from first-class sectarian riots for many years. Within a few months I.R.A. gunmen were quartered on the Catholics, who were often most unwilling hosts, and the Northern offensive began. The first shots blew all the smouldering hatreds and enmities into flame, and unscrupulous partisans on both sides indulged in an orgy of violence. When the outbreak was finally quelled, sectarian and party passion had been raised to white heat, and the Catholic smarted under the belief, whether true or not, that in its measures of repression the Government had discriminated against its opponents, and had condoned reprisals carried out by its own supporters.

In 1920 the wish was father to the belief of the Northern Catholics that the new province would not subsist for long, and their hopes were raised again and again. The establishment of the Free State, the Boundary Commission, the achievement of the Shannon scheme, the return of Mr. de Valera were all events that might well shake the position of the Unionist majority and lead to the All-Ireland State so much desired. These hopes often renewed have kept the Ulster Catholic from accepting the situation in the North. He is still struggling to get free from an alien domination, he is still not simply an opponent of the Government but a would-be subverter of the constitution. There is a certain amount of evidence that a change is taking place in the attitude of a section of the Catholic population, but the majority are bitterly opposed to the North of Ireland State and to its existence as a separate entity.

The position thus taken up by the minority should be

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borne in mind in passing judgment on the charge of religious intolerance so often brought against the Northern Government. There is of course no intolerance in the sense of interference with the exercise of religion, and Catholic chapel schools are given the same State and rate aid as that given to Protestant church schools. That religion is not a bar to employment is shown by the fact that the first Lord Chief Justice of Northern Ireland was a Catholic, that the present permanent head of the Education Department is a Catholic, and that his immediate predecessor was also a Catholic. But the rank and file of the government services are certainly in the main Protestant, and when comment is made on this fact the answer given more or less plainly is "Why bring an enemy into the household, when so many friends are unemployed?"

In the first general election, which was held under proportional representation and therefore gave a fair picture of the state of parties in the province at that time, Sinn Feiners and Nationalists polled one-third of the votes cast. A minority of this size should be able to exercise a considerable influence, to command respect, and if need be to extort consideration. It suffers, however, from two of the most fatal misfortunes that can befall a party. It is hopelessly divided, into old Constitutional Nationalists, Sinn Feiners, de Valera-ites, Republicans and Catholic Labour; and it has not yet found a leader strong enough to dominate and weld into one the warring factions. In the first general election the minority polled a third of the votes, but gained less than a fourth of the seats. In the election last November most of the contests in Catholic constituencies were between Catholic candidates of different factions.

The Nationalist members only decided to take their seats in the Northern Parliament in 1925. Among them was Mr. Joseph Devlin, a politician and parliamentarian of long experience and of consummate skill, a public speaker who had been heard with applause in the Old and the New

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Worlds, a public man who had earned the gratitude of all sections of the community in Ulster by his many services as a member of Parliament and by his benefactions as a private citizen. His death, which took place while this article was being written, evoked expressions of deep and sincere regret from all sides in Ireland, and at his funeral Northern Ministers walked side by side with Ministers and ex-Ministers from the Free State, in common mourning for the loss. And yet neither in the 1925 nor in the 1929 Parliament did the Nationalists ever acknowledge an official leader or appoint a whip.

Is the minority becoming reconciled to the Northern Government? That question no one can answer. Officially the answer is, of course, a furious denial, but many Catholics seem to realise that they enjoy at least peace and quiet, and that the social services are as complete as they are in England, and better than those in the Free State. At any rate the Catholic population has not diminished, and many good judges say that it is steadily increasing by immigration from across the border.

A word must be said about Labour. It is a proof of the strength of Unionist sentiment that in an industrial city like Belfast, with strong trade unions, socialist Labour holds only two seats out of 16, and those in constituencies with a large Catholic vote. There is a flourishing Unionist Labour organisation, but that is a branch of the main Unionist party, and is looked upon as a mere counterfeit by the socialist Labour party in Ulster, whose affinities are with Clydeside. Even in trade unionism Belfast holds aloof from Dublin, and has its affiliations with Great Britain, although such well-known Dublin Labour leaders as Connolly and Larkin hailed originally from Belfast.

What is to be said of the important subject of finance? Under the 1920 Act the Government at Westminster retained the power of imposing and collecting all the important branches of revenue—customs, excise and income tax. From the sum so collected there is returned to the

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Northern Government a sum—agreed between the two Treasuries—sufficient to meet the cost of the services for which it is responsible, the balance being the contribution of Northern Ireland to Imperial services. In the ten years beginning with 1922-3 Northern Ireland's contribution to Imperial funds was over £24 million; but it fell from six and a half million in 1922-23 to £298,000 in 1931-32, and that represents fairly closely the fall in the total revenues of the province.*

During the war, Ulster had her full share of sham prosperity. When the war ended everyone thought that the boom must last. Her shipyards would still be working overtime to replace the shipping destroyed in the submarine campaign, and her looms, which had been fully occupied in weaving aeroplane linen, would be running day and night to supply America with the goods she had not been able to get for years. Unfortunately, by the time the province of Northern Ireland had started on its career, it was becoming evident that there were more ships afloat than the shipping companies could afford to run, and that America, having learned to use substitutes, no longer wanted linen. Thus two principal industries were almost out of action, and when the slump came, no part of the United Kingdom suffered more than Ulster. Not only was there an immediate and serious fall in revenue, but unemployment became a very heavy charge on the State, which was responsible for its own unemployment insurance. Since then, the liability has been shared with Great Britain, and an equalisation payment falls to be made to the country whose ratio of unemployment is highest; but the burden has not been thereby greatly lightened, although for some years Northern Ireland has had the unenviable distinction of receiving payment.

There are some welcome signs of a turn in the tide. One of the two great Belfast shipyards launched two ships

* The figures of income and expenditure since Northern Ireland received Home Rule are appended.

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last year, and so attained the position of second in the list of British ship-builders! Within the last few weeks, useful orders have been placed with the other, and its skeleton office staff is being brought up to strength, the first step towards a return of activity. The demand for linen has been increasing, and many of the mills and factories are working to full capacity, though not perhaps on a very large margin of profit.* The figures of unemployment have improved during the last year, but are still painfully high.†

Agriculture, however, has long been the staple industry of Northern Ireland. The Ulster farm is small, a hundred acres being regarded as a large holding. The Ulster farmer, if he is to make a living, must have more than one string to his bow, and he finds a market in England for much of his varied farm produce. The Northern Ministry of Agriculture has helped him, sometimes against his will, for he is ultra-conservative in his methods. It has enforced marketing regulations, and has made him attend to the standardisation of his products with good results financially. Like farmers everywhere, he has been having a hard struggle to make ends meet, but there are signs of a new hope in agriculture, and, what is still better, of a more progressive spirit.

III. HAS NORTHERN HOME RULE SUCCEEDED?

THIS article set out to consider whether the experiment of 1920 had succeeded. The answer depends on what the experimenters hoped it would achieve. If it was intended to bring North and South together, it has completely failed. If it was intended to fuse Unionist with Nationalist in the North, it has done practically nothing. If the object was to create a Unionist reservation, it has had a full measure of success.

* The Northern Ireland trade statistics since 1924 are appended.

† The total of registered unemployed fell from 76,360 in January 1933, to 68,139 a year later, but the latter figure still represented 26.5 per cent. of insured workpeople.

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But there is another side to the experiment. How has the devolution of power worked? On the whole, very well. Since the Government was first set up, practically the same Ministers have remained in charge of their departments. That has been a great advantage in a country that dislikes change, and asks above all things for settled conditions so that a man can get on with his job. The Northerner knows exactly what he may expect from the Minister of Labour, or of Commerce, or of Home Affairs. So the mere fact that the Ministers have been in office for thirteen years is a strong argument in favour of continuing them; in fact it is doubtful whether the man in the street could imagine an alternative Ministry. Legislation has been sympathetic to the needs and the prejudices of the province, and has made very definite advances on pre-existing law. One might cite the Education Act, the Licensing Act, the Motor Traffic Acts and others as examples. Law and order have been well preserved, and an efficient police force has been established to take the place of the old R.I.C. There have been, unfortunately, a few outbursts of party violence, but they were local, and were soon quelled.

The Prime Minister, when he first took office, announced his intention of keeping step with Great Britain in social services, and although the Northerner grumbles at the cost he realises that the promise has been kept. The Ulster worker is as well off in that respect as his neighbour in Great Britain. The employer, the business man and the farmer have at least ready access to the government departments in order to lay their wants and to air their grievances before them, while a trade dispute always finds the Minister of Labour willing to act as mediator.

If it were suggested to the Northern Unionist that he was paying dearly for all these privileges, he would probably agree. Like every private citizen in every country in the world, he would condemn the cost of administration as grossly extravagant, and denounce the growing army of officials and the bloated salaries of government servants.

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He might even quote the very narrow surplus of the Northern budget, and express doubt as to how long the province would be able to support its burdens. But he would point out with grim satisfaction that a settled government of his own of thirteen years standing could not be lightly set aside, and that every year of its unquestioned power has rendered it more impossible for the existing status of Northern Ireland to be disturbed except by and with the consent of her own Parliament. With these reflections he would conclude that the game was worth the candle.

Ulster.

February 1934.

APPENDIX

I. TRADE STATISTICS OF NORTHERN IRELAND (in £ million)

Year.	Imports.	Exports.	Total Trade.
1924	69	65	134
1925	62	60	122
1926	57	54	111
1927	60	56	116
1928	58	56	114
1929	61	60	121
1930	57	54	111
1931	50	46	96
1932	46	43	89

N.B.—In 1932, the imports of the Irish Free State amounted to £43 million and her exports to £27 million, a total of £70 million.

II. INCOME AND EXPENDITURE OF NORTHERN IRELAND FROM 1923-1933

Year.	Income (Transferred and Gross Residuary Share).	Expenditure (Transferred and Reserved Services).	Imperial Contribution to Army, Navy, War Debt, etc.
1922-23	£17,600,378	£11,050,025	£6,685,645
1923-24	14,550,949	9,899,232	4,517,879
1924-25	13,110,854	9,726,076	3,175,000
1925-26	12,780,601	10,184,318	2,275,000
1926-27	11,318,272	10,021,320	1,350,000
1927-28	10,911,111	9,478,870	1,450,000
1928-29	11,230,686	10,030,292	1,175,000
1929-30	11,189,963	10,229,263	855,000
1930-31	12,335,851	11,719,203	545,000
1931-32	12,000,517	11,499,331	298,000
1932-33	12,116,407*	12,182,976*	273,000*

* Provisional.

THE UNITED STATES : RECOVERY AND REFORM

(From an American correspondent who, unlike the Australian economist whose article appears on another page, is not in sympathy with the tendencies of the President's experiment.)

I

IN the first two years of the depression, it was possible to write of it largely in terms of statistics. Prices had declined to such and such a point. The consequences were thus and so. Ordinary dinner-table conversation in those American families which were still above want concerned itself with the individual aspects of these minor social and economic changes. The Smiths had resigned from all their clubs. The Joneses were doing their own housework. Robinson had lost his job and was trying to sell Christmas cards on a commission.

After the collapse of the gold standard in England in 1931, the public became more conscious of the magnitude of the world's ills and the alarming inadequacy of institutions and economic mechanisms that had been accepted without question. In the last months of Hoover and the first weeks of Roosevelt, public attention was more and more directed to the rival schools of economic thinking. There were the bitter-end deflationists ; there were inflationists of various degrees and cults. There was gold ; there was managed currency. Dinner tables took cognizance of currency and monetary questions. What would have been considered a few years ago fairly abstruse problems in theoretical economics were brought down to the level of the family meal. The progress of the recovery program of the

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Roosevelt Administration has now brought us to an examination of all the assumptions that underlie our social, economic and political life. This is not to most of us a congenial task. It is generally disagreeable to have to do any particular thinking about abstract questions. But here we are to-day, obviously on the verge of an abyss, casting a glance, now at the profundity of the abyss, which we had never realized was a part of our landscape, and now at the forces that have pushed us to its verge.

Most men take little interest in the origin of the physical universe, about which it seems now too late to take any active steps. And the baffling problem as to whether the universe is now contracting, expanding, or merely static they are willing to leave to the professional astronomer or physicist. All they ask is that something like the present range of temperatures and the present precarious balance of chemical elements shall endure for the next generation or two, in order to enable themselves and the members of their immediate families to fulfil the ordinary human destiny. In the same way most men are prone to regard the social order. So long as they can gain the necessities of existence, be free from outrageous tyranny, and have enough economic security to look ahead from one year to another, they will carry on without being vastly concerned over the name, the origin, or the motivating forces of the society in which they live. History shows abundantly that even the most obvious and glaring social injustices are frequently slow to stir public opinion and are often unconscionably long in getting remedied.

But the New Deal has stirred us to unwonted self-consciousness and unwonted self-examination. It is now obvious that our whole social, political and economic order was in 1929 incomparably more vulnerable than ordinary men supposed. It is also obvious that the infection which beset us in that year was a fairly familiar type of falling price bacillus in a particularly virulent form. Therefore, say our publicists, let us consider how in the future we can

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do two things : first, build up the resisting power of our society ; second, check infections caused by the falling price bacillus.

It is now a commonplace to observe that President Roosevelt's recovery program is a compound of two elements, a simple recovery element designed to end the depression, and hence necessarily temporary in character, and a reform element designed to give our populace a new and better "deal" and hence permanent in character. This observation is commonplace, but it is extremely important. If this point is not grasped, the American scene, which is at best obscure, will seem hopelessly unintelligible, and the American people will appear more senseless and quixotic than in fact they are ; because the things that promote recovery may not promote reform, and vice versa, and because what Mr. Maynard Keynes in his New Year's open letter to President Roosevelt calls the "order of urgencies" of different measures is not the same seen from a recovery standpoint as seen from a reform standpoint.

What is the goal of reform under the New Deal ? It is the "redistribution of wealth in the interests of social justice." Everybody is theoretically in favour of this. But how is it to be done ? What is social justice ? Social justice in the definition of new dealers would appear to be a new species of egalitarianism, spreading social and economic privilege more evenly over the entire populace—bringing "forgotten men" into line with remembered men. It is a phase of what Señor Ortega y Gasset in his notable book calls the Revolt of the Masses.

One may infer that many of the ideas for the New Deal emanated from the book of Mr. Stuart Chase, entitled *A New Deal*, and first published in August, 1932. Mr. Chase would doubtless acknowledge a heavy indebtedness to writers like Mr. Maynard Keynes, and they in turn to others. But this is not the place to study the origins of the new ideology.

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The program of the New Deal involves the creation of new buying power by an economy of high wages. It involves an effort by various devices to restore the balance between agriculture and industry. It involves a greater emphasis on consumption goods, which are brought into existence by men's spendings, and a lessened emphasis on producers' goods, which are brought into existence by men's savings. It is aimed at individualism and it loves to make fun of *laissez faire*. It recognizes that we have gotten no adequate emancipation, no real economic freedom from all our improved technology. Technology, Mr. Chase vividly suggests, "is still riding with Hell under one front wheel and Utopia under the other." "If we could eliminate the gyrations of those who are trying to become wealthy, we could abolish poverty and double the standard of living overnight."

Order, discipline, the consciousness of definite social aim are needed to insure a dependable flow of goods from the earth to the ultimate consumer, but when that discipline—and it is largely one of engineering—is established, economic activity, with its four to six hours of work a day, becomes, if not a minor, at least a subordinate consideration. More important will be the problem of how to live ; how to use fruitfully one's leisure time ; how to improve the biological stock ; how to educate ; how to love and marry without the emotional miseries which now beset us ; how to get the most out of life. These are the real problems of a civilized people who have yoked a billion of mechanical horsepower.

As means to this end the New Deal appears to contemplate a "managed" currency, higher wages, shorter working hours, elaborate programs of public works, long-term government budgeting, with no attempt at balance before the fiscal year beginning June 30, 1935, and economic planning.

Books have been written about these ideas—not all of them since 1929. More books will be written about them. They afford an inexhaustible basis of discussion. For the purposes of this article it will be enough to stress two vital points : first, that the value of these new or revived concep-

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tions—attractive as they may be—can be demonstrated only by experiment; and second, that by turning the emphasis from *labor* and the creation of capital by *savings*, to *leisure* and the necessity for *spending*, they shift drastically and most significantly the center of gravity of what is left of our nineteenth-century code of morals. This is not the first time that the world has had occasion to reconsider well-established ideas of morality, but it is a little interesting to observe that, while the revision of nineteenth-century morals has been in many sexual and social aspects in the direction of *laissez faire*, in economics it is in the other direction.

II

FROM the standpoint of traditional capitalistic economics the New Deal is unorthodox in several particulars :

First, and most conspicuously, in its monetary policy. The successive stages of the monetary policy have been :

1. The voluntary departure from the gold standard in April, 1933, which, being wholly voluntary, bears only a superficial resemblance to the British departure from the gold standard in September, 1931.

2. The President's declaration at the London Conference (July, 1933) in favor of 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," generally believed to be at the 1926 price level.

3. The systematic depreciation of the dollar in terms of gold by purchases of gold at steadily increasing prices. This course was proclaimed in the President's radio broadcast of October 22 as "a policy and not an expedient." "If we cannot raise prices one way, we will do it another."

4. The purchase until December 31, 1937, of newly-mined silver at a price well above the present market. This policy was announced on December 22. It is generally agreed that the plan has more significance politically than from a monetary standpoint. It is "doing something" for silver to please the mining States and will not materially broaden the currency base.

5. The stabilization or revaluation of the dollar at somewhere between fifty and sixty cents in terms of gold. This policy was announced on January 15, 1934, in a special message to Congress, in which the President sought legislation to take the monetary gold

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from the Federal Reserve banks and appropriate it to the Federal Treasury.' This unusual course is justified by the Attorney-General of the United States as an exercise by the sovereign of its characteristic power of eminent domain ; but the pending Bill, which will have become a law before this article is in type, not only purports to fix the compensation for the expropriated gold, but fixes it in gold certificates, a form of warehouse receipt to be honored only when, as and if the Treasury feels like it. In other words, the Treasury takes the gold and gives the banks a sort of qualified IOU. The Reserve banks have been supposed to be immune from political influences. The pending Bill is a step away from economic planning by the Reserve Board in the direction of planning by the Secretary of the Treasury, a political officer. The Bill also provides for utilizing the gold "profit" from the hocus pocus of revaluation for the establishment of a two billion dollar stabilization fund, to be used in keeping the dollar in terms of foreign exchange down to a point below, possibly far below, what would appear to be its natural economic worth.

It is perhaps easy to over-emphasize the importance of the mere revaluation of the dollar in terms of gold. The child—one forbears a harsher word—was born in April. This is only the christening—even now only a partial and provisional christening.

The monetary policy has been so widely commented upon and by such eminent authorities that no attempt will here be made to analyse or criticise it on any economic ground. On the other hand, the political implications of the policy would seem to keep the President still aligned with the so-called soft money school of thought against the hard money school, with the debtors against the creditors (in those cases where debtors and creditors are distinguishable), and thus to revive the classical money controversies of the last four decades of the nineteenth century. It was this monetary policy which evoked the first sharp challenge to the New Deal from no less a spokesman than Al Smith, the former leader of the Democratic party, who spoke with all his old-time fervor. The newest monetary move is away from the so-called commodity dollar changed in gold content from day to day by the gyrations of the price index. In this respect, the monetary policy has perhaps become more conventional ; but this adventure in coin clipping, unprecedented in our history, is certain

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to be much discussed in the Congressional campaign this coming November, and in the Presidential campaign of 1936.

Second. The New Deal is unorthodox in respect to the National Industrial Recovery Act, which puts the expansion of wages and the consequent inflation of purchasing power before the enhancement of the capitalists' profits from which the wage is to be paid. The old practice was the reverse. Increasing profits to the capitalists ultimately permitted increased employment and higher wages. This is new recovery technique. It is also a bold, practical and constitutional departure. It says to the industrialists, "Before you divide any profits for yourselves, increase your pay roll by taking on new personnel and increasing hourly wages (not necessarily the weekly wage of any particular employee)." This is obviously an expropriation *pro tanto* of capital. It destroys freedom of contract. It enormously increases the cost of operation in many industries. Where those industries were operating at a profit, they may be able to operate at a lesser profit. But where the industry is operating at a loss or barely avoiding it, the provisions of the Act may be destructive of the enterprise in question. In general, small employers have found that the Act bears heavily upon them. But the economic consequences of the measure and the political reactions to it are perhaps less important to note than its actual derogation from the basic economic concept of *private industry based on profit*.

Third. Supplanting in large measure privately owned and privately operated industry by publicly owned and operated industry. This is brought about in a variety of ways. In the first place, the Securities Act, passed in the Spring of 1933, by imposing drastic personal liability on directors of enterprises that float new securities makes it impracticable to float new issues. Every director or partner of the issuer, every accountant, engineer or appraiser consenting to the use of his name, and every underwriter of the

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security incurs a risk of personal liabilities in amounts that may well be enormous. It is generally believed that this Act alone will prove inhibitive of new bids for capital. In the second place, industrial conditions are such that, quite apart from the provisions of the Securities Act, companies that might ordinarily attract capital from the hands of the investor can no longer do so. These concerns must, therefore, either languish for want of adequate capital or get loans from the Reconstruction Finance Corporation or other government agency. In the third place, the requirements of the government for capital are so prodigious that they virtually pre-empt the capital markets. With the government seeking to borrow no less than ten billion dollars in the next year, there is not much hope for re-financing by private corporate borrowers.

Fourth. The public works program, which in some cases enters fields heretofore occupied by private corporations, *e.g.*, generation of electrical power by the Tennessee Valley Authority, instead of by a public utility corporation under private management and subject only to public regulation. Other public works, while not theoretically inhibitive of private undertakings or directly competitive therewith, attract the laborer by wages higher in many cases than those obtainable in private industry. Mr. O. M. W. Sprague, who on November 21 resigned his post as adviser to the Treasury for the purpose of criticizing the recovery program, has particularly criticized this aspect of it.

It would doubtless be possible to multiply almost indefinitely instances of the substitution of government initiative and government operation for our traditional individualist economy and replacement of corporate credit by federal credit. Hand in hand with these drastic departures from orthodox capitalistic economy accomplished by legislation or executive order, there has sprung up a voluminous literature attacking the profit economy and the profit motive. A professor of philosophy has written a book

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in which he says that the profit economy is fated to pass away because the "basic motivation involved is too low for what we have come to expect of civilized life."

Professor Tugwell, the Assistant Secretary of Agriculture, is particularly good at the war cry against the profit motive.

It seems to me a mistake (he says) to provide islands of safety in a changing world to which some of us may retreat, clutching certain sterile goods, and especially that this retreat should be particularly designed for the protection of the gains which are got from the sabotage of recovery.

And those people who would have us crawl back to the old ideas, like a wounded animal to an abandoned den, misread the temper of the people as well as the intelligence of the present government. We are trying to show that heaped-up corporate surplus and the over-concentration of wealth are not the life of trade but the death of trade.

The comfort that such an inspiring message may carry to a sorely stricken people will readily be perceived. An effort is also being made to ascertain the meaning of some of Mr. Tugwell's major pronouncements. But his meaning at least is clear when he says: "We achieved revolution last November with the ballot. It was, in my opinion, the greatest revolution since the founding of our nation; for we departed then, I think for good, from the dogmas of free competition and the theory that the least government is the best."

Mr. Raymond Moley, another ardent champion of the New Deal, who no longer has a government post but is now editing a magazine called *Today*, points out that the President has difficulty in finding competent or experienced subordinates among business and legal leaders, "because they were part of the political and economic system that brought us to this débâcle and are not in sympathy with the New Deal . . . In filling positions he (the President) must often choose between competence on the one side and efficiency on the other. Often he has to select people in whom there is more sympathy than competence." It is

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doubtful whether the President will feel grateful to Mr. Moley for that last remark.

These thinkers of the New Deal are prone to refer to the 1932 election as a "mandate of repudiation," evidently on the theory that on that occasion we repudiated, not merely Mr. Hoover and the depression, but the profit system and the profit motive, the whole idea of individual initiative, and indeed all the animating and motivating social and economic impulses that characterized our history down to March 4 last.

While President Roosevelt has not fully associated himself with these pronouncements, it is not always easy for the business man to divine whether, in the eye of Washington, his ambition to run his business at a profit is a base or a noble one. Men of undoubted virtue and acumen are puzzled. They do not know whether they are living in the earthy atmosphere of the profit motive, in the rare empyrean wherein Karl Marx reigns supreme, or in some strange and ambiguous stratosphere between the two, where human life has never heretofore existed.

To many of the President's numberless admirers he is not merely the greatest of the American Presidents. He is the first of our Presidents to grasp the social problems of his day and to have the energy and courage to recast society in the pattern inspired by noble and humane ideas. He has abolished child labor. He has abolished the sweat-shop. He is bringing us to a planned and ordered economy which can never collapse as did our economy in 1929, partly because it will be inherently less competitive and vulnerable, and partly because it will have a price structure that by "management" can guard against such disasters.

The critics of the New Deal and its leader have thus far been much more temperate and restrained than the admirers. The Republican party in particular has offered no concerted opposition to the President's program, and its leaders have for the most part abstained from criticism. By far the most outspoken dissent has come from Al Smith,

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whose challenge was in no uncertain terms. Writing in the *New Outlook* in November, he said :

If I must choose between the leaders of the past, with all the errors they have made and with all the selfishness they have been guilty of, and the inexperienced young college professors who hold no responsible public office but are perfectly ready to turn 130,000,000 Americans into guinea pigs for experimentation, I am going to be for the people who have made the country what it is. And I say this with full knowledge of the fact that there are many things in the old order of society which I should like to have changed and which I do not applaud or even condone.

Acquiescence in the New Deal has not so generally extended to its monetary policies. To these, economists, bankers and industrialists have been outspoken in their opposition. Also such important national organizations as the American Legion and the American Federation of Labor have officially taken a stand against inflation. But the country as a whole has been amazingly supine at the overthrow of its characteristic institutions.

III

IS the recovery program a success? Is the reform program a success? Who shall answer these inquiries? To the latter question it is obviously too early to make any answer. In the nature of things the answer is never likely to be unanimous. The new society, if we achieve one, may please some people better than the old. But it is purely experimental and the guinea pigs may die of ennui or fear or malnutrition before the experiment is over. Predictions are always rash, and have been peculiarly so in the last five years, but there would seem to be no great risk involved in foretelling more opposition to the New Deal in the future than there has been in the past.

The defect in the recovery achievement thus far has been the failure to attract men into the production of durable goods, such as building materials, furniture, locomotives, ships, machinery and the like. The following table will tell the story.

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INDEX FIGURES OF EMPLOYMENT.

		September, 1929.	September, 1933.
Food products		102.1	100.1
Cotton goods	.. ..	94	101.4
Boots and shoes	.. ..	99.2	84.3
Woollen goods	.. ..	97.4	102.8
Agricultural implements	.. ..	109.2	34.9
Structural iron works	.. ..	107.7	50.6
Railway cars	.. ..	86.5	21.9
Cement	.. ..	84.2	44
Bricks..	.. ..	87.3	34.4

The reason for these disparities is fairly obvious. The philosophy of the reform program stimulates consumers' goods, but not producers'. For the producers' goods we are dependent on savings and capital investment made by capital which feels confident and secure and reasonable in its expectation of return or profit. And producers' goods—heavy industry—ordinarily account for a very substantial proportion of our total employment.

A most interesting document, the report of the American Federation of Labor for the year 1933, shows that 1,800,000 out of work at the end of 1932 have been absorbed into industry and 4,600,000 into temporary work under some government agency, Civil Works Administration, Public Works Administration or Civilian Conservation Corps. The significance of these figures is that these emergency government agencies are taking two or three men for every one who goes into private industry. This is called priming the pump, but it is a question whether with such costly priming the well will not have run dry by the time we finish priming. At the end of the emergency government jobs, will the men drift into jobs with private employers or will they be left, jobless and embittered, the prey of politicians?

Workers' income in our sixteen chief producing and distributing industries (continues the Labor Federation report) averaged \$20.53 a week in November, 1932, and \$20.56 in November, 1933. Mean-

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while, food prices are up 7 per cent. and prices of clothing and furnishings are higher by 21 per cent., so that workers' real buying power is considerably lower. Millions who got jobs during the year are better off, but those who had jobs at more than a minimum wage have lost ground.

. . . All these gains show progress, but we must not forget that in November (1933) 10,702,000 workers still had no industrial employment, that C.W.A. (Civil Works Administration) funds giving temporary work to 4,000,000 will be exhausted by February 15, that business is still 30 per cent. below normal, that the outlook is overshadowed by a danger which might destroy all progress made—inflation by fiat money.

And the report goes on to comment upon the fact that government initiative is superseding private initiative.

Already it has been decided to prolong the temporary employment given by the Civil Works Administration till May 1, and already there is a clamor for prolonging it still further. Hard cases make bad law, and hard times make bad economics. We are learning the truth of what our preceptors have taught us, that it is difficult to call a halt to inflation when it is once invoked. It takes a good skier to make a Christiania turn when descending an Alp.

If, as seems likely, the inconsistencies between the recovery program and the reform program become more conspicuous and more embarrassing as the months wear on, the President will have to decide whether to work with the industrialists, capitalists and bankers for recovery, and alienate the idealists and "liberals" who are pre-eminently interested in reform, or whether to risk all on the evangel of the new society, relying for success on old discontents and the fervor of the zealots for a new righteousness. The President is generally credited with being an adroit politician, but politicians fully as adroit as he have found it difficult to keep a footing on two galloping steeds which have no natural predilection for running in the same direction. The only thing certain is that we shall see what we shall see, and it will be interesting.

So much for the future. The plain facts are that with

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another month to run before the New Deal's first birthday, America is a nation altered almost beyond recognition. We have lost our monetary system, we have lost our individualist capitalism, we have abandoned the idea of freedom which lay about us at the birth of a nation "conceived in liberty," we have consented to the weakening of State and local government for the benefit of a central authoritarian State, we have done such violence to our eighteenth-century constitution that it seems doubtful how long we can maintain diplomatic relations with it, and we have taken a long step toward embracing a new and unfamiliar morality. Do we know what we have done? Do we like it, or are we just too bewildered to resist? Will there be a reaction? Do we mean anything now when we still sing to our "sweet land of liberty" and exhort God as the "author of liberty" to make our land be "bright with freedom's holy light," to "let freedom ring" "from every mountain side"? Have those conceptions lost their power? Does the right of property and contract, so carefully safeguarded by our constitution, really transgress more fundamental human rights? Is there any relationship between the end of *laissez faire* and the end we put just after the Armistice to *laissez boire*? One recalls that *laissez boire* didn't stay ended.

What is man and the son of man? Is he, as some writers aver, a highly socialized creature like the bee and the ant? Or is he, in the language of Spengler, a *Raubtier*, essentially a beast of prey? Or is he perhaps a bit of both, with disharmonious functions, forever to be kept in a precarious balance? Whatever he really is, we shall certainly not get anywhere in the long run by imagining that he is something else. It might be far better to muddle with society in the fine old Anglo-Saxon way than to plan it altogether wrong. Some of us at least question whether our national mentality is functioning a whit better today in the trough of the sea than it did five years ago on the crest of the wave, when admittedly it functioned deplorably.

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Business is definitely better, no doubt. Recovery has surely set in. Our days are full of hope ; but the hour is crucial, even ominous. Can we escape that curse upon mankind which compels it to live perpetually under the dominion of powerful illusions ?

United States of America.

February 1, 1934.

THE CHURCH IN THE THIRD REICH

I. THE HISTORICAL BACKGROUND

THE Reformation started in Germany. In it the dominating force was Martin Luther, the most powerful figure in modern church history, perhaps in the whole history of the Christian Church since the time of the Apostles. At that period Germany was a mere mosaic of independent States of various sizes, not even connected by a federal tie, and the rule was that the State took the religion of its lord.* The result was that most of the German churches conformed to the Confession of Augsburg, and are Lutheran to this day. Only a few, relatively speaking, accepted the Reformed or Calvinistic conception of the Reformation. The Reformed churches have always been strongest in the Rhineland near the Dutch frontier. In the course of the political evolution of Germany many of the small independent States were merged in larger ones. As a consequence, large States, such as Prussia and Baden, contain both Lutheran and Reformed churches, doctrinally strongly opposed to one another—at times indeed the conflict became alarming in its intensity. Such unity as there had been then ceased to exist among the Protestant churches, notwithstanding the fact that they had been State churches ever since the Reformation.

As the State had a great interest in the maintenance of unity among its Protestant churches, it tried to overcome their doctrinal and constitutional differences. The earliest attempt was in 1529, when Philip of Hessen summoned Luther and Zwingli to Marburg; but this effort to establish Protestant unity proved fruitless. The two great reformers separated stronger opponents than ever, especially

**Cujus regio ejus religio.*

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with regard to the doctrine of the Holy Sacrament. When, later on, after the early death of Zwingli in 1531, Calvin became the leader of the Reformed churches, the conflict was, if possible, more pronounced than ever, and it lasted for centuries. In the early nineteenth century, seeing that there was no hope of unity among the Protestant churches on spiritual issues, the King of Prussia and the Prince of Baden, who were autocrats in their own States as well as heads of their respective churches, brought about the union of the Lutheran and Reformed churches within their territories by force. All the churches accepted this union except a minority of the Lutherans in Prussia, who combined to form the Free Lutheran church of Prussia. The rising tide of liberalism helped to make this solution possible. As time went on, however, Prussia acquired new territories in which there were churches of the Reformed type, and these have maintained, at least to some extent, their separate identity until our own time.

This brief historical review will help to explain what follows. The situation to-day is that there are strong Lutheran churches, especially in Saxony, Württemberg, Bavaria and Mecklenburg; there are the so-called United churches in Prussia, Baden and central Germany; there are also Reformed churches scattered all over Germany, which still, however, look for leadership to the Rhineland church.

It is also necessary to remember a second historical aspect of the present position. The Protestant churches of Germany were State churches in the strict sense of the term; all their expenses were paid by the State, and the pastors were regarded as State officials. Moreover, contrary to what happened in Scandinavia, where whole nations, including the bishops, turned Protestant, no German Roman Catholic bishop seceded to the Protestant Church. It was in this way that the Princes became *summi episcopi* and, as such, exercised supreme authority over the Church, though in actual practice specially

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nominated authorities, consisting of both pastors and laymen, administered the Church in the name of their Prince-Bishop. The Presbyterian constitution was maintained in only a few parts of Germany.

The 1918 revolution immediately brought about a very important change. As the Princes no longer existed, some new authority had to be set up in their place. Some of the Protestant churches, particularly the Lutheran, restored the office of bishop. All the churches received full autonomy as constitutionally recognised public institutions. In view of the fact that in earlier times the State had secularised their properties, it still contributed very large amounts to their finances. At the same time, it was necessary for the churches to become largely self-supporting. The State therefore granted them the right of imposing their own taxes, both in individual parishes and in the churches as a whole.

In the German Empire there was no established church, notwithstanding the fact that the Imperial constitution laid down a number of binding general principles. There were only the different autonomous churches of the various States—Prussia, Saxony, Bavaria, Württemberg, etc. As is well known, these churches formed a German Evangelical Church Federation, presided over by an executive which discussed matters of common concern to all German Protestantism, especially relations with foreign churches and church œcumenical movements. This executive had, however, no right whatever to interfere with the autonomy of the individual churches of which the federation was composed.

II. THE NATIONAL SOCIALIST REVOLUTION

THEN came the revolution of 1933. By destroying the whole federal basis of the Reich, the National Socialists created an entirely new situation. The parliamentary democratic system was completely swept away; the

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formerly independent political life of the different States was merged into that of a closely unified Reich under a single all-powerful independent leader—for the leadership is of a personal character. The leader personified the central idea of National Socialism with its totalitarian claim to deal with every aspect of the citizen's life, whether collective or personal, economic or intellectual; it does not indeed even stop short of the spiritual. The unity of the whole nation and of all its members, both in temporal and in spiritual matters, had to be realised in the National Socialist State of the Third Reich. No party, no association, no type of thought, no system of education was in future to be allowed an existence independent of National Socialism. All this meant that the Church had to meet a fundamentally new situation of extreme gravity and difficulty.

The Roman Catholic Church in Germany, as part of a powerful world-wide institution, dependent upon the Holy See, was in a far stronger position than the Protestant Church. Its system had never been nationalised, and the Government could not deal with it without going to Rome, where it had to treat with the Vatican as an independent foreign Power, well able to protect its vital interests in Germany. A Concordat was signed on July 20 last, though its application is giving rise to great difficulties, and the outcome is still uncertain.

The organisation of the Protestant Church, however, was national and closely connected with that of the German State. Moreover, Lutheran doctrine emphasises, even more than that of the Reformed churches, the intimate relations, as far as governmental forms are concerned, between Church and State. It calls upon churchmen to accept the full responsibilities of a citizen, and to submit to the leadership of the State. This extremely close—indeed too close—connection between the Protestant Church and the German State has proved a great danger. The Church has shown itself all too ready to bring its own life into harmony with the new National Socialist ideas,

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while the State on its side regards the Church as more or less part of itself.

It was, of course, essential that the Church should adapt its own organisation to the new structure of government in the Reich. From the very outset, there was a unanimous desire to strengthen the unity of the German Protestant Church by building up a strong central authority under the direction of a Reich bishop, and to bring the formerly independent churches in the various States under the control of this Reich Church. Lutherans as well as Reformed churches accepted the principle of the proposed change, though it was understood that each of the two great branches of Protestantism was to have full liberty to retain within the Reich Church its own traditional confessional faith.

The task of drawing up the new constitution for the Church was given to a triumvirate of Church leaders—Dr. Kapler, a Lutheran layman, President of the German Evangelical Church Federal Council; Bishop Marahrens, Lutheran Bishop of Hanover; and Pastor Hesse of Elberfeld, representing the Reformed churches. Ludwig Müller, an army chaplain and a personal friend of Hitler, acted as intermediary between the three Church leaders and the Chancellor. All four met in conference at Loccum in April.

There was, however, a group of pastors who wished to go a long way further, and to introduce the National Socialist ideal into the whole life of the Church. No mere adaptation of organisation would have satisfied them. Their aim was to apply the principle of Hitlerian leadership to the Church, and to identify Christian belief with National Socialist ideology. There was to be a complete union of church life and national life, and more than that, a merger of the National Socialist creed and the faith of the Church. This group was first and foremost National Socialist, and a complete *Gleichschaltung** of Protestantism both in form

* "Assimilation"—the term generally used to express the absorption of the different organisations and functions into the totalitarian State.

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and spirit was their objective. It was to be attained in three steps. In the first place, everyone suspected of being friendly to the former régime was to be eliminated and all authority in the united Church concentrated in the hands of men in full sympathy with the National Socialist system. In the second place, the same principle of leadership as had been realised by Hitler in the State was to be established in the Church, notwithstanding that such a principle in the Church was wholly incompatible with the spirit of the Gospel, and although this group could point to no one in whose person the necessary qualities for such a position were united. Lastly, they desired to eliminate from Christian teaching everything that was out of harmony with National Socialism, and on the other hand they wanted to introduce, even when they were antagonistic to Church teaching, such ideas as the racial conception of national unity, the old Teutonic hero worship, and the sacred character of the national ambitions.

They were fired with the belief that, at this historic moment in the evolution of their country, such a gospel would appeal to the whole nation, and that they could set up a truly national church in complete harmony with the national life, thus enabling the great national movement to accomplish its task of building up that life afresh. By combining National Socialism with Christianity the group no doubt hoped to complete the triumph of the Reformation of the sixteenth century even over Roman Catholicism.

Here were the beginnings of the future conflict. The centre of the new constitution was the office of Reich bishop. Who was to hold it? The committee of three proposed Dr. F. von Bodelschwingh, Superintendent of the Christian Social Institute at Bethel, near Bielefeld, a man with great spiritual gifts and high administrative ability. This nomination was accepted by an overwhelming majority at a special meeting of the representatives of the provincial churches on May 26.

There was, however, another candidate in the field—

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Ludwig Müller himself. He was the nominee of the German Christians, as the group of pastors just described called themselves. The German Christians were by no means all of one school of theological thought, and some were very much more radical in their Germanic fervour than others. But as their title makes plain they all laid very great stress on the German and racial character of their Christianity. As Pastor Peter* put it, in *People and Church*—"Born of German stock and baptised in the words of my mother tongue, I cannot just be simply a Christian. I can only be a German Christian." Others went further, in agreement with Herr Jäger, who said "When Jesus Christ entered world history, it was, in a last analysis, the fire of the Nordic breed that was revived."

Pastor Müller denounced the nomination of Dr. von Bodelschwingh. The heads of the 28 provincial churches, he said, had not listened to the call of the hour; "the storm detachments upon whom the State now rested must have the Gospel preached to them again in unadulterated words." The German Christians therefore refused to recognise the election. The conflict became very bitter. On June 24 a State Commissioner for the Prussian Evangelical Church was appointed, Herr Jäger, who in turn appointed sub-commissioners, and Dr. von Bodelschwingh retired from his office.

A few days later President von Hindenburg intervened. A new constitution was completed on July 11, and Hitler, in a letter to Hindenburg, announced that "the inner freedom of the Church, which I also have especially at heart, is placed beyond doubt by the withdrawal of the commissioner and the sub-commissioners." The unreality of the freedom, however, was made clear by what followed.

On July 23, there was a general Church election that was intended to settle the new Church problem. At that election the German Christians obtained the support of

* Invested as Bishop of the Saxon Province of Prussia, February 4, 1934.

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the entire National Socialist press, and of the party's political machinery. On the last night before the election Hitler himself gave a wireless address. The result was certainly not justified by the real position. The German Christians secured three-quarters of the votes, and they claim that their influence in all religious matters should be in proportion to their majority; but the foundations of the system they are building up are none the less rotten.

Such, in brief, was the series of events that led to the victory of the German Christians—a victory crowned by the nomination of Ludwig Müller as Reich bishop and Bishop of Prussia, for no other reason than that he had previously enjoyed Hitler's confidence.

III. THE OPPOSITION IN THE CHURCH

IT is time to turn to the other side of the picture. There were pastors and laymen in the Evangelical Church besides the German Christians, and the opposition of these was based on two main grounds. There was first the objection to the racial principles of the German Christians. There was also the objection to the use of force. Each objection is of vital importance.

The German Christians claimed that the Gospel must in future be preached as "the Gospel in the Third Reich" and that the Church must be the Church of the German people—i.e., of Christians of the Aryan race, all non-Aryan Christians being excluded from office and effective membership. The objection to this racial view of Christianity is best shown by the following (among other) reasons which Karl Barth gave in his famous pamphlet, "Theological Existence To-day," for rejecting their doctrines:—

(1) The Church believes in the Divine institution of the State as the guardian and administrator of public law and order. But she does not believe in any State, therefore, not even in the German one, and, therefore, not even in the form of the National Socialist State. The Church preaches the Gospel in all the kingdoms of this

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world. She preaches it also in the Third Reich, but not *under* it, nor in *its* spirit.

(2) The fellowship of those belonging to the Church is not determined by blood, therefore not by race, but by the Holy Spirit and Baptism. If the German Evangelical Church excludes Jewish-Christians, or treats them as of a lower grade, she ceases to be a Christian Church.

With regard to the objection to coercion by the State, attention may be called to the message issued by the general superintendents and bishops of Old Prussia on June 26 protesting against the appointment of a State Commissioner for the Prussian Church two days earlier. This message, it is important to notice, made it clear that the bishops protesting were whole-hearted supporters of the Hitler regime in the political sphere:—

We are also seriously concerned that the nation and the Church should find each other. We, too, are determined to co-operate in the unification of our nation through the work of the Church. But in a Church these aims must never be pursued by means of political force. The Church must never be exposed to the pressure of political force. Otherwise the fearless preaching of the truth of the Gospel and the free discussion of the fundamental questions of our faith will be imperilled. In a Church which is too closely bound up with the State the deepest impulses of a faith are checked. History proves this to be a fact. Above all, the Gospel of the German Reformation must not, in a time of political turmoil, be subject to political falsification. This is the danger for our Church to-day.

A large body of pastors were at the very centre of the opposition, giving a resolute and courageous witness to the freedom and purity of the Gospel. They were first known as "The Gospel and Church" Group, and, later, for the most part, were organised as "The Pastors' Emergency League." A very brave and important step was taken by the League, then numbering 2,000 members, in September, in connection with the Prussian Church Synod, and with the National Church Synod at Wittenberg. The Prussian Synod, representing more than half the Protestants of Germany, adopted the Aryan paragraph. The Covenant signed by the 2,000 pastors was a strong and public

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protest against this action, and was followed at the end of the month by a remarkable declaration posted all over Wittenberg, signed by 22 pastors on behalf of the 2,000, in which the principal paragraphs were as follows :—

Lest the Church enter on its road in secret consciousness of guilt, we make the following declaration for the sake of Truth and Love :—

(1) The manner in which the new order was introduced and is being applied in the Church has caused grave concern to numberless earnest Christians. At decisively important synods the present majority has refused the right of thorough discussion and free speech to the representatives of the minority, even in questions which affect the innermost being of the Church and its mission. The life of the Church has for some months been subject to the violent pressure of a group within the Church. Brotherly love must not be denied by the rule of violence ; the Church of Jesus Christ must not be transformed into an empire of this world.

(2) With the tacit approval of the new Church authorities, provincial synods have voted and put into force laws which are in conflict with Holy Writ and with the Church's faith. This is especially true of the "Aryan paragraph." We assert that the legislative authority of the German Church has been infringed by the introduction of such laws in the provincial synods ; we summon the National Synod not to surrender its full powers to other institutions ; we summon it to repeal these laws of the provincial synods, contrary as they are to the Church's faith. It must not be that the Gospel be limited or nullified by human laws.

(3) The Church's ministry is specially endangered in that pastors and church officials are being persecuted because they are not able to follow the group which at present rules in the Church. The ministry is subjected to such pressure from men that the servants of the Word are in danger of breaking the command "Man must obey God rather than men" ; they are in danger of becoming servers of men. We summon the National Synod to assert the full freedom of the preaching of the Gospel and of its bearers in clear words. The preaching of the Church must not serve human ends.

In this grave hour, when we are forced to make this protest by the heavy trouble of our consciences, we promise solemnly before God to use all our strength that the good tidings may be preached pure and unmixed among us as the revelation of the living God in Christ.

The opposition of the pastors was led by Dr. Niemöller, a Berlin pastor of indubitable patriotism. The conflict, however, went generally in favour of the Reich bishop

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until a sensational meeting of German Christians in the Sport Palace in Berlin on November 13. Here demands so radical and so heretical were made, and apparently approved by influential German Christians, including some bishops, that moderate churchmen became seriously alarmed. Dr. Krause, as official leader of the Berlin branch of the German Christians, demanded the elimination of the Old Testament, of the Crucifix, and of "superstitious portions" of the New Testament, as well as the ruthless application of the Aryan paragraph within the Church. The Reich bishop was gravely disturbed and denounced Dr. Krause's speech, deploring the attack on the Bible. The conflict increased the membership of the Pastors' Emergency League, which rose rapidly to about 7,000. Dr. Krause was dismissed. The Reich bishop tried to form a moderate cabinet ; and revoked the Aryan paragraph—a great concession. By the end of November, however, the Reich bishop was isolated. He was not a strong man, had little grasp of theological principles, and gave the impression of wavering. He lost the confidence of the German Christians by giving in to their opponents, and yet failed to secure that of the orthodox pastors and laymen. He was obliged to sacrifice his principal supporter, the German Christian Bishop Hossenfelder, who resigned all his offices. But in spite of this the South German bishops opposed him, and the attempts to form an ecclesiastical ministry (or cabinet) according to the constitution were a failure. The Reich bishop then moved further along the German Christian path ; and there seems reason to believe that he gained the support of General Goering, head of the police of Prussia. On December 22 he signed an agreement with the leader of the Hitler Youth which led to the destruction of any independent youth movement in the Church, involving 700,000 members of the Evangelical Youth organisation. On January 4 he re-imposed the Aryan paragraph and prohibited all public opposition, on pain of immediate suspension.

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The strife continued unabated. In the middle of January it was confidently expected that Bishop Müller would be obliged to retire, that a new Reich bishop would be appointed and a church government of a mediating kind set up. On January 14 the South German bishops were stated to have expressed their entire lack of confidence in the Reich bishop. The deadlock remained till January 25. On that day Hitler received the Reich bishop together with representatives of both sides, but the hoped-for settlement was prevented by General Goering, who came in unannounced, bringing against Pastor Niemöller, who was present, charges of indiscreet conversation on the telephone, as reported by the secret police. The opposition failed to persuade Hitler, who made an eloquent appeal for unity.

The breakdown of the conference with Hitler was followed two days later by the sensational collapse of the South German bishops. The following is the official statement issued by authority of the Reich bishop :—

On Saturday, January 27, the Reich bishop invited all the leaders of the German Evangelical Church to a conference. As a sequel to this conference—which was long and was carried through with complete unanimity—the following declaration was given out by all the provincial leaders of the German Evangelical Church :—

Filled with the impressions of that great hour when they were assembled in the presence of the Reich Chancellor, the church leaders of the German Evangelical Church unanimously reaffirm their unconditional loyalty to the Third Reich and to its leader. They condemn most severely all acts of criticism against the State, the people or the movement which are capable of endangering the Third Reich. They particularly condemn the use of the foreign press to make the disagreement in the Church falsely appear to be a struggle against the State. All the Church leaders stand united behind the Reich bishop and intend to carry out his instructions and orders in the spirit that he desires ; to crush the Church political opposition to him ; and to establish the authority of the Reich bishop by all constitutional means.

It is said that the South German bishops received a very positive assurance as to the withdrawal of the Aryan paragraph, and possibly other concessions were made. But

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it is beyond doubt that Hitler's appeal for unity in the Church, for the strengthening of authority, and for the combining of forces in the interests of the State, made a profound and probably decisive impression.

The bishops have surrendered*—but the opposition of the pastors continues. The extent and intensity of that opposition, time alone will show. Dr. Niemöller and 50 pastors were suspended on January 28, and since then other prominent leaders have been removed or deposed. Yet even though the Pastors' Emergency League in whole or in part may be dissolved, as a result of a systematic suppression, the opposition is not likely to cease. It is too firmly based on religious principles ; and there are those among its members who are ready to show the spirit of the martyrs. The opposition, it must be repeated again with great emphasis, is spiritual in character, and makes no attack on the National Socialist regime as such. Indeed practically all the members of the League are staunch political supporters of Hitler. How far the members of the opposition will be able to remain a part of the Evangelical Church is still in doubt. How far they will be allowed to separate themselves to form a free Church, if so desiring, is also questionable. But the witness of the opposition pastors to spiritual freedom, at whatever cost, remains superb !

IV. THE OFFICE OF REICH BISHOP

GREAT indeed is the contrast between the attitude of the pastors and the system for which the Reich bishop stands.

In speaking of the Reich bishop we must not fail to realise his extraordinary position. The Pope has behind

* It should be explained that a majority of the bishops were German Christians who had been imposed upon their dioceses, often against the will of the pastors. But the bishops who now surrendered were those who had hitherto withstood the Reich bishop.

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him a whole long line of predecessors, their encyclicals, the Fathers of the Church, the general corpus of its traditions, and the Councils. Even when he speaks *ex cathedra* as the infallible teacher of the Church he is guided by her doctrine, by canonical law, and by his unity with the Roman hierarchy throughout the world. The heads of the other Churches, for instance the Anglican, have also received a sacred trust to hand on. The Reich bishop of the German Church, however, is in an entirely different position. He has come into existence as the result of a revolution that has completely swept away the constitutional function of the German Protestant Church, and that seems to have given him, in accordance with the National Socialist principle of leadership, the power to determine, according to his own insight, or lack of insight, its new constitutional foundations and to build up a fresh organisation upon them. He appoints and dismisses at his pleasure both the bishops and the ministry of the Reich Church. Together with his ministers, he has authority to make laws and to revoke them. He is now the dictator of the Church in spite of the fact that many of the bishops outside Prussia, and more than seven thousand pastors, had declared that they no longer had any confidence in him. The impetus of the National Socialist revolution and Hitler's confidence have carried him to this high position. As the National Synod has formally nominated him for life, no one possesses the legal power to remove him. His doctrine is, however, inevitably influenced by the enthusiasm of the National Socialists, which he regards as "faith." For him, even though he does not clearly say so, Hitler is the God-sent leader of the nation; the revolution and the new God-given foundations of national life have taken the place of the Old Testament.

A tremendous responsibility rests upon his shoulders. The political opportunities of State life are not, and can never be, the governing principle of the Christian Church. The acceptance of a purely secular principle of leadership

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in Church life is proving a source of irremediable trouble. But that is nothing compared to the intrusion of National Socialism into the doctrinal and spiritual life of the Church. The idealism of the Third Reich is now linked with the Kingdom of Christ. The Aryan basis of national life is considered to be the sacred foundation of a spiritual community. In Germany the universal conception of Christianity is to-day overshadowed by a national conception. The essential difference between the life of the Church and a passing phase such as an existing form of national life is no longer recognised. The unity of the nation is regarded as the basic law of the Church, which implies that the Church must sacrifice her own ideals and throw her life in all its fullness into the great surging stream of National Socialism. The totalitarian claims of National Socialism are admitted, not only in the sphere of action, thinking and planning but even in the deepest convictions of the human heart.

INDIA : TOWARDS THE GOAL

THE chief event of the past three months in India has been the earthquake at the beginning of January, which has devastated north-western Bihar and Nepal. The latest accounts show the damage to have been even greater than was at first anticipated, and a high official in Bihar is reported by the *Statesman* as saying that crores of rupees will be needed if adequate reconstruction, as distinct from immediate relief, is to be achieved. India's response to this catastrophe has been prompt and generous, adversity, as usual, having proved the occasion for a slackening of other tensions. One of the most prominent relief workers in Bihar is a Congress leader only recently released from jail, and many political opponents of Government are co-operating heartily with district officers in the administration of relief. Pandit Nehru, it is true, has attacked the Government of Bihar and Orissa for alleged supineness in the first days, but his rather envenomed charges, effectively traversed by the *Statesman* and other papers, are quite unjustified. The local Government's enterprise in arranging an aeroplane survey on the day after the earthquake is only one of the details that go to show commendable earnestness and promptitude, particularly if it is remembered that its own headquarters had suffered severely and that communications of all kinds were broken.

The chief political events of the quarter have been the passing of the Reserve Bank Bill and the conclusion of the commercial negotiations with Japan. Both are of first-rate importance and the latter may be said to mark an epoch in India's progress to autonomy. A special session of the Assembly was held in November and December for

The Reserve Bank Bill

consideration of the Reserve Bank Bill. It is not unlikely that autumn sessions will become a regular feature of the Assembly year. So far they have been convened only for special purposes, but the burden of legislative and other work is increasing steadily and the old allotment of sessions is probably inadequate.

I. THE RESERVE BANK BILL

THE Reserve Bank Bill as passed by the Assembly in December professes to make only "temporary provision on the basis of the existing monetary system" and leaves "the monetary standard best suited to India" to be considered later. Sections 40 and 41 express this by setting out $\text{Rs. } 6\frac{3}{4}\text{d.}$ and $\text{Rs. } 5\frac{1}{4}\text{d.}$ as respectively the Bank's maximum purchase and minimum selling prices for sterling. Shares are allocated to five regional registers, to prevent undue concentration of influence, and a similar purpose lies behind the provision that no shareholder may exercise more than ten votes. Concern for the Bank's independence is further expressed in Section 4, which admits shareholding persons or companies not domiciled in India to full shareholders' rights only if their domicile is in a part of the Empire which does not discriminate against Indians, and then only for the period of their residence in India.

The political importance of the Reserve Bank legislation arises from the contents of paragraph 32 of the introduction to the White Paper. This declares the proposals relating to responsibility for the finances of the federation to have been based on the assumption that before the first federal Ministry came into being a reserve bank would have been set up and would be already successfully operating. It may be said that this declaration governed the course and the outcome of the Assembly's proceedings. Whatever the objections to the form suggested for the Bank, or to the

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apparent restrictions placed on future legislatures regarding its amendment, it remained clear that His Majesty's Government held the prior existence of a functioning reserve bank to be an essential preliminary. Hence no party leader was prepared to take the responsibility of allowing the measure to be thrown out. Every effort might be, and was, made to secure as much change as possible, but the optimism regarding the final outcome that prevailed from the beginning in official quarters was justified in the event ; for though there were ups and downs and critical divisions, the final passage of the measure in a not unsatisfactory form was assured before the end of the session.

Conditions were thus very different from the hectic days of Sir Basil Blackett's Bills. Much the same arguments, however, reappeared, and the same passions, though at a lower temperature. The chief Opposition effort, as was to be expected, bore on the ratio question. An agitation directed definitely towards currency depreciation made itself prominent under the aegis of a body known as the Currency League. Its propaganda was plentiful and violent, but in the event may be said to have miscarried. A significant difference from the disputes of former years lay in the weakening of the almost magical merit that used to be attached to 1s. 4d. More than one prominent Indian emerged on this occasion to declare that while a case could be made out for devaluation, there existed no peculiar virtue in 1s. 4d., as against 1s. 6d. or any other figure. Indian commercial, as distinct from financial, interests seem more inclined to recognise the dangers of severing the sterling link, with its obvious and continuing advantages, merely for the sake of conjectural and at best temporary benefits to trade as a result of depreciation.

The ratio and connected questions in India have in the past suffered from the chronic suspicion that every step is designed in the interests of British commerce and the City of London. *Timeo Danaos*, in fact, has been the motto

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throughout. The unfortunate but inevitable result of this approach was that it was almost impossible to secure any degree of detached consideration. But the recent discussions have produced some indications that Indian political opinion, however suspicious of City or British interests, has begun to suspect that there are forces in India also not altogether disinterested. On November 24 a pro-Congress Delhi paper attacked the policy of the Currency League in unmeasured terms, describing it as "one of those bodies which a small caucus of financial magnates brings into existence overnight to carry on propaganda in the name of the people for the furtherance of their own selfish ends." Such pronouncements, apart from their actual merits, are indications of an increasing sense of reality on the part of the more vocal elements in India.

The main success secured by the Opposition in the Assembly was the carrying by a small majority of an amendment directing the establishment of a branch of the Bank in London. The motive force behind this was the distrust of the City already mentioned. It was felt that if the Bank entrusted its London operations to the Bank of England its independence would be inevitably compromised.

Since the Bill provides for the maintenance of the existing sterling-rupee ratio, the main vote on the ratio question was taken on an ingeniously worded amendment to the effect that gold or sterling should be sold at the legal rate in force on the day before the ratio clause came into operation. Three prominent participators in the Bank Bill discussions in London in the summer, Sir Cowasji Jehangir, Dewan Bahadur Ramaswami Mudaliar and Mr. Mody, all spoke in support of the amendment, contending that it was in no way contrary to the letter and spirit of those discussions. This attitude brought forth outspoken condemnation from the European members of the House and was rejected by the Finance Member in a 90-minute speech. He emphasised the fact that the amendment was practically

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an invitation to speculators. It was a dramatic moment when he revealed that an unscrupulous attempt had been made to cause fluctuations in the exchange by despatching to a news agency a forged letter, purporting to emanate from the Finance Department and bearing on the matters at issue. The release of this letter was prevented only in the nick of time. Had it appeared in the press any interested parties who had been forewarned would have scored heavily in speculation. This revelation almost certainly contributed towards the substantial majority against the amendment, but even without it the Government would probably have won; the amendment was too ingenious and the invitation to speculators too apparent. The Council of State has yet to pass the Bill, but there seems little doubt that they will do so. It may be said, therefore, that one at least of the preliminary conditions for the reforms has been fulfilled. A review of the session leaves, on the whole, an encouraging impression, for this attitude has been met and overcome not by *force majeure* but by reason and patience, and even at the most acrid moments there was a feeling that the Assembly had retained touch with reality.

II. THE COTTON NEGOTIATIONS

THE agreement reached between the representatives of India and Japan concerning their trade and tariff relations links India's imports of Japanese piece-goods to Japan's imports of Indian raw cotton by means of a basic quota, the figures being respectively 325 million yards and one million bales, with provision for upward or downward variations. Re-exported goods will be deducted from the figures of imports. The quotas are classified into categories, to which percentages are allotted. The countries will accord each other most-favoured-nation treatment; should any modification of either customs tariff affect

The Cotton Negotiations

adversely the trade interests of the other country, efforts will be made to find a remedy. The Government of India will retain the right to impose or vary customs rates so as to correct the effect of fluctuations in the exchange value of the yen, and Japan will exercise a corresponding right should the rupee fall below .732 yen. Subject to other provisions of the agreement, Indian duties on Japanese piece-goods are not to exceed 50 per cent. *ad valorem*, or $5\frac{1}{4}$ annas per pound.

There might have been attached to these prolonged discussions the legend "hope deferred," for it took three and a half months before any agreement emerged, and at more than one stage a profound pessimism prevailed. It is agreed that the Japanese showed themselves skilful and persistent negotiators, but the Indian press and other commentators allowed themselves free condemnation of what was termed Japanese intransigence. Originally, in opposition to what from the first had been a main Indian contention, the Japanese refused to link their piece-goods exports to India with Japanese purchases of Indian cotton. When this was formally accepted in principle by the Japanese, arguments and discussions on quota details began. The announcement that the quota basis had been established was made on January 4.

The more extreme Indian newspapers condemned the agreement as too favourable to Japan. There entered into this attitude the invariable ingredient of opposition to anything done by the present Government in India. But allowing for this, it certainly seems to be the case that Japan has come out well and recognises it. The Indian attitude towards the Japanese at present may be said to be one of half resentful admiration for qualities summed up by a Punjab paper in the description, "prize bluffers." An element of bluff enters into all negotiations, and skill at poker and diplomacy have been said to go together. The Japanese have certainly made good use of this faculty. Part of the delay is attributed to the fluctuations of the

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dollar, the chief Japanese bluff being put up really to gain time for a study of the dollar's vagaries and an estimate of its future. How far would the dollar go? Could its depreciation be used to screw better terms out of India?

Such problems no doubt exercised the minds of the Japanese delegation, but it is very doubtful if there was ever any prospect of their going away without completing an agreement, for the Japanese are realists and the Indian market is essential to Japan. A common Indian criticism of the negotiations is that the Government of India showed their hand too early and thus encouraged their more skilful opponents in their bidding. At one stage prominence was given to the denunciation by Osaka millowners of the negotiations and their threats to boycott Indian cotton. The Indian response was immediate and instructive and not lost on the Japanese. General Indian opinion was outspoken. A Lahore paper suggested that the Indian delegation should give the Japanese "a bit of their mind" and ask them either to concede reasonable Indian demands or "pack their way to Japan at an early date."

The quota system of national interchange has thus scored one more success, an interesting illustration of how far we have departed from the free trade conditions of half a century ago. It would seem as if tariffs led inevitably to quotas, and quotas to barter. More than one Indian newspaper has hinted at this sequence. Perhaps another general reflection is that the most-favoured-nation system does not accord well with quotas and has manifest drawbacks when claimed by a powerful competitor in one's own domain. This has been felt elsewhere than in India and found pointed expression in a Calcutta paper on December 21. The result of Japan's being given the most-favoured-nation treatment was declared to be that she was "allowed to kill our national industries." India can offer many fields of research to the economist, and possibly the best field of experiment to-day is the handling of commerce and tariffs and their effects on the life of a country.

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A complaint being voiced in the Assembly and press at the time of writing illustrates Indian sensitiveness on matters of status. Why, it is asked, should the formal completion of this agreement be reserved for London? Sir Joseph Bhore's explanation that India is not yet an international unit and his assurance that there will be no alteration of the terms have been visited by the joint condemnation that India could as well sign this agreement as the Versailles Treaty, which bears her name, and that if there are to be no changes made why insist on signature in the United Kingdom? "The fact is," declares the *Tribune*, "that India acquires an international status just when it suits Britain's purpose to assign that status to her." The same paper asks why the Government should not in any case "anticipate the future by a few months," an interesting sidelight on its expectations touching the advent of the reforms.

Along with the official Indo-Japanese negotiations unofficial discussions with representatives of Lancashire cotton interests were initiated. The latter made much better progress, and certain agreements were reached. These, of course, carry no valid force since they require confirmation by the Governments,* but the fact that Indian and Lancashire commercial interests have come together in discussions of this sort has been recognised as a considerable step forward. The chief points in the agreement between Sir William Clare Lees and Mr. Mody are that any advantages extended to British goods in Dominion or other markets shall be extended to Indian products, and that when the Government of India removes the general surcharge on imports imposed in 1931 Indian textile interests will not seek the imposition of further duties on United Kingdom imports. The agreement was vehemently denounced in Indian nationalist newspapers. The *Hindustan Times*, for

* On February 5 Sir Joseph Bhore introduced a Bill giving effect both to the Indo-Japanese agreement and to the understanding with Lancashire.
—EDITOR.

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example, declares that Mr. Mody "has made a gift to the Lancashire delegation," receiving nothing in return, and exhorts the Bombay millowners to repudiate him. Much the same attitude found expression in other parts of the country, but it is not impossible that time will operate here in the same way as in the case of the Reserve Bank. When the general trend of economic intercourse is apparently from competition to arrangement, the desirability of investigating such possibilities between India and Lancashire can hardly be contested.

III. ARMY FINANCE AND OTHER PROBLEMS

ANOTHER topic arousing much interest, though not, like the Reserve Bank Bill or the Indo-Japanese agreement, the occasion for actual discussions or negotiations in India, was the report of the Defence Expenditure Tribunal. This suggested an allotment of the "overhead" costs of the army in India between Great Britain and India in proportion to their respective military establishments, together with a general contribution by Imperial to Indian revenues, which has since been assessed at £1½ million a year. It was further proposed that India should not contribute to the cost of the regular or supplementary reserve forces, and should continue to be paid a subsidy towards the cost of transporting troops by sea. The net result is a gain to India of about two crores of rupees.

Comment and condemnation have been high-pitched and at times almost divorced from reality. The subject has long vexed Indian political opinion, and there enters into Indian pronouncements on it the unprecise but powerful complex of status. There is a suspicion that Great Britain is using India as a convenience, not treating her as a partner and an equal, with the result that every detail of the award has been scrutinised for flaws, and any synoptic view is lacking. The *Tribune* dismisses the two crores adjudged to India as a

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"pittance," while flowers of epithet from members of the Legislative Assembly include "insult" and "fleabite." The general argument starts from the declaration in the report itself that the British Army in India partakes of the nature of an imperial reserve, and that India affords the best training ground for British troops. Consequently, it is argued, all cost not purely relative to India should be borne on the British estimates; at the very most India should be debited with only the cost of Indian troops equal in number to the British troops maintained in India. The refusal to give the award retrospective effect is condemned as unjustifiable, and as indistinguishable from the repudiation of obligations at which British hands are so apt to be raised in pious horror. Finally suspicion finds a convenient point of attack in the failure to publish the exact text of the report or the full notes of the Indian members. It is peculiarly unfortunate that what is really an Empire problem likely to prove of the utmost importance in a possibly not very distant future should be regarded as on the level of a market-place bargain. To some extent this was inevitable. The grievance has existed too long not to have accumulated an overgrowth of opinions and prejudice difficult enough to penetrate at any time; and the composition of the long-delayed tribunal, interpreted as an indication that the authorities intended to keep in subordination the Indian interests vitally concerned, gave suspicion a good start.

For the moment the Government's acceptance of the award holds the field, but it would be inadvisable to consider the issue as closed, still less as happily settled. The indications are that the Indian governments of the future will return to the charge and press for the settlement of an Empire problem on an Empire basis.

The general political arena during the quarter has been remarkably quiet. In more than one quarter, feelers were put out for a summoning of the All-India Congress Committee, particularly from the right wing elements. The Government, however, made it plain that they would

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consider any formal gathering of a body still committed to civil disobedience as an infraction of the law, an attitude that was condemned in more than one nationalist paper as at once tyrannical and foolish.

The latter criticism was based on the following reasoning. Only a formal resolution can alter a Congress policy formally adopted in the past. It is practically certain that were the Committee free to meet, a strong move would be made to renounce civil disobedience and embrace, if not actual co-operation, at least some less negative and uncompromising attitude. By destroying the possibility of any formal renunciation, the Government at the same moment denied the possibility of influence to the right wing element in the Congress, with the result that the Congress movement and Congressmen will remain chained to the eccentric evolutions of Mr. Gandhi and Pandit Nehru. Neither of these authorities, it may be noted, welcomed the suggestion to call the All-India Congress Committee. Reasons are freely attributed to both, not all of the most creditable kind. Since the prestige of both would be seriously affected by a formal renunciation of civil disobedience, it is to their interest to prevent such a declaration.

It is difficult to sum up in a phrase the present condition of the political world. On the surface there is practically nothing. Below there is considerable turmoil, but it is as yet sporadic and undirected. It was suggested in an earlier issue of *THE ROUND TABLE** that the advent of the White Paper was the ultimate governing force in Indian political movements and oscillations. The passage of six months has confirmed this impression, and a recent speech by Mr. Sastri has given it expression. In effect, what he said was : the White Paper is there, and the reforms, however much we may dislike the details, are on their way. What are we going to do ? What is our plan of campaign ?

These questions might be said to be agitating the whole Indian political world to-day, not only the Liberals whom

* See *THE ROUND TABLE*, No. 92, September 1933, p. 807.

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Mr. Sastri had primarily in mind. The *Tribune* and more than one other newspaper call for unity, at least in opposition, on the theory that if the whole of India unites in condemning the White Paper at least a breather will be gained during which some more positive common plan of campaign may be formed. Appeal has been made more than once to the success of the united Indian opposition to the Statutory Commission. This policy of uniting on a negative is, however, really a counsel of despair, and its exponents come near to acknowledging it as such. It is by no means in the British interest that this state of mind should continue. Still less is it in the interest of India, and the warning has appeared in more than one paper that such an attitude plays straight into the hands of Sir Samuel Hoare's die-hard opponents, who will say : if that is India's attitude, who will work the reforms ?

The end of October saw the formation, in the two most advanced provinces of India, Bombay and Madras, of parties indicating resentment at Congress's purposeless drift. The Democratic Swaraj party in Bombay contains a strong Mahratta element, while the parallel formation in Madras is said to be backed by the editor* of the *Hindu* and other influential men. A few days later Mr. K. F. Nariman issued a statement protesting against the continuation of "Mahatmic hypnotism" and demanding a more practical outlook on affairs. It is unlikely that the coincidence of date and effort is fortuitous. Pandit Malaviya intimated that he had a plan up his sleeve, which he would release if the All-India Congress Committee were summoned. This is not the first time the Pandit has referred to some private panacea, and a good deal of scepticism greeted his latest deliverance. The *Pioneer*, for example, twitted him with "sentimental endeavours to achieve the impossible." Discussions in the Congress press on political matters have shown a tendency to acerbity and

* Mr. Rangaswami Iyengar, whose death was announced since these pages were written.—EDITOR.

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personalities, which can probably be attributed to the nervousness or irritation always produced by uncertainty. They do not know where they are, they fear they may find themselves in great difficulties, and yet no practical policy is put before them. Both Mr. Gandhi and Pandit Nehru have come in for severe criticism in the pages of journals where once they inspired nothing but approbation. The Mahatma is referred to by a correspondent in a Bombay paper as a "quick change artist" from whom "self-knowledge has been cruelly withheld." Another publicist makes the charge that "with Mahatma Gandhi at the helm of our Congress affairs we are never sure of our collective will and decision being respected."

Political India might be said to be in a state of mingled bewilderment and anxiety in the face of the steady approach of reforms and new conditions, which it may dislike but to which it has so far no alternative to offer. It looks around for a leader and a lead, to trust and to follow; so far its quest has been in vain, but it would probably have been better for Great Britain as well as for India had it succeeded.

There are many other points that might be dwelt on did space permit, for the political simmering leaves nothing unaffected. The depressed classes, the import of Mr. Gandhi's *harijan* activities to the wider interests of Congress and India, the Hindu Mahasabha's practical disowning of non-co-operation and its agitation against the communal decision and particularly the Poona Pact, the continuance of terrorism in Bengal and the consequent introduction of further legislation to strengthen the hands of Government there, the extensive remissions of land revenue granted in more than one province and the bearing of this on provincial revenues and land revenue policy—these are but a few of the issues that may call for extended treatment before long.

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GREAT BRITAIN : SOCIAL AND INDUSTRIAL REFORM

THE principle of "National" government seems to be finding some difficulty in holding its own against the impact of opposing forces. Since the Liberals who acknowledge the leadership of Sir Herbert Samuel finally moved into Opposition, the Government's parliamentary support, outside the ranks of the Ministry itself, has been almost entirely Conservative. Newspapers both of the Left and of the Right have attacked the present "merger"; indeed it was the Tory *Daily Mail* that published a slashing denunciation of Mr. MacDonald and other champions of "National" government by the Socialist Lord Snowden, who may yet prove to be as powerful an opponent of the Government at the next general election as he was a supporter at the last. The favourite objects of attack by the Opposition press have been not so much the Conservative leaders as the Prime Minister and Sir John Simon. On the Right, the "die-hards" clamour for release from compromise with radicalism, especially in connection with India. The Government's strength lies with the Conservatives of the Centre, who fear that the result of a split into parties would be either a return of Labour to office or the establishment of a purely Conservative Government, dominated, or at least held in check, by the extreme Right. Doubtless sensitive to these movements of opinion, Mr. MacDonald and his colleagues inaugurated, with the new year, a persistent campaign of public oratory in support of the National Government. The Prime Minister, however, has so far been accorded very mixed receptions by his audiences.

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In a by-election at Cambridge on February 8, the Conservative poll fell from 23,347 at the general election to 14,896, while the Labour poll rose from 8,552 to 12,176. Even more striking, however, is the fact that the Liberal candidate received only 2,023 votes, thus forfeiting his deposit, whereas in 1929, the last occasion on which a Liberal stood for the seat, he polled 8,124 votes.

The Government's strongest card is still undoubtedly the disunity of the Opposition, even within the Labour party itself. The Liberal party stands to profit by any reaction against protection; but in any case its return to independent power is out of the question. The Labour party has officially set its face sternly against co-operation with the Liberals, and is itself divided. The constant tendency towards a schism between the trade-unionist and the "intellectual" wings of the party was manifested in the suspicion and resentment aroused in the rank and file by Sir Stafford Cripps's plan* for the use of emergency methods in bringing the socialist State into being. His proposals have now been definitely turned down by the party executive. Events abroad have inculcated in the British working man a healthy distrust of dictatorships, which are wholly incompatible with the British ideals of democracy, freedom and the rule of law. In external affairs, the Opposition complaint is that the Government have failed to express clearly and decisively British popular insistence upon real measures of disarmament. The new disarmament proposals are an answer to that challenge. At home, the Labour party offers socialism in the lump as the alternative to the general policy of letting capitalism heal itself—a feat which it certainly seems to be performing, however slowly—but the burden of its present appeal to the electors is an attack on the Government's social programme.

* See *THE ROUND TABLE*, No. 93, December 1933, p. 148.

Housing

I. HOUSING

ONE of the favourite battlefields picked out by the Opposition is the problem of housing. "Cynical apathy" is among the phrases used by a well-known weekly journal about the Minister of Health, and even some supporters of the Government, like *The Times*, have expressed a certain uneasiness as to the adequacy of official policy. Briefly, the position is this. When the National Government took office, government assistance to housing took two main forms: the "Wheatley" Act of 1924, under which a subsidy* of £9 per annum for forty years was payable to local authorities and other responsible entrepreneurs upon each new workman's house conforming to certain specifications; and the "Greenwood" Act of 1930, under which an annual subsidy* of £2 5s. for each person rehoused was payable to local authorities for forty years in connection with slum clearance schemes. The Government, partly for reasons of economy, and partly in order to concentrate both financial resources and the energies of local authorities on what they considered the more urgent part of the problem, terminated the 1924 Act, while retaining the Greenwood rebuilding subsidy. They laid plans for an energetic slum clearance programme, to be carried through by local authorities, taking powers to compel activity should the authorities prove reluctant or procrastinatory; and they initiated a scheme for a government guarantee to advances by building societies for rehousing purposes.

The core of the case against the Government is the alleged inadequacy of the provision made for new houses to let at rents that working people can afford.† The

* These subsidies were varied to meet rural conditions or specially congested conditions which made tenement buildings necessary.

† The vital importance of keeping rents low is illustrated by the many medical reports that record an actual deterioration of health among people taken out of slums and accommodated in local authority houses—simply because they have to pay higher rents and so can afford less food.

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slum clearance campaign does nothing to meet this broad problem, for although under the 1930 Act local authorities must provide rehousing accommodation for people displaced on account of clearance schemes, any initial shortage of houses would remain unrelieved. The slums cannot be abolished, as a malignant growth may be cut out of the body, by replacing a determinate number of bad old houses with new and better ones ; they are a general disease, the product of poverty on the one hand, and on the other a chronic insufficiency of houses. Several attempts have been made to estimate the size of the actual housing shortage. Sir Raymond Unwin, past-president of the Royal Institute of British Architects, has estimated that, in addition to three-quarters of a million houses required to make up an existing deficiency in terms of overcrowding, there are half a million houses not fit to live in, and another half million which " fall below any decent standard of accommodation that any of us would set up." *The Times* puts the requirements at a million houses at least, to let at an inclusive rent of not more than 10s. a week.

Is this gap likely to be filled under existing conditions ? The five-year plans so far submitted by local authorities under slum clearance schemes contemplate the demolition and replacement of some 240,000 houses. This would represent a great advance on anything that has yet been done in this direction, but of course for every new house there would be an equivalent destruction of former housing accommodation. There will be a " carry-over " of 84,000 houses to be built under the expiring Wheatley Act. The remainder of the contribution of local authorities is likely to be very small—in the year ended September last they built only 1,236 houses without subsidy. That leaves a tremendous task for unassisted private enterprise—not only to make good practically all of the present shortage of a million or more houses, but also to take care of the normal expansion of the population, and to meet the inevitable process of deterioration in existing houses. Some-

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thing may be expected from the efforts of building societies under the terms of the 1933 Act, but moderate opinion does not expect much from this possibility. Still less sanguine are the hopes that unsubsidised private building will be adequate for the huge task that has been outlined. In the six months to September last, it was responsible for no more than 14,500 houses to let, and in all for only 29,000 of a type (according to the Minister) appropriate for the lower-paid manual workers. The Bishop of Winchester, appealing in the House of Lords for a more vigorous housing policy, aptly applied to the present situation the Red Queen's explanation to Alice : " It takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."

Beside what may be called the technical aspect of the housing problem, there are certain general considerations that are even more forcible. Overcrowding and evil housing conditions are vile blots on our social system, fostering vice, disease and the despair that breeds revolution. Over against the work of eradicating them, as yet unaccomplished, stand two and a half million unemployed men and women. The paradox of poverty in the midst of plenty was never so grim as this. Trade is improving, but it is still thin and sickly by reason of the diminished purchasing power that the army of unemployed betoken. Public works of the ordinary kind have been found too costly as a means of relieving unemployment, but in the case of housing some financial return is assured, while the social value is obvious. Surely, it is said, this is a splendid opportunity at once to solve a social problem and to inject the wanted purchasing power into a flaccid economic system.

The counter-proposals of the critics are varied. The Labour case includes, of course, the restoration of the Wheatley subsidy. While the subsidy undoubtedly stimulated housing during a period of grave scarcity and high prices, there are a number of objections to it now. It is

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expensive. The present capital value, at $3\frac{1}{2}$ per cent., of £9 a year for forty years is £192, which is roughly two-thirds of the total cost of building non-parlour houses of the required type to-day. The steady fall in building costs has clearly rendered the amount of the subsidy excessive. That consideration leads on to the second great objection to a general subsidy, namely, that it is paid not only to the "marginal" builder but also to the local authority or private builder who would have put up the house without the subsidy, or with a reduced subsidy. Thirdly, there is the lasting objection that a subsidy penalises and discourages private enterprise which, for one reason or another, is not in a position to qualify for it.

For these and other reasons, including the popularity of "planning" as a primary dogma of political economy, the idea of a national housing organisation has been gaining ground. Sir Raymond Unwin and others put before the Moyne Committee* a proposal for such a national board, operating through independent public utility societies. The financial basis would be a government guarantee of the principal and most of the interest on a housing loan. The Committee, not being convinced that the proposal would involve no public charge, regarded themselves as precluded by their terms of reference from recommending its adoption. However, they thought it desirable to indicate why, on the information before them, they would have come to a similar conclusion even without that limitation.† First, private enterprise would be exposed to a new form of subsidised competition and would be effec-

* For a summary of the Moyne Committee's report see *THE ROUND TABLE*, No. 92, September 1933, p. 860. The terms of reference of the Committee barred any recommendations for promoting the supply of working-class houses that would involve a public charge; and indeed the Committee explicitly sought to adjust their proposals to the Government's policy, which was "to rely in the main on competitive private enterprise to provide a new supply of accommodation for the working classes."

† Two Liberal members of the Committee—on which the Labour Opposition was not represented—appended minutes of dissent from the passages dealing with a national housing authority.

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tively prevented from entering the field of working-class housing. They could therefore recommend the proposal only if the time had come when the provision of working-class houses must become finally and exclusively the function of public authorities, and they refused thus to assume that the Government's policy was a failure. Moreover, even if private enterprise should fail, the Committee were not satisfied that the appropriate remedy was not to be found in the provision of unsubsidised houses by local authorities. As between administration of housing service by local authorities, and its administration by a new central and local public utility organisation responsible to Parliament on major issues of policy, an important question of principle was clearly raised. The Committee's opinion was that no sufficiently strong case had been made to them for the creation at this juncture of such a new organisation. However, they incorporated the principle of the suggestions made by Sir Raymond Unwin in their proposals regarding reconditioning, which, they thought, would afford an opportunity of increasing the potentialities of the public utility society, operating within a limited field and properly co-ordinated with existing agencies.

This rebuff has not daunted the advocates of a national housing authority. Their case, in brief, is that a national scandal demands national responsibility and a national effort; that private enterprise demonstrably cannot provide the cheapest workmen's dwellings on the scale required; that local authorities are usually slow and often incompetent; that the economies of mass purchase could be effected and experience could be pooled; and that the lowest possible rate of interest—obviously a critical item in housing finance—could be obtained. In connection with the last point, some exponents of the scheme call for a national appeal on a semi-charitable basis, in order to raise money at a rate of interest well below the accepted economic level, say 2 per cent. The controversy goes on, nor will it end until—by some means or other—the terrible

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evil of bad housing conditions is eradicated from our social life. The sense of public responsibility is growing deeper, and the Government will obviously be courting danger if they pay no heed to the demand for a more heroic policy.

II. UNEMPLOYMENT INSURANCE

THE continuance of large-scale unemployment gives the Opposition another target for their attacks on the Government. On December 5, the Unemployment Insurance Bill* passed its second reading in the House of Commons by 435 votes to 81, but not before it had been subjected to criticism from a number of different quarters. The list of complaints against the measure that was given in the last issue of *THE ROUND TABLE* has since been considerably lengthened. Mr. Greenwood mentioned some when he moved the following amendment on behalf of the Labour Opposition :—

That this House declines to assent to the second reading of an Unemployment Bill which fails to recognise that all the victims of the unemployment which is involved in the modern system of industrial capitalism are entitled to equal and honourable treatment and maintenance from national funds so as to preserve intact their value to and status in the community.

Mr. Greenwood alleged that the allowance for out-of-work juveniles was miserably inadequate; that nothing satisfactory was being done for agricultural labourers and domestic servants, while "the black-coated worker was to be allowed to continue to rot in suburbia with only the poor law before him if he fell on bad times"; that the Bill attempted to fasten permanently on the insurance system rates of benefit imposed two years ago; that, so far from freeing the able-bodied unemployed from the stigma of the poor law, it centralised and intensified the

* For a summary of the Bill, see *THE ROUND TABLE*, No. 93, December 1933, p. 126.

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poor law principle; and that the local authorities, who ought not to have to pay a penny of the cost of relief to the able-bodied, were being treated unfairly.

Other criticisms that have been made on both sides of the House include a protest against saddling the fund with debt incurred, so it is claimed, largely on account of relief payments which ought not to be charged to the finances of insurance. Mr. Chamberlain retorted that as much as £76,000,000, out of a total debt of £115,000,000, was incurred in the two years following April, 1930, when the Exchequer had already assumed responsibility for all payments to the unemployed who could not prove their right to insurance benefit proper. The Chancellor said that he could not conceive a worse way of starting a new fund on a self-supporting basis than to suggest that it did not matter what debts the fund ran up because in the end the State would bear them. With regard to the local authorities, who claimed to be relieved of all charge in connection with the relief of the able-bodied, and who protested against contributing to a service in whose administration they were to have no part, the Chancellor urged that they had been very favourably treated in the Bill. Of their present expenses in that connection, 40 per cent. were to be taken over by the Exchequer, without any readjustment of their block grants, with the result that, in sum, the Exchequer would now pay 95 per cent. and the local authorities only 5 per cent. of the cost of the relief of the able-bodied unemployed, outside insurance. However, in response to urgent pleas that the cost of unemployment relief would still fall with inequitable severity on the distressed areas, the Chancellor later announced a concession, whereby the present special grant to necessitous areas would be deducted from the cost of local unemployment relief before reckoning the 60 per cent. payable by local authorities to the Exchequer. This represents an allowance of about £300,000 a year to those areas.

With regard to the provisions for unemployed juveniles,

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the Minister of Labour declared that the Government were wholly opposed to what might be called "doles for children"; they thought it fair, however, that the parents of unemployed lads or girls, if themselves unemployed and insured, should receive a special benefit. The real object of those provisions was not financial at all; it was to make sure of getting hold of the children so as to give them industrial training while they could not find work. The Government gave an earnest of their determination in this field by agreeing in Committee to take powers to compel reluctant local authorities to provide sufficient training centres.

More than one Government spokesman strenuously denied the accusation that the Bill perpetuated the present scale of unemployment benefit. On the contrary, within the limits of their instructions to maintain the solvency of the fund, the Unemployment Insurance Statutory Committee would have complete liberty to recommend to Parliament what changes they pleased. If there were a surplus, they could, if they wished, dispose of it by increasing benefits, or otherwise, for the advantage of the insured population. In this connection, the Opposition seemed not to make quite as strong a point as they might of the way in which the Government seek to dispose of the present prospective surplus, amounting to some £8,500,000 (on the basis of two and a half million unemployed, which is the figure used in all official calculations for the purpose of the Bill). The proposal is to extend the period of insurance benefit beyond the present maximum of 26 weeks, for those with a good record of contributions. This enlargement of the scope of insurance relieves the Exchequer of £6,250,000, but adds £8,350,000 to the charges on the fund. The margin of £2,100,000 represents the difference between insurance benefit and unemployment assistance for the 167,000 persons who at any one date would, on the average, be thus brought within the field of insurance. To them, at least, that is a sub-

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stantial monetary concession, and in addition they will no longer be subject to the means test, but the critics point out that the Treasury gains £6,250,000 at the price of abolishing all immediate prospects of restoring the cuts in unemployment benefit, which were part of the admittedly temporary economy measures of 1931. The question has a disconcerting reverse aspect. If the expenditure of the fund were to start exceeding its income, would it not be open to the Statutory Committee to recommend the opposite process of transferring classes of unemployed from insurance to relief? The Government could have no defence in principle.

This illustrates one of the inherent difficulties of the dual system of aiding the unemployed. The only way in which it can be completely avoided is to adopt the Labour policy of equal maintenance for all persons unemployed against their will, whatever their record of work or period of unemployment. The conception embodied in the present Bill is that the insurance scheme must deserve its name, by balancing income and outgo, while beyond its confines the unemployed worker must be granted State maintenance according to his family needs. That conception, however, is not really scientific, though it provides a valuable working rule; in the absence of a contract between the parties, general principles of insurance provide no answer to the question whether a man who has had such-and-such a record of contributions, and such-and-such a spell of unemployment, ought to be regarded as still insured or not. Nor is the distinction drawn by Mr. R. S. Hudson, the Parliamentary Secretary of the Ministry of Labour, between long-term and short-term unemployment any more decisive; indeed, in extending the maximum period of benefit from 26 to 52 weeks the Government themselves are undoubtedly bringing in the long-term unemployed. Their right to decide the issue is strongly founded on the fact that the Exchequer contributes some £20,000,000 a year to the insurance fund; but that does not alter the conclusion that the point at

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which the unemployed cease to be insured, and therefore can no longer claim benefit as of right is, in the last resort, an arbitrary one.

That argument is one of the handiest weapons available to the Labour Opposition in their attack on the means test, which has been applicable since 1931 to all those seeking unemployment assistance outside the insurance scheme. The Minister of Labour was at some pains to defend the principle of the test in moving the second reading of the new Bill. The proposal, he said, that every unemployed man should receive out of the pockets of his fellow citizens a fixed payment as of right, whether he needed it or not, would involve the closest control by the State over the terms and conditions of industrial employment. The workers themselves would never agree to the regimentation required. It was right that a man should turn to his family for help in need before he called upon the community. A service based on need, said Mr. Hudson, had the convincing advantage that it at least attempted to have some serious regard to the principle of equality. It did not add equal benefits to unequal resources, but sought to apportion the assistance available in such a way that the greater measure of help reached those whose need was most. A Liberal critic complained that the test of household means worked unjustly, promoting a break-up of homes, and that either the individual or the family would be a preferable unit. The Labour party took the plunge and made their case a complete negation. One of their spokesmen said that if they became the next Government they would remove the means test entirely and absolutely. The assumption on which the Government were proceeding, said Mr. Aneurin Bevan, was that unemployment was primarily the responsibility of the individual citizen, whereas the Labour party took the view that unemployment was a social act. The longer a man had been idle, the heavier the crime that society had committed against him.

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The Labour campaign for higher benefits to the unemployed, whether insured or not, has probably been helped by the publication of the report of a special committee of the British Medical Association, estimating the minimum weekly expenditure on foodstuffs that must be incurred if health and working capacity are to be maintained. The figure for a man, wife and three children was 20s. 0½d. If this amount is adjusted in accordance with subsequent changes in the cost of living, and supplemented by an allowance for rent, clothing, fuel and light, based on the Merseyside Social Survey, then the total becomes 37s. 3d. per week. This compares with unemployment benefit of 29s. 3d. on the present scale and a maximum of 27s. payable by the public assistance authority of a typical provincial city. It is clear, wrote a commentator in *The Manchester Guardian*, that unemployment assistance cannot at one and the same time be adequate for the needs of its recipients and be less than insurance benefit. Either the assistance must remain insufficient or the benefit must be raised.

The paradox would find at least a partial solution in an increase of the rates of dependents' allowances, since the discrepancy between actual benefit payable and estimated minimum needs is comparatively small for a childless man, whether married or not, and it increases progressively with the number of children. Support was forthcoming from members of all parties for an amendment to the Bill designed to raise the benefit for a dependent child from 2s. to 3s. a week; but the Minister was adamant, pleading that Governments of different complexions had always regarded the lower figure as proper in the past, when the cost of living was actually higher. The Government, indeed, are faced with a difficulty of principle. The very existence of dependents' benefit is a tacit admission that even the insurance system partakes of the nature of State maintenance; for on no other basis could an insured person have an extra claim simply because he fathered more

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children. To increase dependents' benefits would be to emphasise this aspect of the system and to blur the distinction—which is the key to the Government's policy—between insurance and relief. Their general attitude in Committee, however, has been one of sympathy towards amendments genuinely designed to improve the Bill and to remove grievances. For instance, in order to allay suspicions that they were reviving the old "genuinely seeking work" clause, they agreed that an applicant for benefit should be required to show, not that he was "unable to obtain suitable employment," but only that he had not neglected to avail himself of an opportunity of obtaining suitable employment, the onus of proof being on the officer of the employment exchange.

The Government cannot fail to realise that the problem of unemployment insurance is one of vital and daily importance to a very large part of the population. To-day the registered unemployed number about two and a half millions; but it is not they and their families alone who are affected by the terms of unemployment insurance and relief. Every wage-earner in the country runs some risk of falling out of work. Unemployment is the bugbear of the working life of twelve and a half million men and women in the insurable trades alone. In the seven years ended 1930 a measure of unemployment was experienced by nearly two-thirds of the insured population, excluding new entrants to industry. In 1932 alone, a bad year, five and a half million insured persons were out of work at some time or other, and 40 per cent. of them reached the point at which their insurance rights expired. Not a remnant of down-and-outs, but the whole working population of the kingdom, with their dependents, are intimately concerned with the provisions of the Unemployment Insurance Bill.

Industrial Reorganisation

III. INDUSTRIAL REORGANISATION

THE steady fall in registered unemployment met with a check in January. The rise in the total, though largely seasonal, was a little sharper than had been looked for, and the slight setback in the metal trades, in iron and steel and engineering, and in the textile trades suggests that some slackening in export activity is to be expected. The pace of our advance towards recovery is likely to slow down, for in the last few months the external conditions have not been too encouraging, and the American uncertainty still dominates world trade. The speeches of the bank chairmen in January were fairly optimistic, but most of them were concerned to emphasise the limits that are set to trade revival by present international conditions.

The political aspects of industry have again been well to the front. The case of iron and steel illustrates the extraordinary difficulty of securing any large concerted measure of internal reorganisation in British industry. Reorganisation schemes have been under discussion for half a dozen years. When, in 1932, the Import Duties Advisory Committee, after some hesitation, gave the industry tariff protection, it was on condition that comprehensive reorganisation should be undertaken. Twelve months ago the industry presented to the Government a scheme (or rather a scheme for creating the machinery of a scheme), which the Chancellor of the Exchequer welcomed as "only the first stage." But the scheme failed to secure the support of many manufacturers, and had to be revised. The Import Duties Advisory Committee has pointedly reminded the industry that the duties expire next October, and has urged the immediate acceptance of the amended scheme in order that a renewal of the duties may be recommended. The scheme has not, however, secured united backing. It was publicly attacked, on January 30, by Sir William Firth, the chairman of the London Iron and

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Steel Exchange, as "being framed on lines that will make co-operation palatable to all, by making it as comfortable and as profitable as possible," as securing profits in the home trade but doing nothing to reduce costs of production, and as being dependent on voluntary price agreements which, if fixed on the basis of the less efficient plants, would not hasten the excision of redundancy. Sir William Firth could see no remedy but for the Government to step in and compel concentration of production. The defenders of the scheme retorted by demanding protection until the industry works out its own salvation, and by urging that voluntary co-operation will in time secure sufficiently good results. This remains to be seen. In the interests of the industry itself the Government should be reluctant to give up their weapon of a conditional tariff so long as doubts exist whether a scheme that is primarily designed for price-fixing and output regulation by quota will lead to the rapid elimination of obsolete plant.

The experience of the coal industry in the same field is not encouraging. The Government has now brought in a short Bill to amend the schemes for the regulation of output and prices under the Act of 1930. Although they admit the necessity of amendment, the owners have been unable to reach voluntary agreement on its form. Nor is the industry any more disposed than it was towards reorganisation. In December the Coal Mines Reorganisation Commission issued an almost despairing account of its struggles to persuade the coalowners to co-operate in promoting amalgamations and in concentrating production by the closing of pits.

The picture now presented by the greater part of the coal mining industry (wrote the Commission) is one of haphazard development of each coalfield by a large number of unco-ordinated units, brought into existence on no rational plan, nearly all working below capacity, competing suicidally, whether in capital expenditure or in prices, or both, for a market that cannot absorb the product of all. If in a coalfield which is being worked like this an authority were created

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capable of exercising control over each in the interests of all, it is inconceivable that no room would be found for lowering the costs of production by getting rid of the waste, duplication and misplaced effort that are the inevitable consequence of the outlook of each being bounded by the horizon of his own concern.

The Mining Association, however, will be satisfied with nothing less than the abolition of the Commission. The West Yorkshire owners have failed to give full support to their district scheme for "partial amalgamation," under which a group of operating units, otherwise independent, would form a central authority to co-ordinate their selling policy, to administer a fund (raised by levy) for closing superfluous pits, and to exercise general control over the development of the area in the common interest. The Commission has taken up the West Yorkshire principle as being the next line of advance, and is moving for its compulsory application there and in several other areas. But the process will be long, and the legal obstacles numerous. It may be noted that the Commission has made a strong point of the need for dealing with royalties, either by nationalisation or by some less sweeping method, as a condition of thorough reorganisation.

In the cotton industry discussions on reorganisation have become entangled with other issues. Cotton spinning employers have formed and, still more remarkable, have maintained for two months agreements to prevent price cutting. If these break down the movement for statutory intervention to enforce majority decisions will become very strong. The need for some common authority to deal with redundancy is now generally admitted. On the manufacturing side, employers are more preoccupied with problems of the enforcement of wage standards against an under-cutting minority. In January employers and weavers jointly approached the Government with a view to the statutory enforcement of agreements, and a Cabinet statement of policy is awaited.

These domestic questions in the cotton industry,

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however, have paled beside the commercial politics of Japanese competition. Every week has seen an outburst, either in the House of Commons or in public meetings in Lancashire, against the Government for its supposed indifference. The President of the Board of Trade, Mr. Runciman, went down to Manchester for two days to interview all the cotton interests and to try to relieve their fears. The Government has been consistent: it adheres to a policy of seeking to temper the fierceness of the competitive struggle by marketing agreements based on a voluntary control of exports; it will only employ severe hostile measures against Japan in Empire markets as a last resort. Commercial bargains, however, are not easily made. It was not until early in January, after more than three months of negotiation, that the terms of a new commercial treaty were arranged between India and Japan. The direct negotiations between Lancashire and Japan, which, it was hoped, would have opened last September, did not begin until February 14. The delays may well try the patience of merchants and producers driven almost to desperation by their unequal combat with Japan's depreciated currency and reckless sales methods. But what else can be done? Sound advice was given by Sir Harry McGowan, the chairman of Imperial Chemical Industries, in a speech on January 27, on his return from Japan. He urged strongly that policies of mere exclusion would not succeed. "Protection is no substitute for efficiency"; British and Japanese exporters must co-operate to share export markets, but British industry must not forget that without the backing of an ever improving productive and selling efficiency there could be no lasting solution.

In the field of industrial relations the calm of 1933—when the number of working days lost through strikes was the lowest on record—has continued. Movements for increased wages are, however, stirring in several industries, especially among the sufferers from the "cuts" of 1931. The railway companies and unions have still been unable to

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agree on new conciliation machinery. In the wool textile industry, after three years of chaos, there is promise of a restoration of collective bargaining. In ship-building there is a deadlock over the introduction of a new type of labour for electric welding. In coalmining the miners have failed once again to persuade the Government to compel the owners to adopt national conciliation machinery, but there is no immediate prospect of a breach of the industry's peace.

Although external trade has notoriously failed to keep step with internal industrial recovery, the figures for 1933 were by no means discouraging. Compared with the previous year, imports of merchandise fell by £25·8 million to £675·8 million, and re-exports by £1·9 million to £49·1 million; but exports of British products rose by £2·4 million to £367·4 million. This increase in exports, which was, indeed, greater in volume than in value owing to the fall of prices, was all the more remarkable in view of the continued high level of tariffs and other obstructions throughout the world, and of the prevailing exchange uncertainty. The abandonment of the gold standard by the United States in March was reflected in an increase of our imports from that country, but her industrial recovery and the expectation of a rise in American prices together produced a simultaneous increase in her purchases from us.

Considerable anxiety, however, has been caused by the more recent American policy of forcing down the gold value of the dollar and later of establishing the gold bullion standard at an exchange rate well below that indicated by comparative price levels. Traders fear enhanced American competition as well as an additional barrier to American markets. It is true that at the start of the new system the pound has followed the dollar rather than the franc and other "gold-currencies"; but the forces that have produced this effect—notably the rush to buy francs in order to withdraw gold from the Bank of France for sale to America—are largely evanescent, and in the long run there can be no evading the commercial con-

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sequences of the under-valued dollar. Yet there are several hopeful signs in the financial sky. The N.R.A. codes and the Administration's spending policy are expected to cause before long a substantial rise of American prices. Industrial recovery in the United States, such as seems to be again under way, means a rising market especially for raw materials, a market in which we share both directly and indirectly through our overseas interests. Finally, although all-round stabilisation cannot be contemplated until relative price systems are brought into closer equilibrium, the re-attachment of the dollar to gold is probably a necessary, though an oblique, step towards that goal.

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I. DOMINION OR REPUBLIC ?

OUR present and future relations with Great Britain dominate, and are likely to continue to dominate, the political situation in the Free State. And as the discussion and development of this great central problem proceed, the line of demarcation becomes clearer between those Irishmen who live solely in the past, whose supreme motive is hatred of England, and those who live in the present, whose real inspiration is love of Ireland.

General O'Duffy, the leader of the United Ireland party, defined his attitude towards this important question from a rather material standpoint at Kilkenny on October 22. He stated that his view of the British Commonwealth was that it was good business for us to accept full partnership in it. About the terms of that partnership we had, he said, as much right to say what they should be as anyone else. Our permanent membership of the British Commonwealth, and the stable settlement of our political relations with Great Britain, in his opinion, depended entirely upon whether or not the partition of Ireland was going to endure. They were going to work for the reunion of all Ireland, because they were convinced that only by the reunion of North and South could the permanent prosperity and peace of Ireland be attained. The detailed statement of policy issued by his party on November 11 unequivocally accepts "the voluntary reunion of all Ireland in a single independent State as a member, without any abatement of Irish sovereignty, of the British Commonwealth in free and equal partnership for mutual benefit with Great

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Britain, Canada, South Africa, Australia, and New Zealand." The party proposes to re-open the partition question with Great Britain and Northern Ireland, as the greatest obstacle to the full acceptance by the Irish people of the Commonwealth partnership. It aims at an advantageous settlement, by direct negotiation, of the financial dispute with Great Britain, and a trade treaty which will secure the most favourable terms for Irish goods in the British market. Pending such a settlement, the new party demands the complete remission of land annuities and rates on agricultural land, and a permanent reduction of the original annuities by at least 50 per cent. Other proposals involve the establishment of agricultural and industrial corporations with statutory powers, and the absorption of the able-bodied unemployed in a reconstruction corps for carrying out public works on a national scale. The statement announces the unconditional hostility of the party to communism; it proposes to abolish the proportional representation system of voting; and it contains the usual vague and rather grandiose declaration of ideal aims common to all such documents in Ireland. In this case, these aims are "the abolition of class consciousness and of narrow and intolerant conceptions of patriotism, and the creation of a national spirit based on cordial and constructive co-operation between all sections of the community."

Mr. de Valera's paper, *The Irish Press*, asserts, with some truth, that the economic policy of the new party is stolen from Fianna Fail, and that the remainder consists of scraps garnered from foreign sources. The proposal to abolish proportional representation, a distinctly retrograde step to which Fianna Fail objects, and the suggestion that "disciplined service" is to be inculcated through the Blue Shirt organisation, would seem to suggest that the new movement intends to take a fascist direction; but the party newspaper, *United Ireland*, claims that their scheme of national organisation "will not be of a socialistic or bureaucratic character, but democratic, and will grow

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directly out of the various economic activities of the community."

The Ard Fheis, or annual convention of the Fianna Fail party, which was held in Dublin on November 8 and 9, enabled Mr. de Valera to state once more his attitude towards England, and to deal with the complaints of his followers, who were by no means silent or complaisant. He claimed that the ideal of his Government was enshrined in the proclamation of the Irish Republic in 1916, which guaranteed religious and civil liberty to all citizens. It was true they had not a republic to-day, but they had the opportunity of ruling well or ill. They were preparing the way for the day when there would be a free and independent Irish republic functioning in the country. They were quite willing to co-operate with Great Britain, and realised that the two nations, living so close together, had a great deal in common; all that they asked was that their position should be recognised by Great Britain and the world in general. Regarding Northern Ireland, he said once more that the Government believed that the only solution of the problem was for them in the Free State to work effectively to bring things to such a happy position there, that the six counties would be only too glad to come into the Free State of their own free will. He frankly admitted his disappointment at finding that the removal of the oath had not made co-operation possible between his party and the extreme republicans, and, although pressed hard by the extremist wing, declared that he would insist on order and equal liberty for all. To a demand for the release of the republican prisoners sentenced by the Military Tribunal, he replied that any Government under which politics became a shield for crime must collapse in anarchy, and that his Government would be a firm and impartial protector of the law. At the same time, however, he sought to placate this extreme element by the announcement that all service pensions granted by the Cosgrave Government to able-bodied men

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who fought in the 1916 rising and the civil war would be withdrawn. This proposal is naturally considered vindictive by his opponents, and is likely to lead to much bad blood. Its moral cost will greatly exceed the money saved.

At the conclusion of the Ard Fheis, Mr. de Valera made an urgent appeal for unity between the various political parties in the Free State, and said that, whilst he did not want anyone to sacrifice principles, his aim was to get the Irish people into one national body under one leadership. On behalf of the United Irish party, Mr. MacDermot replied that they had always been ready to support Mr. de Valera in maintaining order, and that they were not inclined to obstruct his domestic policy of economic development, but when it came to his external policy there were fundamental differences as to whether it was consistent with good faith or national prosperity, and Mr. de Valera could not expect his opponents to be false to their convictions on these vital issues.

It is interesting to note that, in spite of their republican declarations, Mr. de Valera's Government have agreed to contribute their share towards the expenses of the new Imperial Economic Committee, a contribution which he justifies on the ground that its aim is to get co-operation between nations on a footing of equality in matters of common concern where it is in their interest to co-operate—a definition which he does not apparently realise might equally be applied to the working of the British Commonwealth as a whole. But the issues between the Free State and Great Britain were raised in a more serious fashion on November 14, when Mr. Thomas, the Dominions Secretary, in answer to a question in the House of Commons, stated that the British Government were advised that the three Bills* recently introduced by Mr. de Valera's Government for the amendment of the Free State constitution, and the abolition of the right of appeal to the Judicial Committee of the Privy Council, involved a further repudiation of the

* See THE ROUND TABLE, No. 93, December 1933, p. 169.

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obligations entered into by the Free State under the Treaty of 1921, and that the Free State in its intention "gradually to eliminate the Crown from the constitution" was "tending to lose" the advantages which membership of the Commonwealth brings. It is difficult to see on what grounds Mr. Thomas made this statement, as no less an authority than Professor Berriedale Keith is of opinion that the amendments to the Free State constitution, to which Mr. Thomas objects, are "manifestly and undeniably within the powers of a Dominion, as laid down by the Imperial Conferences of 1926-30, and as provided in the Statute of Westminster." Canada, as Professor Keith points out, has in fact recently abolished all criminal appeals to the Privy Council.

Mr. de Valera naturally took immediate advantage of this *faux pas* to re-open the issue. In a dispatch dated November 29, addressed to Mr. Thomas, he said that the experience of the last twelve years had made it abundantly evident that lasting friendship could not be attained on the basis of the present relations. The Free State Government (he added) inferred from Mr. Thomas's statement that the British Government had decided not to treat a decision of the Irish people to sever their connection with the Commonwealth as a cause of war or other aggressive action. He asked for a direct and unequivocal statement on the matter. Such a statement would, he said, be the first step towards that free and friendly co-operation in matters of agreed common concern between Great Britain and Ireland which ought to exist between them. Mr. Thomas, replying for the British Government, pointed out that the 1921 Treaty was duly accepted by the elected representatives of the people of the Free State, and confirmed at succeeding general elections, and that the British Government did "not feel called upon to say what attitude they would adopt in circumstances which they regarded as purely hypothetical."

British opinion seems to have been almost unanimous in

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considering this reply a masterpiece of diplomacy, which left Mr. de Valera guessing and gave him no material for propaganda. There are, however, many people in the Free State who think that the British Government lost an excellent opportunity of stating its position decisively and clearly. They feel that, without admitting the right of the Free State to secede from the Commonwealth by unilateral action, the British Government might have pointed out that, if the Free State did of its own free will decide to secede, such a decision would not be opposed by force of arms, though it would involve certain serious and inevitable consequences; that on no account would the British Government permit the Free State to interfere with Northern Ireland; and that such secession would therefore make the partition of Ireland permanent. In fact, the two dispatches illustrate very clearly the difference in the political mentality of the two peoples: the Irish demanding and expecting a logical answer to a definite question, and the English disliking and distrusting logic in the sphere of politics, and applying a policy of *solvitur ambulando* to the issues raised. So, for the present at all events, the people of the Free State must continue to live in a hypothetical republic.

The position was not improved by Lord Hailsham's statement in the House of Lords on December 6 that the Free State Government could not, consistently with the terms of the Treaty, repeal the right of appeal to the Judicial Committee of the Privy Council, and that their right to do so might be raised for determination by the Privy Council itself. This statement provoked Mr. Cosgrave to declare that the only method now appropriate to Commonwealth conditions is conference and negotiation. Any attempt, he said, to subject to a ruling from the Privy Council constitutional matters, arising even between Great Britain and those Dominions which were the creation of the British Parliament, might have a very disastrous effect on the continuance of the Commonwealth. He added that where Commonwealth relations, as in the case

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of the Free State, were based upon an international agreement, the suggestion was intolerable. The incident is revealing because it shows that the British Government's quarrel with Mr. de Valera may easily, through mismanagement, become a quarrel with the people of the Free State, in which the British Government would be contending for conditions that even the strongest supporters of the Treaty in Ireland consider humiliating and indefensible. It is desirable that the British Government should realise that it must deal not only with Irish but equally with Dominion feeling in such matters, for what is Ireland's case to-day may be some other Dominion's to-morrow. Far-seeing Irishmen believe that this fact protects their liberty within the Commonwealth far more securely than would be the case if the Free State were a republic.

Mr. Frank Aiken, the Minister for Defence, who undoubtedly speaks with Mr. de Valera's authority, has recently announced that the next step on the road to national freedom will be to get authority from the people to abolish the post of Governor-General, and to substitute the signature of the President of the Republic for the signature of the British King in the appointment of foreign representatives. The Free State Government, he added, had quietly but effectively turned the King's representative, and the King himself, into automatons; they signed what they were requested to sign by the Executive Council.

But Mr. de Valera's dispatch did not please the extreme republicans, and Cumann na mBan, their women's organisation, roundly declares that "during Ireland's seven hundred years' struggle she suffered many humiliations, many defeats, but this last appeal to England for mercy and quarter before we proclaim our God-given right to freedom is the greatest insult any leader, even of constitutional movements, ever offered this country." The Irish Republican Army also strongly objects to the new armed force of 15,000 volunteers, which the Government proposes to

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recruit throughout the country. They believe that this force is being organised as a political instrument for the seduction of members from their own organisation, and colour is lent to this view by the fact that the recruiting officers appointed in each area are not ordinary army officers but ex-members of the I.R.A. who fought against the Free State Government during the civil war. It is clearly Mr. de Valera's intention to weaken the I.R.A. by providing its past and present leading lights with lucrative employment. The new force may also provide a counterweight to the regular army, which has so far maintained its integrity, and held itself aloof from political intrigue. Mr. de Valera further enraged the I.R.A. by standing as a candidate, and being elected, for South Down in the Northern Ireland general election against one of their candidates, who was defeated. As he has, apparently, no intention of taking his seat in the Northern Parliament, it is hard to see what purpose this performance can possibly serve except to disfranchise the constituency.

With the Labour party his relations are more friendly. A special committee of three members, representing the Labour party and organisation, meets him once a fortnight in order to discuss policy and legislative developments, and so far the proceedings of this conference are reported to have been amicable, but the extremist elements declare that this result has been obtained only by the complete abdication of Labour leadership and policy, and by acquiescence in the "vicious industrial system," which, they claim, Mr. de Valera's Government is seeking to build up in the Free State.

The death of Mr. Joseph Devlin, M.P., has removed from the Irish political world the last surviving leader of the Irish Parliamentary party, and the most prominent Nationalist figure in Northern Ireland. A man of many gifts and generous heart, he devoted them with unselfish zeal to the service of his country and his native city, Belfast, where he was universally respected. Practically every political

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party in Ireland was represented at his funeral, for in death alone we are not divided.

II. MARTIAL LAW

THE most striking commentary on Mr. de Valera's domestic policy is the fact that after two years of his government the country is virtually under martial law, and that all political offences are now tried by the Military Tribunal, for the creation of which he could hardly find words strong enough to condemn Mr. Cosgrave's Administration. The truth of the matter is that without the assistance of this Tribunal he would not be able to govern the country, for the I.R.A. and their associates, by intimidating jurors, who are no longer even partly protected by the suppression of their names, have made any other form of trial impossible. In addition, armed attacks for political reasons have again become prevalent. In October, armed men attacked a dance given by a supporter of the United Ireland party at Ballingar, County Galway, and wounded five people; two young men were assaulted by armed men at night in Listowel, County Kerry, and two other young men, members of the Blue Shirt organisation, named O'Reilly and O'Leary, were taken at night from their homes at Innishannon, County Cork, by armed and masked men, and brutally treated. O'Reilly died in December as a result of his injuries, and is naturally looked upon as the first martyr of the Blue Shirt movement, of which he will probably become the Horst Wessel. It is significant that O'Reilly and his comrade had been mentioned in *An Poblacht*, the I.R.A. paper, a few days before as prominent supporters of General O'Duffy's movement. Those responsible for these assaults have been neither discovered nor punished, but the Blue Shirts have refused to be provoked into reprisals. In November a party of armed men raided the rooms of an official of the Young Ireland Associa-

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tion in Cork, and ransacked the premises ; and a prominent Wexford Blue Shirt was shot down one night while walking home. In the first week of January no less than nine outrages were perpetrated against supporters of the United Ireland party in various parts of the country.

One would naturally have thought that the Government's reaction to conduct of this kind would have been to proclaim the I.R.A. an illegal organisation, but they proceeded instead, on December 8, to ban the Blue Shirt organisation, the Young Ireland Association, which is the youthful wing of the United Ireland party and was originally known as the Army Comrades Association, or A.C.A., and afterwards called the National Guard.* The United Ireland party, in an official statement issued immediately afterwards, pointed out that the Young Ireland Association was a branch of their own organisation, *i.e.*, of a constitutional Opposition party, and that it had the full confidence of their national executive, by which it was absolutely controlled. No ban or suppression, they pointed out, could make illegal things which were of their nature lawful, and the ideals and the methods of Young Ireland were fully within the laws, both of God and of the land. After commenting on the fact that the Government allowed two communist headquarters to remain open in Dublin, and every variety of communist activity to be carried on throughout the country, the statement proceeded to declare that there was nothing illegal about a blue shirt, and that no ban or ordinance could make it illegal to wear one. On this issue it is now clear that no compromise is possible, for the blue shirt has become the definite emblem of Mr. de Valera's opponents, and whatever change is made in the title of their organisation it must remain their uniform. The banning of the Young Ireland Association was justified by the Government on the ground that it was meditating a *coup d'état*, but this seems a poor defence, in view of the fact

* See THE ROUND TABLE, No. 92, September 1933, p. 880, and No. 93, December 1933, p. 165, *et seq.*

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that this particular body is now part of the constitutional Opposition, is practically unarmed, and has not displayed any serious military activity.

Prior to the banning of the Young Ireland Association, police raids were made on its offices and on the houses of General O'Duffy, Mr. Blythe, and other prominent members of the United Ireland party. The Secretary of the Young Ireland Association, Commandant Cronin, was charged before the Military Tribunal with sedition and with being a member of illegal organisations. He was found Not Guilty on the major charge of sedition, but Guilty on the charges of membership of the National Guard and Young Ireland Association, for which offence he was sentenced to three months' imprisonment if he did not enter into recognisances, and as he refused to do this he is now in gaol. It transpired during the trial that, whilst in prison, Commandant Cronin's blue shirt had been forcibly removed by the authorities. Mr. Denningan, the political correspondent of *The Irish Press*, Mr. de Valera's paper, who was called for the defence, admitted that he was the author of a statement in that paper to the effect that the Government proposed to allow a short period to permit members of the Young Ireland Association to leave it, but when asked to disclose the official source of his information he claimed privilege and refused, after consulting his editor, to disclose the name of his informant. The tribunal found him guilty of contempt of court, and sentenced him to a month's imprisonment, a sentence which has been unanimously condemned by Irish journalists.

As soon as the Young Ireland Association was banned, the United Ireland party decided to dissolve it, and form a new organisation, to be known as the League of Youth. They also decided to serve a writ on the Attorney-General, in order to secure from the High Court a declaration that the League of Youth was a lawful body, and so stop in advance any attempt by the Government to declare it illegal. The writ, which has since been issued, bases its claim on

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Article 9 of the Free State Constitution, which guarantees the free expression of opinion and the right to form associations for purposes not opposed to public morality.

But the High Court was soon called upon to decide an even more important question. On December 16, when General O'Duffy, wearing a blue shirt, attempted to address a political meeting at Westport, County Mayo, he and two of his supporters were at once arrested by the civic guard and removed to the local police barrack, amidst scenes of considerable excitement. An application was immediately made to the High Court for an absolute order of *habeas corpus*, which was finally heard before Mr. Justice O'Byrne. He decided, on December 21, that the civic guard officers had not satisfied him, as required by the constitution, that the prisoners were detained in accordance with the law, and therefore ordered their release. His conclusion was that General O'Duffy was arrested, not because he was suspected of being a member of an illegal organisation, but because he went into Westport wearing a blue shirt to address a meeting. He was satisfied that both the arrest and the detention were illegal. General O'Duffy is now bringing legal proceedings for false imprisonment against the civic guard officers who arrested him.

The High Court proceedings were, however, no sooner terminated than a summons was served on General O'Duffy, calling on him to appear before the Military Tribunal on January 2 to answer charges of belonging to two illegal associations, namely, the Young Ireland Association and the National Guard, and of sedition in the shape of alleged incitement to murder Mr. de Valera, in a speech he made at Ballyshannon, on December 9. But the General's legal advisers promptly countered by asking the High Court to make an order prohibiting the Military Tribunal from hearing and determining the charges, on the ground that the offences charged against General O'Duffy did not come within their jurisdiction. When the Tribunal met, on January 2, the day for which the hearing of the O'Duffy

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case had been fixed, the Court, through its President, said that it was satisfied on the question of its absolute jurisdiction in the case, under Article 2a of the constitution,* but that, in order to avoid a clash, the case would be allowed to stand over until further notice. The whole matter illustrates clearly the danger of attempting to set up a military jurisdiction, separate and self-contained, alongside the normal civil jurisdiction, particularly when it is sought to use the military jurisdiction for purely political purposes. The High Court, after several days legal argument, reserved judgment.

Whilst these proceedings were taking place, the Government, no doubt to show its impartiality, arrested twelve republican youths from Tralee, County Kerry, who were brought before the Military Tribunal and charged with riotous and unlawful assembly on the occasion of General O'Duffy's visit to Tralee, on October 6.† They were duly convicted, and received sentences of imprisonment ranging from seven to nine months. These convictions led to organised protests in Tralee amongst Mr. de Valera's supporters and others. It is notorious that County Kerry has been in a state of semi-anarchy for some time, and these developments moved Mr. de Valera to address a meeting in Tralee on December 16. After referring to the long and painful list of outrages and crimes that had happened in Kerry during recent months, he declared that the authority of the Government had been attacked on both sides. They were determined to protect that authority, and to enforce it against everybody. They wanted ordered society, without which there could be no future for the country. There were only two alternatives. Either they were going to have a democracy, or there was going to be a dictatorship, in which the faction that could get the strongest support and most weapons at its disposal was going to be on top. Which was it to be: ordered democracy, or anarchy, followed

* See THE ROUND TABLE, No. 85, December 1931, p. 142.

† See THE ROUND TABLE, No. 93, December 1933, p. 176.

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inevitably by one section imposing its will upon the other? This appeal is a sad commentary on the condition into which the country has been allowed to drift. Unfortunately, it discloses no realisation of the fundamental fact that the great majority of our people would strongly support the Government if they proposed to deal firmly and fairly with all armed disturbers of the peace and unlawful associations, no matter how grandiloquent the titles under which they disguised themselves.

The Government have suppressed *An Poblacht*, the I.R.A. weekly journal, on several occasions, and *United Ireland*, the United Ireland party organ, once. *An Poblacht* now declares that this conduct indicates the marked anti-republicanism of the Government, who, it claims, like all political perverts, are more hostile to their former comrades, who have remained true to their national faith, than they are to avowed traitors and imperialists. Its publishers, the Republican Press, Limited, somewhat inconsistently, applied to the High Court for an injunction restraining the police authorities from trespassing on the premises or interfering with the printing of *An Poblacht*, but this was refused. In spite of these events, the United Ireland party does not seem to be making great progress, although General O'Duffy has admittedly improved its organisation, and has attracted large numbers of young men to its ranks. His blue shirts are active, well disciplined, and so far under restraint; but he himself shows little sign of political development. One of the most effective speakers on the United Ireland side is Mr. James Dillon, T.D., John Dillon's son, who is self-possessed, has a good voice and presence, and tells his audience very plainly and without rhetoric exactly what they want to know. He is bound to go far, for he has both political tradition and ability. But it is not by oratory that Irish elections are really won. There is always in the background the great mass of silent voters, who do not attend meetings, who vote according to their conscience or their pocket, and whose reactions are at

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present unpredictable. It is the "have-not" element amongst these people to whom Mr. de Valera appeals, for he has given them cheap food, cleverly distributed relief works, a wide scheme of unemployment relief, and the opportunity, which is so dear to every irresponsible Irishman, of attributing all our misfortunes to England's wickedness. As long as these conditions continue there is little likelihood that this element will change its allegiance, and every chance of another general election.

III. FINANCIAL AND ECONOMIC DIFFICULTIES

THE most serious financial embarrassment that has yet befallen Mr. de Valera's Government is the fact that the Fourth National Loan, of £6,000,000, bearing interest at 3½ per cent. per annum and issued at 98 per cent., was not fully subscribed. More than half the loan remained in the hands of the Irish banks, who underwrote the issue. The three previous loans, issued by the Cosgrave Government, were all over-subscribed. The recent loan was apparently issued on the assumption that the credit of the Free State was still as good as it was under the last Government, but the response clearly indicates that this is not so, and trade conditions reinforce this view. During the first nine months of 1933, cross-channel and coast-wise trade entering and leaving the port of Dublin declined by 239,759 tons, as compared with the previous year; the dues fell by £6,490; and the number of ships using the port by 937. Foreign trade, on the other hand, increased in the same period by 114,210 tons, and the number of foreign ships by 241. In August, the number of people in the Free State in receipt of public assistance had increased by 27 per cent., as compared with August, 1932. The trade returns show that the total trade of the country for 1933 was £55,439,953 compared with £102,521,354 in 1930. In 1932, trade had already shrunk from £87,531,776

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in 1931 to £69,514,450. Moreover, the annual adverse balance of trade increased from £11,031,076 in 1930 to £16,138,353 last year. Last year's figure was some £500,000 worse than that of the year 1932. Thus in three years the external trade of the Free State has been almost halved, and the adverse balance has increased from 10 per cent. to 28 per cent. The main reason for this heavy drop in trade is the virtual collapse of the cattle business. The Government have sought to bolster it up by bounties, which are being paid by the Free State taxpayer, but now that a quota system for fat cattle has been introduced in Great Britain to protect the British farmer even bounties will be of little avail.

Great Britain continues to be virtually our only customer, taking 92 per cent. of our exports, as against 8 per cent. to all other countries. During last year we purchased goods to the value of £1,757,384 from Germany, who took goods valued at £171,074 in return. In 1931 our trade with Great Britain was more valuable than the trade of any other Dominion save Canada, and, had we seized the golden opportunity offered at Ottawa, we should probably have benefited more than any other Dominion. As it is, our share in Great Britain's total purchases has fallen from 4.19 per cent. in the first nine months of 1931 to 3.82 per cent. in the corresponding period of 1932, and 2.56 per cent. last year. Every Dominion except the Free State now enjoys a preference in the British market, while we are virtually regarded as a foreign country. It is hard to envisage anything but national bankruptcy unless the dispute with England is settled, and of this there is no sign whatever.

Against these hard facts Fianna Fail apologists, ignoring completely the acts of their own Government, argue that, as our external trade declined by £393,000,000 between 1920 and 1931, the further fall since 1931 is only a continuation of this tendency, which has been brought about by international conditions, and that the only way to save

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the situation is to alter completely the economic policy of the country by making it more self-contained, and by not relying on external trade. They contend that the economic difficulties here began before the so-called "economic war" with England, and that this event only led to an acceleration of the rate of change in our economic organisation. They state that export bounties on cattle are being paid only in order to prevent distress during the intermediate period, and to stop violent dislocation whilst other plans are being developed. The Government now aims at the repatriation of Irish capital invested abroad by encouraging it to invest in Irish enterprise through the new Industrial Credit Corporation, and it is also going to establish an Irish insurance system, which, it is claimed, will be both cheap and safe. Irish manufacturers are clamouring for more legislation on the lines of the Control of Manufacturers Act of 1932, under which no foreign firm can start a new business or alter the character of any existing one without a licence. Any firm whose capital is not 51 per cent. Irish is treated as foreign. Mr. Lemass, the Minister for Industry and Commerce, recently announced to a convention of manufacturers that the Government hoped that within twelve months the full requirements of the Free State in cotton piece goods would be woven here from yarn spun in the country. Glass, cutlery and rubber goods were also to be manufactured, and projects were in preparation for the assembling of motor cars in the Free State. When these were working there would, he stated, be a definite embargo on the import of assembled motor cars.

Orders for 80 per cent. of the equipment for the new sugar beet factories, which will cost over £1,000,000, have been given to Germany, and 20 per cent. to Czechoslovakia. In return for these orders, Germany is to take 300 tons of our butter and 5,000,000 eggs in excess of the normal quotas. In order to provide a market for the surplus oat crop*

* See THE ROUND TABLE, No. 93, December 1933, p. 180.

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of last year, which cannot be sold, the flour millers are to be compelled to mix a certain quantity of hulled oats with the wheat, which will produce a kind of brown bread. This has now been done. British imports will be regulated by a quota system in retaliation for the quota imposed on Irish fat cattle entering England. And so the vicious circle of economic attack and counter-attack revolves, while the man in the street is left wondering if there are any statesmen left in these islands.

All these important questions are now engaging the attention of the Dail, which reassembled on January 31. It has a heavy legislative programme to deal with, including a Bill to revise the electoral system according to population. The revision, which, under the constitution, must be made every ten years, will reduce the membership of the Dail. Another Bill is to amend the judicial system, which will probably involve the appointment of two new High Court judges, and so satisfy some of the hungry legal sheep in the Government fold. The farmers will, however, be more interested in the fact that the grant for the relief of agricultural rates has not been increased, although there is every chance that the rates themselves will be. On the other hand, it is pleasant to record that the Government's very comprehensive housing scheme, which will eventually abolish our disgraceful city slums, is ahead of schedule, and is giving much-needed employment in urban areas.

Amidst these rather gloomy conditions one must chronicle another bright spot. The now almost moribund Gaelic League, which ostensibly exists for the purpose of promoting the use of the Irish language, has started a campaign for the abolition of jazz dancing, the launching of which was the occasion for some very severe strictures on Mr. Sean McEntee, the Minister for Finance, whom Mr. Sean O'Kelly, the Secretary of the Gaelic League, stated had a "soul buried in jazz." Why poor Mr. McEntee should have been selected for censure it is difficult to see, for his other colleagues, except Mr. de Valera, who, alas!

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does not dance at all, are all equally addicted to this terrible pastime! But the Minister for Posts and Telegraphs, Mr. Boland, promptly retaliated by cancelling certain addresses on Irish culture that Mr. O'Kelly was to have delivered from the Dublin broadcasting station, a place from which the strains of jazz have been known to proceed. At the same time it is notified that our future supply of jazz *via* the ether is to be severely rationed. The conclusion would seem to be that we shall eventually be permitted to listen neither to native culture nor to native jazz. And yet, as a nation, we were once believed to possess a sense of humour.

The Irish Free State.
February 1934.

CANADA

I. THE POLITICAL SCENE

FROM July, 1930, when the Conservative Ministry of Mr. Bennett was placed in power by the voters of Canada, up to midsummer of last year, there was a state of equilibrium and almost complete lack of movement in Canadian politics. The country was prepared to give the Government a fair field for the exercise of its decisive mandate to try a policy of high protectionism as a remedy for the Dominion's economic troubles; the national emergency created by the depression, and the resulting unemployment, were so serious that the Opposition forces hesitated to court unpopularity by giving rise to any suspicion that they were animated by a factious spirit and indifferent to the gravity of the economic situation. So, during one special and two regular sessions, they gave a reasonably free hand to the Government for most of the measures that it sponsored for the amelioration of the depression, and contented themselves mainly with such criticisms of its policies and administrative methods as they felt to be merited. However, when after a trial of two and a half years it had become plain that high tariffs had not produced economic salvation for anybody but the particular industrial interests they aided, that unemployment instead of being wiped out had increased, and that the plight of the agriculturalists had gone from bad to worse, signs of popular discontent with Conservative policies began to manifest themselves; and last session the Liberals, fortified by this knowledge, adopted in Parliament more aggressive tactics, and began to challenge

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outright the wisdom and efficacy of the Government's policies.

Ministers and their supporters had been praying assiduously for signs that the bottom of the depression had been reached, and that an improvement in business and economic conditions would provide an effective justification for their policies and a defence against Opposition attacks. So they were greatly heartened when there began in the spring an upward movement in business, which continued through the summer and autumn and by the end of 1933 had brought the official index of the physical volume of business to a level roughly 27 per cent. above the low point reached in February of last year. But welcome as this improvement is, it still leaves economic conditions very far below any level that would be counted in Canada as decent prosperity, and it has apparently not availed to check the steady erosion of popular support, which the Ministry has been experiencing. At any rate, three Federal by-elections which were held in October seemed to offer convincing evidence that the tide of popular sentiment, perhaps more from dissatisfaction with Conservative policies than from any enthusiasm for the Liberals, was flowing against the Government.

Of these by-elections the most ominous was in the province of New Brunswick, of which Mr. Bennett is a native son; the Restigouche-Madawaska division, which the Conservatives had carried by 548 votes at the general election, was captured by a Liberal candidate with a majority of 6,472. In the Yamaska division of Quebec the Liberals, whose candidate had carried the seat at the general election by the bare majority of one, and forfeited it for corrupt practices, were on the defensive; but despite the handicap entailed by their soiled political dove's insistence on running again, they managed to elect him by 84 votes over a good Conservative candidate. In the Mackenzie division of Saskatchewan, which had been held by Mr. Milton Campbell, an agrarian friendly to the

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Conservative Ministry, who appointed him to the Tariff Board, the real fight proved to be between the Liberal and the nominee of the new radical party, the Co-operative Commonwealth Federation, and the Government had to face the grim fact that their candidate, who polled less than 15 per cent. of the total votes cast, had not been a serious factor in a contest in a typical rural constituency in the West. Victory perched upon the Liberal banners, and a majority of 1,614 demonstrated the ability of the Liberals to cope with the competition of the new party in a division that seemed to offer the latter an exceptionally favourable fighting ground. They now profess that they have taken the measure both of the Conservatives and of the C.C.F., and that the country is clearly prepared to shun extremist policies and give liberalism and its programme another chance. Further encouragement has also come to the Liberals from the provincial elections in Nova Scotia and British Columbia. In both of these provinces, Conservative Ministries were swept from power and replaced by Liberal Administrations, while in British Columbia the Conservatives were so badly defeated that they were only able to return one solitary member to a house of 47.

The Liberal leaders, however, realise that with a new radical party definitely in the field they must move leftwards, and after the official party programme had been discussed by the National Liberal Federation a revised edition was announced to the country by Mr. Mackenzie King. In the main it restated the party's traditional aims and policies, but it specifically pledged it to a reduction of the tariff to the level prevailing before the Conservative régime began, to the establishment of a central bank and a national investment board, and to electoral reform through the introduction of proportional representation and the alternative vote. There has, however, been evidence of a certain cleavage of opinion on questions of policy. Mr. Mackenzie King prefers to stand by the ancient

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gods of liberalism and has the sympathy of the Quebec wing of the party and the older members generally, while the younger elements have a predilection for full-blooded "planning" on the model of the N.R.A. During the summer the Liberals refurbished their organisation and, a novel departure in Canadian politics, held a Liberal summer school, an experiment which proved successful and which the Conservatives felt it necessary to imitate.

The new C.C.F. was also very active in 1933, and at its first national convention, held at Regina in July, it provided itself with a definite programme, and with a permanent leader in the person of Mr. J. S. Woodsworth, who as leader of the Labour group in the Federal Parliament since 1921 has earned the respect of all parties. As the C.C.F. programme is frankly collectivist, there seems no valid reason why the new party should not take the title of "socialist." It has a body of able and zealous propagandists at its disposal and commands substantial strength in Ontario and the western provinces, but it lacks both reasonable press support and an effective organisation; in the absence of any serious following east of the Ottawa river it cannot hope at the next election to challenge successfully the supremacy of the two historic parties. At present the strength of parties in the House of Commons is as follows:—Conservatives, 136; Liberals, 90; C.C.F., 15; Independents, 2; Vacancies, 2. In the Senate the Government, despite seven unfilled seats, have 51 supporters against 38 Liberals.

The most important business before Parliament will be the decennial revision of the Bank Act, which was postponed to await the report of the Macmillan Commission on Banking and Monetary Problems. In the Commission's report, which was published in November, the most important recommendation, from which Sir Thomas White, a former Minister of Finance, and Mr. Beaudry Leman, an ex-President of the Canadian Bankers Association, dissented, was that there should be established a central bank of

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rediscount which should have its capital privately subscribed and should function on an independent basis. Other minor reforms of the Canadian banking system were advocated, and it was suggested that a special system for agricultural credits was desirable and should be the subject of a further inquiry. Now the Canadian banks have made no secret of their dislike of the project of a central bank, particularly of the proposal that it should be given a monopoly of note issue. The vocal protests of their spokesmen against the adoption of such an experiment with a system that has successfully stood the test of an unparalleled economic crisis have been supplemented by vigorous hostile literary propaganda. However, not only has Mr. Bennett explicitly pledged his Government to introduce legislation establishing a central bank, but the Liberals and the C.C.F. are also committed to the idea, and the best that the banks can hope for is to secure a structure for the bank that will not seriously interfere with their own scheme of operations. The radical elements in Parliament will press for an institution that would have its capital subscribed by the State and be under the firm control of the Government; but it is probable that the Government will oppose this plan and follow the scheme outlined in the Macmillan Report. In addition the whole Bank Act will be subjected to review.

In view of the new monetary programme that has been sponsored by President Roosevelt, the Canadian Government will be forced in the near future to make important decisions about Canada's monetary policy. They cannot disregard developments in the United States, in view of the close commercial and other relations between the two countries. Authoritative financial experts predict that the Canadian dollar, which has more or less kept step with the downward devaluation of the American dollar in terms of gold, will continue to stick close to it, even if the American dollar's gold value falls below 60 cents, and it is considered probable that under these circumstances the Ministry will seek authority from Parliament to follow the example of

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the United States and reduce the gold content of the Canadian dollar. So it can be forecasted that banking and monetary problems will play a large part in the discussions of the session.

There are other developments at Washington that may provide the Canadian Parliament with material for abundant discussion and controversy. If, before the session at Ottawa ends, President Roosevelt's influence is strong enough to secure the ratification of the St. Lawrence Waterway Treaty against the formidable opposition that has developed to it, the Canadian Government can scarcely avoid carrying out its part of the bargain and submitting the Treaty to Parliament. It will then assuredly become one of the dominant issues of the session and prolong its course; for, while the Treaty has strong support in certain parts of Canada, there is no evidence that the province of Quebec has in any way abandoned its hostility, and Mr. Bennett might find some difficulty in preventing a revolt among his French-Canadian followers in Parliament.

The Opposition profess to have abundant material for a comprehensive arraignment of the Government for a variety of sins of omission and commission, but they will concentrate their main attacks upon what they regard as the baneful results of its high tariff policy, the flaws in its administration of unemployment relief, and its wheat marketing policy, which is wrapped in deep mystery but which seems to have involved it in dangerously heavy commitments in the wheat market. Exhaustive debates upon tariff policy are inevitable, and the Opposition will insist upon a grand assize into the relations between the Tariff Board and the Department of National Revenue, in which evidence of serious friction has been revealed. The Tariff Board has been functioning regularly since July and has by common consent shown both vigorous industry and judicial impartiality, as spokesmen of British interests who have appeared before it have testified. But it has encountered persistent obstruction from certain officials of the

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Department of National Revenue, sympathisers with a high tariff policy, who have declined to implement its orders and challenged its authority to interfere with their rulings. Faced with such obstruction, Judge Sedgewick, the chairman of the Board, on January 7, courageously made a strong protest that the Board was not getting from government officials the co-operation to which it was entitled. He is evidently determined to bring the issue to a head.

Farm marketing schemes are likely to be continually to the fore. For one thing, the Government will be pressed to reveal its policy for implementing Canada's commitments under the international wheat agreement, and has to reckon with a formidable agitation in the prairie provinces for a national wheat board. There has also developed among other groups of farm producers a campaign for a comprehensive farm marketing scheme, whose sponsors want the ideas embodied in the British Agricultural Marketing Act applied to Canada with the necessary adaptations. So complicated, however, are the issues involved that the Government will probably decide to be content with a limited experiment and to defer the evolution of a national marketing scheme.

Then, quite unexpectedly, Parliament has been provided with another bone of contention by the Ministry's sudden decision to resume the traditional practice of conferring honours and decorations upon Canadians, who for fifteen years have been debarred from accepting them by a vote of the Commons. Mr. Bennett has justified his action on the ground that this vote only bound the Government and Parliament of the day, but Mr. Mackenzie King has sharply challenged both the propriety and the wisdom of his course. He complains that the Government, in presenting the country with a *fait accompli*, has offered Parliament a grave affront. He is evidently preparing to raise the constitutional issue that Ministers, in giving advice to the Crown about the exercise of the prerogative, are responsible to the House of Commons and must take cognisance of its expressed

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will, which as far as the Government knew was against the restoration of titles. The list of Canadian names that the Government submitted was carefully compiled and gave no ground for criticism, but, judged by press comments, the country's reception of the move is not enthusiastic. Many Conservatives have an uneasy feeling that the Government has gratuitously presented its opponents with very useful ammunition for an election campaign, as they will accuse Ministers of being more concerned with gaudy favours for their friends than with the fate of the unemployed and the hard-pressed farmers.

Since the present parliament has now lasted more than three and a half years, the normal political warfare of the session will be spiced with party manoeuvres and jockeying for position against the day of the general election, which must come within eighteen months. Very few Canadian parliaments, however, have been allowed to live out their full statutory terms, and an election before the end of 1934 cannot be dismissed as an impossibility. Indeed, some Liberal strategists regard it as a certainty, under a conviction that the Conservatives will prefer to risk the ordeal while they still retain control of the three provincial governments of Ontario, Saskatchewan and New Brunswick, which all must seek new mandates this year and may well pass into Liberal hands. On the other hand, if a progressive recovery of business were assured, the Conservatives would prefer to delay the election as long as possible, in order to be able to claim credit for rescuing the Dominion from a grim pit of depression. Now another factor has been introduced into their tactical calculations by the re-emergence of the St. Lawrence Waterway issue. It is the sort of project that wins votes in a Canadian election, by reason of the hopes raised that large sums of money will be spent in certain localities, and Ministers might see a prospect of reviving their fortunes by making a mandate for the scheme the main issue of a general election.

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II. THE TARIFF BOARD AND TARIFF POLICY

THE new Canadian Tariff Board, which was provided for in legislation passed in 1931 and designated as the tribunal to interpret the United Kingdom-Canada trade agreement of 1932, has now been in commission for some six months, and it may not be too early to consider the nature of its task and its prospects of discharging it satisfactorily.

The new board is not the first tribunal of its kind. In 1927 there was set up by the Administration of Mr. Mackenzie King an advisory board on tariffs and taxation which functioned until the change of government in 1930. Although in introducing the legislation setting up the present board Mr. Bennett emphasised the great gulf fixed between it and its predecessor there is clearly a strong family likeness. The new board, like its predecessor, is essentially a fact-finding body. So far as tariff questions are concerned, its function, like that of the former board, is to find the facts and make recommendations on the basis thereof. There is this significant difference, however, that while the facts found and the recommendations made by the former board are a Cabinet secret to this day, the reports made by the present board are to be tabled in Parliament immediately they are made. It is also to be noted that, whereas the old board provided a forum in which anyone, in his capacity as a consumer, could make his views known, regardless of direct interest in the question at issue as manufacturer or importer, the new board has made it clear that no one not directly concerned can claim any *locus standi*. In other words, the new board is intended to be much more judicial in character than its predecessor, and to that end there has been appointed as chairman, not an active member of any political party, as were the two successive chairmen of the former board, but an Ontario

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High Court judge, Mr. Justice Sedgewick, who has already given striking evidence of the complete independence and soundness that were confidently expected of him. His two colleagues are Mr. Milton N. Campbell, an ex-Progressive member of Parliament from Saskatchewan, and Mr. C. P. Hébert, a junior member of a well-known importing firm in Montreal and an *alumnus* of New College, Oxford, who may be regarded as representative respectively of western and eastern Canada. Though it cannot be said that the ideal of "taking the tariff out of politics" has been achieved—the functions of the board are, as has been stated, purely fact-finding and advisory—nevertheless the new board marks a very large step in the direction of the judicial determination of what tariff rates should be.

It was this judicial quality of the new tribunal that made it possible to designate it as the authority to interpret and give effect to the United Kingdom-Canada trade agreement of 1932. In article II of that agreement, it will be recalled, the Canadian Government undertook that, except in the case of industries not fully established, protective duties should not exceed such a level as would give United Kingdom producers "full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production." The principle was also laid down that protection should be afforded only to those industries which are reasonably assured of sound opportunities for success. So much for the agreement. As for the intention of the parties to it and the function of the Tariff Board in connection therewith, Mr. Bennett has expressed himself as follows:

I told Mr. Baldwin: "I am prepared, if you will give us a preference for all Canadian commodities in your market, to ask the Parliament of Canada to ratify an agreement that we will give you an equal chance with Canadians in our market for your goods, and I will set up a Tariff Board to say what is an equal chance."

It is to be noted, further, that United Kingdom manufacturers are given the right to bring their applications before

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the Tariff Board, which presumably is to hold the balance between United Kingdom and Canadian interests just as judicially as an Admiralty Court does between British and, say, French interests.

Such then is the task set the board. What does it involve, and what prospect is there of its being satisfactorily discharged? It is, of course, much too early to dogmatise. Only one important application invoking article 11 of the agreement has so far been made, in respect of woollens, and it is only in its early stages. Up to the present, attention has been confined to the endeavour to arrive at a common method of computing costs—no light problem. No attempt has yet been made to work out in practice exactly what is meant by the words of the agreement, “full opportunity of reasonable competition.” It has become clear, however, that very divergent views are held. British manufacturers maintain that Canadian customs duties are not to exceed such a level as will equalise costs as between them and Canadian manufacturers. This interpretation is rejected by the Canadian manufacturers, who argue that it would lead to widespread dislocation, and to the disruption of many well-established and efficient Canadian industries. They further argue that it is an entirely erroneous interpretation of the actual terms of the agreement. Attention is drawn to the fact that in article 10 the Canadian Government undertakes that “protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success.” This, it is urged, must mean that “industries which are reasonably assured of sound opportunities for success” are to be “protected,” *i.e.*, safeguarded, *i.e.*, assured of the Canadian market, or at any rate, of as much of the Canadian market as is represented by goods that can be economically produced in the Dominion.

If article 10 were the whole story, the foregoing interpretation of the general intention of the parties to the

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agreement would be hard to gainsay. But there is article 11, and it says, as has already been stated, that the Canadian Government undertakes that protective duties—the idea of protection is still adhered to—“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.” The British interpretation of this, given above, is based on the fact that the only indication of what is meant by “full opportunity of reasonable competition” is the addition of the words “on the basis of the relative cost of economical and efficient production.” In other words the British view is that the only factor to be taken into account in determining what is “reasonable competition” is the comparative production costs, to the exclusion of all other considerations, such as the desirability of maintaining a certain category of employment in Canada, or of preventing the loss of capital invested in Canadian industry. On this view, the single and simple principle to be applied is what the Australian Tariff Board in its last annual report calls the “equalising principle of tariff making,” *i.e.*, the equalising of production costs, so as to bring the price of the imported article to the same level as that of the local product.

The application of such a principle would, in the opinion of the majority of Canadian industrialists, lead to far-reaching dislocation of, and loss of capital invested in, Canadian industry; they maintain that the whole tenour of the Ottawa Conference report, and in particular the blessing it gives to “industrial co-operation within the Commonwealth to secure the best division of industrial activities among the several parts and the ordered economic development of each,” negative an interpretation of the actual agreement that will result not in “ordered economic development,” but in dislocation and curtailment.

To take a concrete example, which as a matter of fact has been cited to the Tariff Board in the course of the hearing of the recent British woollens application: the

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Canadian clothing industry, with some 1,000 plants, employing 50,000 people and producing a total of \$200,000,000 worth of goods, supplies 98 per cent. of the total clothing requirements of the people of Canada. Incidentally, it provides a market for 95 per cent. of the woollen and worsted cloth made in Canada. The spokesman of this industry maintained with considerable vigour that if the tariff on competing imports were based exclusively on the principle of equalising production costs, it might easily lead to the shutting down of a substantial proportion of the plants now operating, with consequent curtailment of employment and loss of capital. Assuming for the sake of argument that such a fear is well founded, does the formula "full opportunity of reasonable competition" require the Tariff Board, and, upon its recommendations, the Government of Canada, to apply the equalising principle regardless of consequences; or is it at liberty, under the agreement, to take into account other considerations, such, for example, as that it is expedient in the national interest that there should be a Canadian clothing industry capable of supplying the bulk of the needs of the Canadian people, and of providing employment for thousands of people, for whom alternative occupation is not in sight? If the "equalising principle" view is correct, it would appear that such considerations are not admissible.

While this all-important question has not been ruled upon by the Canadian Tariff Board, the Australian Tariff Board, in its report for 1933, has expressed its view in clear-cut terms. "While heartily supporting the competitive principle in tariff-making," it "rejects the idea that duties should be merely equalising." "In established efficient industries, where capital and overhead charges enter largely into production costs, the division of the present market between local and overseas producers, by restricting local output, would increase the costs of production, necessitating higher selling prices and the imposition of higher duties to restore reasonably competitive

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conditions." An example given is that of the galvanised iron industry. Inquiry has shown that the costs of production on a domestic output of 60,000 tons per annum would justify a selling price £2 13s. 1d. per ton lower than on half that output, or 30,000 tons per annum. If, then, duties were imposed that would just bring the price of imported galvanised iron to the same level as that of the local product based on an output of 60,000 tons per annum, and the effect was to reduce local output to 30,000 tons per annum, it is clear, the board considers, that "the duty would need to be increased by £2 13s. 1d. per ton to ensure price equality under the new conditions." Such a procedure, the board declares, "would be farcical, for it would involve considerable dislocation of industry, at least temporary idleness of large numbers of trained operatives and of some very highly valuable plant; while ultimately the duty rate would have to be increased and for some appreciable period the cost of galvanised iron, whether imported or local, would be higher than necessary. In the result, the view taken by the Australian Tariff Board is that "a reasonable duty to protect an efficient economic industry should be high enough to raise the landed cost of an overseas product to a level which will

- (a) compensate the local manufacturer for the higher cost (if any) of Australian labour;
- (b) offset the higher costs (if any) of raw materials and overhead charges; and
- (c) provide a marginal advantage in favour of the Australian manufacturer."

As regards the margin postulated, it should, in the view of the board, "be wide enough to secure to efficient Australian manufacturers so much of the market as is represented by goods which can be economically produced in the Commonwealth, but narrow enough to preclude any inefficiency, uneconomic extension, or undue profit-taking." Such is the Australian Tariff Board's view of the proper

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interpretation of articles in the United Kingdom-Australia trade agreement that are identical with those in the United Kingdom-Canada agreement.

Whether the Canadian Tariff Board and the Canadian Government will take a similar view remains to be seen. Does such an interpretation give the United Kingdom manufacturer "full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production," which Mr. Bennett has declared to mean "an equal chance in Canadian markets" for United Kingdom goods? Or are the United Kingdom producers entitled to ask that the rates of duty shall be such as will put them on the same footing as if they were located in Canada? Whatever warrant there may be for this latter view, in the wording of the agreement or in authoritative pronouncements as to the intention of the parties, the fact remains that in one Canadian industry after another there has been such over-development, that there is already far more plant and equipment than is required to supply the needs of the Canadian market. In these circumstances it is clear that if a whole series of United Kingdom industries are to be put in a position to compete in Canada on an equal footing with the existing Canadian plants, the result will inevitably be substantial dislocation and loss of invested capital. To such a result strong objection is naturally taken by the Canadian industrialist, who argues that as he has risked his capital on the faith of "protection" being maintained, and as he is giving employment in Canada, and helping to build up the country, he should not be put out of business for the *beaux yeux* of the United Kingdom manufacturer, who, however cheaply he may be able to produce in the United Kingdom, is not giving employment or paying taxes in Canada. Such part of the Canadian market as the domestic manufacturer is unable to supply—there are classes of goods which, because of the smallness of the demand or for other reasons will probably never be made in Canada—might well be secured

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to the United Kingdom manufacturer, provided that he is able adequately to supply it, but the domestic manufacturer should not be driven from domestic markets that he is able to supply. On the contrary—such is Canadian industrialist opinion—tariff rates should be sufficiently "protective" to assure him the market, provided that he is in a position to produce economically and efficiently, of which condition, so important to the consumer, the Tariff Board should be the judge.

When we turn from Canadian industrialist opinion to consider the general economic structure of the country, we are confronted with the fact that, in addition to being seriously over-industrialised, we have very large surpluses of natural products which it is essential to our economic well-being that we should market abroad. It was precisely with a view to marketing these surpluses abroad, in the best market in sight, viz., the United Kingdom, that the Canadian Government undertook to increase the market in Canada for United Kingdom manufactured goods. Some progress in this direction has been made along the lines of complementary production as between the two countries, but not by any means to the extent of providing a *quid pro quo* for the advantage accorded to Canada in the United Kingdom market. It is further to be noted that the day has gone, apparently for good, when Canadian natural products, wheat in particular, found a market abroad automatically, and when it was unnecessary, in controlling the country's buying and in formulating commercial policy generally, to think in terms of securing such markets abroad for natural products. In future, it looks as though that would become the determining consideration. It is in these circumstances that the carrying out of the trade agreement with the United Kingdom becomes of such importance. The best possible market for our natural products has been secured for a five-year period ending in 1937, and our anxiety with regard to a large part of our selling has been for the moment removed; but the con-

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dition of our retaining that market is that we so direct our buying as to provide a *quid pro quo*.

It will be seen that the function of the Tariff Board in investigating and advising upon the whole question of control of buying is of the most far-reaching importance to the economic well-being of the country. Put at its highest, the task may be regarded as involving the complete revamping, on a more orderly and economically justifiable basis, of the entire industrial structure that has been built up at haphazard over the last two generations. Not that a drastic surgical operation is advisable or possible; but just as there is a growing feeling that there must be some "rationalisation" of our seriously over-developed transportation structure, so there is increased recognition that, in the interests of the consumer and of the country as a whole, there must be elimination of waste and uneconomic conditions generally in industry. It is obvious that such a programme should not, and indeed could not, be carried out in cold blood, or "at one fell swoop." The dislocation, in the way of unemployment created and capital lost, would be too great; and commitments made, on the faith of long-established protective duties, are entitled to consideration. Moreover, there is force in the contention of the Australian Tariff Board that common sense does not permit, and the trade agreement does not require, rigid mathematical adherence to the yard-stick of production costs. Not only should "infant industries" be accorded special treatment, but no industry, it may be argued, should be deprived of protection until its relation has been considered both to the general industrial structure of to-day and to what may reasonably be expected to be the industrial structure of to-morrow. But even on such a basis of interpretation, the conscientious carrying out of the United Kingdom-Canada trade agreement may well lead to a much-needed setting in order of the house of Canadian industry.

Canada.

January 1934.

AUSTRALIA

I. THE FINANCIAL POSITION

THE financial position, as disclosed in June, was that the Commonwealth Government would end the financial year with a surplus of over £3 million, while the States would all have deficits, amounting to £8.6 million (in New South Wales to £4.3 million). Sinking fund payments for the year totalled £7.7 million, so that for all Governments there was a favourable balance on income account, which on final figures amounted to £2.7 million. The States agreed to limit their deficits to £8.5 million for the year 1933-34, and the Commonwealth Bank agreed to finance these deficits by means of treasury bills, on the understanding that some funding of treasury bills should take place during the year. The Commonwealth Government announced its intention of using its improved financial position for the relief of taxation.*

The Commonwealth Government ended the year with a surplus of £3.5 million, in spite of an unforeseen expenditure of £2 million for the relief of wheat growers. Revenue showed an increase of over £7 million, including £5 million for customs and excise, and about £1 million each for sales tax and income tax, in spite of some remission of taxation under both these heads.

There were four possible policies for the Commonwealth Government in respect of their present and prospective surpluses: (1) to reduce State deficits, (2) to pay off debt, (3) to spend any surplus on capital works and the relief of the unemployed and of farmers, or (4) to remit taxation. To the first of these courses the Commonwealth Government were in principle opposed; it was not, in fact, necessary for the maintenance of public confidence, and,

* See THE ROUND TABLE, No. 92, September 1933, pp. 910-914.

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as deficits were being financed by means of treasury bills, the effect would have been deflationary. Repayment of debt was also inappropriate to a period of depression. Free spending, on the other hand, would have had a cold reception from business opinion and might have impaired confidence. Remission of taxation, without any decrease of expenditure, accordingly seemed the most useful contribution that the Government could make to business recovery. Moreover, it was naturally popular. For some time the daily press with singular unanimity had come to the conclusion that heavy taxation was the only bar to further recovery, and the demand for remission was persistent. Once committed to this policy, the Government went to the utmost limit. They proposed to remit taxation to the extent of £7·5 million (about 13 per cent. of all Commonwealth taxation), and to increase expenditure by £1·7 million. The total liability thus imposed on the budget, up to June 1935, would be nearly £16 million. The expectation was that about £11 million of this would be provided by the present improved state of government revenues; the remainder would be met by the accumulated surpluses of the last two years, amounting to about £4·9 million. The statement, being in effect a two years' budget, was of special interest.

The Government, then, decided to give away everything in sight, leaving no reserves for special calls on its revenues. It took this step no doubt partly in order to defend itself in advance from the probable demands of industries, State Governments, pensioners and its own employees. The policy was not, however, quite as reckless as it appeared, because the sobriety of the Treasury estimates of revenue left a probable margin. In any case, circumstances called for a bold constructive policy, which from the Treasury point of view could not avoid some elements of risk.

The net additional expenditure of £1·7 million was made up chiefly of small restorations of certain cuts effected two years ago by the Scullin Government in pensions and public

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service salaries. In addition, £1·5 million was to be added to expenditure from revenue on defence and new works, but this was offset by automatic decreases in other items.

The remissions of direct taxation amounted to £3 million. The special surtax of 10 per cent. on income from property was reduced to 5 per cent., and "personal exertion" rates were reduced by 15 per cent. The land tax and the taxation of insurance companies were substantially reduced. Perhaps the most useful remission was one of 5d. in the £ in the tax on company incomes.

Remissions of indirect taxation amounted to £4·3 million, of which £2·6 million was accounted for by reduction and exemptions in the sales tax. Reductions of tariff rates, mostly in accordance with the Tariff Board's recommendations, accounted for £1·4 million, and excise reductions on beer and spirits for the remainder.

The atmosphere of universal beneficence which pervaded the Federal budget did not extend to State Treasurers. Their task was still the unpleasant one of reducing deficits. The budget proposals are set out below in comparison with the June undertakings and actual results in 1932-33 :—

State Deficits in thousands of £'s

		1932-33 Results	June Undertaking	1933-34 Budget
New South Wales .. ..	.. ..	4,271	3,950	3,601
Victoria .. ..	.. ..	856	800	700
Queensland .. ..	.. ..	1,554	1,850	1,848
South Australia .. ..	.. ..	1,009	1,100	933
Western Australia .. ..	.. ..	864	750	748
Tasmania .. ..	.. ..	55	50	51
Six States .. ..	.. ..	8,609	8,500	7,881

The figure of £8·5 million for total deficits was accepted subject to reductions on account of London conversions and of the further efforts that some Treasurers thought possible. On the face of it the budget figures show an improvement, but it is too early in the financial year to forecast how budget plans will turn out. The attitude of

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the States towards the problem varies. Victoria, South Australia and Tasmania follow the deflationary instincts natural to Treasuries. On the other hand, policy in New South Wales and Queensland is guided by a considered resistance to deflation. Western Australia is dominated by the consciousness that it is still "The West," with all its accepted connotation. The reduction in the New South Wales deficit is rather the result of a skilful adjustment of accounts than of any real approach to a balanced budget. One may guess that the three last mentioned States will be content to persist with deficits no greater than at present until opinions change as to the wisdom of this policy, but the present rise in wool prices is likely to put New South Wales and Queensland in a better position next June than their estimates indicate.

The general position was thus satisfactory, for the States were more than holding their own and the Commonwealth was making a bold bid to stimulate private enterprise. The assumption that the taxes remitted would "fructify in the pockets of the people" may prove ill-founded under present conditions, but detailed examination of the taxation remitted suggests that two-thirds of the whole may be expected to pass into active circulation, bringing substantial indirect benefits in the way of employment and profits.

Unfortunately, at this juncture the continued low price of wheat brought the wheat-growers' plight to a head. The price of wheat has been for some months under 2s. a bushel (Australian currency) at country sidings; nor is there any present promise of improvement. Something had to be done for the wheat-grower, but the Government was empty-handed. It had mortgaged its future for two years, and there was nothing more to give away. The cheers that greeted the budget remissions of taxation were still echoing, and it was very embarrassing to reverse the movement so suddenly.

In this dilemma, a tax on flour—always the favourite nostrum of the Country party—won its way against the

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instinctive repugnance of the direct Government supporters. It was in a sense not exactly taxation—at least it was a different sort of taxation from that remitted, and there was a kind of confused appropriateness about it; so the Government embraced it. In Australia, a tax on essential foods is passed on by means of wage-fixing machinery to the employer, and is eventually borne in large measure by the unsheltered export industries. The flour tax was therefore going to fall in the end on the people most needing relief. For this and other reasons, the proposal raised a hullabaloo, and the Government, retracting, arranged for a loan, to be repaid in three years out of revenue. Any loan for such a purpose aroused indignation in other quarters. The Government appears at this stage to have lost its head, for a series of new expedients was reported almost daily from Canberra. The question became political in the worst sense, and the issue was long uncertain. Relief to the amount of £3 million was the minimum figure on which the Government could make terms with the Country party. In the end the money will be found mainly by a flour tax (£1,600,000), partly by increasing the present ridiculously high protective duty on imported tobacco (£220,000), and partly by abandoning part of the proposed remission of the special 10 per cent. property income tax (£220,000), so that the tax will be 6 per cent. instead of the 5 per cent. indicated in the budget. The rest will be made up out of surplus revenue.

The Government's weak acceptance of a flour tax opens up the dismal prospect of a systematic bolstering up of exports by means of a "home-price" on the commodity exported. Already a Bill has been announced to make more effective the subsidising of butter exports by means of Federal control. We have had the home-price for butter for some years by arrangement within the industry, but the scheme was breaking down under the increased proportion of exports. When the several Governments of the Commonwealth make it possible for producers to dump

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butter on the world market at less than the cost of production, it is difficult to see how the Commonwealth Government can with any decency support Mr. Bruce's recent protests against the narrowing of the British market for Australian dairy produce. Further comment must, however, await the detailed proposals of the Government.

A word may be said on the treasury bill controversy. The Commonwealth Bank still urges a substantial funding of the outstanding bills. A considerable body of opinion holds strongly that it has been the financing of deficits and public works by means of treasury bills that has enabled the country to escape the worst excesses of deflation. A compromise has been reached to this extent, that for the balance of this financial year the Loan Council will raise money for public works on the market, while the Bank will take treasury bills to cover revenue deficits; but there is still disagreement about funding. The matter came to a head in November, when the Loan Council wanted a loan mainly for works, and the Bank one mainly for funding. A compromise was reached by which the loan was equally divided between the two purposes. It seems that the inflationary use of treasury bills is not likely at the most to go further than keeping the volume of bills for some time at its present level, and that any substantial increase on account of deficits will be quickly funded. There are now about £50 million of treasury bills in Australia. Whether the volume is excessive or not must be judged by comparison with the long-term government debt of £600 million, or banking assets totalling £400 million. The bills are held entirely by the banks, and there seems no reason why the market should not be broadened by including other financial houses as customers. Generally, it seems clear that the treasury bill has come to stay as a useful financial instrument.

As a whole, the position of Australia must be regarded as comparatively satisfactory. In the field of public finance, three years ago we faced a total prospective deficit of £40

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million. Last year, we had in effect a surplus on income account for all governments combined; and this year we could have considerably improved on that if it had been worth while. But there are widely different views both as to the significance of the present position and as to the probable effects of the policy pursued.

Credit or responsibility does not belong exclusively to one political party. The predominance of Nationalist Governments does not altogether allay anxiety in respect of financial and economic policy, and in New South Wales counsels of caution find grounds for criticism of both the Commonwealth and State Ministries. On the other hand, it must be remembered that in the Commonwealth Government it was the Scullin Ministry which, though with reluctance, cut pensions, government wages and salaries, reduced interest on loans, and imposed unpopular taxation. As cynical observers three years ago remarked, it was all to the good that a Labour Government should carry out these reforms—they could do it with much less social disturbance than any other party. The Government would be rejected violently at the next election and their opponents come in to reap the fruits. And that, too, was all to the good, because business would recover confidence more quickly and fully under a Government that could be counted upon as sympathetic to the full enjoyment of the fruits of profitable enterprise.

In the matter of external solvency, the change has been equally revolutionary. Dr. Roland Wilson's work on the balance of payments, which is being published in the 1933 *Year-Book*, will repay close study in this connection. For the present year it is reckoned that imports and exports of commodities, taken in conjunction with external interest on public debt (£24.6 million), give a true picture of the balance on current account, because current gold production just about balances the net debit on all other items. On all current items we had a net debit of £42 million in 1928-29, which increased to £72 million in 1929-30 with

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the beginning of the fall in export prices. In 1930-31 it was reduced to £16 million and in 1931-32 actually turned into a credit of £6.4 million. For 1932-33, there was a small debit of £3.8 million. For these two years, therefore, we have achieved a satisfactory balance, in contrast to 1929-30 when the net debit amounted to 62 per cent. of our total credits.

This result justifies the Commonwealth Bank's judgment that an exchange rate held steadily at £125 Australian to £100 sterling was necessary to attain and preserve external solvency, even after the drastic cuts in wages and interest and other internal costs that were carried through in 1931. Yet this exchange rate has not built up the necessary reserves in London against a bad season, and the present balance has been achieved only by reason of a run of exceptionally good seasons. On a more cautious view of prospects, the rate would have been held higher—at 135 or 140—so as to give a safe London reserve. The recent rise in wool prices, however, combined with another good season, has confirmed the Bank's optimism. Wool prices in November were 80 per cent. above the 1932 average, and, after allowing for a light clip and lower prices for wheat and butter, exports should show an increase of about £15 million in the current year. Some expansion of imports will follow, but the net result should be a small but appreciable increase of London reserves.

The Tariff and The Exchange.

The problem of adjusting the tariff so as to avoid the excessive protection given by the depreciation of the Australian pound and the 10 per cent. primage duty on imports was discussed briefly in the September ROUND TABLE.* Reference was made there to an unpublished report of the Tariff Board on the subject, on which the Government had been sitting since Easter. It continued to sit on the report, showing plain indications of unhappiness

* THE ROUND TABLE, No. 92, September 1933, p. 901.

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and exposed to the taunts and jeers of the Country party. The Government was deeply committed to accepting the advice of the Tariff Board, but its protectionist elements were alarmed at the widespread reduction of duties involved. The Board's report, though moderate, was indeed a landmark in tariff policy. The reference of the exchange question to them forced them to consider the relative movement of costs in Australia and abroad, and the evidence was convincing that, in spite of the depreciation of the Australian pound, costs in manufacturing industry, apart from raw material imported, had fallen in relation to British costs. Their conclusion was that the 10 per cent. primage duty could be abolished and all protective duties reduced by one quarter (with a maximum of 12½ per cent.) without danger to Australian industry. This reduction, the Board considered, would still leave some industries over-protected, but would be safe as a general reduction over all protected manufactures. This was the gist of the Board's recommendations, which covered also special provisions of some complexity to deal with depreciated currencies, future movements of the Australian exchange and other special circumstances.

After long hesitation, the Government decided to accept the Board's report with regard to primage and to duties on British imports, leaving imports from other countries, where indeed the evidence was not so clear, for further consideration. The necessary amendments to the tariff passed through Parliament very quietly. The expected opposition both in Parliament and in the country was almost perfunctory. Even the most fanatical of the protectionist papers accepted the revision with almost formal protests. One can only conclude that there has been quite a remarkable recovery of fiscal sanity in Australian public opinion during the last two years.

Presumably the Tariff Board is now authorised in effect to take exchange fully into account in its investigation into individual industries, and one may expect in the

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immediate future a very valuable pruning of the excesses of the tariff in a number of important items.

II. CONSTITUTIONAL AND OTHER PROBLEMS

Lieutenant-Governors in Western Australia and Tasmania

THE letters patent constituting the office of Governor in the Australian States provide that during the absence of the Governor the duties of the office shall be discharged by a Lieutenant-Governor, or by an administrator appointed under the Sign Manual and Signet. When a Governor is merely temporarily absent from the seat of government, he may appoint under the Public Seal of the State a Deputy-Governor, if there is no Lieutenant-Governor, or if such officer is absent from the State or unable to act. Sometimes a specific person is appointed Lieutenant-Governor, but in any case a dormant Commission appoints the Chief Justice of the State for the time being, or in his absence, the senior judge, as the Lieutenant-Governor or as the administrator. These arrangements are not without their difficulties.*

If a Lieutenant-Governor is appointed who has been actively associated with a political party, even bona-fide decisions are liable to the suspicion of bias among those who have been opposed to him politically. And if he conceives it to be his duty to use his powers to further the interests of his party—as was expected of the Lieutenant-Governor in Queensland—then the office loses both its independence and its dignity. On the other hand, the appointment of members of the judiciary is not without serious reactions upon the judicial office. It is impossible to ignore the changed temper in party politics in some of

* See THE ROUND TABLE, No. 40, September 1920, for the circumstances in which Mr. Lennon was appointed Lieutenant-Governor and the results of his appointment; No. 59, June 1925, for a Tasmanian case; and No. 61, December 1925, for a full discussion of the method of appointing State Governors and the constitutional issues connected therewith. See also *Correspondence re the Appointment of Governors to Australian States*. Cmd. 2,683. June 1926. Price 1s.

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the Australian States, or the growth of the influence that extra-parliamentary bodies can exert upon Ministers. In such circumstances many judges feel that they should not be placed in a position that may involve them in political conflicts. It cannot be too often emphasised that anything which tends to lessen the prestige of the judiciary is to be avoided.

Some of these questions are raised again by the appointment of Sir James Mitchell as Lieutenant-Governor of Western Australia. At the last general election Sir James Mitchell's Cabinet was defeated and was superseded by a Labour Ministry. Sir James Mitchell himself lost his seat. Some time afterwards it was announced that the Chief Justice, Sir John Northmore, had resigned his commission as Lieutenant-Governor, and that Sir James Mitchell had been appointed his successor. Some members of the Labour party strongly criticised this action, and the member who defeated Sir James at the election asserted in Parliament that the Labour Government had not been paid the compliment of prior consultation by the Imperial authorities who were responsible for the appointment. The Labour Premier, Mr. Collier, refused to say whether or not this was true, and even when Sir John Northmore made a public statement regarding the appointment refused to say more than that "matters of this kind are always stipulated to be strictly secret and confidential, and are consequently treated as such by Ministers." Sir John Northmore was not so reticent. In an interview with the press he said that he had expected that the "grotesquely inaccurate statements" about Sir James Mitchell's appointment "would have been authoritatively contradicted." As this had not been done he wished to state "quite definitely that the appointment of Sir James Mitchell as (his) successor was made by the King on the recommendation of the Premier, made through (him) in the ordinary way to the Secretary of State for the Dominions and (he) understood, with the approval of the Cabinet."

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In Tasmania the main interest centres round the manner in which Sir Herbert Nicholls, the Chief Justice, resigned his office as Lieutenant-Governor, although the fact that his successor was some time ago active in politics raises in a minor degree the same issues as in Western Australia. The Premier, Mr. McPhee, intimated to the press that he had been told by Sir Herbert that he had forwarded his resignation to the Dominions Office. It was not clear that there had been any prior consultation with the Government. Subsequently it was stated that the King had accepted the opinion of the State Government that Sir Elliott Lewis might most suitably fill the position. Sir Elliott had been twice Premier of Tasmania, and had held other ministerial offices. He resigned from active politics in 1922, and has devoted himself to his practice as a solicitor. Since 1924 he has been Chancellor of the University of Tasmania.

Politics in Western Australia and Tasmania are fortunately free from the bitterness and factiousness that characterise some of the other States, and the appointments of both Sir James Mitchell and Sir Elliott Lewis have been well received. Nevertheless, the constitutional aspects of such appointments have been in no sense clearly worked out. At the same time, if persons who have been active in politics are eliminated from consideration, and if the judicial office is likely to be adversely affected, it will be very difficult to obtain a Lieutenant-Governor with the necessary qualifications for the office. And yet the political history of Queensland might have been very different had a non-party Lieutenant-Governor been appointed.

Increase in Federal Parliamentary Salaries.

Members of Parliament must grow accustomed to the animadversions of their opponents, and even to the criticism of their friends, but it is seldom that all members, irrespective of party, come under a common lash. This has been the experience of Federal members who recently

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voted themselves a "restoration" of £75 per annum in their parliamentary "allowances" during a discussion of a measure appropriately entitled "A Financial Relief Bill."

As part of their "sacrifice" under the Premiers' plan, members of the Federal Parliament reduced their allowances by 25 per cent., as against the 20 per cent. reduction applied to similar salaries paid to public servants of the Commonwealth. That is to say, the allowance was reduced to £750 per annum, from £1,000 per annum, to which sum it had been raised in 1920. The restoration was approximately equal to the relief granted in the Commonwealth budget to the public servants.

It was unfortunate that the "increase" should have been voted not long after the Federal Arbitration Court had ruled that the economic circumstances of the country did not yet justify the restoration of the 10 per cent. cut in the basic wage that had been imposed on wage-earners as part of the plan for the rehabilitation of industry. It was doubly unfortunate that it should have occurred on the very day that the New South Wales Arbitration Court declared a further reduction in the basic wage (in that State), for men from £3 8s. 6d. per week to £3 6s. 6d., and for women from £1 17s. od. per week to £1 16s. od.

On the other hand, it is true that the Commonwealth budget showed a considerable surplus, although the States have still serious budgetary problems. And it is also true that, although the Federal Government was making generous remission of taxation, it had threatened to go to the electors rather than concede widespread demands to restore the "cuts" that had been made in old age pensions.

Some of these things made the "restoration" to members not a little incongruous, and the political manoeuvres accompanying it, and still more the exaggerations in the press, aroused indignation. The editorial columns of the press, irrespective of party affiliation, reflected the storm of popular feeling, which found voice in trenchant denunciations from platform and pulpit. The conservative press

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vied with the normally less restrained journals in its use of disparaging and sarcastic captions, which ranged from such phrases as: "Another Salaries Grab," "The Galled Jade," and "The £75 Look," to "The Salaries Blunderstorm," "At the Burglar's Hour," "An Inglorious Exhibition of Political Greed." Labour organisations, which stand for the principle of increased wages, resented the action of their own political representatives as damaging to the workers' cause.

Members first affected astonishment, then attempted justification, and, finally, stung by one particularly cynical criticism in a Sydney journal, moved in the House to hale to the bar the editor and the publisher of the paper. And they also threatened reprisals by attacks upon the postal and telegraphic concessions afforded to newspapers.

Fortunately, wiser counsels prevented precipitate action, and when, after a lapse of nearly a fortnight, the directors of the offending newspaper explained that the article had not intended to reflect upon the personal honour of members, Parliament decided that its dignity had been vindicated.

Legislative Council Elections in New South Wales

The election of the reformed Legislative Council of New South Wales has brought to a close one of the most memorable chapters in the constitutional history of that State. After the acceptance of the reform by the people,* Parliament set about providing the machinery for the election. The validity of this legislation was unsuccessfully challenged in the State Courts, but an appeal to the Privy Council is now pending.

Meanwhile the election of new members has been held under a system of proportional representation. There were four ballots, at each of which fifteen members were

* For an account of the fight for the reform of the Legislative Council and the result of the referendum, see *THE ROUND TABLE*, Nos. 91 and 92, June and September 1933.

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elected to hold office for twelve, nine, six, and three years respectively. (In future, at the end of every three years, fifteen members will be elected for a term of twelve years.) The writ for the elections is returnable on January 17, 1934, and the new Council will be constituted on a subsequent date to be proclaimed.

Twenty-three of the 118 sitting members did not seek election to the new Council, and of the 126 nominations received 68 were made by Government supporters, 45 by the Lang Labour party, and six by the Federal Labour party, while seven stood as Independents. The ballots were held at intervals of a fortnight, commencing on November 2, and each candidate had four chances of election.

With so many candidates, and with party feeling inflamed, as it was, by the bitterness that the project of reform had engendered, it was inevitable that there should be a vigorous canvassing of votes. The Government had refrained from "running a ticket," but agreed upon a group that it recommended as worthy of support. The Lang Labour party not only had a carefully prepared ticket, but attempted to regiment its supporters into voting a meticulously marked "individual ticket," which was distributed to each supporter. It confidently asserted that it would be able to check how each person voted, despite the stringent precautions to preserve the secrecy of the ballot.

Not only were these predictions falsified, but the results of the ballots provided not a few surprises. While the Government supporters secured the full thirty-six seats to which their voting strength entitled them, the Opposition was split on unexpected lines. Of the 24 Opposition members returned, no less than five represented Federal Labour, and two were Independents, whose success has caused considerable heart-burning. Those people who had hoped to see a Council composed predominantly of new members have the satisfaction of knowing that there are nine new faces in the House (seven being Government sup-

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porters) in addition to 14 members who were appointed by the present Government last year. In other words, slightly more than one-third of the House can be regarded as "new."

There is little doubt that the quality of the new Council will be soon tested. Most people, however, will agree with the statement of the Premier, Mr. Stevens, that "the new Council is one which will give the people a sense of security, and which by its sane outlook and practical wisdom will gain and retain the confidence of the whole community."

The Idea of Longer Parliaments

The desirability of securing some continuity in the working out of the various "plans" for rehabilitating the fortunes of the Commonwealth has provoked some interest in the idea of "longer" parliaments. The matter was considered by the Royal Commission on the Commonwealth Constitution, and the majority report* recommended the extension of the term for which members of the House of Representatives should be elected, from three to four years. The proposal was made partly out of sympathy with members campaigning over the immense areas that characterise many of the Australian electorates, and partly upon a consideration of factors affecting the internal working of Parliament.

In the South Australian election campaign of April, 1933, the leader of the anti-Labour forces (Mr. R. L. Butler) urged that five-year parliaments would promote economic stability, foster political harmony and reduce the expense and dislocation associated with elections. Although the proposal evoked little popular interest, Mr. Butler proceeded, on his assumption of office, to put it into effect. He brought down a Bill to amend the constitution of South Australia by extending the life of the Assembly from three to five years, and of the Council from six to ten years. The

* Report of the Royal Commission on the Constitution, 1929 (F. 1251), Government Printer, Canberra, pp. 268 and 304.

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Bill passed the Assembly with the necessary constitutional majority, but an amendment by a supporter of the Ministry, to the effect that the term of the Legislative Council should not be extended, destroyed the argument that the number and expense of elections would be diminished.

By the time the Bill reached the Legislative Council, vigorous and unexpected public opposition had developed. It was contended that even if Mr. Butler had mooted the idea in his policy speech, the real issue upon which he had fought the election was a promise to continue to adhere to the Premiers' plan. He could not claim that the principle of extended parliaments had been endorsed by the electorate.

The Council, therefore, compromised. It refused to extend its own life without first consulting the electors (the Legislative Council is elected), but it agreed that Mr. Butler was reasonably entitled to have the life of the Assembly extended to five years.

As the Bill left the Council it contained but one section, which limited the extension to the life of the present Assembly. This destroyed the principle of the Bill, but nevertheless the Government accepted it. Moving that the Assembly accept the Council's amendments, the Premier gave an assurance for himself and his Ministers that before the expiry of the present Assembly's term of office a further Bill embodying the original principle would be brought down. By that time, people would have had an opportunity of estimating the value of the reform. The Labour party bitterly opposed both the principle and the compromise. It contended that Mr. Butler could not control the Council, even if he could pledge his Ministers, while it was highly unlikely that the Council would assist Labour to gain office for the five-year period proposed.

Although the immediate political reaction to the South Australian experiment has been the decision of the Queensland Labour Government to amend the constitution of that State by making it impossible to reconstitute an Upper

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House, or to extend the life of parliament without first taking a referendum,* the modern tendency to engage in "planning" the economic and financial life of the community may necessitate the adoption of longer parliaments. And this suggestion is strengthened by a consideration of political developments. The frequency with which threats are made by Opposition parties, that they will denounce agreements, or reverse policies, or terminate appointments, shows how far present-day parliaments have departed from the Victorian ethic, while the uncertainty that is engendered seriously disorganises commerce and industry. Five-year parliaments might lengthen the time for working out rival policies. At the same time, the post-war experience of Great Britain, Canada, and South Africa, who have quinquennial parliaments, shows that they have not enjoyed more political stability than has South Australia under a triennial system.

Government Difficulties

"Generally unsettled with occasional heavy squalls" aptly describes the recent political weather reports from Canberra and Melbourne. The Canberra unsettlement is principally connected with implementing the Ottawa agreements, the difficulties of which were foreshadowed in the Australian contribution to the September issue of this review,† but not a little is due to the efforts of sectional interests to appropriate some of the benefits that the improved financial condition allows the Federal Government to distribute. Apart from the crisis over the old age pensions referred to in another paragraph, the Government has been subject to constant pressure by insurgent

* Those who recollect that in 1907 the Queensland Parliament passed a measure requiring that any disagreement between the Assembly and the Council should be submitted to a referendum, and that in defiance of such a vote, in 1917, the Council was abolished, may be forgiven for being a little cynical about this proposal. See ROUND TABLE, No. 40, September 1920.

† See THE ROUND TABLE, No. 92, September 1933, p. 895.

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groups. For example, there have been organised raids by representatives of rural interests; there has been the agitation of various interests to have the land tax abolished, of commercial interests to have the sales tax and primage reviewed, of the defence interests, pleading unsettled world conditions as a reason for spending more upon armaments, while the only discordant note in a chorus demanding further reductions in the cost of government has come from the public servants. These influences are reflected in the budget and its history, which are dealt with in the previous section.

Far more difficult has been the task of tariff revision. At the last election, the Country party had vigorously assailed the policy of the Labour Government in imposing prohibitive duties, as well as some embargoes upon imports. But when Mr. Lyons refused the Country party's demand for the customs and other portfolios as a price for their support, the long-standing coalition with Dr. Page's supporters was broken. Dr. Page showed his chagrin by announcing that the Lyons Government would probably be short-lived, and from time to time the smouldering resentment of the Country party at its exclusion from office flames up to the embarrassment of the Government. Its general line of attack is against the sloth and neglect of the Government in its tariff policy, which is also alleged to be in "violation of the spirit of Ottawa." But English primary producers use the same phrase to condemn the Australian practice of export levies to enable products to be sold in English markets cheaper than at home.*

On the other hand, the Labour party and the manufacturers violently assert that "the egregious blunder of Ottawa is denuding Australian manufacturers of the protection which the people wish them to have." And the Lyons Government is warned that "its recreant, defiant attitude on the fiscal question has strengthened the determination of the people that at the next election they will

* See *The Spectator* of August 4, 1933.

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take added precautions to ensure that the national policy of protection will be more rigorously maintained." The reply of the Ministry is that the tariff legislation and the work of the Tariff Board "answer in full the unjustifiable assertion of sectional and often self-seeking interests that the Government is not honouring its pre-election tariff promises nor implementing the Ottawa Agreement."

In Victoria strained relations between the United Australia party and the Country party have existed for some time, and have been intensified by personalities. The Government is dependent upon the co-operation of the Country party, but that party has for some time shown a disposition to use its strategic position to extort concessions in return for support, while some of its members have developed such an attitude of intransigence as to paralyse legislative action. Some proposals of the Government (as in the Transport Bill) have been rejected with little reason, and this has had the effect of holding up other legislation aiming at rural rehabilitation. Although there is agreement upon the broad lines of a rural programme, there is discord over methods. Farmers' relief, bulk handling of wheat, the marketing of dairy produce and the milk supply, all reveal acute differences, which were still unsettled in the last days of the session.

The Premier, Sir Stanley Argyle, has shown a disposition to temporize, and this has been interpreted as weakness, but occasionally—as in the recent by-elections—he has "taken the gloves off" and attacked the insurgents for their disruptive tactics. Nevertheless, the petty bickering has discredited the Government. Electors are not disposed to inquire too closely into the personal quarrels of the groups and factions, but they are concerned that these things shall not threaten the initiation of legislation that may provide a basis for rehabilitation. At the recent triennial Australasian conference of the Country party a more tractable spirit was manifested, and resolutions were adopted agreeing to co-operation with the United Australia party,

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especially in Victoria and the Commonwealth. This has gone far to relieve the anxiety that was tincturing the otherwise improving feeling of confidence. For even with wool keeping up, high prices for gold, successful conversions of overseas loans and of local issues, and prospects of another good season, it was feared that political dissension might wreck all the efforts of the past three years.

Notwithstanding the improvements just mentioned, all the State Governments are anxious about the lagging return of "prosperity." The amounts needed for food relief have fallen to the lowest levels since the depression. This is partly, but not solely, the result of government expenditure upon relief works. There is a vigorous body of opinion that favours increased government expenditure upon public works, but the difficulty is to find the works that are "economic" under present conditions.

Australia.

December 21, 1933.

SOUTHERN AFRICA

I. POLITICAL CHRONICLE

ON January 26 the Union Parliament will meet again after a seven months' recess. It will take into review the record of what General Smuts has described as an *annus mirabilis* in South African history—it will look out upon the future with substantial confidence, coupled, however, with an intriguing curiosity as to the nature of the scenes that are to be enacted on the political stage.

As for 1933, South Africa is one of the few countries that can look back on it with almost unalloyed satisfaction. The political situation has changed during the last twelve months out of all recognition—and the change has been entirely for the better. In the economic sphere the recovery has been most encouraging, and the future is full of promise.

There can be no question of the success of coalition in allaying the strife of a generation, as far at least as most of the leaders and the great majority of their followers are concerned. General Hertzog and General Smuts had fought one another strenuously, often bitterly, for twenty years. The gap between them seemed to be unbridgeable. But the very intensity of the political strife that has so often prevailed in South Africa, and the magnitude of the issues round which that strife has revolved, have tended to develop in its people a political mindedness, of which one of the characteristics is a genius for compromise. Its political leaders are good fighters, but they have the good fighter's characteristic of being able to turn his back on the bitterness of the struggle when the time has come for

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peace. The two Generals are co-operating to-day in a spirit of real friendliness; the Cabinet gives little continuing evidence of the heterogeneity of its origin. Hardly less significant is the real change of heart over a great part of South Africa to-day. Between Afrikaans-speaking and English-speaking South Africans there has been a great growth of mutual confidence. More striking still has been the disappearance in most of the country districts of that form of bitterness which has of late gone deepest into South African life, the bitterness of feeling between Afrikaans-speaking South African party men and Afrikaans-speaking Nationalists. The party feeling that poisoned the wells of friendship and co-operation between those who had essentially the same interests and outlook has gone; the virulent opponents of a year ago now rejoice in chipping one another good humouredly as they recall incidents in the battles of the past.

All this undoubtedly represents a major political achievement, of importance not only in respect of South Africa's internal relations, but also because of the enhancement of the Union's prestige and of the good will towards it that has, one would hope, been called forth in the other member-States of the Commonwealth and elsewhere.

Since South Africa is not Utopia, no one would expect the political developments that have taken place to have commanded absolutely universal approbation. In a sense the completeness of the success of the coalition movement has provided the occasion for the reaction that has revealed itself. The coalition agreement between the leaders postulated the maintenance by the two parties of their respective identities. Yet to great masses of the Afrikaans-speaking people coalition and what it represented seemed so entirely right that almost at once the question was raised, "Why stop at coalition?" Coalition was in the nature of things a temporary expedient. What was to follow it? A return to party strife on the old lines seemed unthinkable. There was no effective alternative, it was

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clear, to the fusion or union of the South African and Nationalist parties. Without waiting for the leaders, the rank and file initiated a movement to that end. Into that movement the leaders found themselves irresistibly drawn.

Inasmuch, however, as there had been certain elements in both parties that had accepted coalition without enthusiasm, it was only natural that they should find fusion somewhat strong meat. At the outset the fusion movement was a rural movement. There was little enthusiasm for it among the English-speaking supporters of the South African party in the towns. Natal, in particular, sturdily distinctive in its outlook, and by virtue of its consciousness of a specifically British tradition inclined to be intensely suspicious of General Hertzog and of much that he has stood for in the past, might have been expected to regard fusion almost as some new Pan-Afrikaner conspiracy. In fact, however, General Smuts has obtained the adherence of his whole party for the principle of fusion. At the party congress in each of the four provinces, including Natal, he secured a unanimous vote; indeed the Natal congress was the most enthusiastic of them all. There was magnificent leadership underlying this achievement. The leadership, however, found its response in what has undoubtedly been in the nature of a swelling wave of national feeling. The readiness of the British minority in South Africa to turn away from the old suspicions, for the nurture of which it was always possible to find abundant material, may yet come to be regarded as one of the big things in South African history.

General Hertzog has been less fortunate than General Smuts. When first he decided on coalition he was strenuously opposed within his Cabinet and his party by one of the ablest of his colleagues, Dr. D. F. Malan, the leader of the Nationalists in the Cape Province. Eventually Dr. Malan agreed to give the coalition conditional support, though he remained outside the Government. There was, however, ground for the suspicion that even this con-

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ditional support was accorded merely to ensure the return of his followers at last year's general election. Certainly no one was surprised when Dr. Malan attacked the fusion movement as a violation of the coalition agreement, and gave utterance to criticisms of ever-increasing acerbity of the Coalition Government, and more especially of the Prime Minister. Able, determined, a master of political manoeuvre, Dr. Malan is a dangerous political opponent. His control of most of the Nationalist press places exceedingly effective instruments at his disposal. And since the appeals to sentiment—the awakening of the memories of South Africa's uneasy past—which General Hertzog himself so largely used in building up the Nationalist party, have not yet lost all their value as ammunition in political warfare, he can see clearly marked out before him the natural path for the leader of a reactionary party to tread.

Hence the issue of fusion has been stoutly fought at the provincial congresses of the Nationalist party. At the Cape congress, in his own province, Dr. Malan prevailed. In the other three provinces General Hertzog carried the day, not, however, without some difficulty, especially in the Free State. As a result, the majority of the Nationalist party is committed to the principle of fusion. The Cape section of the party officially stands out, although an "invasion" of the Cape by General Hertzog and his Nationalist colleagues in the Cabinet revealed that there, too, the Prime Minister can count on a substantial following for the cause that he has espoused. There can be no doubt that when the two leaders come forward with an agreed basis and programme for the new united party, it will be acclaimed by the great mass of the South African nation.

So, then, in most of South Africa a very much healthier feeling has come to prevail. It is with a sigh of relief that political strife has been allowed to lapse into the background, and that the energies thus released are being diverted to the task of economic reconstruction. In that task, too,

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substantial progress has been made in 1933. The opportunity offered by what may conveniently be called the gold premium has been effectively seized. The Witwatersrand, still essentially youthful in its vitality and its adaptability, has responded with enthusiasm to the new stimulus. The flotation of fresh ventures, the expansion of existing propositions, the undertaking of new developments, have proceeded apace. Confidence has been stimulated, and expectations have soared. Much of the activity has, of course, been merely speculative, but speculation very often both opens the way to, and provides the means for, constructive progress, and during this last year much has undoubtedly been done to lay solid foundations for an extension at once of the present scope and of the expectation of life of South Africa's major industry. Even the heavy taxation on the mining industry imposed during the last session of Parliament did little to slow up the process. Such effect as it might have had was rapidly neutralised by the increase in the price of gold.

For South Africa in general the Witwatersrand is a radiating centre of prosperity. An improvement of conditions there communicates itself over an ever-widening circle. So it has been during the last year. The recovery in agriculture was, however, considerably retarded by drought conditions as bad as any that South Africa has experienced for more than half a century. The croakers, who declared that South Africa is drying up, or painted lugubrious word pictures of the encroachment of the desert, seemed to have all the evidence that they needed to prove their theses. To-day, however, they are silent. As ever the land of contrasts, South Africa has passed from the utmost severity of drought conditions to abundance of fructifying showers. Again the desert is blossoming like the rose; great stretches of the Karroo are a very riot of variegated flowers. It is long since the indications of agricultural prosperity have been as favourable as they are to-day. In its measures of immediate agricultural relief

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the Government has been favoured with the assistance of Nature beyond even its wildest hopes. As a result it finds itself in a most advantageous position for attacking the permanent problems of rural poverty and retrogression, the solution of which is essential for the Union's future welfare.

If the year that has come to an end is to be regarded with satisfaction and gratitude, what of the prospects for the year that lies ahead? On the economic side there is, as will appear from what has been said, every reason for confidence. There are, of course, some factors that make for caution. Bounteous rains have brought floods in their train, and the valley of the Orange river, one of the few river valleys in South Africa that lend themselves to really productive land settlement, has been laid waste. There have been unprecedentedly heavy infestations of locusts from the north, reminding South Africa of its connection with the African continent, and at the same time emphasising the interdependence of the Union, the protectorates, and Southern Rhodesia, if only by virtue of the fact that the work of extermination in the Union itself may be rendered to a large extent futile if the locust is left to breed without restraint in its border territories. Moreover the return of prosperity to the Union has been bound up with the gold premium, and the lesson of South Africa's dependence on world conditions has been too effectively forced home in recent years for the possible repercussions of a continuance or an aggravation of the present instability in the world economic position not to be appreciated. These, certainly, are factors that make for caution. They serve, however, merely to temper, not to destroy, the prevailing optimism.

There is perhaps more uncertainty in regard to the political prospects. There can be little doubt, even in this country of surprises, that the fusion of the parties will be effected. There need be little fear that the present harmony between General Hertzog and General Smuts will

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be disturbed. As for questions of policy there is no present sign of substantial disagreement. The native issue is not likely to be forced. For the rest, rocks at present submerged may come to present a threat of danger. The recent reversal, for instance, by the Privy Council of a famous Haldane judgment, when it agreed to hear an appeal from a decision of the Supreme Court in South Africa on a matter raising no principle of special importance, threatens to bring up the whole question of the abolition of such appeals, an issue on which a cleavage might easily arise. It is probable, however, that the necessity of avoiding big constitutional questions will be appreciated, and the present truce maintained.

There remains the possibility of trouble arising from a source whose potential danger, especially to a coalition government, is not usually recognised—the difficulty of satisfying the aspirations of political supporters in the apportionment of such openings for preferment as present themselves. All the probabilities, however, point towards a surmounting of these and other difficulties and towards a development of the present arrangement of convenience into a permanent partnership. On the face of it, of course, General Smuts's tactical position might seem to be exceedingly strong. He can count on a united following, whereas General Hertzog's party appears to be irretrievably split, with the result that he would seem to be entirely dependent on the good will of his former opponent. One must, however, avoid the danger of judging the situation too narrowly. General Smuts is in any case not the man to abuse a tactical advantage such as he now holds; if he were disposed to do so, it is doubtful whether the nation would forgive him. General Hertzog may have lost a considerable section of his own immediate following, but he has gained tremendously in prestige and in good will in the country as a whole. It is to-day unthinkable that the termination of his premiership, otherwise than at his own strongly expressed desire, would be tolerated.

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The uncertain factor in the situation is rather that presented by Dr. Malan. It is clear that when Parliament meets he will not find more than fifteen or twenty followers to support him in opposition to Generals Hertzog and Smuts. It is admitted that, if after the fusion of the parties a general election is held, probably not more than half a dozen of those followers would be returned. Yet history has a knack of repeating itself in South Africa. Dr. Malan's position to-day is peculiarly similar to that of General Hertzog himself twenty years ago, when he went out into the wilderness with but a handful of parliamentary followers, out of whom he created the great Nationalist party. The party cries that were used in those days are for the most part still ready to Dr. Malan's hand to-day. The right of secession, neutrality in time of war, he has always espoused; with republicanism as a slogan he is already toying; he is sedulously at work in the graveyard of bitter memories of the past. He and his followers will not fail to raise any issue out of which sentimental capital may be made. Will he repeat General Hertzog's own success? Will he also in time secure a majority following pledged to support his views? The question is one of very considerable importance. If Dr. Malan fails, then it may be accepted that the issue of South Africa's continued association with the Commonwealth on the basis of the Statute of Westminster is settled for a considerable time to come. If he succeeds, then we may look forward to the raising from South Africa of issues very similar to those which are being raised from Ireland at the present moment by President de Valera.

The probabilities seem to point towards the conclusion that Dr. Malan will not succeed. For one thing, he is a good dozen years older than General Hertzog was when he started on his crusade; for another he is at a disadvantage as compared with his former chief both in personality and in power of popular appeal. Moreover it is at least doubtful if the old sentimental slogans will be as potent

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in their effects to-day as they were twenty years ago, when country audiences were less sophisticated, when the events that gave them their significance were fresher in men's memories, and when the outbreak of a European war created conditions that greatly increased their potency. It would, however, be foolish to ignore the possibility of the emergence of factors, inside and outside South Africa, that would have an opposite tendency to those which have been mentioned. The potential significance of Dr. Malan's opposition to the fusion movement sponsored by General Hertzog and General Smuts should not be under-estimated.

II. THE ALTOGETHERNESS OF EVERYTHING

THE Union has many neighbours. Both they and the Union itself are daily becoming more conscious of one another, a consciousness that is not always accompanied by a sense of comfort. A summary of their mutual relations during the past few months compels a realisation of what someone has so aptly called "the altogetherness of everything."

At the close of 1932 the Union slid off the gold standard, achieved a premium on the gold of which it is far and away the world's greatest producer, and made possible big further developments of the low-grade ore of the Rand. The commercial clauses of the Mozambique Convention of 1928 were already irksome*; the demands of the mines for native labour brought into sharper relief than ever the clauses that limit the Union's recruiting rights in Portuguese East Africa. Hence, in September, 1933, the Pretoria Government exercised its right to demand a revision of the Convention. Immediately afterwards the Union authorities set aside a long-standing prohibition against the recruitment of tropical natives for the gold

* See THE ROUND TABLE, No. 72, September 1928, p. 883, and No. 73, December 1928, p. 210.

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mines, and agreed to an experimental importation of 500 men from beyond latitude 22° south. That resolution must affect the local labour supply of both the Rhodesias, and possibly of Nyasaland.

Nor is that all. General Smuts has always looked to an extension of the Union's influence northwards, and, by the same token, Pretoria has just been put into telephonic communication with Lusaka, the new capital of Northern Rhodesia. Mr. Pirow, the Nationalist Minister for Defence in our Coalition Cabinet, has been planning an aerial base at Durban, the replacing of pre-war guns in the forts there and in the Cape Peninsula, and the mechanisation of the defence force. He speaks with foreboding of the possible, though far-off, day when the Union may be called upon to defend European women and children in territories far to the north that have conformed to our policy of "differentiation between black and white and (the) maintenance of white superiority," against the black warriors of territories in which "the policy of assimilation is being applied to its logical conclusion." Meanwhile, the French Air Ministry has discreetly released talk of a French aeroplane service from Paris to Katanga, hard by the Northern Rhodesian frontier. And at the moment when the Union had concluded a shipping agreement with Italy and was about to scrap both the last vestiges of its own navy, Italian submarines appeared in its ports, the first such vessels to circumnavigate Africa.

Drawn thus closer to her northern neighbours by air, telephone, and ministerial vaticination, the Union sees these neighbours threatening to draw away from her economically. Some time back, Northern Rhodesia gave notice of withdrawal from its customs agreement with the Union. On 1 December, 1933, Southern Rhodesia followed suit, though avowedly with a view to revision.

There has also been a revival of the idea of the amalgamation of the two Rhodesias. In April, 1933, a group of unofficial members of the Northern Rhodesian legislature,

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headed by Mr. L. E. Moore, of Livingstone, abandoned their opposition to the idea in face of the Governor's suggestion of a wider employment of natives rather than expensive Europeans in the humbler ranks of the police and various other departments. Their motion in favour of amalgamation was defeated. Nevertheless, south of the Zambesi, the Rhodesian party, which until recently held office at Salisbury, adopted as a plank in its election platform closer union with Northern Rhodesia and the incorporation of the Tati district and the northern Bechuanaland Protectorate. Its rival, the Reform party, went further still and proposed "confederation or other form of union" with "neighbouring territories," thus leaving the door open for closer working with the Union. But it is noteworthy that no one in Southern Rhodesia had a good word to say for General Hertzog when, in November, 1932, still in his pre-coalition manner, he announced that the "ultimate fate" of the colony was incorporation in the Union. That incorporation, he declared, could only take place on the basis of unification as distinct from federation, equality of English and Afrikaans, and no restrictions on the settlement of Rhodesian lands by Union citizens. Those principles had ensured the rejection of General Smuts's more tactful offer ten years before; they are certain to ensure rejection in any future worth present consideration.

Next comes the matter of railways. These promise to play once more their accustomed part of bringing the States of southern Africa closer together, and to loggerheads. Both the leading political parties in Southern Rhodesia desire a railway corridor to the west coast as an alternative to Beira, where they find the amiable but leisurely Portuguese officials something of a burden. One projected route runs from the middle Zambesi to Tiger Bay near the mouth of the Kunene river down the Caprivi Zipfel, which is South West African soil, mandated to the Union. The alternative route runs down to Walvis Bay, in South West Africa again; in addition it traverses the Bechuanaland

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Protectorate, on which Southern Rhodesia has always had its eye, and provision for whose inclusion in the Union is made in the South Africa Act. Does this spell more complications?

The Bechuanaland Protectorate has been in the limelight recently owing to the suspension and reinstatement by the Imperial authorities of Tshekedi Khama, regent of the Bamangwato.* Behind that picturesque incident and the march of Vice-Admiral Evans's marines lies the whole question of the continued Imperial administration of Bechuanaland, Basutoland and Swaziland. The Union has always envisaged the day when it would take over the Imperial "islands," and it cannot be doubted that this Tshekedi affair brings that question to the front once more.

Lastly, South West Africa is stirring uneasily, sinking deeper into debt to the Union, and fretting against the Union's trade and railway policies. Nazi enthusiasms are ranging the bulk of the Germans against the pro-Union British and Afrikaners, with repercussions in the Windhoek legislature and in its relations with the Union authorities.

Let the mere list of these interlocking policies and problems, all the way round the Union's borders from Mozambique to the mouth of the Orange river, stand thus baldly on record. Perhaps, later on, it will be possible to show them all more adequately under one view. For the present it must be enough to single out three matters for more detailed examination: (a) the Italian shipping subsidy, (b) the Tshekedi incident, and (c) the position in Southern Rhodesia.

(a) *The Italian Shipping Subsidies*

The subsidy to the Italian shipping companies appears to have been arranged by Mr. A. P. J. Fourie before the coalition was formed, and the agreement was taken over by the new Government. It provides for a subsidy of £150,000 per annum for five years to the Italia and Libera

* See THE ROUND TABLE, No. 48, September 1922, p. 910, No. 49, December 1922, p. 200.

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lines. It is stated that the Italian Government has also granted a subsidy of £300,000 per annum towards the new services. The Italia line, commencing on March 8, will provide a fast four-weekly service to Dakar, Gibraltar, Marseilles and Genoa. The time to Marseilles from Cape Town will be 14½ days. The boats are fitted with 90,000 cubic feet of refrigerated space for fruit and other perishable products. The Libera line will provide a semi-fast service to Mediterranean ports via both East and West African ports, and a monthly service via nearly all coast ports. Sailings between most of these and the Cape are at present very irregular. Trade does not justify regular sailings, and the absence of regular transport adds to the difficulties of building up the trade.

The two main objects of the agreement appear to be to secure trade with south European countries through the fast service, and to open up new markets for Union products in Africa through the semi-fast and slow services. The Italian companies are members of the Ocean Freight Conference, so that the fixed rates to Mediterranean and north European ports will apply. The west and east coast African ports, however, are not affected by the Conference. The Union Government will therefore control the rates on this route.

For some time there have been complaints about the difficulty of opening up new trade connections in Africa owing to the absence of regular sailings to certain ports, and the high freights charged where existing lines already call. The last report of the South African Shipping Board pointed out that freight rates to the natural export markets of South African industries, especially in East Africa, are often higher than rates to those markets from overseas countries. Representatives of the shipping companies naturally replied that freights must be affected by the volume of trade. This is a perfectly valid argument so far as the ports are concerned that at present have no direct regular communication with the Cape. Even

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though one or two lines have offered to put into any port if the freight available amounted to £50, in the absence of a subsidy it could not be expected that such small quantities could be carried at as low a cost as freight on the regular routes, for these freights would be the only inducement to call. The argument of the shipping interests is not so strong when it is applied to East African ports at which boats call regularly. If the calls are to be made in any case, competition would not necessarily result in the peak portion of the traffic paying lower rates than the other portions. But when competition with the Conference lines arose in the past, the Union Government did nothing to prevent their use of "clubbing" devices to drive out the competitor.

In the absence of legislation that would make competition possible, and in the knowledge that in any case competition could not provide the services to many ports where Union producers believe that they could ultimately develop markets, most people in the Union have regarded the subsidies to foreign ships simply as one of the ordinary forms of protecting new industries. The criticism has been not so much against subsidies as a temporary expedient, as of the probability of their being worth while, and of the secret methods by which they have been arranged without any attempt to find out whether other lines could have provided facilities at a lower rate. On the former point the *Cape Times* estimated that, during the first six months of 1933, the total export trade of the Union to the ports served by the new arrangement amounted in value to about £131,000; a very great increase would be necessary to justify the subsidy. More, indeed, was expected from the fast sailings to Marseilles and Genoa than from the opening up of the coast ports. Doubts were expressed whether France would agree to allow, without restriction, the import of goods carried on the subsidised Italian line. But the difficulty of developing the African trade at all in view of the present high rates made many business

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men consider that this was too pessimistic a view. Criticism has concentrated mainly on the way the subsidy has been arranged. The suggestion that the Italian companies must be able to provide the services more cheaply than others because they also obtain a subsidy from their own Government is, of course, simply a piece of bad theory. The only way in which it could have been found out whether the service was obtainable from the English or German lines was by allowing them to tender.

There are still some people in the Union who believe that subsidies generally do more harm than good. When the shipping subsidy was announced, one of these remarked that already the Union taxpayer had to pay a subsidy to enable Italy to buy South African meat more cheaply, and now our Government had been persuaded to make the taxpayers pay the Italians to come and fetch it. In so far as this happens, whether it is intended to happen or not, it can only check the speed of economic recovery by helping to keep world prices of primary products below the economic level. This disadvantage must certainly be set against the claims made for the agreement, which Mr. Fourie has admitted "is all bound up with" the Italian meat contract. That connection is thoroughly undesirable. It would be an evil day for the Union if, now that quotas are so common in trade, the acceptance of imports were to be adopted by other countries as a means of obtaining subsidies for their industries.

(b) The Tshekedi Affair

On Sunday, September 10, 1933, the good people of the Cape peninsula were startled by the spectacle of a naval detachment of 200 men with three guns from the ships at Simonstown being entrained for the Bechuanaland Protectorate. No one had heard of any trouble in that quarter, and the despatch of so considerable a force naturally gave rise to much surprise and some alarm. The next morning's papers contained statements by the Acting High Commissioner

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for the United Kingdom and the Acting High Commissioner for the Native Territories under the administration of the Imperial Government, which allayed the alarm if they did not entirely dissipate the surprise. Sir Herbert Stanley, His Majesty's High Commissioner for South Africa, who is entrusted with the administration of the native territories of Basutoland, Swaziland and the Bechuanaland Protectorate, and is the representative in the Union of the British Government, was away on leave. In his absence the office of High Commissioner devolved on the Naval Commander-in-Chief at Simonstown, Vice-Admiral Evans.

The statement that he issued was to the effect that a disturbance had taken place at Serowe, in Bechuanaland, in which Tshekedi, the Acting Chief of the Bamangwato tribe, was involved. There was no fighting, said the statement, nor casualties of any kind; the lives of the European inhabitants were not in any danger, and it was not found necessary to draft any forces to the spot. Certain action taken by the Chief having made it necessary to hold an enquiry, the Acting High Commissioner had ordered an immediate enquiry to be held and such action to be taken thereafter as might be deemed necessary. The Acting High Commissioner informed the press that it had been reported to the Magistrate at Serowe that a European resident had been tried by the Chief's Court and sentenced to be flogged, and that this punishment had actually been inflicted. He, the Acting High Commissioner, after considering the detailed reports of the occurrence obtained by the Resident Commissioner, and conferring with him and his officers, had ordered an immediate enquiry to be held locally. He added that he would proceed in person to the Protectorate, to receive reports and decide upon the action to be taken, accompanied by a naval escort. The 200 men and three guns constituted the escort.

Under the Orders-in-Council establishing what is known as the Bechuanaland Protectorate, the High Commissioner

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is empowered to legislate by Proclamation for the peace, order and good government of the territory. The common law of South Africa, the Roman-Dutch law, is applied to the territory, but civil relations between natives are governed by their own laws in so far as these are not in conflict with civilised jurisdiction, and disputes in which only natives are involved are dealt with by the native courts. The native courts have no power to try or impose penalties upon Europeans.

Tshekedi Khama is the Acting Chief of the great tribe of the Bamangwato, being the regent for the Chief, who is still a minor. He is a son of the late Chief Khama, the famous ruler of the tribe, one of the finest statesmen the Bantu race has produced. He is a young man, educated and civilised, whose qualities evidently draw a tribute even from the authorities who find fault with his conduct as Chief. One of the official complaints against him was that he would not work in harmony with the Administration, and he claimed that, as the country had not been annexed by the British Crown, the sovereignty of the Chief over his native subjects could not be overridden by the laws promulgated by the High Commissioner. This constitutional question, however, was definitely excluded from the scope of the enquiry instituted by the Acting High Commissioner into the trial and punishment of Europeans by the Chief's Court.

The Commission sat and concluded its enquiry on Wednesday, September 13. Tshekedi desired to be represented by counsel, and had instructed a member of the Cape Town bar to appear for him before the Commission of Enquiry. The Commission, however, refused to hear him, and required Tshekedi to conduct his own defence. Prior to the enquiry, orders were issued suspending him temporarily from his office of Chief and placing him under open arrest. The case that Tshekedi attempted to make was that he was justified in trying and sentencing the European because the latter was living among the natives

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as a native, and had been guilty of offences against native women,* and that he had drawn the attention of the Administration to this man's misconduct without result. The misconduct of the European, it may be added, was not disputed, and at the close of the enquiry an order was issued banishing him and another white man from the native areas.

On Thursday, September 14, the Acting High Commissioner returned to Serowe, where he was received by the escort with a salute of 19 guns, and read his decision. He complimented Tshekedi on his personal qualities, his education and intelligence, but criticised him for selfishness and failure to work in harmony with the Administration. He admitted the bad character of the European concerned and announced his banishment from the reserves. He then informed Tshekedi that as a punishment for causing the flogging of the European he would be suspended from his functions as Chief and excluded from the Bamangwato reserve during His Majesty's pleasure.

On September 29 a statement was published by the Acting High Commissioner, in which he cited a communication from Tshekedi abandoning any claim of right to try a European and undertaking not to deal with European cases in future; stating that he did not claim, and would not claim, to be immune from the laws of the Protectorate now or hereafter in force; regretting what had occurred and assuring the High Commissioner that he would at all times work in harmony and loyal co-operation with the Administration. After dealing with the facts of the case, the Acting High Commissioner announced that His Majesty had been graciously pleased to terminate Tshekedi's suspension from his office as Chief, and also the order requiring him to live outside the reserve.

When this statement was published, Tshekedi was on his way to Cape Town, and on the following day he is reported to have paid an official call on Admiral Evans, the Acting High Commissioner, by whom he was received on board the flagship at Simonstown. On the following Monday he

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was formally reinstated by the Acting High Commissioner at Serowe. So ended happily a remarkable incident in the history of the Protectorate administration.

The question of the future government of the Protectorate, separated by a long and purely artificial frontier from the Union of South Africa, together with that of the two other High Commission Territories of Basutoland and Swaziland, which form two small enclaves within the Union borders, is one that calls for early settlement. The South Africa Act of 1909, by which the Union was constituted, provides that the King-in-Council, on an address from both Houses of the Union Parliament, may transfer to the Union the government of these Territories, and provides in a schedule an elaborate form of administration which is to be applied to them on such transfer. Since that time, nearly a quarter of a century ago, nothing has been done either to give effect to or to abrogate these provisions. There can be no doubt that this condition of suspense has been the most serious obstacle to the carrying out of measures of administrative and economic development that are everywhere regarded as being urgently required.

(c) *The Change of Ministry in Southern Rhodesia*

The last ROUND TABLE article on the political situation in Southern Rhodesia was written in October, 1932.* Our Rhodesian correspondent then defined the atmosphere as one of "cautious optimism." On the whole that optimism has been justified. Reviewing his Ministry's record after his return from the Ottawa Conference, Mr. H. V. Moffat, the then Premier, claimed that it had made a fair division of land between European and Bantu under the Land Apportionment Act†; that the Native Affairs Act had laid the foundation of native local government on the well tried lines of Rhodes' Glen Grey Act and Smuts' Act of 1920;

* THE ROUND TABLE, December 1932, p. 211.

† For the Report of the Land Commission *vide* THE ROUND TABLE, No. 67, June 1927, p. 632.

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that the maize, tobacco and dairy controls had saved the farmers, that gold production had gone up, and that the finances had been administered prudently.

Doubtless the Ottawa agreements have helped Southern Rhodesia round the corner. The stabilisation of the British preference on her tobacco for ten years is a great gain; so also is the Canadian preference on her maize and peanuts; while the meat quota system in Great Britain holds out hope to her cattle ranchers. Doubtless also the Union's departure from the gold standard and the approximation of its currency to the British and Rhodesian pounds has facilitated trade. Nevertheless, Mr. Moffat was justified in claiming some of the credit for himself and his colleagues.

The Ministry's record has not, however, saved it from extinction. Mr. Moffat gave notice that he would retire shortly, and his retirement was certain to weaken his Ministry and its hold upon the country. Mr. Moffat, son of the Rev. John Moffat who played no small part in the making of Rhodesia, had succeeded Sir Charles Coghlan, the doughty champion of self-government in Chartered days, as leader of the Rhodesian party. That party had held office for ten years, from the very beginnings of responsible government. At first it really had been "Rhodesian" in the sense that nearly everyone who was not a Labour man had belonged to it. But with the passing of time, cleavages began to appear, as they must in a legislature and electorate where the party system was as fluid as it had once been in the Cape province of the 'eighties. Gradually opposition groups took shape under various names; Progressives, Country party, Independents, and the rest. Mr. R. D. Gilchrist was for a long time the head and centre of this growing Opposition; but, in July, 1932, he public-spiritedly stood back in favour of Mr. G. M. Huggins to ensure common action. Thereafter a considerable Reform party stood organised, over against the Rhodesian party.

Personalities inevitably counted for a good deal in a small community of fifty thousand Europeans. In the

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main both parties wanted the same things, the Reformers wanting them more quickly than did their opponents. But there were differences of policy. The attitude of the rival parties on the issue of closer union with the neighbouring colonies has already been indicated. Further, the Reformers desired to get rid of the last vestige of Imperial control over legislation concerning the natives, railways, and so on; to deal rigorously with monopolists, e.g. the British South Africa Company, which did not, in their opinion, develop their holdings beneficially; to push ahead with land settlement and the segregation of Europeans and Bantu, even to the extent of "the removal of the anomaly of Europeans and natives being on the same electoral roll"—a Cape survival—and the discouragement of miscegenation by all means short of treating it as a criminal offence. Finally, their plans for the fostering of secondary industries were more precise than those of their opponents, and they were even ready to hold a referendum on the question of State lotteries.

Meanwhile a long-standing issue came to a head, and weakened the ministerialists. Without going into historical details, it may be agreed that the position of the British South Africa Company in Southern Rhodesia rested on the Royal Charter of 1889, and the Lippit and Rudd concessions. From the former, the Company deduced that it owned the unalienated lands, and long unchallenged practice confirmed it in its deduction. Its claim was, however, challenged at last, and in 1918 the Judicial Committee of the Privy Council ruled that these lands belonged to the Crown. The lands duly passed to the Rhodesian Government under the complicated system of payments and counter-payments that accompanied the grant of responsible government in 1923.*

The Company claimed the minerals under the Rudd concession. For a long time its claim went unchallenged, but since 1928 at all events the cry has been raised more

* Cmd. 1984 of 1925.

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and more confidently that the minerals were on the same footing as the land. Three successive mining Bills had to be withdrawn because the Company's rights were explicitly recognised therein, and, to crown all, in July, 1932, a prominent mineowner refused to pay royalties to the Company.

Mr. Moffat, yielding to unexpected pressure from many of his own supporters, therefore agreed to take legal advice on how best to bring this question before the Courts. The legal experts differed. Some said there was no case; others said the case was good, or at least arguable. The Company, for its part, stood to its guns and demanded a definite acknowledgment of its rights.

The Dominions Secretary decided the matter (though he did not end the controversy) by drawing attention to the so-called Devonshire Agreement which had covered the grant of responsible government. That agreement, he observed in November, 1932, "must be understood not merely as a recognition by the Crown of the Company's ownership of the minerals in Southern Rhodesia, but as imparting a promise not to call in question the rights recognised." And lest anyone should say, and there were many who did say promptly, that the undertaking merely estopped the Crown but left third parties free to take action, he insisted that this recognition was "an integral part" of the agreement under which responsible government had been given, and was "in accordance with the intention of all parties concerned."

Mr. Moffat, who personally had never questioned the Company's rights, faced the political facts. He offered to buy the Chartered mineral rights. His action was something of a gamble, as dealings in mineral rights are apt to be, but he might reasonably hope that with cheap money available the £100,000 drawn from royalties each year would meet the service of a loan of £2,000,000, which was the price agreed upon. The bargain was ratified at a stormy session of the Legislative Assembly in April-May, 1933. The

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Company has thus relinquished its hold upon the minerals as well as the lands of Southern Rhodesia. It still retains large farms and industries as well as the control of the railways; it is still, as the Reformers note, the biggest single capitalist in the country. But its main interests now lie north of the Zambesi. It proposes to shift its local headquarters to Lusaka, in Northern Rhodesia.

At this stage Mr. Moffat made way as Premier for Mr. George Mitchell, hitherto Minister of Mines and Agriculture. The new Premier's tenure of office was brief. A general election took place in September, 1933, a confused struggle of 78 candidates for 30 seats. In the event the Reform party came home with a short lead: 16 Reformers as against 9 Rhodesians and 5 Labourites. Mr. Mitchell resigned, and Mr. Huggins was sent for by the Governor, Sir Cecil Rodwell. Strong pressure was brought to bear from many quarters in favour of a National Cabinet on British lines, or at the very least for a coalition on the South African model, but the Reformers could not work with the Rhodesian party, and Labour, led by Mr. H. H. Davies, declined to work with the Reformers, even though both parties had in common the desire for considerable State action. Mr. Huggins therefore formed his own Ministry, with Mr. Gilchrist as second in command. Of the six Ministers, one is a newcomer to parliamentary life, and three others have sat in only one Parliament. On the other hand, they are keen and energetic.

The Reform Ministry have lost no time in getting into action. They have in their hands the report of a commission on the price of Crown lands appointed by their predecessors, which should fit in with their plans for a more rapid settlement of European areas; they are already hoping to attract tourists to the great nature reserve, which they have projected in the south-east corner of the colony, possibly contiguous to the Union's well-known Kruger Park, and they hope to enlist Portuguese co-operation in what should be an international undertaking;

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they are fulfilling one election promise by arranging for a referendum on State lotteries, which, if it is successful, will add to the problems of the Union Government, which finds the lotteries of Lorenzo Marques an expensive nuisance; above all, with the approval of all parties, they have given notice that they will terminate the present customs agreement with the Union in June, 1934. All Rhodesians hold that the agreement has been so whittled away by embargoes and quotas and the like that it is now hardly recognisable as the original scheme for a free interchange of products. At the same time they have asked for a conference, and if that cannot be held before June, 1934, for a continuation of the existing arrangements till a conclusion is reached. It is revision that they want and not a severance of amicable relations. The reply of the Pretoria Government has been cordial and reassuring.

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NEW ZEALAND

I. THE BUDGET

ON one point at any rate Mr. Coates was able to improve upon the example of both his immediate predecessors in the Finance Ministry when on November 9 he rose to deliver his first budget speech. He could be a little more cheerful than had been possible for them. In his opening sentence he said he was "glad to be able to note that export prices generally are on the up grade," and though there had been occasional reactions since the first improvement set in early in the year he regarded the prospects as brighter than at any time since the depression overtook New Zealand. The Minister's diagnosis was confirmed at Auckland on November 27, when the expectations based on the recent wool sales in Australia and London were exceeded at the first sale of the New Zealand season. At Christchurch on December 11 the hopes of growers were again reported to be fully realised. On December 20 Dunedin did better still with an exceptionally large sale, at which prices from 100 to 300 per cent. higher than those of last year were obtained, France and Germany being among the keenest competitors.

In his review of the Government's exchange policy the Minister did not attempt even an approximate estimate of its effects. He admitted that the rise in export prices which followed the raising of the rate had since been succeeded by a fall which did not leave them much above the level at which they originally stood, but the Government was satisfied to continue the policy.

As a result of all the efforts made (said the Minister) the gap between costs and prices has been narrowed considerably, but the government statistician's indices still show export prices about 16 per cent. below the 1914 level, while farm costs, which are more

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difficult to measure, are still 20 per cent. above that level. This is the position after taking the exchange adjustment into account, so it will be evident that the measure of assistance given by the raising of the rate must continue in the meantime.

In his estimates for the current year the Minister puts the receipts from taxation at £16,214,000, an increase of £609,000 over last year's receipts. The new taxes imposed in January to meet the cost of the exchange policy—the sales tax and the gold export duty—have worked out well during the first half of the year, and are expected to produce £1,712,000 and £124,000 respectively by the time it closes. With the proceeds of increased customs duties and some miscellaneous receipts, the aggregate is put at £1,954,000. But decreases under other headings make a set-off of £1,345,000, in which the heaviest and most significant item is the further drop of £857,000 in income tax, making a total decrease of £1,748,000 in two years, or over one third of the revenue. On the other side of the account the outstanding item is the one declared result of the exchange policy, "exchange on normal requirements," £1,790,000.

The Minister's estimates may be summarised as follows :

<i>Expenditure</i>				£
Debt services	..	..	..	10,445,000
Exchange on normal requirements	..	..	..	1,790,000
Transfer of motor taxation	..	..	..	1,179,000
Other permanent appropriations	..	..	..	340,000
Annual votes :—				
Social services	..	..	..	6,900,000
Other votes	..	..	..	3,597,000
Supplementary, say,	..	..	..	149,000
				24,400,000
<i>Revenue</i>				£
Taxation	..	..	..	16,214,000
Interest receipts	..	..	..	2,551,000
Other receipts	..	..	..	1,541,000
From reserves	..	..	..	2,000,000
				22,306,000
Deficit				£2,094,000
				449

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The deficit is a matter for congratulation when compared with the Minister's estimate of £4,500,000 in his January statement, but it would have been nearly doubled if the reserves had not been again tapped for £2,000,000. By the consent of the British Government, the payments in respect of the funded debt are again to stand over.

Referring to the raising of the exchange rate and its effect in increasing government expenditure, measured in New Zealand currency, on external debt charges, the Finance Minister said that that had been anticipated when the rate was raised, and that full provision was made in the estimates to meet it. The amount required to meet interest and other payments in London was estimated at £7,250,000, while about £1,250,000 was needed for Australia. He pointed out that the latter payment would not call for additional expenditure, as the exchange costs would be recovered in remitting the money from London to Australia, where, as in New Zealand, sterling commands 25 per cent. premium; but he failed to note that, if New Zealand had not followed Australia's lead in this respect, there would have been a profit.

During the half-year ended on September 30, London funds purchased from the banks had amounted to £13,345,000, and, after deducting from this sum the £8,500,000 required for use in London and Australia, there was still £4,845,000 in hand as surplus sterling assets. Mr. Coates was at some pains to explain the size of the amount, which was far in excess of his estimate. Funds had been remitted to New Zealand in advance of export requirements, importers and others had been holding back from the purchase of exchange, and the position had been aggravated by unfounded rumours of a pending fall in the exchange rate. Hopes and fears and suspicions, which say more than they know, are the inevitable outcome of uncertainty, and the Minister eliminated the principal causes of uncertainty by the definite statements that "the exchange rate will be kept at the present level until at

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least the end of the present export season," and that "this does not mean that at the end of the season the rate will be reduced, or that it will not be increased." But in other respects, and especially on this question of the disposal of the surplus London assets, he still allowed ample room for uncertainty, uneasiness, speculation and contention.

The surplus sterling assets taken over under the guarantee arrangement with the banks will, says the Minister, "in no way embarrass the Government." They have been acquired in exchange for treasury bills issued to the banks in New Zealand, and as soon as the Reserve Bank opens its doors it will be possible to reverse the process and use the London funds to pay off the bills, adequate precautions being taken to protect the bank from liability.

Thus, (he continued) the net cost of the exchange indemnity agreement cannot be known until either all the London funds in question are sold by the Reserve Bank or stabilisation of the currency takes place. It would be premature at this stage to contemplate any loss arising; indeed, in certain circumstances the ultimate result might be a net gain. . . . In the meantime, the outlay in purchasing surplus sterling assets must be regarded as a suspense item outside the normal budget for the year.

This "suspense item" has naturally been likened to a sword of Damocles hanging over the budget. The sword may be the sword of Damocles, but the faith is surely that of Micawber. To incur a heavy liability and take no steps to meet it on the ground that, when at last payment has to be made, the sum may be smaller or larger than it is now is quite in the spirit of that brilliant financier. It was suggested by Mr. Downie Stewart that the real reason for this procedure was that the Finance Minister might well have £10,000,000 on his hands by the end of the financial year, unless imports increased rapidly at an early date, and that, if the cost of exchange were debited against the current year, the deficit instead of being £2,000,000 might be between £4,000,000 and £5,000,000, and the result a public outcry.

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In January 1933 Mr. Stewart gave his reasons for believing that the extra cost to the budget of raising the exchange rate from 10 to 25 per cent. would be about £3,800,000. In the budget debate on November 15, he said that he had reviewed the estimate in the light of the subsequent figures and found that it was under the mark. In the revised table below, the third item, "net interest charges on treasury bills, say £500,000," is explained by Mr. Stewart as follows: the budget shows that the extra interest on treasury bills for the year arising from the raising of the exchange rate will be £690,000, but whereas the rate charged on treasury bills in New Zealand is 5 per cent., the interest earned on the London funds is not much more than $\frac{1}{2}$ per cent., and the difference is fairly referable to the exchange. Mr. Stewart's revised estimate is as follows:—

1. Extra cost of external debt charges	£
2. Cost of exchange on £4,845,000 surplus funds purchased till September	1,050,000
3. Net interest charges on treasury bills, say	1,200,000
4. Customs revenue made good by extra taxation	500,000
5. Exchange on funds, say £4,000,000, to be purchased between September and April	800,000
	1,000,000
Total	£4,550,000

Mr. Stewart's concluding point was that whether he was right or not about the evils of artificial depreciation, or about the impropriety of carrying exchange as a suspense item, there could be no question about the absolute rule that artificial depreciation necessitated a balanced budget. Concluding the debate on November 21, Mr. Coates argued that the Government's principal obligation was to the primary industry which was the base of the country's prosperity; that the only alternative to the high exchange was guaranteed prices—the remedy of the Labour party; and that Mr. Stewart himself had no policy to suggest.

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In the ten months in which the high exchange had operated, (said Mr. Coates) the purchasing power of the country had increased by £7,000,000. . . . It was true that certain articles had increased by 15 per cent., and perhaps more, but they could count them almost on one hand. Barbed wire had increased 15 per cent., but no one could say the relief worker lived on barbed wire. . . . Retail prices had actually decreased since the currency was depreciated. . . . It could not be substantiated that New Zealand was going to lose £25 on every £100. It might be argued that New Zealand was just as entitled to establish an exchange equalisation fund as the United Kingdom.

II. THE BANK PROBLEM

THERE are six commercial banks doing business in New Zealand, of which only one has its head office directorate in New Zealand, and four of the other five are predominantly Australian institutions. Before the war the notes of all these banks were payable in gold, but on August 5, 1914, a Banking Amendment Act and a Proclamation issued under it made them legal tender—a provision which was from time to time extended and remains in force to-day. The Finance Minister points out, however, that, though the obvious intention of the early legislation was to establish the gold standard, the trading conditions of the country had in fact resulted in the adoption of a purely voluntary sterling exchange system.

The permanent statutory provisions are for the most part still suspended by war regulations, (he says) but such suspension had no real effect, as the provisions had always been practically inoperative.

This remarkable statement is made by Mr. Coates in a pamphlet entitled *Reserve Bank of New Zealand Proposal*, which he published in September, and he justifies it in regard both to the note issue and to the limitation of the credit structure. Of the former he says that the statutory provision was, in effect, that the note issue should not exceed three times the gold reserves, but that examination of the figures over a period of years shows that deposits

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and advances varied without any relation to notes in circulation, and, indeed, in a manner which would be quite inexplicable in a self-contained banking system.

The explanation, of course, (he continues) is that our banking system is not self-contained, in that the banks normally hold a large amount of funds in London. In fact, these London balances are the real regulative factor and the key to our whole banking system. In New Zealand there is no bullion market, no bill market or short-loan market, and generally no money market in the full sense of the term. The all-important work of our banks is financing our external trade, which per head is one of the highest, if not the highest, in the world. Furthermore, a very large part of our trade is with Great Britain, wherein is situated the premier international money market of the world. Under these circumstances, supported by the ties of Empire and the fact that this country has been borrowing steadily in Great Britain practically ever since these islands were brought under the British flag, the dominating portion of our banking business has centred in London.

The rise and fall of these London balances thus govern the deposits and advances that constitute the credit system of the Dominion. The Minister, however, recognises our obligations to the banks, which—at any rate till the end of 1930—made the system definite and complete by their policy of maintaining steady rates of exchange, unaffected by any but very exceptional trade disturbances. In illustration of the success of this policy, reference is made to the fact that, in spite of marked variations in the trade balance between 1907 and 1911, the exchange rates for telegraphic transfers, New Zealand on London, were kept at 17s. 6d. per cent. for at least ten years before 1914. The result was to keep the New Zealand pound approximately at parity with sterling. The opinion is expressed that the co-operation of governments and central banks may do much to reduce the damaging effects of the alternation of booms and slumps arising from the wide swings of British prices, but the Minister is satisfied that New Zealand has “no option but to accept the prices ruling in the British markets.”

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The chief characteristics of New Zealand's banking system are summarised by the Minister as follows :—

- (1) The system is, in fact, and always has been, a sterling exchange standard.
- (2) It has centred round an approximate fixed par of exchange between the British and the New Zealand pound.
- (3) Our external trade is cleared through London, and the London balances of the banks are the chief factor in regulating the volume of credit in New Zealand.
- (4) The banking habit is strongly developed in New Zealand, and notes are very subsidiary, being used for little beyond payment of wages, petty disbursements, and till-money.
- (5) The legislative restrictions on the note issue have been quite inoperative, as the demand has always been considerably less than the maximum amount the banks were in a position to issue.
- (6) The volume of credit has regulated the note issue, and not *vice versa*.

“Economic facts and the traditional exchange policy of the banks” are thus, in the Minister's opinion, the only real regulative factors of New Zealand's banking system, but he describes the control as not disinterested, having been “simply evolved as the system best suited for the purpose of carrying on commercial banking in the Dominion.” Seeing how well, on his own showing, the system has worked in the public interest, the acknowledgment is not too gracious, but in principle the case for the disinterested management of an institution specially created for the purpose is obviously, other things being equal, unanswerable. The establishment of such an institution, without any change in the sterling exchange system or in the present exchange rate, was declared by the Finance Minister to be the object of the proposed legislation.

The Reserve Bank Bill

The Reserve Bank of New Zealand Bill, which, on the Finance Minister's motion, was given its first reading on October 19, followed in its general scheme, but with a few vital alterations, the Bill circulated by his predecessor, Mr. Downie Stewart, on December 12, 1932. The primary duty of the Bank, as defined in it, is “to exercise control,

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within the limits of the powers conferred on it by this Act, over monetary circulation and credit in New Zealand." It is not disputed that both in its powers and in its limitations the constitution of the Bank conforms to the normal functions and conditions of a central bank. It is to have a monopoly of the note issue, it is to be "the bank of the banks" and of the Government, its competition with the other banks is to be severely limited, and so on. The only serious hostility to the second reading was shown by the Labour party, who, though "the establishment of a central bank, with control of note issue" was included in their own election programme, strongly objected to the measure of shareholders' control provided by the Bill as incompatible with "the full sovereignty of the people and parliament of New Zealand over the Dominion's credit resources." Their amendment affirming this faith was rejected by 43 votes to 28, and on the same day (October 31) the second reading was carried by the same majority, eight insurgent Coalitionists and Independents voting on each occasion with the Opposition, and Mr. Downie Stewart with the Government.

It was, however, on the relative proportions of State control and shareholder control that the controversy in committee chiefly turned. The 1932 Bill provided for the constitution of a reserve bank with a capital of £500,000 to be subscribed by the public of New Zealand in £5 shares, and with a contribution of £1,000,000 from the government free of interest. But whereas the 1932 Bill placed the control of the Bank in the hands of five directors, a governor and a deputy-governor, all (after the first appointments) being elected by the shareholders, Mr. Coates's Bill increased the number of directors to seven, of whom three were to be government nominees, while the Secretary of the Treasury was also to have a seat but no vote. The ultimate complete control by the shareholders was thus reduced to control by a six to three majority, while at the same time the initial term of government control was extended by two, or perhaps three, years. Mr. Coates had accepted Sir

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Otto Niemeyer's stipulation that "the Bank must be entirely free from both the actual fact and the fear of political influence," and had strongly approved the shareholder element as a guarantee of publicity, independence and free criticism, and these changes naturally caused some uneasiness. But for many uneasiness was changed to fear when the Minister was compelled to accept an amendment which took the appointment of the governor and deputy-governor from the shareholders and virtually transferred it to the government, thus giving its nominees a permanent majority.

It was the formation within the Coalition of a sort of State control cave or bloc, known in the lobbies as the "study circle," and its support by the Labour party—the one presumably with its eye on rural credits, the other inspired by its ideals of democracy and socialism—that forced the hands of the Government. The combination was considered strong enough to carry a complete State control motion, and Mr. Coates was glad to accept and move a compromise under which the governor and deputy-governor are to be appointed by the Government but on the recommendation of the directors. The arrangement is not suggestive of statesmanship or stability, and gives a very inauspicious start to an institution which, Sir Otto Niemeyer tells us, "will do more harm than good" if it cannot be kept entirely free from the fact or the fear of political interference.

But the most fundamental difference between the Bills of 1932 and 1933 relates to the price at which the gold of the trading banks should be taken over by the Reserve Bank. Clause 15 of the former Bill required the trading banks to hand over their gold coin and bullion to the Reserve Bank in exchange for its bank notes, but it also provided that if any trading bank claimed that the profits derived by the Reserve Bank from the sale of gold coin and bullion transferred to it by such bank should be credited to that bank, the question should be referred to arbitration. The first part of this clause was repeated in the 1933 Bill, but the

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provision for arbitration was omitted, and in its place a new sub-clause was inserted declaring that any profits derived by the Reserve Bank from the sale of gold coin and bullion transferred to it under this clause should be credited to the public account.

The importance attached to the question by the Finance Minister was indicated by the unusual course he took on the introduction of the Bill. When the House went into committee on October 19 to consider the Governor-General's message transmitting the draft of the Bill, the Minister took the opportunity to read a statement, designed, as he said, "to clarify the situation in respect to profits on gold reserves." This document, which ran to nearly 3,000 words, was about equally divided into two parts dealing with "profits on gold reserves" and "treatment of gold assets when a currency is devalued" respectively, and set out the case for the transfer of gold coin from the trading banks to the Reserve Bank at the mint par value, viz. £4 5s. per ounce of fine gold. On November 6, immediately after the holding of a protest meeting in the Wellington Town Hall, the Minister issued a summary of this statement, which appeared in the press on the following day.

The opinion that Mr. J. T. Grose, as chairman of the Associated Banks, had obtained from Sir Francis Bell, K.C., on the ownership of the banks' gold holdings had already been published on October 23.

The answer is, of course, (said Sir Francis) that in law and in fact, the gold is the absolute property of the banks, and that the State has not and never had any right or title to any part of it.

It is true that the export of gold coin is prohibited, and that therefore the banks cannot transport gold elsewhere. But the prohibition does not affect the title to the property, though it limits the market. . . . It seems that the Government does not challenge the property, since it proposes to pay a price for the property. That price is to be what the Government chooses to pay, not the actual value. It is to be depreciated by a government prohibition under which its market is limited, and is to be paid in currency depreciated as the result of government action. But further, if the body to which the gold is to be transferred is allowed to transport it, and a large profit results from the transfer, that profit is to be credited to the

The Bank Problem

public account. No precedent can, I think, be found for that singular result.

In his abridged statement the Finance Minister conceded that the gold coin in the possession of the banks was "technically their property," but he denied that it was in the same legal category as goods which are their absolute property to dispose of as they please. The gold coin was subject to a charge in favour of the note issue, and it was contrary to the public interest that currency should be used as "a profit-making commodity." The Government agreed that the question must be decided from the standpoint of "fairness and good conscience." Two of the Finance Minister's fundamental points were stated as follows:—

Under the Banking Act, 1908, section 9, the holders of notes issued by the trading banks have the right to require payment of their notes in gold. The Government, in the public interest, in 1914 suspended this right. No interference with the property, or the legal rights, of the banks would be involved in removing this restriction. If that were done the banks would have to pay the note-holders in gold so far as the money in their possession would extend, and would have to import gold coin in order to meet the amount of the notes in excess of the value of the coin held by them. The existence of this power emphasises the fact that the value of each sovereign in the hands of the banks is not the world parity of gold as a marketable commodity, but is the value of the New Zealand bank note. That is what the Government proposes should be paid for it.

It is to be noted, too, that any gold holdings arise only as a result of government action. The effect of this action in New Zealand and elsewhere has been to vary, or to suspend altogether, the right of holders of notes issued by banks to convert those notes into gold. Meanwhile, government action, or action taken on the responsibility and if necessary at the cost of the State, has raised the value of gold in terms of currency.

The Minister also contended that if any persons were entitled to the accretion in value, measured in terms of gold as a commodity, they were the note-holders, whose rights the Government was taking over; and that the realisation of any accretion to the value of gold coin would be due solely to the passing of the Bill and the setting up of the Reserve Bank.

In the reply, which was published on the same day, the spokesman of the Associated Banks described the Finance

New Zealand

Minister's statement regarding the removal of the restriction on the convertibility of notes as "inconclusive in so far as the case is not fully explained."

The present proclamation would expire (he said) in the ordinary course in January 1935, but the Reserve Bank will come into operation before that date, and its notes will be legal tender; the banks will then be able to acquire from the Reserve Bank (by selling to, or discounting with, the Reserve Bank some of the treasury bills they hold—and will hold) a sufficient quantity of Reserve Bank notes to retire all their own notes as and when presented, without requiring gold for that purpose at all. The banks could then hold their gold until the proclamation expires, whereupon, in terms of the proclamation, the prohibition on the export of gold will also cease.

The Minister is also reported as having stated that it was the "Government action, or action taken on the responsibility, and if necessary at the cost, of the State" that "has raised the value of gold in terms of currency." The reply to this is that it was not the action of the New Zealand Government that increased the world price of gold, which is the result of world conditions. In the conversations with the banks it is the world price that has been named by the banks, not that price plus the depreciation of New Zealand currency. Without departing from the opinion that the gold coin and the value of it is theirs, the banks have offered to the Government to accept from the Reserve Bank sterling in London for their gold coin, that is £1 sterling for each sovereign. . . . On, say £4,500,000 of gold the Reserve Bank would win, say, £6,750,000 sterling, or £2,250,000 above the sterling paid to the banks for their gold, and under the Reserve Bank Bill this £2,250,000 would accrue to the Government, and its value in New Zealand currency on the present rates of exchange would be, say, £2,800,000.

The matter was keenly debated in the press, and in business circles there was strong sympathy with the banks and a general feeling that their offer of a settlement was a generous one. But even commercial opinion was slow to move, and the crisis had passed in the House of Representatives before it got to work. It was not a controversy in which the ordinary citizen could pretend to form an opinion, but the solution that probably commended itself to the fair play and common sense of most thinking men was rejected by the House with supreme contempt. The motion to restore the arbitration clause which had been included in last year's Bill was defeated on November 2 by a majority of more than ten to one—56 votes to 5.

The Bank Problem

The whole of the Labour party voted in the majority and all but three of the Coalition. Mr. Downie Stewart, who was one of these three, explained that with the Cabinet's sanction he had provided in the 1932 Bill for the determination of the ownership of the gold by an independent tribunal, and that his object was "to avoid the possibility of an accusation of hard dealing being made against the Government." He agreed with the Minister of Finance that the Reserve Bank should carry with it the support, co-operation and goodwill of the trading banks, and considered that otherwise it would have a very difficult task. He admitted that the Minister had greatly strengthened the Government's case since last year, and in view of that he could see no reason for objecting to a tribunal, and considered it highly desirable that some friendly adjustment with the banks should be made. But no such adjustment was attempted. The House passed the third reading of the Bill without further amendment by 36 votes to 16 on November 2. In the Legislative Council no changes were made, the second reading being carried on November 17 by 13 votes to 4, and the third on the voices four days later.

Other reasons for regretting the decision of the Government and the legislature to eliminate the arbitration clause are that it has further shaken the hold of the Government upon the commercial community, which was already seriously weakened by much of the emergency legislation; that it has prejudiced the outlook for stable government after the next general election, and, if the reports that have reached us from England and Australia are representative, made an impression in both countries which will do our credit no good. That Mr. Coates should have been chiefly to blame is the more remarkable because in the recent case of the Southland Electric Power Board he earned the gratitude of the country by the alertness with which he recognised that the full enforcement of a perfectly just and legal claim may cost more than its worth, and took the necessary steps to clear the honour of the

New Zealand

country from the stain with which it was threatened. These steps as previously reported* have now been completed by the passage of a Finance Bill which empowers the Minister to direct that payment of interest on local body loans raised in London shall be made in sterling. In moving the second reading on December 11 Mr. Coates said that he thought "it was obvious to everybody in New Zealand that although we had depreciated our own currency, we had not depreciated in any sense the currencies of other countries."

The puzzle is increased by the contrast between Mr. Coates's action in the present case and the canon which he himself applied to one episode in it. The motives of the Reserve Bank's directorate must, he said, be "free not only from the fact but also from the suspicion" of improper influences. Why is not the honour of New Zealand to be entitled to the same punctilious protection as that of its Reserve Bank? A year ago the Government decided to buy the gold of the trading banks and to pay for it a price to be settled by arbitration. Since then the country's indebtedness has greatly increased and its financial difficulties are more acute than ever. The Government now renews its decision to purchase the gold of the banks, but withdraws the offer of arbitration, elects to act as judge in its own cause and compels the banks to accept a price that they regard as spoliation. If in these circumstances the people of other countries suspect that we have been compelled by pecuniary pressure to drive an unjust bargain, they will simply be regarding us as we, in similar circumstances, should have regarded them. An extension to the country's honour of the principle which Mr. Coates laid down for the protection of its Reserve Bank would have freed us "not only from the fact but from the suspicion" of impropriety.

New Zealand.

December 23, 1933.

* See THE ROUND TABLE, No. 93, December 1933, pp. 209-216.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

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Nº 95. JUNE MCMXXXIV 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).

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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.

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.

JOHN DOVE

JOHN DOVE died on April 18, 1934. He had been editor of THE ROUND TABLE for nearly fourteen years, having in the year 1920 succeeded to the editorship occupied earlier by his friends, Lord Lothian, Sir Edward Grigg, and Professor Coupland. It is fitting that these pages should contain a brief account both of the man himself and of his career.

It was in South Africa that John Dove joined the company of those who afterwards founded THE ROUND TABLE review. After the South African war, and under Lord Milner's régime, his New College friends, Lionel Curtis, Lionel Hitchens and Richard Feetham, had become respectively town clerk, town treasurer, and assistant town clerk of Johannesburg. When the first-named gave up his post to become assistant Colonial Secretary of the Transvaal, Richard Feetham (now Chief Justice of Natal) became town clerk, and John Dove (who was then at the English Bar), wishing to join his friends, applied for the post of assistant town clerk in 1903. Later, on Mr. Feetham's joining the Johannesburg Bar, he became town clerk, carrying out for several years the heavy duties which the post at that time involved. He then became chairman of the Transvaal Land Settlement Board and spent two or three arduous years travelling through all the outlying regions of the Transvaal, interviewing settlers, and listening to and trying to redress their grievances. He was an ardent lover of nature as well as a keen observer of human nature, and this work, often amidst wild and beautiful surroundings, always remained vivid in his memory. But the hardships

John Dove

involved, and dysentery which he contracted while on his travels, left a permanent mark on a constitution already injured by a hunting accident in his youth. On giving up this position he joined Lionel Curtis in Australia, and together they worked at forming groups of men there who were interested in imperial problems and who would co-operate in the work of producing *THE ROUND TABLE* review, the publication of which had already been started in England in 1910. However, his health threatening to collapse altogether, he returned to England, where he underwent a severe operation and was obliged for some years to live quietly until his strength was restored.

By this time most of his friends who had worked with Lord Milner and Lord Selborne in South Africa had returned to England, following the establishment of responsible government in the Transvaal and the creation of the Union of South Africa. The part they had taken in that work had inspired them to found in England *THE ROUND TABLE*, a task in which Lord Milner took an active interest. It was in fact a successor to an earlier review, *The State*, which they had published in South Africa, devoted to the furtherance of the policy of Union. During his years of convalescence John Dove actively co-operated with them.

During the war, though his health precluded ordinary soldiering, he joined the Intelligence Department and spent many months in France, devoting himself with his usual single-minded thoroughness to his duties.

At the close of the war he became a director of the Commonwealth Trust, a non-profit-making organisation formed to take over the properties of certain German-Swiss missionary bodies in India and Africa sequestered during the war. He threw himself into this work with his accustomed energy, and despite ill-health made a number of arduous journeys, especially in India, in the service of the Trust. Anyone who has lived in India knows that the worst form of discomfort in the world is railway travelling

John Dove

in the hot weather, and to anyone in delicate health it is torture. • It was under conditions like this that John Dove made repeated journeys for the Commonwealth Trust between Madras, Simla and Delhi. This work was performed with conspicuous success, but only at the cost of a serious strain on his health. It was characteristic of him that, in his anxiety to learn all that he could on matters affecting Imperial interests, he returned by motor through Mesopotamia and Palestine.

In 1920, he was appointed editor of *THE ROUND TABLE*, an office which he held until the day of his death.

John Dove's qualities as editor are shown by the fact that, as we believe, the review maintained under his guidance the high level at which those responsible for it have always aimed. His editorship covered the difficult years since the war, when sentiment throughout the Empire suffered a reaction from war enthusiasm, when no clear aim seemed to guide either public policy or public opinion in its different parts, and when the trend was away from rather than towards any closer union. Through all these difficulties Dove remained an ardent believer in the future of the Commonwealth, not for any "jingo" reasons, as those who knew him personally will not need to be told, not even for reasons of defence, but because he believed that to maintain its union would do more than anything else in the world to further the cause of peace and enable its inhabitants to lead a fuller, happier and higher life. It was his first aim, therefore, that during this distracted age, and whatever might appear to be the difficulties and obstacles, *THE ROUND TABLE* should advocate the maintenance of the unity of the Commonwealth, not as a means to greater prosperity or even greater safety, but as a great and noble ideal and as one of the chief instruments for maintaining liberty and bettering—perhaps even saving—our civilisation.

John Dove particularly excelled in the art of letter-writing. Readers of *THE ROUND TABLE* may remember articles in the form of unsigned letters to his friends

John Dove

while he was travelling in foreign countries. These letters were always fresh and illuminating, because in any new environment his extremely sensitive mind recorded his impressions as if on a photographic plate. Too few of these letters were published because, though he wrote many, he could seldom be induced to print them.

He had, moreover, a capacity to seek out and discover new and interesting writers upon important subjects which from time to time might be occupying the public stage. But in the main he was successful as an editor, just as he was in everything else he undertook, because with passionate concentration he devoted to the task in hand his whole soul and energy. He could never do anything by halves. Whether it was his work or whether it was sport, all forms of which he loved, he bent all his energies to the work of the moment. When ill-health shut him off from sport, he could still enjoy it in memory by recalling in his vivid imagination past scenes and incidents. But this concentration, this over-conscientiousness, shortened his life. While he had naturally a strong constitution, accidents, operations, dysentery and arthritis left him in constant ill-health and for almost thirty years it was only by sustained effort that he forced his body to perform its tasks. Nor did his temperament help him to take things at all easily. His was one of those cases where some obscure entangling of threads in early life permanently robs the mind of inward peace except in so far as it can be gained by self-control learnt at much expense over many years. His physical frailties were often of slight account compared with the internal struggle to rid himself of mental strain and depression.

Nevertheless, though he died because he had worn himself out in the service of his fellows, John Dove lived a full life into which there entered much happiness. He would have placed his ill-health and his over-anxiousness low in the scale compared with his intense capacity for enjoyment whether of friendship, or beauty, or work, or life itself. But though his friends wished to spare him, he could not

John Dove

spare himself. Even in the last month or two of his life, when it was fully apparent that he must relinquish his editorship, he took immediate steps to be admitted to the Slade School of Art in order that he might seriously take up the study of painting, for which he had much talent. It was characteristic of him that he should insist with his friends that this new interest was to be pursued in no dilettante spirit, but with the full intention of mastering it. For though he had sapped his physical vitality, his spirit remained youthful. Perhaps it was this which made him look far younger than his age. Certainly he would never admit, for one instant, that his bodily frailties had anything to do with advancing years. These never impaired the youthfulness of spirit which, joined with a strong sense of humour, made him so delightful a companion.

Of his rarer gifts, it is not easy for those of us who worked and lived with him intimately for many years to speak. What was so exceptional in him was not outstanding intellectual capacity or originality of mind but something far more uncommon. No one could be in close contact with him without coming under its influence. "I was indeed grieved . . ." wrote a friend, "to read of John Dove's death. I had not seen him for a long time and did not know he was more ill than usual. So it was a great shock. John Dove had one of the most beautiful dispositions I have ever known, a crystal clearness that radiated a very high quality of life. He was one of those rare human beings who in this dusty world are a standing testimony to the reality of things spiritual. The world is infinitely poorer to all that knew him." To a nature utterly selfless John Dove joined an obstinate and unfaltering devotion to all noble causes. To many of his friends it seemed that, not through effort and struggle, but by some innate gift of nature he was nearer to unseen things than the common ruck of men. It was something which did not show itself merely on occasions but which so to speak coloured his whole being—an understanding, as the author of the *Book of Wisdom*

John Dove

says, "which they that use become the friends of God," a spirit which is "the unspotted mirror of the power of God and the image of his goodness."

John Dove served his generation with all his strength. But to those who knew him, what he was was more important than what he did. While his friends mourn his loss, they are deeply grateful for his memory.

ISOLATION, ALLIANCE OR KELLOGG PACT

THE events of the last few weeks have created a crisis, both in Europe and in the Far East, which has been long impending and which will compel both Great Britain and the Dominions to take, in the near future, decisions of vital importance. It is now quite clear that the Covenant cannot, under present circumstances, discharge the full function that it was designed to perform. It cannot give security to its signatories against armaments and war. The League may soon revive, but it will only do so if certain difficulties are removed. For the moment, while supporting the League in all its activities as the only international organisation that exists, we are faced with the necessity of deciding between the alternative methods of dealing with the problem of security that are indicated in the title of this article.

This is not a decision that can be taken by Great Britain or by the Dominions by themselves. It can only be a Commonwealth decision, for the issue affects the first principles upon which the Commonwealth rests. It would appear that certain of the Dominion Governments are proposing an Imperial Conference to discuss the revision of the Ottawa agreements. It is even more important that there should be an Imperial Conference to discuss the situation created by recent events in Europe and the Far East. In order to understand more clearly the problem of to-day it may be useful to make a brief survey of the path by which we have reached our present international position.

Isolation, Alliance or Kellogg Pact

I. THE LESSON OF HISTORY

THE central international characteristic of the Victorian age was the preoccupation of the States of Europe, the Americas and the Far East with their own local affairs, combined with the predominance of Great Britain as a world Power. This position she held because she alone possessed a great navy and the bases that enabled it to be used in all parts of the globe. The influence of sea-power is very plainly shown in the diplomatic exchanges between the European Powers at the time of the Boer War, when it became clear to them that no kind of intervention outside Europe was practical, so long as Great Britain held command of the seas. During much of the Victorian era the policy of free trade, adopted by Great Britain in the 'forties, was also world-wide, leading to a great export of capital and to the economic development of all parts of the world—to the great advantage of Great Britain, who was first in the field. The dominance of the free trade ideal was challenged by the ideal of national self-sufficiency, when national protection was inaugurated, mainly by the United States after the civil war and by Germany after the wars of 1870.

During the whole of this period it was the policy of Great Britain to encourage Europe to maintain a political balance of power within itself, while she avoided entanglement therein, except in so far as her own vital interest required her to protect the Channel by guaranteeing the neutrality of Belgium. The result was that there were no world wars (as had been common in the preceding century) between 1815 and 1914. Great Britain was able to avoid being drawn into local wars in Europe (except the Crimean war) and the Far East; and unless Great Britain was drawn in, no war could be a world war.

This situation began to change with the decision of

The Lesson of History

Germany at the beginning of this century to build a navy capable of challenging that of Great Britain. This led in the first place to the Anglo-Japanese alliance of 1902, which gave security to Japan against interference from Europe in her impending struggle with Russia, and which enabled Great Britain to concentrate her fleet in the North Sea. It led, in the second place, in 1904, to the Anglo-French entente, which ended the long and bitter colonial controversies between France and Great Britain. As the German naval programme grew more menacing (and it eventually provided for a German fleet larger than our own) Great Britain became more concerned with Europe; hence the Entente insensibly developed into an informal but definite association of Great Britain with the Dual Alliance of France and Russia, as the balancing factor in Europe to the powerful Triple Alliance of Germany, Austria-Hungary and Italy. When the war broke out in 1914, Great Britain, by reason partly of her guarantee of Belgian neutrality, partly of her undertaking to protect the northern coasts of France against invasion, and partly of the Entente itself, found that she had no option but to enter the war, carrying the Dominions with her. Historians will dispute for centuries the question of responsibility for that war, whether it was due mainly to the Kaiser's determination to build an immense navy, as we believe, or whether it was the "encirclement" of Germany that produced the German armaments, or whether the so-called encirclement was only an inevitable reply by her neighbours to the militarist and expansionist policy and the *Drang nach Osten* of Germany herself. We need not pause to try to anticipate the historian's verdict, because the real answer given by the Allies at the end of the war was that, however the blame for forcing the issue might be distributed, the ultimate reason for the explosion was international anarchy; and that competitive armaments and periodic war were inevitable unless some kind of collective international system could be established in the world, to

Isolation, Alliance or Kellogg Pact

settle international disputes by pacific means and to prevent resort to war.

The Covenant of the League of Nations was intended to lay the foundations of a new international order. It rested on two basic themes: first, the right of every civilised nation to independent self-government in its internal affairs; and, second, acceptance by every civilised nation of the obligation to consult regularly together about world affairs; to try in the first instance to solve difficult international problems by the machinery of the Covenant; to revise, through the same machinery, treaties that were out of date; to reduce armaments to the defensive level; and to take collective action against any State that resorted to war in defiance of its obligations. Whatever criticisms may be made of the text of the Covenant, the principle underlying it is eternally true. There will be no peace in the world and no security or lasting liberty or progress, until the nations submit themselves to the reign of law with all that the words imply. Anarchy in international as in domestic affairs spells violence, injustice and war.

II. THE BREAKDOWN OF SECURITY THROUGH THE LEAGUE

THE Covenant of the League of Nations did not establish a reign of law on earth. It was only a beginning. It was not even a very long step towards that goal. It left the sovereignty of States unimpaired, and it relied upon co-operation and agreement for success. It was in no sense a world State. Yet even so it was never even launched as its authors had intended, and subsequent events have revealed very clearly, not any defect in the idea underlying it, but two fundamental weaknesses in the system that actually came into being. The first was the refusal of the United States to join the League on the ground that it seemed to imply permanent entanglement in the affairs of a distracted Europe. This not only greatly

Breakdown of Security through the League

weakened the world authority of the League but carried with it other far-reaching consequences. Part of the settlement drawn up by the Peace Conference had been an Anglo-American treaty of guarantee whereby the United States and Great Britain were to undertake, in addition to their liabilities under Article 16 of the Covenant, to come to the assistance of France in the case of unprovoked aggression by Germany. This treaty now lapsed with the refusal of the United States to join the League. American withdrawal further made it impossible for Great Britain to give effect to the economic sanctions against a member of the League that resorted to war in defiance of its obligations, as provided under Article 16 of the Covenant, without running the risk of renewing with the United States the ancient quarrel over commercial rights of neutrals and the "freedom of the seas." France, deprived of her guarantee, and observing how Article 16 had been weakened as a sanction against attempts to alter the treaty settlement by force, proceeded to base her security, not upon the League collective system, but upon maintaining a military preponderance against Germany. This she secured partly through her own armaments and partly through military alliances with the new nation States of eastern Europe, Poland and the Little Entente, whose armies she now proceeded to organise and equip. Thus the League has never been the real support of European stability where the great Powers have been concerned. This has been the second fundamental weakness.

The League itself, however, came into being and secured the adhesion of practically all nations except the United States and Russia. For a time it seemed to become the focus of world affairs, and it dealt satisfactorily with many difficult international disputes. But gradually events have revealed the consequences of the weaknesses in the League, as an instrument for guaranteeing world peace, to which we have referred. The first was that the affairs of the Far East and the treaties for the limitation of naval

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armament were arranged at Washington under the auspices of the United States and not under the auspices of the League. This inevitably immensely lessened the authority of the League in the Pacific area. It contributed to the delay and ineffectiveness of Geneva in dealing with the Manchurian problem and with Sino-Japanese relations, and to the withdrawal of Japan from the League at the end of 1932.

Again, it has unfortunately never been found possible to bring Article 19 of the Covenant, which gives the League authority to negotiate the revision of treaties, into practical effect. The Treaty of Versailles, framed in the heat of the passions generated by the war, and imposed rather than negotiated with the defeated Powers, was admittedly a "stiff" one. Though not nearly so bad as is often now proclaimed, it clearly requires some modification in the light of experience and of changes since 1919. But France and her allies of eastern Europe—driven, as they contend, to provide for their own safety by the failure of the League to give security against war—have insisted more and more rigidly upon the integral maintenance of the Treaty of Versailles. They agreed, it is true, to release Germany from the occupation of the Rhineland before the date fixed in the Treaty. Reparations, again, despite the attempt to force payment by the occupation of the Ruhr, have disappeared through their own inherent impossibility. The Locarno treaties pledged Germany and her neighbours never to resort to war, and have committed Great Britain and Italy to intervene if there is an attack by either side on her western frontiers or if there is a violation of the demilitarised zone of the Rhineland. As a result of these concessions Germany joined the League in 1926. But the League has seemed, none the less, at any rate to the ex-enemy Powers, to be an instrument for enforcing the treaties rather than for remedying defects in them.

Finally, there has been the long-drawn-out agony of the

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Disarmament Conference. Both the treaties of peace and the Covenant contemplated that if the League system was to grow in authority all nations should reduce their armaments to a defensive level. Indeed, no collective system can succeed unless all its members are both resolutely determined to take common action against a war-maker and to reduce their armaments to moderate police proportions. Collective security goes hand in hand with disarmament. There can be no security in an armed world, if only because, when all the Great Powers are heavily armed, sanctions against one or more of them would assume the proportions of a world war, while the small Powers would be too frightened to co-operate. But disarmament has been prevented not by technical but by political difficulties.

The economic sanctions provided by Article 16 might be effective if they were put into operation simultaneously and universally. But they are obviously ineffective if only partially applied. The power of the collective guarantee has, therefore, been largely destroyed by the abstention of the United States and Russia and now of Germany and Japan. Faced by this fact, France, as already described, has remained passionately convinced that her security depends upon her maintaining with her allies a military preponderance over Germany, unless effective international sanctions could be created to replace it. On the other hand, Germany has been no less passionately determined to escape from the defencelessness, insecurity and inequality in armaments imposed upon her by the Treaty of Versailles, and still maintained fifteen years after the Armistice. The overthrow of the Republic by the Nazi dictatorship, indeed, has been largely based upon an appeal to national self-respect. Germany has left both the Disarmament Conference and the League in protest against delay by the ex-allies in fulfilling their declarations, in 1918 of intention to disarm, and in 1932 of intention to give her "equality."

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Hence there has arisen the long controversy about security and sanctions as the conditions of disarmament, and about the true function of the League, a controversy between what may loosely be called the French or continental and the British or English-speaking schools of thought. The French view is derived from the conviction that Europe, and especially the defeated Powers, cannot be expected to keep the peace unless they are compelled to do so, and that in practice the only question is how the sanction for European peace, which has hitherto been represented by their own military preponderance, can be converted into a collective combination of nations adequately armed and fully determined to take automatic and overwhelming military action against any Power that seeks to alter the Versailles settlement by force. To them the Versailles treaties are, so to speak, the constitution of Europe. Any proposal to modify them except by the practically inoperative Article 19 of the Covenant is unconstitutional and treasonable and ought to call forth the same kind of universal reprobation and common action as rebellion does within the State. The French school is convinced that Europe will never enjoy lasting peace except under a régime of this kind, especially now that the Nazis are in power. In its view it is the primary function of the League to give this kind of guarantee, and if it can provide such absolute security then France will be willing to consider some measure of disarmament.

The view of the British peoples, derived from their long peace during the nineteenth century and from their own experience in the British Commonwealth, instinctively recoils from a peace system and a concept of the League that imply that peace depends primarily upon coercion. In their view no peace system, and no League, can succeed unless its members are sufficiently confident that pacific methods can remedy grievances for them to renounce the idea of altering the *status quo* by force; and they consider that "sanctions" should correspond to the intervention of

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unarmed police in a peace-loving and law-abiding country, separating occasional combatants excited by passing controversies, and not to the armed police whose main task is continuously to protect a régime of dictatorship against those who seek to upset it. Disarmament, which to the French has always seemed to imply disarming the policeman in face of the bandit, has always seemed to the British the outward and visible sign of the kind of world in which alone the League could work or the sanctions contemplated under Article 16 suffice. The original concept of the League is nearer to the British than to the French view; for the Covenant does not prohibit war or provide for instant and overwhelming military sanctions. It requires that no nation shall resort to war until it has brought into full play during a prescribed period the machinery for arbitration, mediation or conference, set up by the League, and also requires all its members to take action under Article 16 against any State that resorts to war in defiance of this obligation.

Here is the real cause of the long-drawn-out controversy about the proposed pact for mutual assistance, the proposed Geneva protocol and lately about disarmament. The original concept of the Covenant has recently almost been lost sight of, and "sanctions" have come more and more to mean, as the condition of disarmament, a watertight agreement to take instant and overwhelming action, economic if that is sufficient, military if that is necessary, against any nation that resorts to war or does not comply with a disarmament convention.

We are now, therefore, at a crisis caused by two differing concepts of the League of Nations and precipitated by the failure of the Disarmament Conference to secure universal disarmament and by the consequent rearmament of Germany. Hitherto the British Government have made it clear that they were not prepared to abandon what we have called the British view. They have refused additional guarantees and pressed for disarmament all round. France has

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refused disarmament unless it is "within a régime of security" of the kind we have described. It is quite clear, therefore, that the Covenant can no longer be made to work, so far as Europe is concerned, in the manner in which it has always been conceived by the British Commonwealth. The French will not disarm without new guarantees over and above those provided in the Covenant and the Locarno treaties. We have been unwilling to give these; Germany is rearming and Europe is feverishly seeking a new basis of stability, as the old system based on French preponderance disappears.

III. THE CHOICE BEFORE US

IN these circumstances what is the right course for Great Britain and the Dominions, who have hitherto been the mainstays of the League, and who still believe in the collective idea? There are three broad possibilities. The first is to revert to the policy of splendid isolation. The second is to attempt to stabilise Europe by entering into new commitments and guarantees. The third is to fall back upon the Kellogg Pact. Let us consider these in order.

Isolation, as a policy, is impracticable for any nation to-day. The contraction and interdependence of the modern world, and still more the advent of air armament, make it futile for any great Power to base its policy on ability to remain neutral in time of war. It may be possible to localise a war and prevent its becoming a world war. But the nations will not succeed in that purpose by trying to ignore war or be indifferent to it, or to behave as if war was the private concern of the belligerents alone, except in so far as they trespassed on neutral rights. It can only be achieved by the most vigilant and resolute action on the part of the rest of the world, designed to prevent war from arising, to stop it from spreading, and to bring

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it rapidly to an end on reasonable terms. Neutrality, furthermore, is possible only by leave of the belligerents, for it takes at least two to make a neutral, as it takes two to make a war. Belligerents can always force neutrals into war if they think it to their advantage to do so.

Moreover, in the pre-war age Great Britain, so long as she had a superior fleet, was immune from invasion from Europe or Asia. So were the Dominions. Air-power has destroyed this immunity by creating instruments that can cross frontiers and seas and attack vital nerve centres, and that cannot be wholly prevented from doing so. It seems now to be accepted that the only real security against air attack is the destruction of all the enemy's aerodromes and bases—an almost impossible task except by military occupation. In a European conflict Great Britain thus may be forced against her will into war. Any war in which Great Britain is involved automatically becomes a world war, because her most potent weapon is sea-power, her belligerent activities consequently extend all over the globe, and the use of sea-power to interfere with the trade of her enemies inevitably brings her into dangerous conflict with the United States—who now has a navy as large as her own—and with other neutral Powers. Isolation, as a policy, is out of date.

There is a considerable body of opinion in Great Britain which thinks that in present circumstances the best course is for Great Britain to try to prevent war in Europe by entering into fresh commitments there, and thus to stabilise the peace of the world. Two possible forms of commitment are suggested. The first is that she should guarantee a regional or European disarmament convention. The other is that she should enter into some form of defensive alliance with France. We are opposed to either of these policies for two main reasons.

The first is that such a course is unnecessary and would not, in fact, secure peace in Europe. As we have already pointed out, the League itself has never been able to

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assure security in Europe. The tension that is so manifest to-day is due to the fact that the system of stabilising Europe by the military preponderance of France and her military associates is breaking down (as it had inevitably to break down) and is being replaced by a system of stabilising Europe by means of an internal balance of power. The method of stabilising by balance is a preferable alternative to stabilising by preponderance, because it does not generate the heat that has produced the Nazi movement. The practical issue before Great Britain is whether she is to be drawn into some kind of special commitment, which will, in practice, bind her to assist in maintaining the preponderance of the French military combination in Europe or make her part of a new European balance, or put new automatic guarantees behind a disarmament convention in such a way as will involve acceptance of the French view of "sanctions." In our view any such arrangements would only delay the stabilisation of Europe. The new balance will not be brought into being until it is clear that Great Britain does not intend, directly or indirectly, to form part of it.

Nor is a renewed competition in armaments in Europe inherent in a new balance any more than it was during most of the nineteenth century, for the reason that, wherever the Nazi philosophy may ultimately lead, Herr Hitler, in his own disarmament proposals, does not ask even for immediate equality in a European balance of power. No great nation in Europe really wants war to-day or can afford to enter into a new armaments race, which will, at the end, leave the parties in the same relative position. Europe, barring unpredictable explosions in the Balkans, has a prospect of five to ten years of peace on a basis of balance, and within that period either it ought to be possible to reconstruct the League system on a basis of real equality in Europe, or it will have become clear that Germany or some other Power is preparing to upset the European system by force, because revision is impossible by pacific

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means, and in that case the facts will make necessary and possible the organisation of collective resistance.

Moreover, any form of automatic guarantee will only increase the probability of war. For the essence of such a system, whether it takes the form of guaranteeing a regional arms convention or that of a defensive alliance, is to take the fundamental decision, whether she should go to war or not, out of the hands of Great Britain, and put it in the hands of one or more of the European Powers. For any Power that added to its armaments contrary to an arms convention, or that forced or blundered into a war, could compel Great Britain, under her treaty obligations, to take part in it. Who can say, in the present tension of Europe, that one of the general staffs among the present European Powers would not scheme to precipitate a crisis if they knew that by doing so they could involve Great Britain in the struggle on their side?

The second main reason for resisting any proposal that Great Britain should enter into any kind of new or "automatic" commitment in Europe is that such a policy must almost inevitably lead to the break-up of the British Commonwealth and to the risk of adding a war with the United States to a war with Europe, unless the Dominions and the United States are themselves parties to it. An undertaking to take sanctions under a regional disarmament pact will, in practice, almost inevitably spell war. No great Power will tolerate sanctions against itself unless they are really universal and therefore have behind them something of the omnipotence that supports the ordinary policeman. If they are not universal, it will resist them or retaliate against them, with the inevitable result of war. In any case, the principal instrument that Great Britain will use either for sanctions or for war is sea-power, reinforced perhaps by mutual long-distance bombing. Yet the use of sea-power to interfere with neutral commerce has invariably produced a violent quarrel between the United States and Great Britain. Whenever, during

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the last 150 years, either Power has been engaged in war, even civil war, they have been brought to war or to the verge of war. The neutral rights issue produced the war of 1812, and the difficulties over the Trent affair in the American civil war, while in the world war it forced the United States either to fight Great Britain for the freedom of her trade or Germany for the freedom of the world. If it had not been for the invasion of Belgium she might well have entered the war on the other side. Any light-hearted engagement in Europe involving automatic commitment to war might involve Great Britain not only in war in Europe but at the same time in war with the United States.

But that is only the beginning of the difficulty. Canada, Australia, South Africa, New Zealand and the Irish Free State, as well as India, are now full partners in the Commonwealth. They have hitherto been strong supporters of the League of Nations, and so long as there is any chance of its becoming the effective instrument for a collective international system they will continue to support it. But the proposals under consideration are not for making the League once more universal but for new commitments in Europe; because with Japan and the United States outside the League the Covenant is not considered to be effective either for giving security or for maintaining peace or for revising treaties in Europe. To all such extra guarantees they have hitherto refused to subscribe. Only Australia and New Zealand ratified the abortive Anglo-American treaty of guarantee. All the Dominions refused to sign the Locarno treaties. If they now see Great Britain entering into new pledges, not as part of a universal collective system of peace, but in order to try to stabilise Europe, pledges that involve liability to automatic commitment to war, are they not likely to refuse to countersign? Might they not drift away from a Great Britain liable to be plunged into a war in Europe at somebody else's discretion, towards a United States

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possessed of an equal navy and committed, at any rate at first, to neutrality and a free hand if a war breaks out? They could doubtless come to the assistance of Great Britain if her vital interests were directly menaced, but we very much doubt whether they will take any responsibility for trying to stabilise the vortex of European militarism.

The issue goes even deeper. Suppose that one member of the European coalition hostile to Great Britain were in close association with a Far Eastern Power, or suppose Japan, having already abandoned the League and taken Manchuria, developed an expansionist policy in the Pacific, as she now seems bent on doing, would not Canada, Australia and New Zealand, States fronting on the Pacific, inevitably move away from the side of the Power whose navy would have to remain in European waters under her European commitments, towards the side of the Power whose navy was uncommitted? If the Commonwealth is to endure, the primary obligation of its defensive organisation must be to its own members, wherever they are situated, and not to European Powers. There is no stronger case for trying to stabilise Europe by entering into special regional commitments than there is for trying to stabilise the Far East by entering into special regional commitments. To do either would be to tear the Commonwealth to pieces; to try to do both would be to undertake a task beyond its strength.

There is, however, a third alternative. It faces the realities that, for the time being at any rate, have made ineffectual the League procedure for the giving of security and the prevention of war; it is still based on the collective principle; yet it avoids the dangers of isolation and of undertaking new regional guarantees. It is that, without relaxing our support for the League as an instrument of international co-operation, we should deal with the security problem by combining the system whereby Great Britain prevented world war from 1815 to 1914 with the Kellogg Pact.

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A return to the policy of European equilibrium does not mean deserting France and Belgium; for in this century, as in the last, Great Britain cannot escape altogether the consequences of her geographical position. She can never willingly allow the occupation of the other side of the Channel by a hostile Power. She can never tolerate another invasion of Belgium or any attempt to modify the frontiers of France or to detach her colonial possessions by force. That should be made absolutely clear, not by a defensive alliance with France, but by a formal declaration to Germany, so that Europe may understand the realities of our position, and not be left in doubt as it was before the Great War. That, indeed, is the practical meaning to-day of the Locarno treaties, whose technical provisions, guaranteeing the demilitarised Rhineland subject to interpretation of "aggression" by the Council of the League, are out of date. If necessary, that interpretation should be made plain to the world, because nobody now believes that Great Britain will go to war with France to protect the immunity of the German Rhineland or with Germany to prevent her from placing troops on her own territory. Such a declaration, in itself, would mean an immense increase of security to Belgium and to France. But there is all the difference between a declaration of this kind and any kind of alliance. For the first brings Great Britain into a European war only if there is a direct attack on France and Belgium, or an attempt to modify their frontiers. Other European wars, even though France itself were engaged, would not automatically involve her. An alliance, on the other hand, means in effect war whenever France is at war.

Once the principle is adopted that while Great Britain has a limited interest in Western Europe she will definitely not form part of any European balance of power, the way is open to the restoration of the 1815-1914 system in a much more universal and satisfactory form. The essence of the old British system was that because Great

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Britain refused to form part of the European balance she could exercise a decisive influence, either by throwing her weight on one side or the other in a conflict, or by localising it and preventing it from becoming a world war. The difficulty of Great Britain in attempting to return to this system to-day is partly that she no longer has her old command of the sea, and partly that no one could stand such dictation by Great Britain alone. The whole situation, however, has been changed by the Kellogg Pact, which is signed both by the Dominions and by the United States, as well as by practically all other nations.

The Kellogg Pact does not imply neutrality. On the contrary it recognises that war anywhere must be a primary concern of every nation, because war may always spread so as to include itself. Though it provides no machinery for forcing compliance with the obligation to renounce war as an instrument of national policy, the Kellogg Pact implies—and has been recognised by Mr. Stimson, the former Secretary of State of the United States, to imply—that the old concept of neutrality is out of date. It is clear that if ever the world is to have peace it will be because nations, like citizens, come to realise that the prevention of violence or the maintenance of world "law and order" is their primary interest, and that a world *pax* will only begin when all nations learn that they must combine against an aggressor and compel resort to pacific modes of settlement. If the more ambitious instrument of the Covenant created in 1918 has not yet succeeded, we may find more appropriate foundations for a new attempt in the universal Kellogg Pact.

World peace was maintained from 1815 to 1914 because Great Britain avoided "entanglement" in Europe except for the guarantee to Belgium, and because she had command of the sea. No Power could carry war outside Europe without challenging Great Britain, and nobody already at war cared to do that. If Great Britain avoids automatic commitments in Europe, other than those necessary for

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her own self-preservation, such as the guarantee to Belgium and a properly interpreted Locarno treaty, and if Great Britain and the United States agree that before using the sea-power that they now jointly control they should consult together, there is no reason why the English-speaking world, with the support of all the non-belligerent Powers, should not prevent world war in this century as Great Britain alone did in the last. This purpose involves no kind of alliance, offensive or defensive, between Great Britain and the United States. It simply means a common recognition of the fact that they cannot afford to quarrel, that if they act independently they are liable to be driven to quarrel, that they have a common interest in helping to maintain the peace, and that in sea-power, backed by the new air arm, they have the most potent weapon for achieving this end. For no Power will lightly force them into war against itself, while their joint influence as mediators and the pressure they could exert to end wars on just terms would be increased.

It is all the more possible for them to act in this way because the Kellogg Pact has introduced a new concept of "neutrality" which is of great importance. Before the war every nation had the right to go to war, and interference was regarded as an unfriendly act. Neutrals were simply given such "rights" as, in practice, belligerents had been willing to concede to them. To-day any nation that resorts to war puts itself in the wrong, as a peace-breaker. The rights lie not with the belligerents but with the neutrals, or rather with the peace-respecting Powers. Both under the Covenant and under the Kellogg Pact they have the right or even the duty to try to stop those who are disturbing the peace of nations and to bring about a just settlement.

It is the nations that in pre-war parlance were called neutral who are the real foundation for the collective system, not the war-maddened peoples of Europe. The plain duty of the British Commonwealth, which has

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already demonstrated how to work a collective system within its own boundaries, is to give the lead required to make the pacific part of the world an effective force, under the Kellogg Pact, against aggression and militarism. But the first step towards such a policy must be disentanglement from automatic commitment in what Sir Wilfrid Laurier used to call "the vortex of European militarism." And that is really the first step towards making possible the re-emergence of the League as the central peace machinery of mankind.

IV. THE PROBLEM OF THE COMMONWEALTH

TWENTY-FOUR years ago this review was founded in order to discuss the relations that should subsist between the nations of the British Commonwealth in view of the evidently approaching war. The argument then persistently set forth was that no system of defence could endure in which on the one hand the main financial responsibility rested upon Great Britain alone, and on the other Great Britain was able to commit the Dominions to war without their prior consent. The outbreak of the war answered these questions so far as the immediate situation was concerned, because, such was the magnitude of the danger, the whole Empire rallied to the cause of the allies. Responsibility for the conduct of the war, financial and human, was fully shouldered by the Dominions, and by the end of the war they shared also in the responsibilities of the War Cabinet and of the Peace Conference.

The problem of the mutual relations of the Commonwealth was settled for the period immediately after the war partly by the decisions of successive Imperial Conferences, culminating in the Statute of Westminster, and partly by membership of the League of Nations, whereby all nations of the Commonwealth voluntarily assumed the obligation to support the collective system embodied in

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the Covenant. Though the major responsibility for day-to-day foreign policy still rested upon Great Britain, who had a permanent seat on the Council of the League and maintained the navy out of her own resources, the main policy of the Empire was to support the League system, and nearly all the Dominions have at times had temporary seats on the Council.

But the events discussed in the earlier sections of this article bring to the front once more issues not unlike those that confronted us before the war. If the League has temporarily broken down, not as a system of international co-operation but as a system of security, if the ideal of universal disarmament is out of reach, if four of the great Powers, one of them fronting on the Pacific, are free, or about to liberate themselves, from the obligations of the Covenant, what is the international policy of the Commonwealth to be? If, moreover, as seems probable, there is likely to be rearmament of some of the great Powers, then, in spite of any limitation there may be, defence will once more become a major imperial preoccupation. Is each part of the Commonwealth to prepare to defend itself, or are they all to co-operate in a common scheme of imperial defence? If the latter course is adopted, how is defence policy to be formulated and co-ordinated, and how is its cost to be distributed? Finally, what is the significance of the new air arm? Does it mean that the old long-drawn wars of the past are over, and that the new strategy implies instant and overwhelming blows at the heart to disorganise the enemy's power of resistance? It is obvious that the advent of air-power has transformed the problem of defence both for Great Britain, which lies alongside the congested area and the great air forces of Europe, and of India and the Dominions, which lie far away but are nevertheless accessible to air attack as they have never been to military or naval attack. Is it still possible to arrive at a universal convention to abandon bombing from the air, with sanctions

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adequate to deter a possible violator? That seems to be the one form of universal disarmament treaty still within reach.

It is quite obvious that we have entered into a new phase of world and Empire history. There is no ground for panic. The League, in our view, will in due time come back into its own, and meanwhile we should do all in our power to prevent the further weakening of the only real international organisation that exists. The time has come first for deep and serious reflection, then for consultation and finally for decision, between the members of the Commonwealth. We have set forth some of the fundamental considerations that must, we think, be taken into account. When the facts and the issues are a little clearer, we consider that an Imperial Conference should be held to define the policy of the nations of the Commonwealth towards Europe, towards the Far East, towards the Covenant and the Kellogg Pact, and towards the problem of their mutual defence.

AIR POWER AND IMPERIAL DEFENCE

AIR-MARSHAL LORD TRENCHARD once said that if he had the casting vote he would "abolish the air"; for though during peace time aircraft might prove a greater blessing to the Empire than to any other country, this could not balance out the harm they would do in war. It is pertinent to recall that a hundred years ago the Duke of Wellington held a similar view about the steamship. In 1828, twenty-six years after the first practical steamship was launched, the Colonial Office received from the Admiralty the following answer to a request for a steamer to convey mails from Malta to the Ionian Islands: their lordships "felt it their bounden duty to discourage to the utmost of their ability the employment of steam vessels, as they considered the introduction of steam was calculated to strike a fatal blow to the naval supremacy of the Empire." This is exactly what it did not do; for not only did the steamship enrich the Empire beyond the dreams of early nineteenth century avarice, but it enabled Great Britain to found a navy which until 1914 rendered the Empire all but invulnerable. In 1878 Mr. Gladstone very rightly said:

The strength of England is not to be found in alliances with the great military Powers, but is to be sought henceforth in the efficiency and supremacy of her navy.

It was this supremacy which enabled the greater colonies to grow into Dominions and become independent nations. It was this supremacy which enabled them and Great Britain to enter the world war as a single unit, and it is

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this supremacy which to-day is challenged by air-power. Yet, as the Duke of Wellington was wrong, may not Lord Trenchard also be wrong? May not air-power not only vastly increase the riches of the Commonwealth by speeding up communication, but also unify it by quickening contact between its parts, and above all maintain its security as fully as once did steam-power?

I. THE WAR OF THE FUTURE

IN considering how this last contingency may be fulfilled we must examine the technique of modern war, a technique that has to fit three-dimensional movement. The military object in war is to enforce a policy or to resist its enforcement, the means employed being direct physical action, economic pressure, and attack on morale. The first is normally the duty of the army, the second that of the navy, and the third, as we believe the future will reveal, is pre-eminently the domain of the air force. As long, however, as we require soldiers on land and sailors at sea, the air force must also assist them in their work. There are, therefore, three main air force problems: a military problem, a naval problem and a problem peculiar to the air. The first two are largely concerned with information and protection—the maintenance of the freedom of military and naval movements on land and sea. The third is a matter of gaining, not air supremacy, a conception derived from the old technique of war, but a supremacy over the enemy's political will by dementing his civil will. It is not by tactical action directed against his army and his navy that this object can be achieved, nor yet by a clash with his air force if this can be avoided, but by an attack on the morale of his people, against which those instruments can no longer afford direct protection. This is the keystone in the arch of the new technique.

That the full meaning of this technique is not generally

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understood is seen from the question that is so frequently asked : is it feasible to replace an army and a navy by an air force ? This question originates from a misconception of the military and naval object, which is not to kill soldiers and to sink ships, but to change the policy that these soldiers and ships are defending. If, in the event of war, an air force can change this policy with less physical destruction than armies and navies have had to effect in the past, then an air force will not absorb the military purpose of navies and armies, but will instead establish a new conception of war, in which their main rôle will be the occupation of land and sea after a victory has been won by aircraft over the enemy's morale.

Though this change in technique is not as yet fully appreciated, the feeling of impotence that it has created in the political mind ever since the conclusion of the world war has contorted Governments into the proverbial position of the ostrich. One and all have been agreed that the most terrible thing that can happen in another war is public panic, overthrowing them and indeed perhaps the whole political system. Yet in place of accepting this possibility and examining it in order to discover an antidote, each in turn has plunged into the realm of political witchcraft ; for all have exorcised war and have attempted to lay the newer and more scientific weapons under interdict. In this terror, which has paralysed our statesmanship, the problem of the Commonwealth has been almost forgotten. Submarines and aeroplanes may be awkward inventions for a non-self-supporting and overcrowded Great Britain, but in the circumstances that face the majority of our Dominions and colonies are not they a valuable as well as an essential part of Empire defence ? Have we learned nothing from the world war, or is it that we are determined to learn nothing ? Given the military and naval weapons with which that war was fought, great decisive battles, whether on land or at sea, are virtually events of the past. Its leading characteristics were blockade and siege, and this type of

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war can only be ended by the revolt of a starved out enemy. Consequently the end is the same as that which is likely to be effected, at infinitely less cost of life, wealth and property, by air attack.

Yet it is perfectly true that had it not been for the ability of the British navy to maintain an effective blockade of the Central Powers, the Empire could neither have entered the war as a unit, nor, during its course, have maintained itself as such. This is an undoubted fact, but it should not mislead us, for air-power is bound to change the whole of this problem.

Since a blockade takes months and even years before its full effect is felt, the problem is as much one of time as one of means. The weapon that most effectively reduces military time is the aeroplane, not only because it can move more rapidly than any other arm, but because it can be quickly manufactured, and because its moral effect is so immediately incisive. Given a reasonably good civil air service to work from as well as the necessary materials—metals, oil, etc.—there is no reason why a nation should not be able, immediately before or during a war, to turn out large numbers of flying machines. In face of an enemy so equipped, could a blockade, such as we established in the world war, be maintained long enough to prove effective ? It is extremely doubtful. To establish a blockade two means are at the disposal of the blockading Power : the closing of the enemy's ports and the destruction of his overseas trade. The first requires the blockading fleet to be based on harbours covering or flanking the sea-approaches to the enemy's ports ; if those harbours could be attacked by aircraft the blockading fleet would have to put to sea and risk being harried by submarines. Possibly it would have to remain at sea, for while riding at anchor it would offer a superb target to air bombardment. In the second case the blockading submarines and destroyers would have to operate near the foci of the trade routes, that is, comparatively close to shore ; hence unless they were

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strongly supported by aircraft they would be continuously open to observation and attack from the air.

The truth is that at least in European waters, which are comparatively narrow, aircraft rather than submarines and surface craft will prove the more effective means of making and breaking a blockade. A new technique of blockading will have to be developed, the aim of which will be, not to bottle up a harbour or scour the seas for enemy merchantmen, but to keep the enemy's ports under constant or intermittent air bombardment. The purpose would be threefold: to throw their inhabitants into panic and so hamper unloading; to destroy their wharves, warehouses, etc.; and to prevent merchant ships from entering the harbourage. Thus in narrow waters the most powerful weapon of economic attack is probably the aeroplane or seaplane and no longer the submarine. For example, although submarines lying off the mouth of the Thames or the Elbe would by no means be impotent, they would not prove so effective as the destruction or paralysation of the port of London or the port of Hamburg. In this new technique of blockade the critical fact is, that though navies may still be able to close enemy ports, they must operate from land bases which in most cases are exposed to air bombardment, while they cannot directly attack the enemy's aerodromes and so deprive his aircraft of their bases.

A very similar problem arises in regard to keeping sea communications open—a vital imperial war problem. To take an instance that is purely illustrative and has no political significance, by air-power a hostile Italy could block the Mediterranean to British shipping. Italian aircraft, based on Sicily and Tripoli, would not only render Malta untenable, or certainly inoperative as an air base, but would make it all but impossible for British merchantmen and warships to round Cape Bon. Similarly, a hostile France, with aircraft based on Tunis, could block this same gap, and a hostile Spain, with a small though efficient air force, could block the Straits of Gibraltar, if she could not

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turn this one-time impregnable fortress into little more than a dangerous bomb trap.

Similar considerations might be advanced regarding land warfare, but the important point is that while in the world war the decisive operation of war was the economic attack, in a war of scientific weapons this is replaced by the attack on morale, and the idea of destroying by that of terrorizing. Gas, for instance, more especially in the form of a vesicant chemical, is a terror-spreading weapon because it replaces killing by wounding; tanks are terrifying weapons because they instil into unarmoured troops an intense feeling of impotence; submarines are terrifying because their unseen danger becomes ever present to the mind; and similarly aircraft are disseminators of terror because of the suddenness of their attacks and because the civil population is helpless against them.

The new technique of war is thus being built upon the idea of terror and not on that of slaughter combined with material destruction. Its object is to dislodge an idea by awakening an instinct. The idea is the desire to defeat the enemy, the instinct is that of self-preservation. It is no longer a question of imposing will upon will, a maxim that the war manuals never fail parrot-wise to repeat; for the acceptance of one will by another is a rational act, whereas a mind terrorized ceases to be rational, becoming wholly instinctive.

Since this is the object of the attack on morale, it stands to reason that the slaughterings and destruction that characterised the old technique of war will be subordinated to this one object of the new technique—the maddening of the enemy. Consequently all searchings after physical and economic targets on sea or land will be subordinated to the one essential action—the attack on the civil population. This does not mean the total suppression of those arms which cannot directly attack the people; it means their adoption of a new and, in a sense, an auxiliary status. Thus tanks, infantry, guns, battleships, cruisers, sub-

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marines, etc. can no longer be looked upon as the spearhead of armament. In the new technique of war their utility will consist first in supplying a base of action for aircraft, and second in occupying the areas that are paralysed by terror. In the hey-day of the old technique, infantry formed the tactical base of operations from which cavalry manoeuvred. In the new, cavalry are replaced by aircraft, and infantry by all the other arms and fortifications that can protect aircraft bases.

Can the civil will be protected from this assault upon its reason? Discipline and organisation will certainly accomplish something, more, probably, than anti-aircraft artillery; for the latter, even though supported by search-lights and sound locators, and in spite of every form of calculating instrument remains distinctly defective. Obviously the most certain protection is to be sought through aircraft, for the aeroplane is the only weapon that can meet opposing planes at high altitudes.

It is sometimes thought that the next war will open with great battles in the air, but the opposite is far more probable. Decisive air encounters will be avoided, because the object is to destroy not material and personnel but morale. Since many cities will be open to attack, and since attacks will be made with extreme rapidity, it will be the exception and not the rule for head-on collisions between opposing air forces to take place. To illustrate how difficult it is to come to grips with an enemy in the air, even when this is the intention, we may quote the instance of a German air squadron detailed to defend Mannheim-Ludwigshafen during the world war.

In the period June 30, 1917, to October 21, 1918, it took the air 54 times with a total of 300 aeroplanes; 16 times out of the 54, 65 aeroplanes flew together, but did not succeed in engaging the enemy in the air over German territory. Thirty-one times, when 172 aeroplanes took the air, they did not come into contact with the enemy at all, and only 7 times, when 63 aeroplanes flew together, was the enemy forced into action, with the result that 8 of his

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aeroplanes were shot down. It is worthy of note that the air squadron was only once able to engage the enemy on his approach, and so prevent him from dropping bombs on Mannheim-Ludwigshafen.

The logical conclusion is that the only reliable protection against civil panic is power to instil panic in the enemy's civil population. The argument of retaliation is two-edged if the object is to create a more perfect state of peacefulness after the war than that which existed before its outbreak. But against would-be maniacs in a mad world it is an extremely powerful argument. As General Groves writes: "The only known effective deterrent to aerial aggression is the fear of reprisals in kind." It is the hangman's rope suspended over every would-be murderer's head, the *lex talonis*—an eye for an eye and a tooth for a tooth.

II. THE DEFENCE OF THE COMMONWEALTH

THE radical change that has been introduced in the technique of war by the rapid evolution of air-power makes it imperative to review our traditional conceptions of imperial defence. In the past, on account of the supremacy of our navy, which commanded the seas in peace as in war, and which was not only the most powerful of war weapons ever created by any single nation but also the most powerful of diplomatic weapons, it was unnecessary for the Dominions to raise fleets of their own or even armies of their own. When an emergency arose, under cover of the British fleet, time could always be gained wherein to make good the peace-time deficiencies in their military preparations.

In 1914, because Great Britain was still an unattackable island and because her fleets picketed every sea, it was possible to turn the hub of the Empire into a vast arsenal, and simultaneously to draw man-power from every quarter of the globe, train it, arm it, equip it and lastly transport

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it to theatres of war sometimes separated by thousands of miles. It was naval power that accomplished this, naval power that by blockading the enemy safeguarded the hub of the Empire, that by keeping communications open allowed the circumference to support and feed the hub, and that, by denying the enemy access to the seas, eventually reduced him to impotence.

Since 1918 all this has changed. The hub is now open to attack such as no navy or army can repel. Blockade is no longer possible in the form that rendered it overwhelming. Mere man-power is not so necessary, because mechanisation is slowly advancing and machine-power is likely to prove the decisive factor on the battlefield. Lastly, sea communications are now far more open to attack. The truth is, that more and more is the burden of imperial defence being loaded upon the shoulders of Great Britain; because although strategically the Dominions have never been independent countries even in the past, they are likely to become less and less so as long as the British navy is still looked upon as the pivot of imperial defence.

To-day we stand where we stood just a hundred years ago. Then steam-power definitely challenged the existence of an Empire founded upon sail-power; now air-power is challenging an Empire founded upon the steamship. Yet if we grasp the changes in war that air-power will eventually force us to grasp, we shall be able to place the Empire on a securer footing in an armed world than it has ever rested upon before. We go so far as to say that the destiny of Western civilisation during the next hundred years, as during the years 1815-1914, once again rests in our hands, and on how we act will depend whether Europe will remain at peace or be plunged into war.

In this problem it is obvious that the starting point is the hub, Great Britain, and that the first step in its solution is to provide this hub with an air force of sufficient size and strength to deter any continental Powers, through fear of reprisals, from launching an air attack upon these islands.

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Though such a force should be able to protect the heart of the Empire, it cannot of itself protect the circumference; consequently the second part of the problem depends, first, upon whether India and the Dominions can provide their own local air protection, and secondly upon whether, in the event of another world war, all the air forces of the Empire could combine against an enemy centralised in one locality or split up among several.

As in every other military problem, the primary determining factor is not strategy or tactics, but equipment and finance. Seventy to eighty years ago, when steam-power was beginning to change the nature of naval warfare, though it was still possible for the colonies to build wooden frigates, it was totally impossible for them to build iron battleships, and even to-day as self-governing Dominions they are not wealthy enough to equip themselves with modern warships on an extensive scale. With the exception of New Zealand, moreover, they have objected to paying money contributions for the furtherance of a defensive policy in which they had no immediate voice, and for the upkeep of a navy whose administration was not in their hands. Australia alone created a navy of any real fighting strength, but her two cruisers and smaller craft have never pretended to be more than an addendum, however valuable, to the British navy, and a nucleus for expansion if the emergency so required.

Air-power, however, alters the whole of this problem, because it is the cheapest form of fighting power that has been introduced during this scientific age. Thus while no Dominion to-day can afford a fleet sufficiently powerful by itself to safeguard her trade and keep open her sea communications, and while no Dominion can as yet afford a mechanised army of any size, all Dominions can afford small but highly efficient military air forces. These units, not being tied to land and sea communications, could probably be concentrated within a few days in an area thousands of miles distant from their starting points.

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There is no question here of any infringement of equality of Dominion status, such as might be read into the subsidising of defences controlled elsewhere, or the creation of instruments of war useless save in co-operation with those of a larger Power. Rather the argument is on the other side; for not only is every air squadron in itself a ready instrument of local defence, but air forces, unlike navies, cannot roam at large, putting into port only for fuelling, victualling, and repairs; they demand a land base, and a Dominion would rightly object if an imperial air force, quartered on her territory, were controlled, manned and paid for by any one but herself.

Two further problems must be considered: the first is the incentive behind military expenditure, and the second is the establishment of airways that will facilitate war concentration. These two problems are really one, for both depend upon the future development of civil aviation.

Obviously if civil aviation were not a practical proposition, military aviation would be no more than a martial luxury which the Dominions could ill afford. But this is not the case, for by reason of the vastness of their size civil aviation is daily becoming more and more of a necessity to them. Here the Dominions have a decided advantage over the Mother Country, because, while Great Britain is little more than a terminus for air routes, India, Canada, Australia and South Africa, without mentioning the larger colonies, are in fact natural homes of aviation. It is not too fanciful to predict that, before very long, for every one civil machine in Great Britain there will be two and possibly three in each of these four countries. In fact, the foundations of military power will not as heretofore be concentrated in the hub, but will be distributed throughout the circumference of the Empire. The whole picture of imperial defence will thus be changed; for no longer will the Dominions mainly depend for their security upon Great Britain, but Great Britain will in large part depend for

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her security upon the Dominions. Then and then only will they become true partners in the Empire, taking their full place in it strategically as well as politically. When equality in risk and responsibility is thus accomplished, the Commonwealth of British nations will accord in fact with its constitutional formulæ.

The Commonwealth consists in the main of a number of vast independent or semi-independent areas covering nearly a quarter of the globe, to each of whom civil air-power is an essential necessity of progress. Civil air-power is the foundation of military air-power, a foundation from which in a crisis military air-power can rapidly be developed. All the great Dominions, furthermore, are at present out of range of European air attack. Granted, therefore, that a common policy is established in foreign and in defensive affairs, it is possible for the Commonwealth to create from its civil resources a potential, if not an actual, military air force that can hold the balance between the nations. What Power, in the event of another great war, is going to attempt to bomb London out of existence, if, when this dire act is accomplished, the whole aerial might of the Empire will be turned against it in an overwhelming reprisal? It would almost seem that an all-wise Providence has allowed the secret of flight to be discovered not in order to turn humanity mad but in order to prevent it from losing its wits.

If we are realists and look facts in the face, we must recognise that the menace of air warfare has come to stay and that no enchantments can abolish it. We must understand that air-power has radically changed and is radically changing the whole of the technique of war. Its supreme weapon is the attack on morale, the assault on the minds of civil populations, however hideous and barbaric this may seem to us. It can so vastly influence and restrict present-day methods of sea and land warfare as virtually to geld them, if only by the greater rapidity with which it can force a decision. And when we do realise this we shall see that air warfare is not another of those

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* mysterious stepping stones across the turbulent river of war which bring us nearer to the far bank called peace. Quite possibly it may be the last of these stones, because it strikes at the origin of all modern wars, crowd-delirium or crowd-hatred; for it brings the possibility of war and all its insane terrors and destructiveness daily and hourly to the threshold of every home.

Here another comparison may be drawn with the development of steam-power at sea. Not only did it vastly enrich and strengthen the Empire, but it achieved more than this: it reduced the potentialities of naval warfare in a degree that no international conference or agreement could possibly have accomplished. It annihilated piracy and small wars at sea, for iron-clad navies grew so costly that none but the greater maritime Powers could afford to build them. To-day, because nine-tenths of the naval power of the world is concentrated in the hands of five nations, naval causes of war and naval warfare itself have been vastly restricted.

Now yet another invention, air-power, challenges not only these few remaining fleets, but also the massed armies of the epoch of unlimited war, those human locust swarms which, pumped on to the battlefields by the million, in four years of devastating war ate up the prosperity of forty years of peace. Unlike the steamship, the petrol-driven flying machine will cheapen war and restrict it by that same cheapness. All nations, however poor, will be able to afford efficient air forces of a certain size and will be compelled to concentrate them because the air cannot be fortified. Yet such a price will be placed upon the morale of the nations, on account of the punishment they may expect, that any would-be aggressor, confronted by a powerful combination of actual and potential adversaries, will think twice, thrice and many times before going to war, for the price he may have to pay may well be the terrorization of his people and the complete destruction of their national morale.

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To-day the key to European peace is ours. The potential air-power of the Empire is so vast that we can render ourselves and the Dominions virtually unattackable, and being unattackable we shall become once again not the dictators of war but the arbiters of peace. When our navy was supreme, there were no naval wars worth considering between the years 1805 and 1904. With an Empire based on air-power and organised to use it in war time, there is no reason to doubt that for many years to come we could throttle practically every war that might threaten the peace of the world.

The steps we should take towards this great realisation are simple. We should first set our own house in order and establish in Great Britain an air force equal in strength to that of the strongest air force on the continent. Needless to say, the lower the level at which parity can be established, the better for us all. Next, we and the Dominions should create an air council for the Empire, an organ that will think out the problems of air-power in all their many forms and act as an imperial advisory and co-ordinating instrument in peace and war. Lastly, we should by every means in our power encourage civil aviation, and establish throughout the Empire a network of flying stations on the lines of the coaling stations that steam-power forced us to adopt. The unity, the safety, the prosperity of the Empire depend on vigorous and far-sighted action.

THE AMERICAN TREND

AT the end of March President Roosevelt left Washington and went fishing for seventeen days off the coast of Florida. He needed the holiday and it did him a world of good. He came back tanned, rested and in the best of health. This is not trivial; it is important. It is the most important thing in the United States today. It doesn't matter whether you believe in the theories of the Brain Trust or whether, like feeble Dr. Wirt, you are convinced that they are taking the United States straight into sovietism. It doesn't matter whether you regard the policy of devaluing the dollar in terms of gold as a moderate success or as a gross failure. It doesn't matter whether you put your trust in the New Deal or in the Old Adam. The directing genius of American affairs is President Roosevelt; and so long as he keeps well and serene and responsive, so long as his physical condition permits him to continue his unparalleled personal labors—for just so long do we stand a more than even chance of pulling out of this depression and arriving once more on a plane of normal well-being.

A bare statement like that lends itself at once to various misinterpretations; so it would be well to clear some of them up at the start. A German might say the same of Hitler, but for the sake of those who are just plain bewildered by what is going on in the United States, and even for the sake of distinguished statesmen who "will be interested to see the backwash from Germany and the United States a year from now," it should be patiently explained that we still enjoy the form and practice of a democratic State and that President Roosevelt does not

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exercise his influence by virtue of a dictatorship either in law or in fact. Day before yesterday a hundred thousand people—socialists and communists—paraded through the streets of New York City without any sign of disorder whatsoever. Free speech is exercised as freely as it ever was. Federal legislation is still enacted by Congress and its validity is still tested before the Supreme Court. The Senate can and does refuse to confirm the St. Lawrence Waterway Treaty in spite of the President's plea; and both Houses of Congress can and do pass an Act, over the President's protest and veto, restoring pay cuts to federal employees and liberalizing payments to veterans of the war. Newspaper correspondents in Washington have never within their memory been given such full and frank information as they get from the White House today, and it is the President's usual practice, when an important measure is being considered by Congress, to invite from a dozen to fifty interested legislators of both parties to discuss the Bill with him. S. K. Ratcliffe, who knows a lot about this country, said, after a trip around, "This isn't Hitlerism, it's hypnotism." So it is, and that's almost too good and too true a saying to spoil by qualification. Nevertheless, for the literal minded, one might add that it looks surprisingly like democratic leadership.

When one says that the President is the directing genius he doesn't mean that he's a Hitler—nor does he mean that he's a Stalin either. And this has to be spelled out too; for in addition to the old ladies at the hairdresser's and the old men at the club there are certain other individuals (still enjoying freedom of speech) who are convinced that communism is on its way in the United States just as sure as shooting. On a perfectly normal afternoon toward the end of March, with plenty of other things to write about, the eastern American newspapers blossomed forth with a tale so fantastic as to make you rub your eyes and hold your hands to your head. The *New York Sun*, for a starter, gave it a three-column headline; it seemed as if

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someone, prime for the madhouse, must have set the type before the authorities could get the handcuffs on him! But by the next morning the more sedate *New York Times* had followed suit, the news had travelled across the country, and the story of Doctor Wirt had become a national hubbub.

Doctor William A. Wirt, sixty years old, was and still is superintendent of the school system of Gary, Indiana. The town of Gary is named for the former chairman of the board of the United States Steel Corporation, its principal manufacturing plant is located there, most of the children now in school will end up in the mills; and in the meantime they are being "elevated" (as the French would say) by the "platoon" system of education for which Doctor Wirt is famous. They study, they work in the mills and they play—all in platoons. The news-hawks, in their usual conceptual shorthand, kept referring to Doctor Wirt as a "celebrated educator." Be that as it may be, the Doctor had been moved by his zeal for the Republic to unmask the revolutionary purposes of President Roosevelt's "Brain Trust," and "if it requires that I be a sacrifice to get the people to thinking about what is going on, I am willing to be one."

Last summer (he wrote in a formal memorandum) I asked some of them what their concrete plan was for bringing on the proposed overthrow of the established American social order. I was told that they believed that by thwarting our then evident recovery they would be able to prolong the country's destitution until they had demonstrated to the American people that the government must operate industry and commerce. The most surprising statement made to me was the following: "We believe that we have Mr. Roosevelt in the middle of a swift stream and that the current is so strong that he cannot turn back or escape from it. We believe that we can keep Mr. Roosevelt there until we are ready to supplant him with a Stalin. We all think that Mr. Roosevelt is only the Kerensky of this revolution."

Doctor Wirt was summoned to Washington before an investigating committee of the House of Representatives.

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He showed no reluctance to go. On the witness stand he spoke earnestly and with evident alarm about the direction in which the United States seemed to be heading; but his proof of a revolutionary plot was nothing more than his unsupported recollection of some dinner conversation in the heat of a Washington summer. The views which he attributed to his fellow guests were vague and innocuous, the individuals themselves were quite unknown, and the gist of their angry testimony was that Dr. Wirt had bored them to death at dinner with his flow of talk. At the end of a one-day hearing, the chairman of the committee told Doctor Wirt that he could "turn in his expense account and go home." The news-hawks, disappointed, hunted up his counsel, former Senator Reed of Missouri. Wouldn't it be a good thing, they asked, for the Doctor to stay in Washington and watch developments? "I know of no reason why he should not go back home," said the Senator, "unless he has some better place to go." So the Superintendent of Schools returned to Gary, travail over, with the ridiculous mouse on the end of a leash.

Now inasmuch as this is an anonymous article and since it is bound to be full of expressions of opinion on controversial issues, and since, in such a case, the background makes a great deal of difference, the writer should explain that he is not a Democrat, but a Republican. He does not know the President of the United States, and therefore has not succumbed to his personal charm. He is not interested in reform at the cost of recovery. He believes that the internal situation of the country, following the closing of all banks last March, forced the Administration to leave the gold standard. He regrets deeply that his government did not make provision for paying interest on its obligations in the equivalent of gold to bona fide non-resident holders. He believes that the three months' gold purchasing experiment conducted by the President and Professor Warren was unsound, but that very little harm, on the whole, came of it. He believes that there was much waste and some

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dishonesty in the lavish expenditure of government money during the winter in an effort to put people to work—on anything—in order to avoid the straight dole. He believes that in ordering the cancellation of the existing air mail contracts without trial and hearing, the Administration acted hastily and truculently—and that the Administration will pay the price for its action in the end. He also believes that talk of fascism is nonsense, that talk of communism is absurd, that the record of the past year, on the whole, has been remarkable and that Roosevelt's leadership has been firm and wise. But he also believes that we are now, at this very moment, in the crisis of recovery. The course of events during the next few weeks will determine the outcome.

If this is so, it is not too much to say that the good health of the President is the most important thing in the United States today. Unity of command is essential: unity of command cannot be found anywhere else. And if it were to be found, nothing could be done about it now. Someone went to Emerson one day with news from the brilliant young Margaret Fuller. "She has decided to accept the universe," he was told. Emerson thought for a moment. "She better had," he replied.

II

FOR fourteen months from the fourth of March 1933 to the end of April of this year the economic condition of the United States improved greatly. There was a slump in the late summer and early autumn after the sharp speculative rise of June and July, but progress was resumed in November and continued through the first quarter of this year. Thus far in 1934, 9,272,000 railway cars have been loaded against 7,736,000 in the comparable period of 1933 and against 9,011,000 in 1932. It is estimated that 4,000,000 unemployed have been absorbed back into work

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during the past twelve months. Steel ingot production is at 58 per cent. of capacity, which means that the industry is operating at the rate of 70 per cent. of 1929. Commodity prices have increased from 55 per cent. to more than 73 per cent. of the arbitrary "normal." Bankruptcies are unusually low—the current week makes the most favorable showing of any like period since 1920. Automobile sales for the first quarter of this year ran to 85 per cent. of the level of 1923–1925, and the consumption of electric power is as great as it was in 1930. Foreign trade has shown a sizable expansion on both the import and the export side. Almost seven hundred closed banks have opened since January first. Long-term government securities are selling on a three per cent. yield basis and there is an abundance of banking credit available at low rates for sound private borrowers.

In spite of these favorable indications there is extreme tension in the air. We have known all along that we would have an issue to face, and that the sooner it was faced the better; but the moment of confrontation, so to speak, is just no fun at all. It cannot be denied that our twelve months' progress has been due, in part, to inflation of the dollar. It has been said that the Government couldn't stop inflation if it would because the repercussions would be too severe. Nevertheless, there are signs that the Administration intends to call a halt; and if this is so, we are in for a trying period. There has been no advertisement of such a change of policy, but signs point that way. For many weeks past the Treasury has not lifted its offer for the purchase of gold above the price of thirty-five dollars an ounce; and ten days ago, when it became momentarily profitable to export gold to the European continent, the Treasury announced that shipments would be permitted. Two hundred million dollars out of the two billion dollar fund appropriated by Congress for stabilization of the exchanges has just been segregated into a special account as if there were an intention to use it. About the use of

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this money we know as much as you know about the employment of your Exchange Equalization Fund, which seems to be precisely nothing. At all events, the financial markets suggest that a conservative monetary policy is in the making. Two weeks ago the Government borrowed ninety-day money at the rate of seven hundredths of one per cent. per annum, and Treasury certificates maturing on December 15 are priced so high today that they yield no return to maturity, large holders preferring to forgo current interest on their money in order to retain these bonds and exchange them eight months from now for securities which the Treasury must offer on that date.

When the President returned from his holiday he found inflationary sentiment rampant in both Houses of Congress. On April 8 one hundred and forty-three members of the House of Representatives had signed a petition to force the Frazier-Lemke Bill out of Committee to the floor of the House. Nine more signatures would have done the trick. This Bill provides for the liquidation and refunding of all farm mortgages through the medium of long-term government bonds bearing a low interest rate. The bonds are to be offered at par and, under the proposed law, Federal Reserve Banks would be required to invest their surplus as well as their net profits in these securities. In case they should not find a ready market, the Federal Reserve Board would take them up and pay currency for them. The authors of this ruinous Bill claim that it would put two and a half billion dollars into circulation. Its opponents point out that this amount may be called "additional circulation," but it is government debt as well and the cost in fact would be nearer to seven billions. Anyhow, that Bill, thanks to the President's emphatic intervention, still rests with the Committee. He likewise disapproved of the McLeod Bill for paying depositors the greater part of the money they lost in closed banks during the years 1930-1933.

Finally, faced with three more Bills, all designed in one

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way or another to monetize silver and raise its price, he stated that the financial plans of the Administration did not include measures of this character. Thus far, his influence has been strong enough to keep these Bills down, and at present there would not be votes enough to pass any one of them over his veto. But the silver bloc in Congress is exceedingly powerful, and before adjournment they may force the President to accept, not a mandatory duty, but a permissive power to purchase silver and join it to the monetary base. Even with this threat in the offing, however, it is generally felt that the Administration will henceforth pursue a more orthodox course in monetary matters and permit the classic factors of cheap money and abundant credit to contribute what they can toward recovery.

Obviously, such a radical change of direction cannot take place without dislocation: commodity prices have recently weakened as speculative holders have sold out their positions, the stock market has suffered a twelve days' decline, and a marked slowing up in the *tempo* of business is reported in many quarters. Industry, in a period of inflation and at the instance of the Government, has increased both wages and prices; such wages cannot be paid except on a high turnover, and such prices cannot be sustained unless there are buyers. The pause in buying is ominous, hence the tension in the air.

There is no salvation except by putting an end to the inflationary process, even at the risk of a temporary decline in industrial activity. And, in its other aspect, inflation through budgetary deficits caused by the lavish spending of government money and the loose extension of government credit is quite as dangerous. Wheat and cotton and tobacco growers have been paid huge subsidies for reducing their crop acreage and these windfalls of cash have stimulated trade. Almost a billion dollars was spent during the winter months in direct and indirect relief. Government grants and loans for public works have helped the heavy

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industries to some extent, and these aids are continuing. Naturally, the pulse of business has been quickened by these injections. When the President notified Congress early in January that he proposed to run a deficit of \$7,300,000,000 for the fiscal year ending June 30, and that another \$2,000,000,000 would have to be spent in the succeeding twelve months before the national budget could be brought into true balance, business men, shivering in anticipation of ruin some day, decided to make hay while the sun shone. And now, early in May, with less than two months of the current fiscal year left to go, it is suddenly disclosed that the Government is falling far short of its estimated expenditures, and that at least two and a half billion dollars of the advertised amount will not be spent. Business officials, whipsawed between policies of monetary inflation and monetary stability, government prodigality and government retrenchment, don't know where to turn or what to do next.

Those who have responsibilities in business and finance are convinced that unless the Government stems the slow tide of inflation promptly, it cannot be stemmed at all. They are prepared for an anxious period of readjustment. They welcome all signs that point to the end of money tinkering, all evidences that the Administration is moving toward a balanced budget. They look forward to the gradual stabilization of the exchanges, and in general approve the Bill now before Congress permitting the President to enter into special tariff arrangements. There is a growing resentment against experimental policies, and a hope that with the passage of the Stock Exchange Control Bill, now far advanced in Washington, both Houses of Congress will feel that their mandate to wreak vengeance on Wall Street for its excesses of 1929 has been fulfilled.

Finally, they earnestly believe that before Congress adjourns it should amend the Securities Act of 1933. This measure, passed in the press of legislation last summer, and in the heat of agitation against the Kreugers and the

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Insulls, contains such drastic provisions levelled against all those who participate in the preparation, underwriting and sale of securities, such severe penalties to be imposed even on innocent error, that the capital market, in the midst of an abundance of credit, is stone dead. Reasonable modifications of the existing statute would free this accumulation of capital for investment and would counterbalance the deflationary effects of government retrenchment and of return to the principles of sound money. Without this bridge from the first phase of recovery to the second we may shortly find ourselves back again in the pit.

III

PRESIDENT ROOSEVELT'S Moley, Tugwell, Berle, Landis, and the rest of them—his Brain Trust—do not constitute the first collection of its kind: Colonel House surrounded himself with an "Inquiry" in preparation for the Peace Conference. In those days in Paris, as today in Washington, they worked under pressure of time and circumstance, holding such power over men and events as they never had before and will never have again. In 1919, as in 1934, able high-minded men with limited experience in practical affairs tried to couple measures for reform with measures for recovery. In Paris they failed. No permanent recovery was brought about, no change in human nature took place; and the reforms which they championed have gone dud with the collapse of the international régime.

The President, his Congress and his advisors have abolished child labor, put a curb on financial malpractice, and improved the condition of labor in general, all in the space of one short year. They have been able to work these reforms within the framework of recovery, thanks to inflation, fresh confidence and leadership at the top. The result is encouraging, it is good so far, but the heady wine

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has done its work, and its virtue is exhausted. If we move to the right, as now seems likely, the convalescence will be slow, but at least we shall know where we are. And zealous reformers, from this point on, would do well to respect the ancient landmarks; for if they travel wide of them, they will travel far, and in the disintegration of society which is bound to follow they will lose the gains which they have lately won.

United States of America.
May 3, 1934.

FASCISM IN AUSTRIA

“AUSTRIA is ruled,” said old Friedrich Adler, the founder of Viennese social democracy, “by Absolutism modified by *Schlamperei*” (that lovely and untranslatable word meaning, roughly, artful slovenliness). This is strikingly true of the country to-day. A fascist régime is in power. Since the week of February 12, when the party that numbered 40 per cent. of the electorate was bloodily suppressed, and even more certainly since the latter part of April, when the fundamentals of the new constitution were revealed, Austria has been in the hands of a reactionary clerical government which turns the clock back, not a couple of decades, but a couple of centuries. The country has reverted to the absolutism of its fathers.

It is difficult, nevertheless, to take the Dollfuss dictatorship altogether seriously. This is because of Austrian gentleness, Austrian genius for compromise, Austrian love of cloudy legal abstractions and Austrian *Schlamperei*. The country has an inordinate capacity to do things by halves. The Austrian terror is a semi-terror. No one believes that the corporative state represents any peculiarly or vitally Austrian necessity. The constitution is an elaborate structure which boils down to the fact that Dollfuss appoints the government and the government appoints Dollfuss. Hardly anything is discernible of the immense spiritual drive and force that even anti-Nazis must recognise in the Nazi revolution. There is precious little reformatory *élan*, precious little spiritual effort to purify and cleanse the nation. The revolution was clerical, one might say, but not religious. It was a job-hunter's ramp, a substitution of Outs for Ins. It is hard to accept at face value a dictator-

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ship wherein several Cabinet Ministers maintain their own miserable private armies, wherein the real capital (Rome) is some hundreds of miles outside the country, and wherein the supreme ruler, as announced by the constitution, is the Almighty.

Yet, so far as the administration of government goes, a dictatorship it is, and one of the most reactionary in the world. Hitler "made" his elections, but at least elections did occur; Mussolini directs a political party which gives some substance of vitality to the State; even Stalin is part of an organism to which he admits responsibility. But in Austria there is nothing but Dollfuss and the Almighty. There can be few governments in Europe that rest on so little popular support. Forty per cent. of the people are socialist or communist; forty per cent. (at least) are Nazi; Dollfuss shares the remaining twenty per cent. (or less) with his semi-allies, the disorderly and discontented Heimwehr, and obstructionist minorities like the Pan-Germans and Agrarians. The Heimwehr would vote for itself; but no one else would vote for it. Votes, however, don't count, bayonets do; and Dollfuss, Starhemberg and company have them.

The dictatorship has certain distinct aims: first, to preserve itself both from attack by Germany and from internal disintegration; second, to try to win over the crushed and bitter socialists; third, to introduce the corporative state and make it work. These items must be discussed in detail later. But first there is a word to be said about the manner in which the dictatorship reached power.

I. THE FEBRUARY "REVOLUTION"

THE Government has peppered Great Britain and America with propaganda to the effect that the events in February were a socialist "revolution." Just as the Nazis in Germany tried to foist upon the world the legend

The February "Revolution"

that they saved the Reich from Marxism, so have the Dollfuss' apologists explained that they used field artillery to kill women and children in residential buildings in order to crush a "Bolshevik insurrection." This is no better than an impudent lie. Realists have much to admire in Dr. Dollfuss—his extraordinary nimbleness, his adhesive skill in negotiation, his courage, his piety, and his great fight to save Austria from the Nazis. But the hypocrisy of his closest associates is beyond belief. If the Austrian Government should rise and say, "Yes, we goaded the socialists to desperation and then crushed them, because this was part of our policy and a necessity to our ideas for the salvation of Austria," one might well respect the courage and candour of the pronouncement. When the Austrian Government blinks jesuitically and says that the socialists plotted their own suicide in the guise of a communist rebellion, one can only sigh for the cause of truth.

To say this is not to admit a sympathy with Marxism, nor yet any great respect for Bauer or Deutsch, the socialist leaders—although the heroism of the socialist rank and file deserves deep admiration. The socialists in Austria have admittedly made dreadful mistakes; the anomaly of a socialist state in a clerical country made an outbreak some day inevitable; the February general strike was beyond doubt a miserable mess. Nevertheless, it remains true that the events of February 12 were a cold-blooded fascist (Heimwehr) *coup d'état*. The socialists can no more be blamed for resistance to the stream of government provocation than can the Belgian army be blamed for resistance to the German armies in 1914.

The Government charges Bauer and Deutsch with being bolsheviks. The fact is that their brand of social democracy saved Austria from bolshevism in 1919 when both Bavaria and Hungary succumbed to communist régimes. The Government alleges that members of the socialist Schutzbund possessed illegal arms. They did indeed—arms which the Government itself gave them.

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It has been conveniently forgotten that the Schutzbund was armed as a defensive measure against Yugoslavia during the Klagenfurt crisis in 1920, and that for many years the Schutzbund and federal army held the arms *in common*. The socialist Schutzbund was an illegal armed force; but so was the Heimwehr. The socialist tenements, the Government says, were "fortresses." Of course. Any modern building is a fortress as soon as artillery starts to fire on it, if defenders with guns are within.

The Heimwehr has been devoted to a policy of armed extirpation of the socialists since about 1927. Time and time again freebooters like Prince Starhemberg and Major Fey publicly threatened armed action against the defenders of the Austrian republic.

A Heimwehr *Putsch* was averted in 1929 by the narrowest of margins, and in 1931 a Heimwehr rising in Styria was put down by armed force, Prince Starhemberg being arrested and jailed. But meantime that extraordinary clerical, Monsignor Seipel, whose dead brain, in the words of Mr. G. E. R. Gedye, still rules Austria, took the Heimwehr into the Government. Since Dollfuss became Chancellor the rise of the Heimwehr has been rapid. The socialists wrote their own doom by temporizing. They failed to declare a general strike, out of desire to avoid bloodshed, when they were strong; manoeuvred into a hopeless position when weak, time and again they offered Dollfuss co-operation, and were every time rebuffed. The socialists wanted peace, but the Heimwehr wanted war. The climax approached last winter. Let verbatim extracts from the chronology of the *Bulletin of International News** tell the final details of the story:

January 31. The Heimwehr leaders presented the Governor of the Tyrol with six demands which, if carried out, amounted to the establishment of semi-military rule in the Province under the Governor, Dr. Stumpf. This move followed the mobilization of

* Published by the Royal Institute of International Affairs.

The February "Revolution"

8,000 Heimwehr on January 30 to avert the disorders threatened by the Nazis.

February 4. At a Heimwehr meeting at Innsbruck, Prince Starhemberg and Dr. Steidle stated that the Heimwehr only wished to carry out the Chancellor's programme, but he would have to rid himself of Marxist influences. . . . They demanded the establishment of semi-military authoritarian rule in the Tyrol.

February 6. The leaders of the Upper Austrian Heimwehr, supported by the Patriotic Front, were understood to be making the same demands as those in the Tyrol, and detachments of them occupied some of the public buildings at Linz, the provincial capital.

February 7. The Heimwehr leaders in Styria and the Burgenland submitted to the provincial Governors at Graz and Eisenstadt demands for a more authoritative government and a semi-military administration. Herr Dollfuss in Budapest.

February 8. The police raided the offices of the *Arbeiter Zeitung*. . . . This was a sequel to the seizure a few days previously of arms and explosives in buildings to which the socialists had access at Schwechat.

February 9. The Heimwehr leaders in Salzburg presented authoritarian demands to the provincial Governor. The Governor of Lower Austria was understood to have refused to see the local Heimwehr leaders, on the ground that their demands were unconstitutional. Following on reports that the Heimwehr were demanding of the Government the banning of the Socialist party and the occupation of the Vienna City Hall, the Socialist headquarters intimated that any such action would be the signal for a general strike. Herr Dollfuss returned from Budapest and received the Heimwehr leaders.

February 10. The Vice-Chancellor deprived the Mayor of Vienna (a Social Democrat) and other city officials of the authority to supervise matters of public safety. . . . Writing in the *Reichspost*, the Chancellor said that parliamentarism such as had been established by the party system was finished, and that an authoritative guild system would take its place.

February 11. Speaking at a Heimwehr parade, attended by the Minister of War, Major Fey (the Vice-Chancellor) said, "In the last two days I have made certain that Herr Dollfuss is with us. To-morrow we are going to clean up Austria."

Major Fey was as good as his word. On February 12 the fighting began.

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II. DOLLFUSS AND THE NAZIS

MOST people thought in February that the net result of the rising would be to let the Nazis in. This seemed a reasonable supposition. The two parties pledged to keep the Nazis out, the Social Democrats and the Dollfussers, had slaughtered each other. Many socialists, it was supposed, would turn Nazi, because in their first bitterness they hated Starhemberg and Fey, who had attacked them with machine guns, worse than they hated Hitler, who had used only fire-crackers, and from whom they thought they might get something; the Nazis were the only powerful opposition group left. Dollfuss was known to have been in negotiation with Germany. The Heimwehr was unpleasantly corrupted by Nazi intrigue. For these and other reasons, it was feared everywhere—so deeply that Great Britain, France and Italy jointly issued their statement of February 17 underlining the international desirability of Austrian independence—that a Nazi *Putsch* in Austria was imminent.

Not only has no *Putsch* occurred; Herr Habicht, Hitler's inspector for Austria, has been muzzled, and the Nazis have been quiet as mice ever since. Why is this? There appear to be several reasons. First, beyond doubt the show of force put on by the Austro-fascists impressed and frightened Hitler. There is no point in attacking your enemy when he is particularly strong; the Nazis, who have always sought to reach power by "legal" means, had no taste for going into the streets while Fey's artillery was still warm. The second reason is that the Germans have every reason for playing a waiting game. Dollfuss has, in effect, rendered them a great service by destroying their chief enemy, the working class movement, which they themselves would have had to destroy on taking power. The Nazis are watching a house being built on which they have a mortgage; when the house is finished, they can move in.

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Above all, there is the influence of Mussolini. The Italian Government and the Vatican stand squarely behind Dollfuss and the Heimwehr, a fact which is by all odds the greatest factor in their favour. Just before the February shooting Mussolini gave Hitler what was interpreted as final warning to get out of Austria and stay out; just after the shooting, Mussolini, Dollfuss, and Gömbös (the Hungarian Premier) signed their triple alliance, and made Hitler swallow it. So long as the present international situation remains what it is, the Dollfuss régime seems to be fairly safe from Nazi attack.

Dollfuss has other reasons for being grateful to his enemy, Hitler. For one thing, the German terror last year was incomparably more savage than the present Austrian semi-terror. As a result Dollfuss has not been excommunicated by world opinion to the extent that Hitler was. The Austrian reaction is bad enough: its decadent parochialism in some respects is more depressing than the youthful fervours and excesses of the Hitler régime; but because the Hitler revolution was so much more overtly brutal—and because the Nazis aroused world opinion by their attack on Jewry, which the Austrian fascists have warily let more or less alone—the Austrian Government gets off comparatively lightly. Again, Dollfuss is still the man who keeps Hitler out of Austria; he is the better of two bad alternatives. There are men who would be glad to roast Dollfuss on a spit and throw his carcass to the dogs; but they have to admit, when pressed, that he is better for them than Hitler.

III. THE NEW CONSTITUTION

THE Dollfuss Government, then, relieved for the moment from the pressure of German attack, faced spring and summer with tolerably high hopes, and with much serious work to do. First of all there was the

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problem of internal consolidation. Dollfuss was in an extraordinary position among dictators in that he had no private army of his own, and the institution of the private army is an essential adjunct to modern dictatorship. The Heimwehr is not Dollfuss's army. It is the army of someone else—Prince Starhemberg.

A confusing and subtle period of inner rivalries and struggles for power began, concurrently between Dollfuss and Starhemberg for control of the country and between Starhemberg and Fey for control of the Heimwehr, and then between Fey on the one side and Dollfuss and Starhemberg as allies, it seemed, on the other. This struggle was adjusted, as almost everything is in Austria, by a compromise. Dollfuss took Starhemberg into the Government as Vice-Chancellor, thus stripping him of his vaunted political independence; Fey was retained as Minister of Public Security, but with diminished prestige. Dollfuss may—or may not—be a tool, as his enemies allege, in the hands of these military chieftains; outwardly he appears to have won a signal victory over them.

But he took no chances, and immediately after the February bloodshed he began a double campaign, first to reduce the independent position and strength of the Heimwehr, second to make use of a rival military force, the Ostmarkische Sturmscharen, the private army of the powerful Minister of Justice, Dr. Schuschnigg, as an offset to the Heimwehr. The Heimwehr went down in prestige and importance; the Sturmscharen went up. Heimwehr men are seen less and less in Vienna. They have been almost 80 per cent. demobilized. The reason is not only Dollfuss's nimbleness, but the generally accepted belief that Italy, who had helped to finance the Heimwehr in its early days, began to withdraw this essential monetary support. Whatever the reason, the Heimwehr, having done its job (part of which was to bear the brunt of the provocation to the socialists), is being got rid of; and as a result the rank and file of Heimwehr men are thoroughly

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sore. Dollfuss has had to exert every bit of his celebrated agility to avert an explosion. He had to tread with special care for fear that the Heimwehr, if discontented enough, might go Nazi. The present situation is another compromise. The Heimwehr and Sturmscharen are apparently to be united as the military branch of the Dollfuss patriotic movement, the Fatherland Front, with Dollfuss in supreme command and Starhemberg as his first lieutenant.

The Government, meanwhile, did its "best" to conciliate the socialists. Social Democracy itself is dead as Cheops in Austria; socialists are confronted with the necessity of joining either the fast-growing communist party or the Nazis; Dollfuss hopes to seduce them with a third alternative, his Fatherland Front. The best bribe the Government could offer would be a general amnesty, especially as socialist fighters were promised amnesty if they surrendered by noon on February 15; many thousands did, of whom many hundreds are still in jail—an almost inexplicable act of bad faith. The only plausible explanation is that the Heimwehr has used its remaining influence to prevent clemency. There are still about 2,000 socialists in prison or concentration camps. Most of those given regular trials got fairly light sentences, but the important folk, like Dr. Renner, the first President of the republic, and Dr. Seitz, mayor of Vienna for 15 years, are being held without trial. The Government fears both to try these men and to let them go; obviously the high treason charges against them are absurd; but from the government point of view their release without punishment is out of the question. Meantime, Dollfuss makes promises. He has abolished the workers' trade unions and confiscated their funds; yet he hypocritically announces that the new Government is devoted utterly to the workers' interests. Extreme pressure is being put on workers to join the Fatherland Front. The relief fund organized for the many thousands of destitute socialist families was administered

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with political strings attached ; it seemed almost as if the Government was seeking to starve the workers into submission. The best thing that can be said for the "conciliation" policy is the negative fact that no socialist families have been evicted from their tenements—doubtless because such eviction would at once tear up the policy by the roots.

The new constitution is a complicated instrument, the full text of which is not yet available at the moment of writing. Its aim is to install a government based on the authoritarian principle and on vocational representation ; the *Stände*, or guilds, are to be organized as the fundamental source of authority in the State. The guilds will be represented in the Fatherland Front also ; it is the Chancellor's hope that this organization will become a sort of national super-political party like the Fascists in Italy or the National Socialists in Germany, with a resultant parallelism between party positions and state offices. Dollfuss, for instance, is both Chancellor and head of the Fatherland Front ; Starhemberg is Vice-Chancellor and deputy head of the Fatherland Front.

Four councils, according to the constitution, together form a federal Advisory Chamber : the state council of 40 or 50 members appointed by the President, more or less as elder statesmen ; the cultural council, consisting of 30 or 40 representatives of the Church, the universities, and the free professions ; the economic council, containing 70 to 80 men chosen from the various guilds or corporations ; and the provincial council, containing 18 delegates from the federal provinces, Styria, Salzburg, Carinthia, etc. This Advisory Chamber is to meet in secret. It neither introduces nor passes laws ; its only function is to *discuss* legislation, and the Government is not obliged to accept its recommendations. Laws then go to the Legislative Chamber, composed of 59 members drawn from the Advisory Chamber ; this Legislative Chamber may not discuss laws, but must accept or reject them, without

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debate, *in toto*. If the Legislative Chamber rejects a law, the Government may carry the issue to the country in a plebiscite ; but it is not obliged to do so. The only vestige of free suffrage remaining is the provision that one-half of the 70 to 80 members of the economic council of the Advisory Chamber, which contributes 20 of the 59 men who comprise the Legislative Chamber, are to be elected—not by the people at large, but by the guilds. All other deputies are appointed by the Government. How the guilds are to be formed is not yet known.

Supreme power in the country is vested in the person of the President. He appoints and dismisses the Chancellor, and the Chancellor is responsible only to him. The President is elected by all the mayors of all the towns and communes in Austria from three nominees chosen by the four advisory councils meeting together as a Federal Assembly. The Heimwehr bitterly opposed this scheme, because they know full well that nine-tenths of the local mayors are Dollfuss henchmen. Governors of provinces are chosen by the President from three candidates nominated by each provincial diet, and the President has powers subsequently to dismiss them. Mayors are to be elected by the town councils, but must be approved by the provincial Governor, who also has power to remove them. The whole system is absolutism of the most complicated—but nevertheless absolute—kind.

This is the executive and legislative ribbing of the new constitution ; the incidental embellishments, so far as they are known at the moment of writing, are even more interesting. All political parties are to be abolished so that they may be absorbed by the Fatherland Front. God is mentioned as the spiritual overseer of the State. Vienna is deprived of its special position as a federal province, although it contains one-third of the population of the country. Vienna is 60 per cent. socialist ; therefore its privileges are curtailed. Finally, the famous Hapsburg exclusion laws are to be modified—not indeed rescinded,

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but shorn of their former constitutional validity, so that they may be repealed in future by simple government decree; and the word "republic" is omitted from the official designation of the country.

IV. A HAPSBURG RESTORATION ?

THE Hapsburg question is near the surface of actuality. Ex-Empress Zita, the widow of the last Hapsburg Emperor of Austro-Hungary, and her 21-year-old son Prince Otto, exiles in Stenockerzeel, have a better chance of regaining the Austrian throne than at any time in years past. They are dropping their Hungarian claims for the moment, and are concentrating on Austria, because in Austria the circumstances are so propitious. If the exclusion laws are repealed, the return of the Hapsburgs to Austria this summer—as private citizens—may be anticipated.

The whole temper and trend of the present Austrian Government is monarchist. The régime not only revives the mediæval *Stände*; it stands for all the things the Hapsburgs stood for: centralization of authority, sentimental mysticism and superstition, "benevolent" despotism, rigid suppression of free press and free speech, above all for the Church. Moreover, hints are constantly uttered that the present constitutional fabric, however elaborate, is transitory; much leeway is given to the President as head of the State; it is not difficult to bridge the gap to an "elected" king. Chancellor Dollfuss, it is true, although a monarchist at heart, is not an active legitimist. But almost all the important members of his entourage are legitimists of the most emphatic kind: Prince Starhemberg, Prince Schönburg-Hartenstein (the Minister of War), Dr. Schuschnigg (Minister of Justice and Education), and the new mayor of Vienna and Minister of Social Welfare, Dr. Schmitz. Monarchist mass meetings

A Hapsburg Restoration ?

have been frequently attended by members of the Government, and young Prince Otto, be it noted, has publicly avowed his sympathy with the "just, manly, and truly Austrian" Dollfuss régime.

The legal obstacles to restoration in Austria, in contrast to those in Hungary, are very slight. There is no mention of the Hapsburgs—oddly enough—in the Treaty of St. Germain. The Treaty of Rapallo in 1920 between Italy and Yugoslavia pledged the signatories to oppose a restoration, and so did the Treaty of Lána between Austria and Czecho-Slovakia in 1921; but both these instruments have long since lapsed. Austria is apparently not bound by the famous declaration of the Conference of Ambassadors of November 10, 1921, forbidding a Hapsburg restoration in Hungary. The countries of the Little Entente are committed to preventing a restoration in Hungary, but Austria—so at least the legitimists assume—is quite a different matter. The legitimist leaders say that if the exclusion law is repealed, Otto and Zita can catch the next Vienna train.

Nevertheless a return of the royal family, even as private citizens, would provoke an international storm, as Chancellor Dollfuss well knows, and even if Czecho-Slovakia and Yugoslavia could not legally consider this a *casus belli*, it would promote an awkward and dangerous period of tension. This—and financial considerations—are the chief bars to restoration at present. One thing might induce Dollfuss to change his mind and align himself frankly with the overt legitimists: a recrudescence of the Nazi attack on Austria on a serious scale. Potentially Otto is the Government's supreme measure of defence against Hitler; a restoration, in the last analysis, would be the only final alternative to Anschluss. Perhaps it is with this in mind that the Government so obviously opens the path to restoration, but delays restoration itself except as a last resort.

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V. AUSTRIA AND THE POWERS

EVERYTHING that happens in Austria is an international question. This is the hard lot of the country. Austria cannot be considered as an independent organism. Its problems impinge not only on its immediate neighbours, but on France, Italy, Germany, and even Great Britain.

Austria is a cockpit, and in her pie all the continental Powers have prehensile fingers. Three great countries at least are in effect combatants in the Austrian arena. Germany, of course, backs the Nazis; Italy is the chief force behind Dollfuss and the Heimwehr; while the Little Entente (especially Czecho-Slovakia), supported by France, was until February the advocate of a democratic Austria, and still favours the idea of a Danube federation as the best solution of the Austrian problem. Austria herself would like to be let alone. But she stands athwart the Danube at the heart of Europe; the Powers cannot ignore her. She herself commits the sin of wanting nothing; there is no serious Austrian irritidentism. Her rapacious neighbours find this a grievous burden on their consciences.

The Germans want, of course, Anschluss, even though they try to conceal their inner aim nowadays by using the more modest term *Gleichschaltung*. The bulk of the people of Austria wanted Anschluss too—until Hitler came to power and disillusioned them with the terror. Anschluss is so important to Germany for a variety of reasons. Hitler himself is an Austrian; he views the Austrian "defection" as a bitter personal repudiation. The acquisition of Austria would be the first great breach in the whole peace treaty structure and would open a path for German expansionism in Mittel-Europa and the east. Nazism is based on the tenet of renascent pan-Germanism or nothing, a tenet seriously compromised so long as 6,500,000 German Austrians on the German border snigger at the swastika instead of worshipping it.

Austria and the Powers

Gleichschaltung between Germany and Austria would mean practically the encirclement of Czecho-Slovakia, which moreover contains a minority of 3,500,000 Germans. It would be Hitler's first great victory in active foreign policy, and it would dangerously inflame domestic German nationalism and militarism. It would upset the delicate equilibrium of the Danubian—indeed the European—*status quo*, and would drastically alter the political situation in Hungary and even in Rumania and Jugoslavia. Most important of all, it would bring strong Germany, instead of weak Austria, as a neighbour of Italy on the Brenner pass and the hinterland of Trieste.

This contingency Italy could not possibly endure. Italy, one might say, is the friend both of Germany and of Austria and thus may be a bridge, a mediator, between them. Italy may be bought off. But the plain fact remains that Italy, having gone to war to help destroy an empire of 52 million people on her flanks, is not going to allow the creation now of an infinitely more powerful Teutonic neighbour of 75 millions. Moreover, there are some 280,000 Germans in the south Tyrol who are Italian subjects, and the further Hitler is away from them, the better Mussolini is pleased.

This explains the Italian support of the Dollfuss régime. The Italians were not necessarily in love with Dollfuss. They did not particularly enjoy spending the money that the Heimwehr cost them. But Dollfuss and the Heimwehr were crucially necessary as their best defence in Austria against the Nazis. Dollfuss has been in such a strong position *vis-à-vis* Mussolini because he could always threaten, if he chose, to drop the fight and let Austria go Nazi, or indeed turn Austria over to the Nazis, if Mussolini did not continue his co-operation and support.

The Italians, being the great Power most endangered by Anschluss or *Gleichschaltung*, pulled Czecho-Slovak and French chestnuts out of the fire by their Austrian policy. Italy, France and Czecho-Slovakia found them-

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selves, almost for the first time since the war, unanimously devoted to the same alignment on an important international issue. The net result of the Austrian situation has been to throw Italy—more or less—into the arms of France. This may change if the Hapsburg question becomes acute; for France and Italy might come to accept Otto as a final alternative to Hitler; it is doubtful if Czecho-Slovakia could. France could support legitimist aims only at the risk of losing the Little Entente.

There have always been three conventional solutions to the Austrian "problem": union with Germany, rapprochement with Hungary under the Italian wing, and a general Danubian confederation. The first and third are out of the picture at present. For a long time Dollfuss liked to think and hope that Austria could forswear all three solutions, and live alone, a sort of embryo Switzerland, self-sufficient, self-supporting, incorruptibly neutral and independent. Events were too strong for him. He was fighting not only the Nazis but also the economic strictures of the peace treaties. Austria began to starve, at the same time as she was subjected to ruthless German attack. So, perhaps not altogether reluctantly, Dollfuss turned to the second solution, and has committed himself to the creation of his corporative state under the encouragement of Hungary, the sponsorship of the Vatican, and the protection of Mussolini—and with a Hapsburg restoration perhaps not far beyond the horizon.

CHINA AND THE WORLD DEPRESSION

CHINA has had a curious economic record in the four and a half years of the present world depression. During the first two years, 1930 and 1931, she was practically exempt from the consequences of increasing world impoverishment. She continued, of course, to suffer from the deep-rooted troubles that had long afflicted her, but in this first period of general distress her own economic position showed, not further deterioration, but some actual improvement. By her own modest standards she enjoyed a time of comparative prosperity. From about the beginning of 1932, however, this happy immunity ended. Since then, economic deterioration that is clearly associated with external conditions has been apparent. And now that there are signs of recovery in other countries, the economic movement in China, in spite of certain hopeful elements, is still on the whole a downward one.

An enquiry into the character and causes of this curious phenomenon may perhaps be of interest for several reasons. Even if no external reactions were involved, the fate of some four hundred millions is no small part of the general happiness or misery of the world. Moreover, if it were possible for these millions to increase their standard of living through a fruitful exchange with the products of other countries, the whole economy of the world would obviously benefit. Most of those who have searched, in a general retrospect of the growth of modern capitalism, for more than recent causes of our recent disasters have been struck with one outstanding fact. The great progress of the last century was associated with the rapid expansion

China and the World Depression

of undeveloped countries. The natural growth of the capitalist system as we have known it seems to need the stimulus and opportunity of such external outlets. Without them, perhaps not inevitably but certainly very usually, the whole system becomes clogged and congested. The opportunities for such expansion have now become more restricted. Nothing would seem so likely to jog the general economic machine out of its present rut as the stimulus of a great new market. And *prima facie* China, which comprises one-fifth of the world's population, but which only accounts for about one-fiftieth of its external trade, and whose people are at present, with the exception of a very small fraction, on the barest level of subsistence, seems to present a greater opportunity of this kind than any other region of the world. We shall consider later some of the very serious limiting factors and conditions that need to be considered before we hastily proceed to estimates of the progress that is practicable. But, when every qualification is made, it remains true that China might, under certain conditions, not only greatly improve her own lot, but in doing so substantially benefit the rest of the world also.

I. THE CHINESE BACKGROUND

WE shall be mainly concerned in what follows to trace the course and consequences of certain economic and financial events of the last few years. It is the more necessary, in doing so, to have a clear conception of the main framework, both of political conditions and of the permanent economic structure of the country, within which these events have taken place.

For many purposes, though not for all, China, even more than the United States, must be thought of more as a continent than as a country. Her population is about equal to that of Europe. Her distances, great in themselves, are for all political and economic purposes made

The Chinese Background

much greater by the paucity of communications. Chinese loyalties are distributed very differently from those to which we are accustomed in the West. They are mainly absorbed within the family, past, present and prospective; what is left over rarely extends, for the bulk of the population, beyond the province; little remains, except at times of special provocation, or among more than a group of the exceptionally educated, for the nation as a whole. A man thinks of himself as of Canton or Shantung rather than of China. He is usually, in his thoughts and loyalties, about as much "Chinese" as a Frenchman or a German is a "European." Both the physical facts and the traditional habits of thought of the Chinese thus preclude the possibility of China's being a national centralized state on the model of European countries. The bulk of the life, and the main centre of gravity in government, must, of course, be local and at most provincial. This does not preclude "unity" in a real, though restricted, sense. It is important, however, to remember these fundamental data either in measuring the present achievement or in estimating the practicable progress of the national government.

Economically, it is equally important to remember, as a fundamental fact, that China, while capable of progress on her own lines, is not a developing region like Canada or Australia or South America, where the population is still small in relation to natural resources. China is essentially an over-populated country. There is a congestion of population in her cultivated areas which is perhaps unequalled in any other agricultural country. Some regions not now developed can be brought into cultivation, but only slowly and with great difficulty as regards both the capital requirements and the political conditions. Congestion in all fertile areas, a small average farm holding, and consequently a limited margin over the food needs of the producer's own family, are likely to remain permanent and inescapable factors in China's economy.

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II. THE POLITICAL SITUATION

NEVERTHELESS, to one who re-visits China now after three years' absence, certain notable changes are visible, side by side with these more permanent features.

In external politics the new element is, of course, the one introduced by the conflict with Japan. At the present moment the movement seems to be towards a *modus vivendi*, carrying with it not formal recognition of Manchukuo or a permanent renunciation of Chinese rights, but a cessation or suspension of active opposition. Chinese in Manchuria, who benefit from conditions that are now becoming more stable, and especially from a more reliable currency, are unlikely to maintain active opposition. Elsewhere the more responsible circles are aware that without external support—which has not been given and is not to be expected—China is militarily too weak for effective resistance.

The relations between Japan and Russia have introduced a new element. The chances of an immediate conflict seem less than they were a few months ago. The ultimate issue depends mainly upon a few persons in Tokyo, who keep their counsel; but the tension is somewhat relaxed. The indications given by troop movements and similar activities seem to be against the likelihood of conflict, at least during this summer, though for the late autumn or winter the prospect seems more doubtful. There are, however, few or none of the risks of the kind of war that happens through exasperation and because passions get out of control. If war comes, it will be one of cool calculation—and cool calculation during the next few months may well decide against war. If war should come, the reaction upon China is uncertain. There are doubtless those who would urge that China's opportunity had come; if Japan was convinced that they would prevail, the

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temptation to secure herself by seizing the maritime ports would be great. Again, however, it is perhaps more likely that the more cautious policy would prevail in China and that in that case Japan would prefer to concentrate her efforts on the struggle with Russia, without the further complications likely to result from more aggression in China. All this is, of course, highly speculative. For the time, it seems probable that China will enjoy a somewhat uneasy, but still effective, peace and will reach an informal but practical *modus vivendi* with Japan. This situation is not substantially changed by the declarations about Japanese policy in April, which probably came as more of a surprise to the Western Powers than to China.

Meantime, it is curious how the questions between China and the Western Powers—extraterritoriality, the status of Shanghai, and so on—have for the moment disappeared from the forefront of the scene. Perhaps it is for the time only. There is a good deal of anti-western feeling among the student classes and the intellectuals, easily capable of spreading in a kind of wave to other classes. Nevertheless, it remains true that most present or probable members of the Government have experienced the advantages of a place of refuge both for themselves and for their money, and are likely therefore to be more moderate in action than in speech. The special régime, which had its origin and has continued to find its justification in the anarchy of China, could scarcely remain permanently at the gate of a stabilised and effectively governed China. But though some progress is being made it is evident—to Chinese leaders as well as others—that a stable government is still far from being permanently assured. Gradual modification of special privileges is more probable than a dramatic demand and surrender to Chinese nationalism—and it has been growing more likely that the ultimate loss by the westerners of their privileges will come rather from Japanese than from Chinese pressure.

On the whole, then, the external political situation of

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China is, for the time being, quieter as regards Japan than it was a year and a half ago, and as regards the Western Powers than it was four years ago.

In the internal political position there has been a notable evolution towards more stable and effective government, based, however, less upon civilian influence and organisation and more upon direct military authority. The Kuomintang has for years been losing prestige and effectiveness. Power rests more exclusively and more obviously with those who directly control the larger military forces, and among those the position of Chiang Kai-shek has been substantially strengthened. The character of the internal struggle has changed, and the area of actual conflict has been restricted. During the greater part of the Republic's lifetime most of the provinces have been ravaged by the conflicts of rival war lords. This stage is over, except in Szechuen and the north-west. Elsewhere each province now has a government fairly firmly in the saddle. The central government's effective authority extends over seven provinces. Those who exercise control elsewhere govern their own areas without serious internal faction; they do not aspire to the conquest of other provinces or aim at the overthrow of the national government. Nor do they aim at complete separation; they recognise generally the need for some form of central government and are prepared to admit some kind of suzerainty by Nanking.

Disputes and the dangers of conflict now turn rather on the degree and extent of provincial autonomy. There are growing apprehensions in the minds of a number of provincial governments that Nanking is aiming at a greater extension of the powers of central government than they are prepared to accept. In particular, they fear a military dictatorship by Chiang Kai-shek; and the personal feeling against him on the part of numerous provincial authorities has been growing with his general prestige and power in the country generally, and with the dwindling of the civilian influence of the Kuomintang. The relative military

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power of Chiang Kai-shek has grown considerably. He enjoys the advantage, decisive in the long run, of control over the revenues from the maritime customs, and he has been increasing the efficiency of the army that he commands.

His dominance in the national government has been growing. Indeed the real centre of government attends his person. For the greater part of the last three years he has been, not at Nanking, but at Nanchang, his headquarters for the communist campaign in Kiangsi. He has, attached to his army and responsible to himself, a highly organized and ably served staff engaged in studying and planning civilian and economic questions as well as those directly connected with military policy; and it is from here, rather than from the ministerial organization at Nanking, that the main principles of policy, as distinct from their detailed application, emerge. In the meantime, those who fear his dictatorship allege that he is considerably influenced by German Nazi officers on his staff and by Nazi ideals, and is encouraging the growth of a "blue shirt" organization.

The military, as opposed to the civilian, character of the government has, moreover, been emphasised by the departure from its ranks of its greatest civilian Minister, Mr. T. V. Soong, who left his position as Minister of Finance in October, 1933, after a breach with his brother-in-law. The quarrel resulted from a number of reasons—some personal jealousy, differences of opinion with regard to Japan, and a certain divergence upon budgetary and financial policy. In January, however, a reconciliation was effected. T. V. Soong remains in practical control of the National Economic Council, whose work is being made a reality by the definite allocation, with Chiang Kai-shek's consent, of a substantial portion of the proceeds of last year's wheat and cotton loan from the United States. There is one factor that will greatly help this Council to do effective work. One of the most notable facts in China at this moment is the universal desire to stop civil war and con-

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centrate upon economic reconstruction. This is not only the general attitude of the people ; it extends to the military authorities of the provinces, who are actively engaged in tasks of economic reconstruction of one kind or another ; and Chiang himself clearly recognises its necessity. It has been impressed upon him particularly by his long campaign against the communists of Kiangsi. Here, over more than half of the province, there is a real communist state. In three years, in spite of his superior military equipment, he has made little headway, and he recognises, as every observer does, that the so-called communist problem cannot find a solution without an improvement in the economic position of the peasant.

The communist question is, of course, one of great interest and importance in China. Since the departure of Borodin and the Russians, the active communist movement has been suppressed in other provinces and is now concentrated in Kiangsi. Here a handful of convinced and devoted communists, led by a man of some military genius, operating in a situation of general economic distress and enforcing a rigorous discipline, have resisted all efforts at suppression for several years. The real "communists," who are sincere believers in Marxian or Soviet principles, have never been very numerous, though in personal qualities they probably include some of the best elements in China. Their followers are peasants driven to desperation by economic distress.

The communist movement as a whole is in essence an agrarian revolution, such as China has known periodically for many centuries. The slaughter of these years has been a great tragedy, both in the misery it has inflicted on the mass of desperate peasants and in the waste of those who, under happier conditions, would be among the best elements in the government and public service of the country. The Chinese peasant asks little of government. He wants to be left free to cultivate his patch of ground and earn his pittance of food, without intolerable exactions

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in rent or taxation or requisitions. But to him government has meant all these impositions, much more than the blessings that government can give in protection and the provision of transport and a stable money. When, in addition, depression brings low prices without diminution of taxes, intolerable distress leads to desperation ; and whether the result is called communism, or banditry, or agrarian revolt matters little. If the peasant's economic position can be improved the root will be cut from communist growth. If it cannot, what does it matter that a communist state should be allowed to try its hand in one part of one province ? The cessation of active fighting would leave more resources and more attention available for economic reform and reconstruction elsewhere.

In summary, we may say that while stability has not yet been attained, and while the dangers of such a revolt as has occurred in Fukien remain, there are now the elements of possible stability. There is not the same widespread faction and conflict as existed a few years ago. There is a much deeper desire for peace. There is greater willingness to recognise the suzerainty of the national government. A few years ago, no statesman at the centre could have built a structure of stable government ; for with spasmodic disorder and faction throughout the country, the bricks of which such a structure needs to be built were themselves crumbling. Now the bricks at least are there. If the prestige and power acquired by Chiang Kai-shek could now be used, not to enforce a dictated subordination, but to negotiate a reasonable compromise between a limited central direction and substantial provincial autonomy over the greater part of the sphere of administration ; and if the effort of government were devoted to removing the causes of communism by improving the lot of the peasant instead of merely killing communists—there is perhaps a better chance now than at any moment since the 1911 revolution of establishing peace and stability in China.

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III. ECONOMIC TROUBLES

THE need is urgent ; for if China's internal political position has on balance improved in the last few years, her economic condition has certainly deteriorated. A few figures will suffice to indicate this deterioration.

China's exports have fallen in five years by almost two-thirds in value, and by about one-half in volume.

1929	\$1,523 million	1932	\$739 million
1931	\$1,331 „	1933	\$611 „

Her adverse balance of visible trade has more than doubled in about the same period, rising from \$307 million in 1928 to \$734 million in 1933. This in itself would not necessarily be serious ; for about half the increase is due to the loss of Manchuria, the one region of China that sold more than it bought, and China has normally had an adverse balance in visible trade, which has been more than compensated by large invisible items (overseas remittances, foreign expenditure in China and a net inflow of foreign capital). But in the last few years these invisible items have fallen off and China has had a seriously adverse balance of foreign payments, amounting to \$100-150 million a year. This has been reflected in the outflow of precious metals. Normally, China, while neither buying nor selling much gold, is a large importer of silver. From 1928 to 1930, for example, there was an average net import of \$140 million a year. Since then the import of silver has stopped and there has been an export of gold amounting probably (if the large quantities that are smuggled out are taken into account) to about \$150 million a year. Gold cannot well continue to be available for export on this scale, and it is to be expected that the adverse balance will be reflected in future in a larger export of silver. This is likely to lead to a shortage of currency and to further deflation, with a corresponding depression of prices.

Economic Troubles

Unhappily the effect of this external drain is enhanced by another phenomenon arising from internal causes. The general sense of insecurity has led to a serious drain of silver from the interior to the unproductive security of the bank deposit vaults of Shanghai. In December 1931 the silver stocks in Shanghai amounted to \$250 million ; in December 1933 they had risen to \$503 million, that is, they had doubled in two years ; and this drain of metal currency into the vaults was only partially compensated by a smaller increase in the amount of notes in circulation.

The movement of prices during the same period is equally significant. The index of wholesale prices in Shanghai changed as follows :—

1929	..	104.5	1932	..	112.4
1931	..	129.2	1933	..	98.4

Practically every economic criterion tells the same tale. China was, by her own modest standards, relatively prosperous in 1930 and 1931 ; she fell into a deepening depression in 1932 and 1933. The turning point was in the winter of 1931-1932.

We must now enquire into the causes of this change of fortune, so different in its timing from the experience of the rest of the world. One preliminary warning, however, is necessary. A fall in prices and in external trade profoundly affects the fortunes of the trading communities of the coastal towns, and penetrates into those parts of the interior which depend in substantial measure upon the export of their produce ; it affects also, though less seriously, those who sell a large proportion of their produce even for consumption within China. But a very large part of the population of the interior of China is exempt from the effects of world depression or even falling prices. A tenant food-producer, when he pays his rent in kind and when, as is not always the case, the landlord pays all taxes, is very little affected indeed. He consumes, with his family, perhaps half of his produce. He pays a fixed proportion which may well amount to two-fifths of his

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produce. In such a case he has only one-tenth of his produce to sell, and is injured by a fall of prices only as regards this one-tenth, and then only so far as food prices may have fallen more than the prices of the goods he wants to buy. The variations in his fortunes depend not upon price movements or economic booms and depressions, but upon whether he can cultivate his patch of ground undisturbed by flood or famine or the ravages of civil war. The owner-cultivator is, of course, more affected by prices because he has to pay taxes in cash, and those who have to sell their produce to buy food—for example, those who depend on silk or tea—may have their standards of living seriously changed by external conditions. But we must bear in mind that, for China as a whole, the penetrating effect of general economic causes is much less than in countries of a different type.

Subject to this reservation, it is evident that China has suffered seriously in the last two years from a change in the relation of her currency to those of other countries. In 1930 and 1931 China was completely saved from the effect of currency deflation upon her internal enterprise and activities by the fact that silver was depreciating in terms of gold faster than gold was appreciating in terms of commodities. Her internal prices therefore tended to rise while remaining nevertheless on a favourable competitive basis in terms of gold for external trade.

The situation changed completely when the pound, the yen and the rupee left gold in the latter part of 1931. Since then the Chinese currency has been rising in terms of three of the four currencies that mainly concern her. Now that the United States dollar has gone too, currency deflation is depressing China's internal prices and dislocating her internal, as well as her external, trade, as it has done in other countries. Unhappily, other causes also have contributed to the same result. The loss of Manchuria has affected the balance of payments, for it is the only considerable area in China that exports more than it imports. And the other adverse

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effects on China's economic situation of her conflict with Japan, not only in Manchuria, but in Shanghai in 1932 and in Jehol in 1933, were also of great importance. It involved heavy military expenditure, and it contributed substantially to the increased loss of confidence and to the sense of insecurity which have led to hoarding, to a drain of silver from the interior, and to a general falling-off of enterprise. In addition, there has also been the strain, diminished but still severe, of the indecisive and protracted struggle with the communists in Kiangsi, the disorder in Szechuen and the north-west, and more recently the revolt—happily soon terminated—of Fukien.

These special troubles of the last few years have been the more serious because they have come on the top of others which for many years have been weakening the whole economic system of the country. A general survey of the last quarter of a century, since the revolution of 1911, leads irresistibly to the conclusion that, in spite of fluctuations from year to year and of a few encouraging developments, successive disasters suffered by China have been sapping the strength of her general economic system. The series of struggles among rival war lords, ravaging many provinces and usually accompanied by large issues of inconvertible and depreciating paper money; abnormal floods, external war, and civil war between the central government and revolting provinces, have been successive catastrophes following quickly one after the other. The interval after each new blow has been too short for any recovery of strength to meet the next. Each has left the economic life on a lower level—farms denuded of their livestock, an increased burden of indebtedness and higher rates of taxation. There has been, in particular, a great increase since 1927 in the burden of provincial land taxation, which is made more onerous by a wasteful and corrupt system of collection, and is now further aggravated by the low prices and depressed condition of agriculture.

Direct observation confirms the impression given by

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statistical records of the gravity of the recent deterioration. In some areas small ownership has been giving place to tenancy. In many areas where tenancy prevails the normal functioning of the landlord system has broken down; the landlord flees with what rent he can get to the security of the coastal towns and ceases to serve any useful economic function. There has been an abnormal fall in the value of land. Distress has compelled a restriction in the use of fertilisers. Trade and the transport of goods are falling in all districts. Indeed in many areas the actual mechanism of trade is breaking down. Links in the chain of minor merchanting concerns are snapping. A merchant who has bought stocks at higher values is bankrupted or, at the best, ceases to buy except just when and as he can immediately sell, so that the even flow of trade is arrested.

IV. OPPORTUNITIES OF THE FUTURE

THERE are happily some important considerations on the other side of the account. The internal political situation has substantially improved. Throughout the country there is a much more determined desire to have done with civil war and turn to economic restoration. Most of the provincial governments, as well as the national government itself, are actively engaged in various forms of reconstruction. There has been much road-building; erection of lighting and power plants; elaborate schemes for assisting the peasant to form co-operatives, to improve his yield by better seed selection and so on. Often, indeed, these efforts have been ill-judged and too expensive. Many of the roads bear little traffic, for example, because they have been designed to meet military rather than economic needs, and duplicate existing railway or canal transport rather than act as feeders to it. But experience is teaching wisdom, and the new direction of the country's efforts will bring its fruits. The record of the railways shows clearly

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that with political stability and further improvement in management—there has already been some—they can be both remunerative and an instrument of considerable economic development. In one direction there has been real progress in spite of all the adverse factors of recent years. Light industries—operating in small units and covering a wide range of specialised products, plumbing and metal work, electrical and wireless apparatus, furniture and a great variety of other articles—have been steadily developing even during the recent depression. For the most part, these articles require skilled manual work, not merely simple mechanical equipment. It is a development of real promise.

We must, moreover, view any deterioration in the general economic situation in the perspective of China's more permanent possibilities. The people's industry, traditional skill and capacity to live and work under conditions of bare existence, combined with the natural resources of the country, are the foundations on which a considerably greater structure of national wealth can be built than has yet been achieved. In spite of congestion of population, India, for example, with fewer natural advantages, has attained a standard of living perhaps twice as high as that of China. It is not an impracticable ambition that China, granted peace and order and wise direction, should attain that standard within a reasonably short period. It remains true, in spite of immediate troubles, that if only the fundamental conditions required to encourage the flow of capital to productive enterprise can be secured, there is an opportunity for substantial economic development, perhaps a greater opportunity for the beneficial employment of world capital resources than is to be found in any other great country.

Along what lines should this progress be expected? A short summary must suffice. Several conclusions follow from the basic fact of China's economy, the congestion of her population in her cultivable areas. It is useless to

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think of agricultural mechanisation as it is known in Canada or the Argentine, for that increases the yield per unit of man-power, not per unit of land ; in China there is a superfluity of men and a scarcity of land. Intensive cultivation, with an increase of yields through better seed selection, use of fertilisers, etc., is the only line of progress. The basis of all substantial development must be the increase in the margin of food production over the food producer's own needs. Except to the limited extent to which China's industrial products can compete successfully in world markets, the purchasing power created by such an increased margin must constitute the market for any new Chinese industries.

It cannot be too strongly emphasised that in China industrialisation is not the alternative to an improvement in agriculture ; on the contrary, the increase in the food producer's margin is the indispensable condition of any substantial and successful industrial progress. If progress is not to be precarious, industrialisation must proceed gradually, and mainly on the basis of the domestic market. It should be built up in close relation to China's agricultural production—flour mills using Chinese wheat, cotton works using Chinese cotton and so on ; and should look for its markets mainly to the home consumer and to the industries so established (rails and railway sleepers, for example, finding their custom in an extended system of railways). Industries requiring much labour and relatively little capital equipment, and producing articles which do not greatly benefit from large-scale manufacture and a highly advanced industrial and financial system, are obviously to be preferred.

Such general principles naturally need some qualification and exception, but they serve to indicate the general line of desirable development. In this progress foreign capital and international co-operation are both required. China, as we have seen, needing capital for development more than almost any other country, is now being decapitalised rather

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than capitalised. Even the modest savings produced in the interior are being drained into Shanghai or abroad ; and the domestic capital now accumulated in Shanghai, though not inconsiderable, is not enough for any substantial development. The re-entry of foreign capital, of course, raises many problems : the rights of the consortium ; the attitude of Japan ; the method of association with Chinese capital ; the character of security and safeguards available to the investor and so on. These are all difficult, they are none of them insoluble. The key to their solution is to be found in the railway situation. The railways are intrinsically a good economic proposition. There is no reason why they should not earn enough to enable a reasonable settlement to be made with the existing creditors, which would open the way to the subscription of new capital for much needed expansion. Japan's attitude is of course involved, but the latest statement of her policy suggests that a scheme providing for her participation with other countries should not be impossible.

With the way thus opened, foreign capital would probably be available for participation, with Chinese capital, in various forms of promising enterprise. The foreign investor will have to realise that his main security in future will have to be found, not in external control or government guarantees, but in the interlocking of his interests with those of Chinese investors. This is likely to be both more effective as security and politically more practicable than the older system. Along this line an increase in China's standard of living, limited by the factors discussed above but nevertheless substantial, may reasonably be expected, to the great advantage both of China and those who seek in her a greater market than her present poverty permits.

THE ST. LAWRENCE WATERWAY

ON July 13, 1932, after long deliberations, the St. Lawrence waterway treaty was initialled by the representatives of Canada and the United States. On March 14, 1934, ratification was refused by the Senate, the vote being 42 against to 46 in favour, 13 votes short of the two-thirds majority required by the American constitution. Below, correspondents from the two countries explain their national viewpoints on this uninspiring defeat of what, despite all that could be said against it, was a great international project. They show that opinion in both countries was sharply divided on the issue of the treaty, so that the Senate's action delighted many Canadians, just as it offended large blocks of opinion in the United States. The most that can be said, in summing up the controversy, is that while perhaps the weight of sound argument was fairly evenly divided, the balance of prejudice undoubtedly lay against the treaty. Prejudice unmistakably won the day.

The scope and purpose of the waterway treaty are best summed up in the terms of its own preamble. The Governments of the United States and of Canada,

Recognising that the construction of a deep waterway not less than 27 feet in depth, for navigation from the interior of the continent of North America through the Great Lakes and the St. Lawrence river to the sea, with the development of the water-power incidental thereto, would result in marked and enduring benefits to the agricultural, manufacturing and commercial interests of both countries, and

Considering further that the project has been studied and found feasible by the International Joint Commission, the Joint Board of Engineers, and by national advisory boards, and

Recognising the desirability of effecting a permanent settlement of the questions raised by the diversion of waters from or into the Great Lakes system, and

Considering that important sections of the waterway have already been constructed, and

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Taking note of the declaration of the Government of Canada of its intention to provide, not later than the date of the completion of the deep waterway in the international section of the St. Lawrence river, for the completion of the new Welland ship canal, and of canals in the Soulanges and Lachine areas of the Canadian section of the St. Lawrence river, which will provide essential links in the deep waterway to the sea, and

Taking note of the declaration of the Government of the United States of its intention to provide, not later than the date of the completion of the deep waterway in the international section of the St. Lawrence river, for the completion of the works in the Great Lakes system above Lake Erie, which will provide essential links in the deep waterway to the sea,

Have decided to conclude a treaty for the purpose of ensuring the completion of the St. Lawrence waterway project, and for the other purposes aforesaid.

The Treaty provided for the construction of two navigation canals along the so-called international section of the St. Lawrence, between Lake Ontario and the town of Cornwall. The remainder of the works necessary for the completion of a 27-foot canal from Lake Erie to the ocean were to be constructed by the two countries independently. The cost of works on the international section was to be divided between the two governments, Canada receiving credit to the extent of \$128,000,000 (against a total estimated expenditure of \$543,000,000) for work already done, notably the Welland ship canal. The cost would be at least partly recouped from the hydro-electric power derived from the necessary dams.

The treaty further provided, in accordance with the decision of the United States Supreme Court, for the reduction of Chicago's diversion of water from Lake Michigan to the Mississippi system from an annual average of 8,000 cubic feet per second to 1,500 cubic feet per second. It also placed Lake Michigan, which is wholly within United States territory, under the jurisdiction of the International Joint Commission. Thus, apart from its more positive provisions, the treaty cleared a path for the settlement of a question that has vexed Canadian-American relations for many years.

The St. Lawrence Waterway

I. THE ATTITUDE OF THE UNITED STATES

THE plan for a waterway through which ocean steamships might reach the heart of the North American continent by means of the St. Lawrence river and the Great Lakes has long had a popular appeal in some sections of the United States; in other sections the proposal has been anathema. Advocacy of the project increased during the world war, when the freight congestion on the most important east-and-west railways seemed to indicate the immediate need of additional transportation facilities from the interior to the seaboard. The question eventually developed into a national economic and political issue.

Presidents Wilson, Harding and Coolidge endorsed the plan in principle. In 1924 President Coolidge appointed a St. Lawrence Commission, with Mr. Herbert Hoover, then Secretary of Commerce, as its chairman, to advise the government concerning the economic feasibility of the scheme. The Commission submitted a favorable report and also found the St. Lawrence project preferable to the alternative proposal of an all-American route by way of the New York barge canal and the Hudson river.

In 1928 Mr. Hoover, as the Republican candidate for President, advocated the construction of the St. Lawrence seaway as a means of reducing the cost of marketing the crops of the western farmers and thus helping to alleviate the depression in the corn and wheat belts. After assuming the presidency he devoted much effort to formulating an agreement with Canada for developing the new route. The negotiations proceeded slowly, however, because of the numerous technical problems that had to be solved, and the treaty was not signed until less than four months before the election which gave the country a new President.

In June, 1932, when the political parties held conventions to nominate candidates for the presidency, the negotiations with Canada were in their final stage. The Republican

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platform stated that the treaty was then "at a favorable point," and pledged the party's "allegiance to this great project" and "its best efforts to secure its early completion." The Democratic platform made no reference to the St. Lawrence seaway, but during the campaign Mr. Roosevelt, the Democratic candidate, spoke in favor of it. In the preceding months, while Governor of New York State, he had given close attention to the treaty negotiations, mainly because of the interest of his State in the hydro-electric power developments along the St. Lawrence, which were provided for in the agreement.

Under the constitution of the United States, treaties must be ratified by the Senate with an affirmative vote of two-thirds of the members present. During the session of Congress in the "interregnum" between the election of Mr. Roosevelt in November and his inauguration in March, President Hoover submitted the treaty to the Senate and recommended its ratification. The Senate Committee on Foreign Relations conducted hearings and made a favorable report; but it delayed this action until about a week before the session was scheduled to end, and nothing further was done at that time.

Shortly after his inauguration on March 4, 1933, President Roosevelt summoned a special session of the new Congress to consider measures for checking the financial crisis which then gripped the country. On March 27 the Senate Democratic leaders decided to enlarge the Congressional program and to include, among other measures, consideration of the St. Lawrence treaty. On the same day the Senate Foreign Relations Committee again voted a favorable report. At this time, however, Congress was confronted with an elaborate program of domestic legislation advocated by the new Administration, and no further action on the treaty was taken before adjournment on June 16.

Congress reassembled in regular session on January 3, 1934. A week later, on January 10, President Roosevelt

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sent a special message to the Senate urging that it give favorable consideration to the treaty. He pointed out that there were two main considerations—navigation and power. With regard to the first, he declared that from a broad national point of view commerce and transportation would be greatly benefited, and that “fears of harm to special localities or to special interests are grossly exaggerated.” With regard to the power development, he stated that it was one of four great projects that he had planned for the United States. These were: the Tennessee valley plants in the south-east, the Boulder dam on the Colorado river in the south-west, the Columbia river projects in the north-west, and the St. Lawrence development in the north-east.

The St. Lawrence situation differed from the others in that the United States could not develop power in that area without a treaty with Canada, whereas Canada could develop two great projects at the St. Lawrence rapids lying wholly within her territory. The President insisted that it was “better in every way that we should maintain the historic principle of accord with Canada in the mutual development of the two nations.” He also pointed out that if Canada so desired she alone could build a seaway wholly within her control and without participation by the United States. This, he stated,

would be a reversal of the policy of co-operation which the United States and Canada have continuously maintained for generations.

Meantime, pending action by the Senate, a great battle over the St. Lawrence project was fought in the American newspapers. The ink was hardly dry on the treaty before the editorial guns began to roar. The *Duluth News-Tribune* declared that “digging should begin next spring,” while the *Baltimore Sun* averred that the construction of the seaway would give the government “another large white elephant in its already overcrowded stable.” Opinion in the United States was largely influenced by sectional interests and sentiment. The agricultural regions of the

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middle-west and the north-west and the Lake cities of Cleveland, Toledo, Detroit, Milwaukee and Duluth favoured ratification on the ground that the waterway would reduce freight rates to the seaboard, stimulate agricultural exports and generally improve local business.

In the east the treaty was opposed on the ground that the new waterway would divert traffic from the Atlantic ports. In the two largest American cities, New York and Chicago, opinion was divided, though the predominant sentiment appeared to be unfavorable. In New York, business interests, represented by the Merchants Association and the State Chamber of Commerce, were hostile, but as New York State would participate in the development of the power projects and would have control of their output there were those who favored the treaty as a means of obtaining cheaper electricity. Aligned with this group was Mayor La Guardia of New York city.

Chicago, in like manner, was divided between its desire to be a virtual seaport and its recognition that the treaty would curtail its right to the diversion of water from Lake Michigan into its drainage canal and the Illinois river. It also feared that the seaway would develop injurious competition with the Lakes-to-the-Gulf waterway, which many of its business leaders had been active in promoting.

In view of the important part played by the Lake Michigan water diversion controversy in the debate on the treaty, a brief review of this phase of the question seems desirable. Near the end of the last century, Chicago faced a difficult problem of drainage and sanitation, because of its position on low ground and its rapidly increasing population. Discovering that it would be less expensive to turn water from Lake Michigan into a drainage canal and divert sewage into the Mississippi basin than to construct sewage disposal works or filtration plants, it built a canal for such a purpose and obtained a permit from the federal government, which controls navigable waters in the United States, to withdraw water from the lake at a maximum rate of

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4,167 cubic feet a second. In 1912 it made application to increase the maximum to 10,000 cubic feet a second. This brought a strong protest from the Canadian government, which maintained that the withdrawals hampered navigation on the Great Lakes, reduced the power capacity of the hydro-electric stations at Niagara Falls, and prevented the development of other projects in the St. Lawrence area.

From that time forward, the diversion of lake water was a subject of almost constant dispute, and the case was before the federal courts continuously from 1913 to 1930. In the latter year, the Supreme Court of the United States issued a decree providing for the reduction of water diversion from Lake Michigan in successive stages, until in December, 1938, the maximum would be fixed permanently at 1,500 cubic feet a second.

This decree was incorporated in Article 8 of the treaty, and was one of its most bitterly attacked features. The Chicago authorities had cherished the hope of obtaining a modification of the court decree before the drastic reduction of water diversion that it prescribed went into effect, but the embodiment of these restrictions in an international agreement would have made their modification virtually impossible. The friends of the Lakes-to-the-Gulf waterway protested that the treaty made it impossible to maintain a nine-foot channel from Lake Michigan into the Mississippi, and strong opposition to ratification developed in Mississippi valley cities, especially in St. Louis and New Orleans. These cities, like Chicago, also opposed the development of a competing water route through Canada.

Other interests that opposed the treaty included, first, the trunk-line railways connecting the western farming areas with Atlantic seaports; second, certain heavy industries on the Atlantic seaboard, which regarded the seaway as a menace to the advantage they then enjoyed from their location at ship-side; and third, the electric power companies that would face competition from the new power installations along the St. Lawrence.

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In the debate on the treaty in the Senate, the chief spokesman for ratification was Senator Key Pittman, of Nevada, Chairman of the Committee on Foreign Relations. The opposition was led by Senator Bennett Champ Clark, of Missouri, who voiced the prevalent opinion in the Mississippi valley. It is significant that the leaders on both sides were Democrats, for during the debate party lines were largely disregarded. The only political group presenting a united front was the progressive, or insurgent, bloc of Republicans. Being foes of the "power trust," critics of the railways, and always suspicious of eastern financial interests, they liked the treaty because of the enemies it had made, as well as for other reasons.

It is impossible to enumerate here all the points that were raised for and against ratification during the two months of debate. Only the major arguments can be presented in brief outline. On behalf of the treaty it was argued :

- (1) That the seaway would reduce transportation costs, to the great benefit of the people in twenty-eight of the forty-eight states.
- (2) That the project was not an experiment, but simply the completion of a public work which had been under way for many years, and which had already demonstrated its practicability and value.
- (3) That the construction cost would be more than offset by the resulting savings.
- (4) That the seaway would not injure the railways, because ten years would elapse before its completion, and during this period traffic would grow to a point where new facilities would be needed.
- (5) That the power projects would be the most economical on the continent, and would furnish a yardstick to determine whether consumers of electricity were receiving fair treatment from privately-owned utility companies.

Critics of the treaty directed their attack along two different lines. They first opposed the St. Lawrence project in principle, and then insisted that even if the seaway were desirable, the treaty itself was faulty. They insisted :

- (1) That the waterway was not needed, and that its construction would be a waste of public funds.

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(2) That even if it were needed, it would not provide satisfactory and adequate facilities for ocean commerce, since during the severe Canadian winters it would be closed to traffic, and would require at all times a special type of shipping for safe navigation.

(3) That the cost of construction had been under-estimated.

(4) That it was illogical and inconsistent to create a new competitor for the railways at a time when the government was lending hundreds of millions of dollars to save them from bankruptcy, and had also created a federal co-ordinator of transportation to assist them in solving their problems and maintaining their solvency.

(5) That the seaway would give Canadian producers a special advantage over American competitors in world markets.

(6) That it would divert business from American to Canadian ports.

In addition to these objections to the project itself, criticism was also directed toward many details of the treaty. It was criticised as :

(1) Surrendering American sovereignty over Lake Michigan, which lies wholly within the United States.

(2) Limiting diversion of water from this lake while giving Canada the right to unlimited diversion from boundary waters.

(3) Allotting an undue share of the cost of construction to the United States.

(4) Providing that American money should be spent for works in Canada, and stipulating that these should be constructed with Canadian labor and materials and become the property of the Canadian government ; and

(5) Enabling Canada to obtain four times as much electric power out of the whole waterway development as would be obtained by the United States.

The opponents of the treaty sought also to arouse nationalist sentiment in the United States by quoting articles from Canadian newspapers in support of the treaty. For example, they published throughout the country an editorial from the *Toronto Mail and Empire*, intimating that the United States had been outmanœuvred during the negotiations, and congratulating the Canadian Minister in Washington on obtaining "a treaty which placed the bulk of the cost on the United States." This particular editorial was frequently cited during the debates in the Senate, but it is impossible to say whether it actually influenced any votes. Yet the Canadian nationalist senti-

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ment that it reflected undoubtedly had its counterpart in the United States, and had a share in bringing about the defeat of the treaty.

When the vote came the opposition proved unexpectedly strong. It was realised that the prospects for ratification were not good, but it was expected that if the treaty were rejected it would be by a very narrow margin. Twenty-two of the 60 Democratic Senators refused to follow the Administration leaders, while 14 of the 35 Republican Senators joined 31 Democrats in voting for the treaty. Political affiliations apparently played no great part in the voting.

The defeat of the treaty with the aid of so many Democratic votes was not, however, regarded as a serious political reversal for the President. Mr. Roosevelt did not consider the pact negotiated by his predecessor as an essential part of the New Deal, and therefore did not throw all the political resources at his command behind it. He was apparently holding some of his forces in reserve for the impending battle over his request for power to revise the tariff. He indicated that he would bring the treaty up again, but it was generally believed in Washington that he would first endeavor to obtain revisions to meet some of the objections of its opponents.

II. THE CANADIAN VIEW

THE St. Lawrence waterway treaty evoked little discussion in Canada in the months preceding the final debate in the United States Senate. Canadians understand very well the rôle played by the Senate in the consideration of treaties, and discussion in Canada was felt to be useless until the decision in Washington was recorded. The treaty, if ratified, would have been brought before Parliament in Ottawa, and would then have become once more an issue of national importance and keen debate in the Dominion.

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While the difficulty of obtaining the two-thirds vote of the Senate necessary for ratification was fully appreciated, so crushing a defeat was not generally expected in Canada. The project had been strongly supported by President Hoover. Its advocates had carried on a persistent campaign of education for over a decade, and through the highly organised efforts of the Great Lakes-St. Lawrence Tidewater Association they appeared to have mobilised more than sufficient support. Above all, the agreement was known to have President Roosevelt's unqualified approval; and while it was recognised that opposition to his policy was in general increasing, it was also felt that the strong pressure that he was said to be exerting privately as well as publicly might be a decisive factor at the last moment.

Canadian newspapers gave little space to the discussion in the Senate, a notable exception being the *Toronto Star*, which sent a special representative to Washington and reported the debates in detail. While some serious speeches both *pro* and *con* were made, it was undoubtedly a disappointment to Canadians that at times the debate was brought by certain opponents of the treaty to a level so low as to be grotesque. Senator Huey Long, the Louisiana "Kingfish," declared that "Canada hasn't any business taking water from New Orleans," and on another occasion he was reported to "wonder, if this thing goes through, if they couldn't give them (the perfidious Albions) a piece of Louisiana." "If a part, why not the whole?" queried Senator Lewis of Illinois, and went on to propound the theory that the British Government wanted the treaty so that it might find a naval base in Lake Michigan, for use as a half-way house in case of war between Japan and the United States. This may appear to some senators to be good comic opera, but it is regrettable that the most important question that has arisen between the two countries in many years should have been discussed even in part in so unworthy a manner. While it is realised by Canadians that the real forces of opposition to the project

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lay in sectional and economic rivalries over transportation and power, debate such as this will do little to allay the traditional feeling in Canada that prejudice is likely to have more influence than justice in determining American policy with regard to matters of mutual concern to the two countries.

The defeat of the treaty was discussed by the press throughout the Dominion in editorials that reflected the same differences of opinion as had been revealed in the earlier discussions of the project.* The maritime provinces have in general been lukewarm and they view the Senate's decision without great regret. The *St. John Telegraph-Journal* expressed relief that a "highly controversial" question had been cleared out of the way. The maritime provinces, it observed, could see in the project a prospect of great expense but of no advantage to themselves and of only doubtful advantage to the Dominion as a whole.

The most determined opposition has always emanated from the province of Quebec, where the legislature, led by Premier Taschereau, the companies concerned in the development of hydro-electric power by private ownership, and those interested in rail and lake shipping have united in a campaign of unqualified disapproval. The only exception to this attitude was the Montreal Harbour Commission, which at various times went on record as favouring the proposal. The *Montreal Gazette* greeted the defeat of the treaty with unqualified satisfaction, as marking the end of "this fantastic seaway dream," and reiterated its arguments that the agreement did not adequately protect provincial rights, that the United States would have reaped the chief advantages of the power development, to the prejudice of Canadian industries, and that the cost would have added a great and unwarranted burden to the public debt. The treaty would have been a constitutional as well as an economic blunder, in the opinion of the *Gazette*,

* See *THE ROUND TABLE*, No. 89, December, 1932, p. 188.

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and although advocates of the scheme felt that the *Gazette's* arguments were not a fair indictment there is no question that they exerted a powerful influence.

Ontario had more to gain from the project than any other province, but its support has never been unanimous or aggressive. Papers such as the *Toronto Globe* and *Star*, which have consistently supported the scheme, expressed keen disappointment. Nevertheless the feeling is widespread that there is no urgent necessity for the waterway from the point of view either of power or of transportation. The papers of the prairie provinces and British Columbia mostly adopted the same attitude. The *Winnipeg Free Press*, which has been a consistent advocate, observed that the project was desirable, but not one "upon which the fate of either country or both countries rested";

and they will doubtless rub along, now that it has been blocked, for the time being and perhaps for a considerable period of time. What has happened is in line with what is continually happening in both countries: the larger public interest has been defeated by the political resourcefulness of selfish and strongly organised minority interests.

The *Regina Leader-Post* expressed an apparently common view when it stated that there was no marked enthusiasm for the proposal, adding that "if the St. Lawrence seaway is in the national interest let us have it as soon as possible." It would seem that the West, including British Columbia, was open to persuasion; the same was true to a lesser degree even in the maritime provinces. One may perhaps conclude, therefore, that had the treaty been ratified in Washington, Mr. Bennett, who was a strong advocate of the agreement, would have been able to mobilise sufficient support for its acceptance in Ottawa, especially as Mr. King was also on record as favouring the project.

There is little probability, in the near future at least, that Canada will, as President Roosevelt suggested, undertake to carry on the work herself. The present surplus of hydro-electric power, the financial difficulties of the railways,

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coupled with their capacity to meet the present demands of traffic, the uncertainty as to the future of wheat exports to foreign markets, the burden of the national debt, all combine to remove any urgent necessity for completing the project. Relief for unemployment is almost the only argument in favour of immediate action.

In a long-range view, however, the decision of the Senate may have more serious results. Canada has already put many millions into works that would form an integral part of the scheme: the enlarged Welland canal is now in use; the deepening of the channel below Montreal is well advanced; and the Beauharnois power development, which is under way, will complete much of the work necessary also for navigation in that section. Beyond these, the only important stretches still untouched between tidewater and Lake Erie are the Lachine rapids section, just above Montreal, and the international rapids section, just above Cornwall and shared by Ontario and the State of New York. It seems inconceivable that with so much accomplished the project should not at some time be carried to completion. It would be unreasonable, moreover, if the improvement of navigation did not accompany the development of power. The development of power in the international rapids section is the next obvious step when more power is needed, and that will require an international agreement and a scheme of co-operation between Ontario and New York at least.

The completion of the project by a piecemeal process, therefore, seems likely in the long run, unless some general settlement is made such as was embodied in the rejected agreement. Canada stands to gain little from the piecemeal process and may have real cause to regret the defeat of the treaty. She is not likely to obtain a more favourable one if another attempt is made. The division of costs was fair to both countries, but it gave Canada full credit for money already expended and left to the United States much the larger share of the remaining burden. The vexed

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question of the diversion of water at Chicago would have been settled to Canada's satisfaction, and Lake Michigan would have been internationalised. The diversion has been decreased; but Chicago shows no spirit of repentance, and with the support of the Mississippi valley she may again put forward her pretensions in defiance of the judgment of the Supreme Court at Washington and of Canada's rights, however just they may be. The Mississippi river and the New York State canals are being improved and will undoubtedly become more serious competitors of the St. Lawrence route.

The defeat of the treaty after so long and careful an organisation of the forces supporting it will make the framing of a general agreement in the future more difficult rather than less. Such an agreement depends on the coincidence of so many favourable factors both political and economic in the two countries that the problem becomes extremely complicated. Canada could probably have had a treaty during the Hoover régime had she desired it. She will perhaps find, if she wishes a treaty in the future, that the United States will not consent to reopen the question.

Finally, the rejection of the treaty is unfortunate as marking the defeat of a really notable effort in international co-operation. In his statement to the Canadian House of Commons, Mr. Bennett referred to this point in the following words, which may well be quoted in conclusion :

I regret the action of the Senate for many reasons; not the least being that I have looked upon the development of the St. Lawrence seaway as the manifestation of the will and the capacity of the two sane and peace-loving countries to join fairly and freely in an enterprise of profit to them both. At this time in the world's affairs, when good neighbourliness is so important a factor in the great international adjustments that are taking place throughout the world, I had felt that the example of mutual trust and confidence set by these two great countries might have proved an impulse and a guide to better international relations on other continents.

INDIA : SWARAJ THE PHCENIX

I. THE PASSING OF CIVIL DISOBEDIENCE

MUCH the most important Indian political event of the quarter—or, for that matter, of the past several years—has been the decision of certain Congress leaders, over the Easter week-end, in favour of entry into the Councils, and their approach to Mr. Gandhi for his approval. This was forthcoming in no measured terms; for the Mahatma had “no hesitation in welcoming the revival of the Swaraj party and the decision of the Delhi meeting to take part in the forthcoming election to the Assembly.” He thought it not only the right but the duty of Congressmen who did not desire to take part in civil disobedience, and who had faith in entry into the legislatures, to seek such entry. Mr. Gandhi further stressed this attitude by declaring that civil disobedience should be left to him alone to pursue, as the person “most versed in its science.” He will, he says, “be at the disposal of the party at all times and render such assistance as it is in his power to give.” In the words of the *Tribune*, the Swarajists have now obtained their “charter.”

Few political announcements in India can have been generally welcomed over so wide and diversified a range of opinion. “The revival of the Swarajya party with the Mahatma's blessing heralds the dawn of a new day in Indian politics,” says the *Tribune* (Lahore). “No other event in our contemporary history has indeed caused such widespread rejoicing.” The statement describing the result of the conference with Mr. Gandhi “will be received with supreme satisfaction in the country,” according to

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the *Hindu* (Madras). "Nothing could be better," remarks the *Leader* (Allahabad). Even the *Amrita Bazar Patrika* (Calcutta) welcomes the preservation of Congress unity, although, as usual, it strikes a slightly different note from the chorus, seeing "no reason to go into ecstasies" over the formation of the Swaraj party. It finds anything better than the tying of Congressmen to a policy that the great majority are unable or unwilling to follow. The European press welcomes the departure as betokening the approach of constructive work in a spirit of realism. One of the few hostile voices comes from *Justice*, the Madras non-Brahman organ, which scoffs at the hopes aroused and points to the fact that a decade ago a similar movement ended in comparative fiasco.

It is important to realise that this breakaway is no isolated phenomenon appearing without warning in the Indian political firmament. A lightning flash is an indication that an electric storm has gathered and been discharged, and just as the flash lowers the electric tension so this Congress decision to re-enter the legislatures provides the long-sought relief to a tension that was becoming unbearable. It is the sense of relief that stands out most clearly from the comments, oral or written. Previous articles in the *ROUND TABLE** have recorded the growth among Congressmen of a keen awareness of the magnitude of the issues looming up for decision, and of resentment against the outworn creed that fettered their attack on these issues.

Civil disobedience is as nearly dead as is possible without actual expiry. It has long been moribund, but a variety of reasons and complexes prevented an admission of the fact by Congress authorities. Thus on March 6 a Bombay paper remarked that "civil disobedience, whether mass or individual, is dead and gone," while for months past several influential Congress papers have rejected the idea that any loss of prestige would attend the public abandonment of a policy that had failed. The *Tribune*, which has been in

* See, for instance, *THE ROUND TABLE*, No. 94, March 1934, p. 344.

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the forefront of this campaign, summed up its attitude thus on April 2: "Congress has never identified its being or its soul with the pursuit of civil disobedience. It was never more than a means to an end." This outlook is essentially realist, and its motto might be described as *reculer pour mieux sauter*; for it would be a grave error to read into this condemnation of means any mitigation of ends.

Mr. Gandhi has been careful to avoid actual abandonment of civil disobedience; he is, indeed, too closely attached to his favourite "science" ever to contemplate that extreme step. The weapon may be laid by, but only in the armoury, and the Mahatma will maintain its temper. However, he has told his disciples and associates that they are not to use it during his lifetime save under his direction, a characteristically subtle step which leaves the ultimate discretion with himself. This attitude has not passed unnoticed, and one or two Congressmen have declared that decisions on the use of civil disobedience are for Congress, not for any individual, however eminent. In the general tide of relief, however, this correct and logical position is apt to be submerged.

The Delhi decision was precipitated by the widely credited report* that the life of the present Assembly, which is due to expire this autumn, will not be extended, and that in consequence there will be an election in the coming cold weather. The realists in the Congress camp—and they are many more than is generally believed—could not tolerate the prospect of such elections uncontested by the Congress party. It may be said confidently that even if Mr. Gandhi had refused his approval Congressmen in considerable numbers would have contested them. Mr. Gandhi nevertheless declares that his decision was not prompted in the slightest degree by the Delhi conversations and their outcome. "The decision had come to me vaguely some days before it was finally taken, when I knew nothing of the Delhi proposals."

* Now confirmed by official announcement.—*Editor*.

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The Mahatma's ear is close to the Congress ground. Leaders must be prepared sometimes to follow, and it is a wise leader who can recognise the moment when he must follow his intransigent flock if he is not to be publicly deserted. A Bombay Congress paper declared on March 13 that "if Congress endeavoured to enforce boycott (of entry into the legislatures) against reason and under the personal influence of anyone, no matter how great, it would probably lead to a definite break-up of Congress unity." The threat implied is clear. Not even Mr. Gandhi's position would be secure if he opposed the inevitable. Similar expressions could be taken from papers all over the country.

It was fairly well known that the Madras and Bombay representatives at the meeting of Congress leaders, in the words of a Delhi commentator, "provided the real drive." Here we may perhaps see the outcome of the formation, last October, of new parties in those provinces.* They had been criticised for their inactivity, as representing yet another ineffectual gesture, but their efforts were probably devoted to bringing about harmoniously the departure in Congress policy over which India is now so pleased. It is not unlikely that the Delhi consultants had been in touch with Mr. Gandhi before their meeting and knew in advance at least the general tenor of his reply to their formal approach. The Mahatma has once again demonstrated his political astuteness.

Congressmen claim that with the cessation of civil disobedience the Government ought to withdraw their ban on the meeting of the working committees of Congress so as to permit the fullest scope to the new party. They are exhorted also to secure the withdrawal of all restrictive legislation and the release of all political prisoners. Such demands assume that Government's condition, namely, the abandonment of civil disobedience, has been fulfilled. In strict fact, it has not ; for although the weapon may

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have been sheathed, and the decision whether to draw it in the future given to one man, that does not constitute abandonment. Mr. Gandhi has thus presented Government with a difficult problem. Their answer was given in the Home Member's pronouncement in the Assembly on April 16 that Government propose to raise no obstacle to a meeting of the Congress committee or of the Congress itself, "for the purpose of ratifying the statement of policy recently made by Mr. Gandhi calling off civil disobedience." If such a meeting is held and Government are satisfied that as a result civil disobedience has been called off, they will then review their policy towards the various Congress organisations. If civil disobedience is effectively called off the present policy of releasing political prisoners will be expedited. Thus in effect Government have refused to accept Mr. Gandhi's voice as the voice of Congress. The statement has been on the whole well received, and the probabilities are that Congress will formally call off the movement, making it clear at the same time that present abandonment is in no sense a promise never to employ it again.

II. THE SWARAJ PARTY AND THE REFORMS.

THE real difficulties of the resuscitated Swaraj party will begin with the drawing up of their programme. It may be taken as certain that the maximum effort will be put into election contests and that, in Pandit Malaviya's phrase, the Swarajists will seek to capture "every seat they can, and fill them with strong-souled and incorruptible Congressmen or Nationalists who can put their hearts into the fight." Mr. Aney describes the position as an acceptance by the Congress of the Government's challenge to demonstrate its control over the classes and masses of India. Some of the present members of the Assembly, who broke from the Congress in 1930 on the issue of

* See THE ROUND TABLE, No. 94, March 1934, p. 345.

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boycotting the Councils, have put out feelers suggesting that since they have in effect been proved right, and since they kept the Congress flag flying in the legislatures during these four years, their seats should be respected. It is doubtful whether much attention will be paid to such hopes, and in more than one quarter the offensive term "blackleg" has been applied to these sitters on the fence. It is true that the present decision justifies their action four years ago, but it is one of the less estimable qualities of human nature not to like those who have acted more wisely than ourselves and have profited thereby.

Contesting elections is one thing; drawing up a plan of campaign in relation to the White Paper, His Majesty's Government, Parliament and India is quite another. There is at present little sign of any profound constructive approach. The meetings of the All-India Congress Committee and Swarajist conference in early May at Ranchi should provide some enlightenment.*

In particular, one asks, what will be the attitude of Assembly Congressmen towards the White Paper and any proposals based on it? Press and public utterances continue to swell the chorus of condemnation, and no change in this attitude need be looked for in the immediate future. An important part of Congress effort is held to be "the education and organisation of public opinion in effective opposition to any unacceptable constitution which the Government may seek to impose on India." The decision to re-enter the legislatures in no way indicates a disposition to look more kindly on the White Paper or its authors, His Majesty's Government. It would, in fact, be better described as intended to facilitate opposition.

* The programme adopted by the conference included the repeal of special anti-terrorist legislation, the release of political prisoners, the enforcement of economy, opposition to any form of imperial preference, social justice for all classes of workers and peasants, and the removal of untouchability. The White Paper was condemned as calculated to perpetuate the political subjection and the economic exploitation of the people of India.—*Editor*.

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Whether the Swarajist attitude will remain purely negative remains to be seen. Much depends on the events of the next few weeks, and still more on whether the party can throw up a leader of personality like the late C. R. Das. So far there are no signs of such a succession; for Dr. Ansari could never fill that bill and no other name suggested comes near the standard of acceptability and power desiderated. Yet there is nothing India needs more at this juncture than someone who will guide dissatisfaction into action. Unless such a lead eventuates the outcome may be merely faction, a peril never far off in India. The *Leader*, in a pungent review of Mr. Gandhi's "14 years of experimenting with truth at the expense of the country he has treated as a spiritual laboratory for his mystical researches," declares him and Pandit Malaviya to be "the only men whose leadership can survive the failure of their policies." It is because the need for a leader with an all-India as distinct from a regional appeal is realised that the Mahatma's leadership thus survives failures and resentment.

The appearance of the White Paper in March, 1933, inaugurated the period of uneasiness and questioning in Congress circles. The appearance of the Joint Select Committee's report will be the next precipitating influence, and it is unlikely that any decisions regarding future activities will be taken till that report has appeared.

Whatever scorn may be professed by Congress or its associates for the position of His Majesty's Government and Parliament in regard to the affairs of India, no Indian political decision is made without close reflection upon the political position in the United Kingdom as a whole as well as in relation to Indian affairs. Thus there are clear indications that a considerable body of Hindu opinion would welcome a deferment of the White Paper scheme, not from conservatism, but from a deliberate conviction that sufficient postponement of any India Bill based on the White Paper would produce a much more advanced scheme of reform. The National Government cannot

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be in power more than five years without seeking re-election; that is, there must be an election in the United Kingdom by the close of 1936, and probably earlier. The Labour party is regarded as likely to come into power then, and as certain at any rate to have a much larger representation. It would, therefore, be preferable to have the India Bill passed by the next Parliament rather than by this, and if that is so then one object of Indian advanced opinion should be to prevent the passage by the present Parliament of an India Bill based on the White Paper. More than one prominent Indian has said publicly that he would prefer no reforms at all to a constitution based on the White Paper, but what was in their minds was probably something of the nature just suggested.

If delay is in itself an advantage from this point of view, then all methods likely to secure it must be investigated. Thus there emerges the surprising alliance of the British Die-hards with the Indian extremists. The more vocal and obstructive the Die-hards at home are, the more they play into the hands of those out here who deliberately seek delay, and who desire, therefore, the maximum obstruction and intransigence in Britain. It is too easily assumed that blank condemnation and absence of constructive suggestion are merely a form of nihilistic negation popular in India. Actually, they may be an illustration of profound psychological appreciation. The more frequent and unequivocal these condemnations, the more the British Die-hards are likely to react in opposition to the present National Government and its India proposals, with the consequence that the passage of the India Act in the present Parliament becomes less and less probable. Much, or even most, of the rather wearisome condemnation appearing regularly in the Indian press could be attributed to the "N.C.O. spirit" rather than to any excogitated policy, but the longer heads have almost certainly concluded that it is worth while to try for an India Bill passed by the successor to this Parliament.

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These reflections are illustrated by the course of a debate in the Assembly on a motion of Raja Bahadur Krishnamachariar urging the necessity of expediting the reforms. This motion was opposed by Bhai Parmanand, the Hindu Mahasabha leader, on the ground that so long as the communal decision holds the field the White Paper scheme is unacceptable.

It is not suggested that the actual elements of a desiderated constitution have even yet been thought out; indeed it is unlikely that they will be reduced to any hard and fast terms if that can be avoided. Political speculation in that direction in India will always be largely opportunist, taking as its starting-point political conditions in the United Kingdom. According to the *Hitavada* of Nagpur, the new Swarajists will fight elections on two issues: the withdrawal of all repressive legislation and the rejection of the White Paper in favour of Mr. Gandhi's demands at the second Round Table Conference. The same paper, however, goes on to suggest the joint memorandum of the Indian delegates to the Joint Parliamentary Committee as a more suitable basis. This memorandum proposed a modification of the White Paper scheme in several directions, all designed to strengthen the element of Indian control and diminish that of the Secretary of State or the Governor-General's discretion, with particular stress on defence, finance, commercial discrimination and control of the services. For the present nothing more specific need be expected than the *Tribune's* demand that

the very basis of the White Paper be altered . . . not to be satisfied with anything short of complete national freedom . . . would accept no safeguards except those which are demonstrably in India's interests and terminable at her will.

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III. THE COMMUNAL ISSUE

A GOOD deal of interest has been aroused by the deliberations of the Muslim League and the pronouncements of Mr. Jinnah, an interest not confined to Muslim India. The communal issue is the one that most disturbs Hindu thought; to it, indeed, nearly all constitutional speculation inevitably returns. According to the *Amrita Bazar Patrika*, the White Paper "is based on the communal award." Hopes were raised that Mr. Jinnah's presidency of the Muslim League would produce at last some indication of a common ground for accommodation between Muslim and Hindu views on the White Paper and allied problems. The Hindu press, therefore, was correspondingly disappointed by the resolution of the League

to accept the communal award in so far as it goes and on that basis expresses readiness to co-operate with other communities to secure such a constitution for India as will be acceptable to the country.

A certain virulence in comment is perhaps the measure of the disappointment. This resolution, declared the *Amrita Bazar Patrika*, "is not only meaningless but absolutely ludicrous." Other papers and individuals condemn the insistence by even the League Muslims on the one point that Hindus could not accept, and attribute to the Mahomedans the fault ascribed in a well-known rhyme to the Dutch. One paper finds in Mr. Jinnah "a double personality" and remarks that the triumph of the reactionary element in him is indeed a "most painful tragedy." This slightly equivocal character continues to puzzle and irritate the critics in the old familiar way. According to a Bombay writer, his failure to produce any genuine Hindu-Muslim accommodation suggests either that he is a "captive in the camp of the reactionaries or that he has paid too high

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a price for the leadership of his community." A more subtle view finds in Mr. Jinnah one who likes always to be, or appear to be, an arbiter, one who cannot go with the crowd, the political cat that walks alone. There is a good deal in this, and it seems unlikely that he will ever command the entire confidence of anyone. Muslims of the orthodox school watch him with vigilance, if not suspicion, and are unlikely ever to enter any chariot that he drives.

Mr. Jinnah's actions may not commend themselves to the bulk of his community, but in his condemnation of federation he perhaps comes nearer to speaking for them than in any other direction. Muslims as a whole are keen on provincial autonomy; for they expect to obtain control in four provinces. Anything that tends to delay the advent of this Muslim self-realisation is suspected and opposed. On the other hand, federation holds comparatively little appeal; for the orthodox Muslim political view sees in it nothing but Hindu predominance. It may be hazarded that, provided the transitional stage contemplated by proposal 202 of the White Paper left a reasonable amount of discretion in Indian hands, Muslim opinion would not be greatly moved by its indefinite continuance. Hindu opinion, on the other hand, tends to fear provincial autonomy because of the Muslim dominance in the four provinces, while at the same time it would rather avoid federation in the hope of securing something better. Probably most Hindu opinion—certainly its advanced element—would prefer a federation of British India alone to one on White Paper lines.

Since the communal decision was taken in August, 1932, it has occupied the top line of the political bill. Even if such important new items as the White Paper seemed temporarily to replace it, the lapse of time has always brought it back to the leading position. The general political situation, and the whole future of India, in fact depend on the solution of the communal issue; but all the negotiations and recriminations of past years have not

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succeeded in producing any recognisable alternative to the third-party decision of His Majesty's Government. The case seems to be an example of the irresistible force and the irremovable obstacle ; Hindu dislike of separate electorates is genuine, but Muslim distrust of joint electorates is equally so. European critics are too apt to condemn this communal difficulty as merely an illustration of Indian contumacy and lack of political capacity. Actually it is a social and political problem of dimensions considerably greater than the French-Canadian issue in Canada, which cannot be said to have been altogether solved, or the Dutch-English problem in South Africa, which has scarcely been solved at all. Most actions of the British Government extract sooner or later from the Hindu press a wide range of condemnation, but none can ever have been so successful in this respect as the communal decision, which has been visited by a wealth of vituperation possible only in this country. Yet the vehemence of the criticism is merely a recognition of the magnitude of the problem, and in a way a tacit admission that, failing agreement by the two contestants, a third-party decision was the only recourse.

With each side so jealous, and prospects of accommodation so slight, the conclusion seems to emerge that the authors of the decision should avoid anything that might arouse false hopes. What is essential is that something should be accepted by both sides on which a political structure can be raised. If in future years the communities wish to alter this foundation or erect some new building altogether, they will have their opportunity. There is little indication at present of any such mutual accommodation ; and if the content of the decision were to come again under official discussion it is difficult to foresee any consequences but delay and renewed recrimination. Despite Hindu and Sikh threats and outpourings of wrath, there seems to be a fairly general impression that His Majesty's Government have said their last word and that finality

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is the one satisfactory feature of the situation. Any signs that this attitude was weakening would in all probability lead to outbursts of further intransigence on the Sikh and Hindu side and sullen resentment on the Muslim, involving not only no benefit to the constitutional prospects of India but actually an appreciable degeneration.

The same considerations apply to the Poona pact, which is in effect a part of the communal decision. It is impossible to pretend that this pact is satisfactory. Further, as has been suggested in these pages,* the pact is unlikely to work as its authors, or at least its Depressed Class authors, seem to have hoped. The chances are that the caste Hindus will succeed in controlling elections to the Depressed Class seats ; and Muslim fears that the Depressed Class members would be little more than a reinforcement of the caste Hindus will be fulfilled. Nevertheless, for any British authority to start tinkering with the pact now would be to let loose on India a flood of controversy and allegation enough to overwhelm any hope of settled or accepted policy for months, if not for years. The communal decision and the pact fulfil the function of the solid matter that assists so greatly the condensation of vapour. If they are removed, the chances of such condensation of vapours into tangible realities will be greatly reduced.

The decision and the pact are alike alterable by mutual consent of the communities concerned. No serious move towards such compromise is likely to be attempted until the Joint Select Committee has reported and possibly not even then. If the report were to suggest modifications in either document, the dissatisfied communities would at once, and naturally, seek to use such opinions in support of their claims for revision. Mere adverse criticisms in the report, even if unaccompanied by positive suggestions for amendment, would be used to this end ; demands would be made that the decision and pact be suitably

* See THE ROUND TABLE, No. 92, September 1933, p. 817.

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modified before the communities could be expected to declare their attitude towards the general constitutional proposals. If the report is silent on the subject, a last effort will be made during the Bill stage to procure an expression of opinion by Parliament. In other words, not until the very last moment are the communities likely to consider serious use of the procedure suggested for an alteration of either arrangement by consent. In some respects the position is undoubtedly artificial, but it is by no means the only feature in Indian politics to which a similar criticism might be applied.

IV. THE ASSEMBLY—ECONOMIC ISSUES

PERHAPS the chief differentiating feature of this winter's session of the Assembly has been the relative importance of economic as against political issues. Here again India is responding, in spite of herself, to world forces. However large Swaraj, communalism and other political issues may loom to those obsessed with them, the force of the world circumstances that affect the livelihood and happiness of 350 million people is irresistible. The increasing attention devoted to economic affairs is to the interest of India, for nothing will help more to produce genuine political parties than the emergence of real and realised economic issues.

An interesting illustration of the importance of the Assembly in India's economic life was afforded by the crowded galleries during debates on such measures as the sugar excise and textile protection Bills. Individuals and bodies who publicly affect to scorn the Assembly, or even boycott it, were strongly represented in its lobbies and galleries, and, as one speaker pungently remarked, in the ante-rooms of members of His Excellency's Council. The hollowness of the Congress boycott when material interests are involved was very apparent.

The Assembly—Economic Issues

For some years past the Assembly has been looked on as the protectionist's haven, but of late the still small voice of the consumer has been heard, notably in the debates on the two Bills just mentioned. In regard to the latter especially, outspoken complaint was forthcoming that India's fiscal system should not be made a tool to guarantee profits to undeserving manufacturing and capitalist interests.

The debates on the sugar excise Bill were of particular interest. This measure proposed an excise duty of Rs.1 as.5 per cwt. on all sugar produced in factories in British India or used in such factories in the manufacture of other commodities. Indian sugar interests, who worked strenuously to defeat the Bill, complained bitterly that it was an unjustified attack on an infant industry. The press generally supported this attitude. Proposals for circulation or delay were defeated, however, and the Bill went to Select Committee, being finally passed by the Assembly on April 18 with the original rate of Rs.1 as.5 restored.

A wider interest attaches to these excise discussions than is contained in their specific provisions. By committing herself to protection on a drastic scale India incurred the inevitable penalty of a heavy fall in customs revenue. Either expenditure had to be correspondingly reduced or the lost customs revenue made up elsewhere. Are Indian manufacturing interests prepared to accept excises as the natural counterpart of customs duties that effectively protect and therefore yield little revenue? In fact, are they prepared to give as well as take? The answer to this question is of interest beyond India. Observers might deduce from the fact that an Indian legislative body has now accepted the principle of excises that there will be in the future a comparable readiness to balance expenditure by self-taxation. The adoption of excise duties now may go some way towards meeting the misgivings regarding the viability of the finance system set out in the White Paper and the fears of unbalanced budgets and irresponsible finance generally under the new constitution.

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The White Paper Assemblies, it may be argued, will be very different from the present Assembly. Caution in prophecy is indeed necessary, but the indications are that the lowered franchises will strengthen the consumer's voice in the legislatures and that there will be no reluctance to mulct the tariff-sheltered manufacturer, who may one day, writhing under the fiscal scorpions of the future, come to sigh for the whips that he now finds so harsh.

India.

April, 1934.

LEGAL REVOLUTION IN THE IRISH FREE STATE

I. OUR "NEW DEAL"

IN a message broadcast to America on St. Patrick's day, Mr. de Valera said that his Government's work had sometimes been compared with that of President Roosevelt ; but he modestly added that, whereas the President's task had been that of a major surgical operation, theirs was more that of the physician patiently restoring a much weakened, but otherwise healthy, body to full life and vigour. This message gives an interesting indication of what Mr. de Valera believes to be the scope and purpose of his "new deal." Referring to the situation, as he saw it, when his party took office in 1931, he asserted that having been governed for centuries in the interests of another country we had then no manufacturing industries to speak of. The one industry left us was agriculture, and that was mainly pastoral. We paid Great Britain for her manufactured goods, of which we took relatively more than any other country, mainly by the export of livestock and animal products. These we had to sell on the British market in keen competition with similar produce from other countries. In such conditions fewer and fewer people could be supported on our land. The bullock replaced the human being, and the country was being depopulated. For generations we had been rearing our children for export. To cap all, the world slump in agricultural prices ruined our British market. In addition we were paying to Great Britain an annual sum which, relatively to our resources,

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imposed a burden upon us greater than that placed on Germany for war reparations by the Young plan—a burden ten times as great, on the same comparison, as that of Great Britain's debt to America. Unemployment was growing apace, and, to make matters worse, the outlet of emigration to the United States was stopped. Economically our country seemed doomed.

To meet this alarming situation, his Government proposed a policy of national self-sufficiency. This meant protecting our secondary industries so that they might be developed to supply our needs in manufactured goods. The industrial workers thus employed would expand the home market for the produce of our farms. The Government also proposed to protect completely our agricultural industry. Summarising their achievements, he said that in two years the imports of animal products had ceased, and that the home market was now entirely reserved for our own farmers. Our wheat area had been quadrupled. Our flour mills were now working at full capacity, and the import of flour would soon completely cease. Three new beet sugar factories, when completed, would be able to meet at least four-fifths of our sugar requirements. Peat would gradually be substituted for foreign coal. A forestry scheme, providing for the planting of half a million acres of forest over a period of fifteen to twenty years, would provide rural employment, and take from us the reproach of being the most tree-denuded country in Europe. By a scheme of bounties his Government had eased the blow of the hostile British tariffs at our cattle industry. They had given the farmer considerable relief by reducing his overhead charges, by halving the land annuities, and by relieving agricultural rates with government grants. As regards manufacturing industries, progress had been made in the manufacture of apparel, which was formerly a large item in our import list. Production in the woollen and worsted industries had also been greatly increased. In conclusion, Mr. de Valera claimed that we were moving

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steadily forward towards such an organisation of our social and economic life as would make all our resources and potentialities, human and material, available to the greatest extent for the welfare of every member of the community.

Of course, there is another side to the picture, which Mr. de Valera, naturally enough, completely ignores. His predecessors in office, and his present opponents, might point out with equal justice that many of his projects are but developments or amplifications of their own plans. They had initiated and carried out a policy of protection for home industries that differed from his only in degree and method, and they had also started, in spite of criticism from Mr. de Valera's party, the manufacture of beet sugar, the exploitation of our water power for electrical use, and the development of our agricultural industry on efficient lines. In short, they might say that his "new deal" was only the old deal camouflaged, and that all—indeed more than all—the benefits accruing from their policy had been lost owing to the senseless quarrel he had provoked with Great Britain over the land annuities and the oath of allegiance. This quarrel had crippled our principal industry, agriculture, and destroyed our cattle trade, the loss of which can never be made good by any possible increase in our home market for agricultural produce. Pursuing Mr. de Valera's surgical simile, they might add that, whereas President Roosevelt had performed a major operation to save a patient *in extremis*, Mr. de Valera had performed an experimental operation on a perfectly healthy patient, and left him almost *in extremis*. There certainly can be little doubt that Mr. de Valera's "economic" war has already cost the country in taxation and loss of capital more than did the civil war. His policy will, of course, benefit the small manufacturers, who are springing up like mushrooms in the night behind the new tariffs, but it will ruin the large farmers who have to employ labour and who depend on the cattle trade, for which they require an export market. The small farmer who can live on a

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subsistence economy basis, and who can rely on the sweated labour of his family, may continue to exist on crops of wheat, oats, sugar beet and tobacco, which the government will purchase at fixed prices at enormous cost to the taxpayer. The ultimate result of Mr. de Valera's deal will probably be a country of small farmers eking out a miserable existence in order to support the small manufacturers. But since these manufacturers cannot hope to develop an export trade, or to compete with the mass production of larger countries, their development on any large scale is impossible, and the belief that they will provide considerable employment for our increasing population, and fresh home consumers for our agricultural produce, seems completely to lack foundation. On balance, our agricultural production must certainly be diminished by at least a third of its present value.

The Government have recently introduced a Bill, taking power to establish a quota system, so as to be in a position to bargain with foreign countries; but the fact remains that we must find a purchaser for our agricultural surplus, and while the number of possible purchasers outside Great Britain is negligible, the competing sellers are very numerous and very keen. The market for industrial products, that we can offer in exchange, is small in any event, and has now been drastically restricted by our own policy, except for the products of countries like India, which has little use for our agricultural goods. In pursuit of this bartering process, negotiations have already begun with India, and no doubt other such bargains will be attempted. But the trade statistics show that Great Britain and Northern Ireland continue to be far the biggest traders with the Free State. In the first two months of this year they took 92 per cent. of our exports, and from them we obtained 70 per cent. of our imports.

Our adverse balance of trade has risen from 16 to 33 per cent. of the total volume of external trade since 1931-32. During the same period our export trade has been reduced

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by almost one-half, to which loss must be added the money spent on bounties, subsidies, grants to the farmers, doles, and relief work of various kinds; for the cost of all this has to be borne by the community. During the year 1933, bounties and subsidies alone amounted to almost two million pounds, and this year they will be more. Such a drain cannot continue indefinitely, and the Government is already trying to reduce them. But some bounties, such as that payable to wheat-growers, which this year is seven shillings a barrel, they cannot end or dispense with if their policy is to succeed. A bounty of another and more disastrous kind is created by the Government's decision to encourage the slaughter of 200,000 calves yearly, and to destroy old and diseased cows, in order to reduce the cattle stocks of the country. Ten shillings is to be paid for every calf skin exported, and £3 for each cow destroyed.

In spite of these events, Mr. Lemass, the Minister for Industry and Commerce, recently assured the Cork Chamber of Commerce, who were inclined to be sceptical, that there was no need for pessimism, but every reason for optimism, in the economic circumstances of the country. The British markets, he said, would never again be available for the free and unrestricted entry of agricultural produce, and the worst service anybody could perform for the Irish farmer was to mislead him into believing otherwise. Great Britain's agricultural policy was not likely to change. An increased consumption of agricultural goods at home, through expanding industrial employment, must be their main objective, while they must also take advantage of any source of profitable external trade. It was true, he said, that people engaged in shipping and foreign trade would be glad to see more goods passing between nations, but it was undesirable that the ideas of a special trade interest should determine the policy of the country.

Mr. de Valera's newspaper never loses an opportunity of pointing out that the new agricultural policy of the British Government is directed to preserving the home market for

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the British farmer, and that they have even rebuffed the recent overtures of New Zealand for freer trade between Great Britain and that Dominion. The English cattle quota restrictions have indeed made the situation in our cattle trade nearly impossible. As Dr. Ryan, the Minister for Agriculture, has recently admitted, we have too many cattle. We want all the cows we have, but we do not want all the cattle we have. We could not afford to reduce our cows by more than 25 per cent., but we can only consume about 15 per cent. of our cattle. It is this situation which has forced him to become a kind of "bovine Herod." The reduction of livestock, however, will involve a reduction of tillage also, because wheat can only be grown in rotation with roots, and roots can only be fed to stock. The Labour party leaders suggest that the problem should be solved by licensing butchers throughout the country to buy stock with the aid of a government subsidy of £2 15s. per head, and to sell the meat to persons in receipt of unemployment benefit or home assistance at from 2d. to 3d. a pound—a scheme which, they maintain, would absorb 50,000 fat cattle annually and which, it may be added, would be an excellent vote-catching proposition. In any event another little subsidy will hardly do us any more harm.

II. THE BLUE SHIRTS

IF Mr. de Valera continues to play the principal rôle in our economic drama, General O'Duffy certainly occupies the centre of the political stage, and his Blue Shirts are making history. At a convention of the United Ireland party, held in Dublin early in February, he was enthusiastically acclaimed by some 1,600 delegates, principally young men and women, from all parts of the country. In a long speech he outlined the policy of his party, claiming that it was truly democratic, and that it was founded on the conception of an independent and

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undivided Ireland, the traditional aim of Irish nationalism. It was the reality of independence that mattered, not the mere form of government, which was a matter to be decided by the people themselves from time to time as changing circumstances might require or permit. They took their stand on the fundamental sovereign right of the Irish people to withdraw from partnership in the British Commonwealth whenever they believed that considerations of honour or interest made it desirable. The alternatives before the people at present were the reunion of Ireland on the basis of the Free State's existing status, or the declaration of a twenty-six county republic. The people were free to choose either, but United Ireland called on them to achieve unity among themselves in support of the only sound policy, as an essential preliminary to the reunion of the whole country. The United Ireland party would make an honourable and satisfactory settlement of the dispute with Great Britain, and would try to place the agricultural industry on a solid basis of prosperity.

The exact nature of the settlement of the economic dispute that General O'Duffy has in mind is not very clear, for in a subsequent speech at Monaghan, on February 17, he said they recognised the possibility that the land annuities might not be paid in the future, when his party had been placed in power; but their position was that in negotiating with England they must recognise an honourable agreement come to by the Cosgrave Government. He believed that England would do for this country what she expected America would do for her. They hoped to obtain a moratorium for a number of years, but whatever agreement they came to they would stand by honourably. They would say to Great Britain: "We will take your heavy industrial products, which we cannot produce here, in preference to those of any other country, if, in exchange, you will take our surplus home products to the exclusion of those of other countries." All of which sounds too good and too simple to be true.

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If, however, the gallant General's orations are long-winded and uninspiring, he has certainly done more to infuse life and vigour into the Opposition than all his more eloquent colleagues put together. In this he has been ably seconded by Mr. Ernest Blythe, the former Minister for Finance in the Cosgrave Government, who has recently been elected to the Senate, and who is undoubtedly the strongest and most determined man in the United Ireland party. It may be assumed that he and some of the other far-seeing members of that party, like Professor Tierney and Professor Hogan, are responsible for the idea of a corporative State, which General O'Duffy indicates as the ultimate aim of the party's policy. In accordance with the declaration of the present Pope that "the primary duty of the State, and of all good citizens, is to abolish conflict between classes with divergent interests, and thus to foster and promote harmony between the various ranks of society," and that "the aim of social legislation must be the re-establishment of vocational groups," the United Ireland party has put in the forefront of its social programme "the planning of our national economic life with a view to increased industrial efficiency and harmony by the organisation of agricultural and industrial corporations with statutory powers, assisted by industrial courts and functioning under the guidance of a National Economic Council." It claims to stand unequivocally for the principles of democracy, majority rule, and the absolute authority of Parliament, but it maintains that political equality is not more important than equal consideration, based on humanity and service, for all economic ranks in the community, in the framing of a national policy. Only by the interposition of vocational corporations between the State and the individual, it claims, can such satisfaction be guaranteed.

General O'Duffy admits that the establishment of a complete system of self-governing corporations to organise and regulate our economic life will occupy a considerable period of time, and that we cannot adopt unchanged even

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the most successful measures that have been applied elsewhere. He believes, however, that such a system would offer a practical alternative to the extremes of both socialism and capitalism, and would terminate class conflict. Economic democracy would not replace political democracy, but would complete it. Ireland, he claims, will move towards the corporative social order by the path of democracy and not by that of dictatorship. His opponents, naturally, reply that he is only attempting to copy Mussolini, and the I.R.A. accuse him of trying to establish a fascist imperialist capitalist régime. He retorts that the present Government is using the Public Safety Act as a stepping-stone to a dictatorship.

The application of that Act to himself was recently the subject of an important decision by the High Court. It will be remembered that General O'Duffy, last December, challenged the legal right of the Military Tribunal to try him on certain charges, and obtained a conditional order from the High Court directing the Tribunal to show cause why it should not be prohibited from hearing these charges against him.* The High Court, by a majority judgment, later decided to make absolute the conditional order in respect of the charges of sedition and incitement to murder, but they held that the charges of membership of an illegal organisation fell within the jurisdiction of the Military Tribunal, and could be tried by that body. They also decided that the Tribunal was a Court of limited jurisdiction, and that the Act did not protect the Tribunal from prohibition. This decision is of the utmost importance, because it lays down the rule that drastic measures for the protection of the public against unlawful acts, when placed in the hands of the military arm, still belong to the field of civil law. That being so, their exercise by military tribunals so-called should be governed by the same fundamental principles of constitutional right as apply when the powers of the State are exercised without

* See THE ROUND TABLE, No. 94, March 1934, p. 378.

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the employment of these armed forces; furthermore, martial law as such can only be enforced when a state of war or armed rebellion actually exists. By this decision the Court has undoubtedly protected individual liberty. General O'Duffy has now appealed to the Supreme Court against that portion of the judgment which permits the Military Tribunal to try him on the charge of being a member of an illegal organisation, and the Government have so far taken no steps to bring him before the ordinary criminal courts on the other charges.

The Government sustained another legal reverse in connection with the proceedings instituted by the leading members of the United Ireland party to have the League of Youth—which is the present official name of the Blue Shirt body—declared a lawful organisation.* The Attorney-General moved the High Court to strike out these proceedings as vexatious and frivolous, but Mr. Justice Johnston, before whom the motion was heard, declared that he could not decide such an important issue upon an interlocutory application, and that the action must proceed for trial. The plaintiffs, he said, alleged that the proceedings involved the question of the right of free speech in the Free State, and they relied on the very clear terms of Article 9 of the Constitution, which declares that the right of free expression of opinion, as well as of peaceable assembly, and the right to form associations or unions, are guaranteed for purposes not opposed to public morality. Was this a real guarantee or was it a mere statement of approbation such as sometimes was attached to cheap articles and clocks? In his opinion the Treaty and the Constitution contained certain fundamental doctrines that were guaranteed and could not be taken away.

Obviously annoyed by these decisions, the Government, with somewhat petulant haste, sought to cure their legal mistakes by hurried legislation devised to “restrict the wearing or carrying of uniform, badges, banners, and other

* See THE ROUND TABLE, No. 94, March 1934, p. 377.

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such articles and the use of military titles.” This measure was clearly directed against the Blue Shirt organisation, whose growing strength was apparently causing Mr. de Valera considerable alarm. The Bill, which was extremely drastic, forbade the wearing of uniform or badges, or the use of military titles, in support of a political party or ancillary associations. The Civic Guard were empowered to prohibit by proclamation the wearing of any political badge or uniform. The carrying of weapons, which term included sticks and stones, at political meetings was prohibited. The Civic Guard were given powers of arrest on suspicion and without warrant, as well as powers to seize badges and uniforms illegally worn. Heavy penalties were imposed for offences against the Act, varying from large fines to imprisonment for six months, and all offenders were to be tried before the District Court, from whose decisions there was to be no appeal, even to the High Court. This last provision was designed, no doubt, to save the Government from further legal difficulties, but if it had become law it would undoubtedly have had the opposite effect; for it is entirely contrary to Articles 64 and 65 of the Constitution, which invest the High Court with “full original jurisdiction and power to determine all matters and questions whether of law or fact civil or criminal,” and to determine the question “of the validity of any law having regard to the provisions of the Constitution.” Moreover, the whole Bill was clearly *ultra vires* and contrary to Article 9 of the Constitution, which guarantees “the right of free expression of opinion as well as the right to assemble peaceably and without arms, and to form associations or unions for purposes not opposed to public morality.” This Article also provides that “laws regulating the manner in which the right of forming associations and the right of free assembly may be exercised shall contain no political, religious, or class distinction.”

The introduction of this measure naturally led to violent discussions in the Dail, where it intensified the display of

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personal hatred and bitterness, which has been so noticeable and disgraceful of late. The Government spokesmen sought to justify the measure on the grounds that the wearing of blue shirts was provoking disorder throughout the country, and that the Blue Shirt organisation was a semi-military body arrogating to itself the right to usurp the duties of the police, an assumption that no Government could tolerate. In suppressing such an organisation they maintained that they were only doing what had been done in other countries. To this the Opposition replied that the Blue Shirts were brought into existence because the Government did not afford adequate protection to their opponents, whose right to free speech was in jeopardy, and that the Bill was an effort to prevent the lawful activities of a lawful political movement, merely because that movement was menacing the political life of the Fianna Fail party. Moreover, they pointed out that it made no attempt to deal with the menace of the I.R.A., who were drilling and arming with impunity, and whose organisation was tolerated. During the debate a remarkable and excited speech was made by Mr. de Valera, in which he declared that they were "up against it" and drifting towards another civil war. He suggested that if the Government could not get freedom of speech by the ordinary forces of the law they would get a joint composite force, a national force, and preserve order. What this national force was to consist of, or why it would be more effective than the existing national forces of the Civic Guard and the Army, he did not explain, and one can only conclude that he is still hankering after some arrangement that would enable him to bring the I.R.A. under his control. He declared his belief in democratic liberty, his disbelief in communism, and, finally, denied that he was of Jewish origin, entering into elaborate details concerning his birth and parentage, which were entirely irrelevant to the discussion. He said that he often wondered whether the country would not be better off if "the whole lot of them on the benches on both

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sides were taken out and put into some foreign island and made to live together"—a proposition that no sensible citizen of the Free State would dream of disputing, for it is only too clear that this country has become the prey of second-rate politicians whose personal hatreds and bitterness have poisoned our public life.

III. THE END OF THE SENATE ?

AN effort was recently made by Mr. E. Rice, an optimistic county Cork solicitor and a former supporter of Mr. de Valera, to bring the leaders of the various political parties together in conference, under the chairmanship of Cardinal MacRory, with a view to settling the economic dispute with England, and to resolving their disagreements. General O'Duffy accepted it as a conference "to explore the possibility of arriving at a national policy"; but Mr. de Valera rejected it on the ground that "disagreement on questions of public policy is very natural," and that "the popular decision should be loyally accepted by all."

The Uniform Bill was finally rejected in the Senate by 30 votes to 18, on March 20, and on the same day, as a protest against the Government's management of the new volunteer force, the Senate inserted an amendment in the annual Defence Forces Bill limiting its operation to June 30 next. This conduct so infuriated Mr. de Valera that on the following day he introduced in the Dail a Bill to abolish the Senate. This, he pointed out, was part of the Government's policy at the last election. He said he had not been able to devise a solution, nor had any been offered, to the problem of creating a distinctive second chamber so constituted that one could depend upon an independent judgment on any public matters that were submitted to them. The second chamber, as at present constituted, appeared to him to be an absolute menace to this country. It had hampered the Government in

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taking measures that they considered necessary for the maintenance of order; accordingly they had come to the conclusion that, whatever might be the ultimate decision regarding the desirability of a second chamber, the present chamber, anyhow, as a preliminary, had got to go. Mr. MacDermot, on behalf of the Opposition, said that the Bill was not introduced on its merits, but as an act of ill-tempered retaliation for the rebuff the Government had received from the Senate, which had acted in full accordance with its constitutional rights.

This Bill will, of course, be rejected by the Senate, and will then be suspended for eighteen months, unless in the meantime the Government are successful at a general election, in which event it will automatically become law within sixty days. Last year the Government introduced a Bill* reducing the Senate's power of delaying legislation to three months, but this measure was held up by the Senate, who passed a resolution proposing that a joint committee, consisting of five members of each House, and the chairman of each House *ex officio*, should be set up to consider what, if any, changes ought to be made in the Senate's constitution. This resolution, however, although appearing on the order papers of the Dail, has been ignored by the Government. Many people believed that the introduction of the Bill abolishing the Senate was the prelude to a general election, but this does not seem to be the case. Mr. de Valera has still four years to run, unless his Government are seriously defeated in the Dail, and in eighteen months at most he can abolish the Senate, thus removing the only real obstacle to almost absolute power. The disappearance of the Senate will release the last effective brake on his progress, and will enable him to deal with the judiciary, the army, and the civil service as he thinks fit. Before an election is held, the Government must pass their Redistribution Bill, which reduces the membership of the Dail from 153 to 136 members. They have also

* See THE ROUND TABLE, No. 92, September 1933, p. 876.

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introduced a Bill to abolish university representation, on the ground that it is redundant and undemocratic. This Bill, which would get rid of the three independent members representing Trinity College and increase the Government's majority by two votes, is not likely to be passed by the Senate.

The Government have now decided that the long postponed local government elections are to be held on June 26, and both parties intend to fight them on the political issue. The Cosgrave Government properly discouraged the introduction of politics into local government elections, but the present Government refused to follow their example. Last year they introduced a Bill to convert the present local government register, which is limited to rated occupiers, into an adult franchise. This Bill was rejected by the Senate, and the coming election must, therefore, be fought on the restricted franchise, which ought to be of advantage to the United Ireland party. It is quite probable that if this election were to indicate a Government majority then a general election would not be long delayed. If the verdict is the opposite, Mr. de Valera is hardly likely to tempt providence by appealing to the electorate when he can attain his ends by merely remaining in office.

He has recently admitted that a general election under present conditions would lead to bloodshed and turmoil throughout the country, and the succession of outrages that are taking place every week seems to justify this view. They consist of armed raids and attacks on supporters of the United Ireland party, firing into houses, robbery from banks and postal officials, burning or otherwise destroying political halls and private property, and interfering with railway lines, roads, and electrical cables. Of course these events do not seriously affect the ordinary life of the country. The worst of these outrages took place at Dundalk on February 11, when the house of a man who had given evidence before the Military Tribunal

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was blown up by a bomb, with the result that the house was wrecked, an old woman was killed, and two children, playing in the street, were seriously injured. Mr. Cosgrave afterwards stated in the Dail that a secret meeting of I.R.A. officers had, with the knowledge of the Government, been held at 44, Parnell Square, Dublin, on the day previous to this outrage, for the purpose of giving instruction to officers of the I.R.A. in the use and manufacture of a land mine to be exploded on the following day. A similar, but fortunately less successful, attempt was made to blow up the residence of a prominent supporter of General O'Duffy at Carrigtwohill, county Cork, on March 30. The systematic and identical nature of these outrages indicates clearly that they are the work of an organisation. Although some of the miscreants responsible have been caught and convicted by the Military Tribunal, the great majority escaped, and the Civic Guard seem to be either afraid or incapable of taking action against them. The Blue Shirts, who have, on the whole, observed both discipline and restraint under most trying conditions, have shown so far no inclination to take the law into their own hands by way of reprisals. The Irish Republican Army is, however, by no means a happy family. At a recent convention some leading members apparently advocated the starting of a Republican party to contest elections and enter the Dail; it is now announced that they were "court-martialled" for not accepting the decision of the majority not to do so, and "dismissed with ignominy from the army."

The Easter holiday was availed of as usual by the I.R.A. to parade through Dublin in commemoration of the 1916 rising, and about a thousand of their organisation marched to the graves of the 1916 men in Glasnevin cemetery. On this occasion Mr. de Valera's party organised a rival demonstration at the graves in Arbour Hill barracks, which naturally enraged the I.R.A. Their so-called Army Council promulgated a statement declaring that coercion,

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imprisonment of republicans, and suppression of republican sentiments were the order of the day in Northern and Southern Ireland, while the "British garrison" were free to preach and work against the nation. This statement also attacked the Government for forming the new volunteer force, and declared that this attempt to deplete the ranks of the Republican Army had failed. Recruiting for this new force has, however, already begun, and a few companies made their appearance at the St. Patrick's day army parade in Dublin, dressed in a grey-green uniform, which is said to be based on that worn by Roger Casement's Irish Brigade, recruited in Germany from Irish prisoners during the European War—a fact that will hardly make it appeal to anyone who has a regard for the honour of Irish soldiers. Although this force is alleged to be non-political, the Government have entrusted its organisation to twenty ex-members of the I.R.A., who have no training as military officers, and the local committees engaged in recruiting are principally composed of the Government's supporters. The regular army officers are naturally annoyed at being passed over.

Another interesting development, and indication of the Government's policy, took place when the new United States Minister to the Free State, Mr. W. McDowell (who has since died under tragic circumstances) presented his letters of credence to Mr. de Valera instead of to the Governor-General as representing the King. This new departure was apparently arranged directly with His Majesty, and the credentials were, of course, addressed to him. The Governor-General, in the Free State, has become a mere title without function or purpose, save the automatic signature of Acts of Parliament; the Viceregal Lodge in Phoenix Park is to be converted into a museum of science and art. Mr. Sean T. O'Kelly, the Vice-President of the Executive Council, discussing the ceremony of the United States Minister's reception, said that one by one they were cutting the ropes and chains that England wound

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around them. They would use every effort to re-establish a republic for the thirty-two counties of Ireland. That was their aim, and if the gun was necessary, the people had the Government to direct the army, and they had the volunteer force behind them again. The only comment that need be made on this wanton and provocative statement is that such declarations make any form of national reunion impossible. They are a good example of the manner in which our smaller politicians seek to pander to the worst passions of the extremists, and attempt to justify their own existence. His colleague, the Minister for Education, Mr. Derrig, has since rather unkindly stated that the suggested establishment of a thirty-two county republic by force of arms was all nonsense—which, indeed, it is.

IV. A SURPRISE BUDGET

MR. SEAN MACENTEE, our Minister for Finance, has done his best to confound his critics and emulate Mr. Chamberlain. His third budget, which he introduced in the Dail on May 9, disclosed a surplus of £1,355,000, with revenue at £30,229,182 and administrative expenditure at £28,874,298 during the past year. Having followed established practice by proposing to borrow £7,212,750 for capital and non-recurring expenditure during 1934-35, he announced a prospective surplus of no less than £1,202,750. He admitted that the magnitude of the surplus for last year was a great surprise to him and his advisers, but he claimed that it was a striking and convincing testimony of the financial and economic strength of the State and its people, and pointed out that every single tax heading showed an excess over the estimates. In the distribution of this surplus Mr. MacEntee has endeavoured to please everyone. He has set aside £250,000 to inaugurate a scheme of widows' and orphans' pensions; the unemployed are to benefit by an increase of £150,000 in the grant for

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relief works; housing grants in the Irish-speaking districts absorb £60,000; a sum of £180,000 is allocated to provide pensions for members of the old Irish Republican Army, who, because of their participation in the civil war, did not share in the pension scheme of the Cosgrave Government; the athletes are encouraged by a complete remission of the entertainment tax on all outdoor athletic sports; growers of Irish tobacco receive an additional rebate in duty of twopence a pound; and last, but not least, the business community are pleased by a reduction of sixpence in income tax, which brings it down to the British level, and the entire population by a reduction in the tax on tea (our most popular beverage) by fourpence a pound. These last two concessions to the taxpayer will cost £560,000, leaving Mr. MacEntee next March with the extremely modest estimated surplus of £2,750.

On the taxation side, he has increased some present customs duties, and imposed new ones. The duty on imported newspapers is increased from two-fifths of a penny per copy to two-thirds of a penny per copy as from May 28. Forty per cent. of the total tax revenue last year came from customs duties. The sums to be met by borrowing include two-thirds (£1,500,000) of the amount needed for bounties and subsidies, and £300,000 in respect of funded land annuity arrears.

Discussing the debt position, the Minister claimed that the Fianna Fail Government had reduced the net public debt of the Free State by a sum of £5,460,000 in two years. But he admitted that this did not include half the cost of all land purchase transactions carried out under the Land Acts passed by the Free State Government since 1923, which will eventually amount to £17,000,000. Enumerating the sums expended by his Government on relief works, industrial development, social services, and relief of rates, which totalled £15,579,000, he pointed out that to achieve all this they had only raised one loan of £6,000,000, of which £5,350,000 remained in the Exchequer at the close of the

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financial year. It sounded almost unbelievable, he said, but it was true. The figures were incontrovertible. The State, and therefore the community as a whole, was financially sounder and stronger than when they took over.

It may be doubted, however, whether the community, individually, and particularly its agricultural members, would endorse this optimistic statement.

The Irish Free State.

May 1934.

GREAT BRITAIN : THE SLIPPERY SLOPE

I. THE BUDGET AND THE UNEMPLOYED

ON April 17 Mr. Neville Chamberlain opened his third budget in this Parliament, armed with a surplus of £34,452,000 on the previous year's accounts.* Even in a year of fairly general though laborious economic recovery, a surplus of that size on a budget of roughly £800,000,000 (including self-balancing revenue and expenditure) must be reckoned no mean achievement. The cuts and the taxation imposed in 1931† have meant a real tightening of the belt. The rentier, who as a rule gets little sympathy, has suffered under the treble burden of income tax at 5s. in the £, the conversion of government and other debt to lower rates of interest, and losses of income through defaults or reduced dividends. The salaried and professional classes have felt the pinch through reduced and more precarious incomes, through higher taxation, and through the reduction in the scale of income tax allowances. The latter measure has struck very heavily at married people with moderate incomes. Apart from his greater economic insecurity, the wage-earner in employment has probably been as well off as ever he was before, but beneath him again the unemployed have had an extremely hard time. True, the cost of living had fallen by a percentage at least commensurate with the cuts

* Before allowing for "token payments" of £3·3 million (assumed to be on capital account) to the United States.

† See THE ROUND TABLE, No. 85, December 1931, p. 118.

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in unemployment benefit; but the latter was never intended to be a sufficient maintenance for those out of work over a long period of time, and protracted depression has gravely increased the numbers of the unemployed who have been without a job for weeks and even months together. In these circumstances, reserves become exhausted, little bits of property are pawned without hope of redemption, and the need of repairs to boots, clothing and furniture becomes ever more pressing. What, therefore, was adequate even in 1931 for the typical unemployed man has become inadequate to-day.

It was no wonder that among all parties the first claim on any budgetary surplus was widely felt to be the restoration of the cuts made in unemployment benefit two and a half years ago. Mr. Chamberlain's announcement that this would be done was greeted with prolonged cheers. In order to spread the reliefs as widely and equitably as the sacrifices had been spread, Mr. Chamberlain next reduced the standard rate of income tax from 5s. to 4s. 6d. in the £. He was unable to make any alteration in the scale of personal and family allowances. For the rest, he proposed to restore one-half of the cuts that had been made in the wages and salaries of public servants. These concessions reduced his prospective surplus to the nominal amount of £800,000, with expenditure at £705·7 million (against £690·1 million last year*), and revenue at £706·5 million (against £724·6 million). No provision was made for war debt instalments.

The budget caused fairly general satisfaction and was greeted with applause in financial circles. Nevertheless, a number of criticisms have been vigorously voiced both in the House of Commons and outside. The first is that the Chancellor has taken a falsely and perhaps damagingly cautious view of his prospects for 1934-35. Expert financial commentators had predicted a prospective surplus of the order of £50,000,000, on the basis of existing taxation and

* Excluding payments to the United States Government.

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rates of expenditure, whereas Mr. Chamberlain put it no higher than £29,000,000. The discrepancy is accounted for by differences in the estimates of the yield of income tax and surtax. The yield of income tax in 1933-34 was £229,000,000, to which must be added £12,000,000, a non-recurring loss of revenue suffered last year through an alteration in dates of payment. Instead of improving on this total of £241,000,000 in accordance with rising prosperity, Mr. Chamberlain actually lowered his estimate to £240,000,000. He explained that profits were still falling during the first half of the previous financial year, on which tax assessments for 1934-35 would be based. The Treasury, of course, is in a far better position than any outside authority to judge what is likely to be the total of assessable income on which tax will be due; nevertheless it is widely felt that in this item, as throughout his revenue estimates, Mr. Chamberlain has erred deliberately on the side of caution.

If this is true, there are two possible explanations. A budget yielding a large surplus is deflationary in its direct consequences, since the reduction that it effects in public purchasing power by means of taxation exceeds the amount that it replaces in the shape of public salaries and other expenditures. The Treasury may be calculating, therefore, on such a revival of capital investment as will absorb both current saving of the ordinary kind and the compulsory saving imposed on the community by governmental finance. It may also be their view that industrial recovery, delicate as it is, needs the continuous tonic of observing public revenue to be more buoyant than was anticipated.

The other explanation that may be offered for this presumed budgeting for a surplus is that the Chancellor wishes to have as much as possible in hand to distribute in 1935. Next year's budget may well be Mr. Chamberlain's last before the Government faces a general election, and the Opposition parties are making no secret of their belief that political foresight has inspired the conservatism

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of the estimates. There is still a third possibility that has not been so freely alluded to, though it has been present to many minds. The failure of the Disarmament Conference to secure any immediate progress towards a genuine reduction of world armaments, and the increased provision being made for defence not only by Germany but also by naval Powers, have forced us to consider whether for safety's sake we shall not have to spend more on our defence forces within the next year or two. The Government may be considering this eventuality when they adjust their finances so as to have a margin available should the necessity arise.

The second main line of criticism of the budget is partly dependent upon the soundness of the first. Not only the Opposition but also sections of Conservative opinion hold that the Government ought to have done more for the lowest income stratum of the community. The direct cost to the Exchequer of restoring unemployment benefit to the 1931 rates is only £3,600,000 in the current financial year; for the burden of higher rates of benefit to claimants still possessing insurance rights—£4,800,000 in the current year—is to fall upon the unemployment insurance fund.* Against this £3,600,000, it is pointed out, the Chancellor has given £20,500,000 in relief to income tax payers.

The principle of the Unemployment Bill† (which is still before Parliament) is that the unemployment insurance fund should be autonomous and self-supporting. Accordingly the Government could not give direct relief to the insurance beneficiaries, except by increasing the rate of Exchequer contribution per employed worker. But of course by an amendment of the Bill they could relieve the fund of part or the whole of its outstanding debt, the service on which is approximately equal to the cost of restoring the benefits to their 1931 level. Pressure was vainly brought to bear upon the Government at least

* See THE ROUND TABLE, No. 93, December 1933, p. 121.

† *Loc. cit.*, and THE ROUND TABLE, No. 94, March 1934, p. 354.

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to use the actual surplus of £34,000,000 for the reduction of the unemployment fund's indebtedness, instead of for general debt redemption. The desire to do more for the unemployed is based on a sense of political realities as well as on an appreciation of the fact that small increases or reductions of income mean infinitely more, in terms of human comfort or distress, when the recipient is near the subsistence level than when he has some reserve of unnecessary expenditure on which to economise.

The real concern felt for the unemployed in all parties and sections of the community is portrayed by the fact that on February 20 the Government's majority fell to the lowest point it has yet reached on a proposal to raise the unemployment assistance allowance for a dependent child from 2s. to 3s. a week. It was disturbing for a Government backed by such overwhelming numbers to find its majority reduced to no more than 52 on a vote of 302 members, out of a house of 615. Some 70 members who normally support the Government went into the Opposition lobby, and obviously a great many others deliberately abstained.

Some embarrassment was recently caused to all parties by the organisation of a great march of the unemployed on London from every part of the country. The Labour party and the Trades Union Council officially repudiated the march, but many individual members and local organisations of the party gave to the marchers both encouragement and assistance. The Government refused to allow their spokesmen to appear at the bar of the House, and the immediate fruits of their demonstration must have been disappointing to the participants. Nevertheless, the discipline and organisation that were displayed, and the peacefulness of the demonstrations both en route and in London, probably enhanced the public sympathy for the unemployed, which more violent expostulation might well have lessened.

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II. THE GOVERNMENT'S FUTURE

THERE is some evidence that the tide of fortune in the constituencies is no longer flowing quite so strongly against the Government as during the first two years of its life. There have been five by-elections in the last quarter—North Portsmouth, the Scottish Universities, Lowestoft, Basingstoke and North Hammersmith. In only one of these, the last, where a Conservative was displaced by a Labour candidate, was there any change in the party representation, and in that case it meant merely a return to the state of affairs before 1931. If we omit the Scottish Universities election, in which there was no Government candidate, and if we divide the 1929 Liberal vote in North Portsmouth proportionately between Conservative and Labour (there having been no Liberal candidate in the by-election), we find that the ratio of Conservative to Labour votes is now almost exactly the same as it was five years ago. The Liberal poll has fallen by a considerable percentage, but it is fair to add that at Lowestoft the “independent” Liberal candidate, who forfeited his deposit, had no official party backing. In by-elections, of course, a great deal depends on transitory circumstances and on the personalities of the candidates. In so far, however, as these latest results are any guide, if a general election were held now the House of Commons would return to approximately the same complexion as it had during the office of the last Labour Administration. The Government's popularity has been enhanced by the steady fall in unemployment, which is recorded on another page,* and this has also meant a certain slackening of the agitation against the “means test.” The attacks of the Opposition in the press and in the country are directed mainly against the Government's alleged apathy over housing†—a subject on

* See p. 611.

† See THE ROUND TABLE, No. 94, March 1934, p. 349.

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which the nation's conscience has undoubtedly been aroused—and the probability of higher prices for food as a result of Mr. Elliot's agricultural marketing schemes.

It is noteworthy that the only by-election of the five in which the Opposition achieved a positive success was in a London constituency; for their last outstanding success of the kind was also in the metropolis, at East Fulham,* and one of the most interesting events of the quarter has been the triennial elections for the London County Council, which have given Labour a majority for the first time. In these elections the housing issue and the administration of public assistance to the unemployed played a dominating part. A large section of the Conservative press tried to direct the electors' attention to the question of the grant of public contracts to co-operative societies, which virtually form part of the Labour movement. Their campaign, however, seems to have been rather a boomerang, as it gave an enormous free advertisement to the co-operatives. At any rate, a socialist administration is now installed at County Hall, under the able leadership of Mr. Herbert Morrison, who was Minister of Transport in the last Labour Government, and who is Sir Stafford Cripps' principal rival as heir-apparent to the leadership of the Labour party.

Mr. Lloyd George, who has otherwise kept mainly in retirement of late, while he has been writing his memoirs, addressed a striking letter to an anonymous Liberal in the North Hammersmith division, urging him to vote for the Labour candidate. The latter, he wrote,

may go farther in some directions than you would care to travel. But the point he wishes ultimately to reach is a long way off. Meanwhile he is on the right road and walking steadily our way. . . The collapse of liberty on the continent of Europe is in every case attributable to the failure of men of progressive ideals to cohere and co-operate on the only issues of immediate moment. . . Put liberty and human progress first and choose the man who comes nearest to representing your ideals.

* See THE ROUND TABLE, No. 93, December 1933, p. 149.

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A great many former Liberal voters have doubtless been acting, or at any rate thinking, as Mr. Lloyd George advises without the necessity of his intervention. The transfer of Liberal votes to the Labour party, involving the gradual fading away of Liberal representation in Parliament, is a far more probable way by which the forces of opposition to the Government will be unified than any overt scheme for alliance between Liberals and Labour. The Labour party, encouraged by recent electoral successes, and taught by the experience of its previous terms of office, is in no mood to contemplate such an entente. The idea has just been explicitly repudiated by a Liberal party conference. It may even be that certain Liberal leaders of the Left will actually transfer their allegiance to Labour.

Strangely enough, Mr. Lloyd George's plea for union against the forces of dictatorial reaction has been repeated as an argument in support of the National Government itself. Sir Thomas Inskip, the Attorney-General, shocked a great many Conservatives by saying on April 24 that they ought not to be afraid to face the permanent constitution of a National party merely because in 1931 they thought it was only a temporary arrangement for an emergency.

There are large numbers of electors who call themselves neither Liberal, Labour nor Conservative who would not be attracted very strongly by an appeal from the Conservative party as such. . . . Our political liberties are really put in jeopardy. We shall certainly want at the next election a party strong enough to receive the support of all men of goodwill, strenuously opposed to socialism on the one hand or fascism on the other. We shall be making a profound mistake if we think we are so secure against these dangers as to be able to split into different parties. . . . What we want is an association of men not agreed on minor points, but on those great principles which will preserve to us our individual liberties, and our political liberty, free from any assaults of any dictatorships.

This is the most definite evidence yet of the Government's supposed intention to fight the next general election on a "National" ticket, with a joint organisation including the National Liberal and National Labour

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parties. That probability is causing great apprehension in those powerful Conservative circles which are anxious to fight on a party platform and with a purely Conservative policy. A co-ordinating committee for the National Government, consisting of two members of each of its supporting parties, has been formed largely in order to promote a "National" organisation in the constituencies. There have been rumours that the committee's plans included the allocation of a number of seats at present held by Conservatives to National Liberal or National Labour candidates, and also an arrangement whereby seats now held by Opposition Liberals would be opposed at the general election not by Conservatives but by members of the other two Government parties.

These suggestions have been greeted with a storm of objection in Conservative quarters. Some local Conservative associations, who have complete liberty under the party constitution to choose their candidates for themselves (though as a rule the central office is able to use considerable pressure), have even revolted against implementing Mr. Baldwin's promise in 1932 that National Liberal and National Labour members who supported the Ottawa Agreements Bill would not be opposed by Conservatives. In three constituencies at present held by National Labour members (Tottenham South, Lichfield and South Nottingham) the associations propose to put up Conservative candidates. These difficulties will undoubtedly be increased when the issue of Indian self-government is brought to a head.

III. CONSERVATIVES AND INDIA

A STIFLED fire burns in the midst of the Conservative party, breaking forth every now and again into threatening flames. The necessary protraction of the work of the India Joint Select Committee has given time for the Die-hards to advance their campaign against the White

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Paper policy, and on the whole they seem to have had some success, at any rate in the country. This was, perhaps, inevitable, quite apart from the merits or the personalities of the case; for while decisive action, however dubious its wisdom, soon comes to be tacitly accepted even by former opponents, prolonged inaction, however well justified by necessary deliberation, gives rein to prejudice and doubt even among former adherents.

At a meeting of the Central Council of the National Union of Conservative Associations on March 28, a motion to the effect that no further resolutions on the subject of the Indian constitution should be considered by the organisation until the Joint Select Committee should have reported was carried by 419 votes to 314. This was, of course, a victory for the Government attitude that the issue should not be prejudged while still before the Select Committee; but in view of the fact that nine months previously a motion accepting that attitude had been passed in the Central Council by the much larger margin of 838 votes to 356, the supporters of Mr. Churchill were swift to claim a success for their cause. There is a good deal to be said, however, on the other side. While suspicion has grown among the Conservative rank and file, members of Parliament have undoubtedly been more and more impressed by the evident lack of support for the Die-hard policy in any responsible quarters in India itself, except perhaps among extreme Mahomedans and a few of the Princes.

Thus the fire has smouldered on, sending out a tongue of flame at each by-election, each meeting of Conservative organisations, or similar political occasion. Mr. Churchill brought the bellows to it when he moved in the House of Commons, on April 16, for the reference of certain charges against Sir Samuel Hoare and Lord Derby to the Committee of Privileges. He alleged that they had used their position as members of the Government to influence the Manchester Chamber of Commerce to amend its written

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evidence before the Joint Select Committee in a sense more favourable to the White Paper plan. The Secretary of State, while expressing his complete willingness to have the charges investigated, replied that he had done nothing that was not open for any member of the Joint Select Committee to do, and that his endeavours were confined to preventing the ruin of the India-Lancashire cotton negotiations.

The report of the Committee of Privileges has not yet been published, but in any case Mr. Churchill has probably lost support in the House by turning a political difference of opinion into a personal attack. Nevertheless, the incident must have aroused some uneasiness among wavering Conservatives in the country, and it has certainly intensified the bitterness that has grown up between the two factions.

Nothing is more exasperating than the sense of being gagged, which the opponents of the Government's policy have undoubtedly experienced, though with little justification. On the other hand, the tempers of Sir Samuel Hoare and other protagonists of the White Paper policy have equally been frayed by the objectors' guerilla warfare. Whatever may be the immediate repercussions of Mr. Churchill's accusation, and whatever may prove to be the terms of the Select Committee's report, this breach in the Conservative party will not be soon or easily healed. Upon the India issue, it is not too much to say, hangs the fate of "government of national concentration." Conservatives like Mr. Baldwin, who believe in the continuance of the present party amalgam, may soon be forced to choose between their faith in the "national" principle and their loyalty to their party. If events were to present such a bare choice, most of them would probably feel drawn first towards their party. On the other hand, many of the grumblers, when put to the test, would refuse to carry their dissent to the point of breaking up the Government or of revealing an open gulf within the ranks of the Conservative party.

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These being, in brief, the political data, some prophets have predicted that when the Select Committee has reported the Government will amend its proposals in the direction of the Die-hards' views, possibly to the extent of reserving the administration of law and order. These alterations of the White Paper plan would be sufficient, if this prediction is well founded, to turn the Die-hard opposition from a serious menace into a comparatively negligible "cave"; while they would not be too much for the Left supporters of the National Government to stomach. This, of course, is no more than a rumour, but the very fact that it receives credence is significant. Its truth, however, is rendered the more dubious by the personal bitterness already referred to, which must have hardened the hearts of supporters of the White Paper policy against any such compromise.

IV. ECONOMIC RECOVERY

ON April 26 Mr. Runciman enunciated before a Cardiff audience seventeen "reasons for believing that the achievements of the British people were without parallel up to April, 1934." Regarded as "seventeen points which had been successfully accomplished by the National Government," the bag was rather mixed, ranging, as it did, from the rise in industrial securities and the reappearance of industrial dividends to the Government's success in "lowering tariffs in foreign markets by negotiation, a matter which had not been accomplished since the days of Cobden." Making all allowance for ministerial enthusiasm, Mr. Runciman had good grounds for his cheerfulness, although it is a moot point how far the movement towards economic recovery is to be traced to the peculiar virtues of the British people and its Government. The upward movement has probably gone too far now to be reversed. Its pace may falter (as it did in February), but the pro-

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bilities follow the healthy trend of all the economic curves.

Although the domestic picture contains so much that is hopeful, distrust keeps breaking through, and there is recognition even in the most unlikely places of the truth that in the main the recovery is limited to internal conditions, and that while it is paralleled in most industrial countries, it is not being accompanied by a corresponding increase in international trade.

Within these limits, nevertheless, the British figures are highly satisfactory, though there are still 2,148,000 registered unemployed, and large tracts of the country have not yet seen much revival. The fall in unemployment continues; the rise in the indices of business activity is maintained (the index of production in the March quarter was the best for a first quarter since 1930); retail sales have improved, and show greater popular consumption not only in London and the South, but also in the North and in Scotland. Building is at a high level of activity (though there are still 146,000 unemployed in the industry). The iron and steel industry is working at 80 per cent. of capacity; Mr. Runciman said he had been amazed to find how many steel works were operating at 100 per cent. of capacity. Engineering is much improved; shipbuilding shows twice as much tonnage under construction as last year, even apart from the resumption of work on the Cunarder; but the volume is still extremely low. Most other industries—cotton excepted—show more activity. The improvement in railway traffic receipts continues, and so does the progressive increase in provincial bank clearings. The volume of retained imports (especially raw materials) has grown—more rapidly, however, than exports.

The April unemployment figures were less uniformly encouraging than those for March. The decrease on the month (53,000) would have been 30,000 greater had it not been for the flood of school-leavers turned out at the

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end of the Easter term who had not quickly found jobs. The seasonal decline began in coal-mining, and the three textile industries of woollen and worsted, cotton and hosiery showed a slight increase of unemployment. The total volume of registered unemployment in Great Britain at April 23 was 549,000 less than it had been a year before, and the numbers employed had risen during that period by 638,000.

The condition of the cotton industry remains pretty desperate, and has led the Government into an active and hazardous adventure in imperial policy. The discussions between representatives of the Japanese and British cotton and rayon industries collapsed in March after four abortive conferences. Conflict arose on the fundamental question of the scope of any agreement that might be reached on the division of markets ; the British asked for a quota agreement to cover world markets ; the Japanese insisted that only crown colony markets could be considered. There had apparently been a change of opinion in Japan ; feeling against any limitation of exports had grown after the conclusion of the Indo-Japanese agreement with its barter provisions. Mr. Runciman was equally unsuccessful when he took the negotiations over personally ; for the Japanese Government proved no more helpful than the Osaka industrialists. On May 7 Mr. Runciman announced that the Government's hands could be tied no longer. Crown colonies were being asked to apply, as from that date, a system of quotas on imports of cotton and rayon piece-goods. British silk and rayon duties were to be immediately reviewed by the Import Duties Advisory Committee. Tariff action in the case of other Japanese imports into colonial markets would be considered.

The quotas for foreign countries are to be fixed on the basis of 1927-31—the years before the big depreciation of the yen. This allows an expansion of trade for Holland and Italy, and cuts down Japan's exports to the crown colonies by two-thirds. East Africa and Hong Kong are

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excepted from the quota scheme, and in West Africa Japanese competition will be dealt with by tariffs. Although Japan may find that no more than from 5 to 7½ per cent. of the total volume of her exports is affected, that is enough to be embarrassing. Whether Lancashire can make cotton and rayon goods cheap enough for the impoverished colonial populations to buy, whether the colonies will readily accept the cutting off of cheap supplies at the dictation of Whitehall, and whether this is the most effective means of fighting Japan are questions that still await an answer.

V. INDUSTRIAL REORGANISATION AND WAGES

LARGE-SCALE industrial reorganisation still falters. After 22 months of discussion, the iron and steel industry has taken the first step towards the reorganisation that was held to be so imperative that the grant of tariff protection was made conditional upon it. On April 19 the industry accepted by 90 votes to 24 a draft constitution for the new central body that is to direct the industry. This admittedly " provides only the methods and machinery of organisation," but it apparently satisfies the conditions of the Import Duties Advisory Committee. Compared, however, with the kind of reorganisation that everybody had in mind two years ago, the present scheme is rather a pale shadow. The National Federation of Iron and Steel Manufacturers has been transformed into a chartered body, the British Iron and Steel Federation, with an elaborate constitution, a council of at least 70, and an executive, representing autonomous sectional organisations. The executive and council have now to begin a study of the means " to promote the maximum of manufacturing and commercial efficiency throughout the industry " and concurrently " to expand the export trade in iron and steel products," which the resolution of April 19 laid down for it.

The delay in framing a scheme acceptable to a majority

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reflected the deep conflict between the different interests within this by no means homogeneous industry. The earlier draft schemes proposed a central corporation to control the work of a dozen separate trade associations ; each of these would represent a group of iron and steel products, and would have as its objects the promotion of amalgamations and re-equipment, the elimination of redundancy, and so on. These positive objects have rather faded into the background, and so has the subsequent scheme for output quotas and price-fixing and the centralisation of export sales. How far these plans will re-emerge depends on the spirit in which the new governing body performs its task. The danger is that the present revival of the industry may lead to a neglect of its long-run interests, and that concentration on price-fixing and quotas may divert energies from the elimination of high-cost producers and the concentration of production that the industry needs.

In the coal industry there is a little progress to record, but not on the side of structural reorganisation. After waiting two years for the owners to agree on plans for correcting some of the more flagrant defects in the Coal Mines Act of 1930, the Government produced their own Bill. Its main feature was the removal of output control from coal destined for export, though price regulation was to be maintained. The Government had not much enthusiasm for their Bill, but it served a useful purpose ; for, moved by the threat, the owners hastened to provide a voluntary alternative (in the shape of an export pool), and the Government agreed to apply this by Order and to withdraw the Bill. It is hardly creditable that it should have taken two years to reach this point, and many serious abuses under the 1930 Act still remain to be corrected. It is only fair to note, however, that the spirit of constructive criticism is developing among the owners. A reform like the nationalisation of royalties, for example, is now advocated by men to whom a few years ago it would have been anathema.

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Another development of importance is the revival of attempts to reach a marketing agreement between the British and Polish coal industries. The outlook is unpromising. Since the last negotiations, which took place in the autumn of 1931, the rôles have been reversed ; sterling depreciation and the quota provisions of the Scandinavian agreements have made Great Britain, not Poland, the more aggressive competitor.

In the cotton industry, reorganisation is held up once again by apparently interminable talk. The Federation of Master Cotton Spinners' Associations has prepared a scheme for a compulsory cartel, with transferable quotas for all yarn producers, combined with a levy for the purchase of redundant plant. Internal differences, however, have caused a postponement of its submission to the general body of members. Another census of plant has been taken which shows that in the last three years the physical contraction of the industry has been extremely rapid. But however cruelly beneficial the process of "healthy bankruptcy" may have been, it has not proceeded quickly enough to overtake shrinking demand. The price-fixing arrangements introduced last year for spinners are still in force, but they are precarious, and in any case they offer no permanent solution of the problem of redundant plant.

One effect of the budget will be to stimulate the movement for wage increases in industry. The way had been led by the local authorities, many of whom had already restored the cuts made in their employees' pay, while several of the industrial councils of public employees had taken the same course. Now, under the budget, the teachers, the police, and the civil servants have benefited, and it is not surprising that trade union branches in many industries have begun to press their officials to put in wage claims. Nevertheless, it will be some time before the unions act with much confidence or determination.

The railwaymen have been among the first to try to seize an advantage from improving trade. Although it was

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only in the middle of 1933 that the railway traffic receipts began to improve sharply from their low level, the unions have already made their claim for a restoration of the wage reductions of 1931. The companies are reluctant to concede anything, but how far the unions will push their demands remains doubtful. It is only 17 months since the unenforced award of the chairman of the National Wages Board in favour of a further reduction of wages, and in its inception the unions' present claim had something of the nature of a defensive move. A complicating fact is that the industry's negotiating machinery is at the moment out of action. The companies' notice to withdraw from the conciliation machinery set up under the Railways Act, 1921, has now run out. The proffered substitute—a narrowing of the field of the final tribunal, and the conversion of the large joint board with a neutral element into a small body of three, endowed with some powers of compulsory arbitration—has been rejected by the unions.

The coal industry has ceased, for the time being at least, to exercise any wide influence on the temper of industrial relations. This summer will not see a repetition of the annual crisis in the fixation of wages and hours. Scotland and Lancashire have concluded new district agreements, the former containing a slight concession to surface workers. South Wales has reached a deadlock over the method of appointing arbitrators to hear a claim for an increase of wages, but neither there nor in other districts are the owners seeking any lowering of conditions. Moreover, wages have become a less frequent cause of local pit disputes than non-unionism.

These are all indications of the kind of change in the spirit of labour that one would expect to accompany trade improvement. The total effect is so far slight, but the autumn may see more trade union activity. Agriculture is one of the industries in which some gains have already been recorded—a dozen or so counties have advanced their minimum rates a little.

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In textiles the situation is quite different, revealing a new phase of state intervention in industry. An earlier article * described the breakdown of collective agreements in the weaving section of the cotton industry, and the appeals of the organised employers and the trade unions to the Government for the statutory enforcement of wage rates. Since then the undermining of wage standards has gone on steadily ; there has been no recovery in trade or return of profits ; the pressure of competition from wage-cutting employers has forced the hands of many who would have preferred to adhere to the agreed rates. The Cabinet, however, was reluctant to act on the industry's appeal ; it was by no means sure of the attitude of employers and unions in the other great industries towards government intervention to keep up wages. But eventually their resistance gave way, partly perhaps because of the desperation of the case, and partly because employers in some other industries, having become alarmed at the progress of undercutting among themselves, were more disposed to see an experiment in enforcement in the cotton trade. (The student of historical parallels will find from the pages of Mr. and Mrs. Hammond's *The Skilled Labourer* that the employers' arguments of to-day were anticipated by their predecessors in 1819 and 1826 when they asked for legislation for the enactment of a minimum wage to stop undercutting.)

The Government Bill is a severely restricted measure. It applies only to cotton-weaving factories in a carefully limited area—Lancashire and parts of the adjoining counties—and it runs for only three years. The Minister of Labour is not to enforce all existing agreements, but only such as he may be requested to enforce on the joint appeal of employers and unions. He further safeguards himself against accusations of partiality by having an advisory body of three members. He takes no responsibility for enforcement (as the State does under the

* See THE ROUND TABLE, No. 92, September 1933, pp. 832-5.

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Trade Board and Agricultural Wages Acts). Offending employers can be sued by aggrieved operatives in the civil court for withheld wages, or can be prosecuted in the police court and fined, in which case, presumably, the initiative would have been taken by the employers' association or the union. The Bill is simple enough, but that is only half the battle. What agreement is to be declared enforceable? Obviously if the industry is in a state of confusion, with employers paying widely differing rates, it is impracticable to go back to the old complicated price list that has been discarded over the larger part of the trade. Before the Minister can act under the Bill, therefore, a new and simplified list will have to be negotiated, possibly making drastic changes in the methods of wage payment, not all to the operatives' advantage. And if the parties fail to make a new agreement—as may well happen, for the cotton trade does not take kindly to new or logical solutions—then the Act will be a dead letter. There will be no prospect open but another period of drift and, in the end, a trade board.

The influence of the Bill will not, however, be confined to cotton; for now that the Government has once conceded the principle of statutory enforcement of collective agreements other trades are likely to ask for its application to them. The woollen and worsted industry may come to this position, although it seems more ready to fulfil the conditions required for a trade board. It differs from cotton in the relative prosperity to which tariffs have restored it, but its wages standards are even more chaotic. Disorganisation has gone far; agreements have collapsed; and although the Ministry of Labour has rejected the unions' demand for a trade board, and has prevailed on the employers to meet the unions, the old tradition of collective bargaining through an industrial council is dead. The employers will not go further than stabilising 1931 rates (which would mean reductions to many workers) and discouraging overtime; the unions ask for a new agreement,

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the restoration of half the cuts of 1931, and joint regulation of overtime. Now the ball has been tossed back to the Government again.

The movement for a 40-hour week has dropped somewhat into the background with the recovery in employment and the interest in wage claims. The engineering and ship-building unions continue to press it on their employers, without receiving any satisfaction. A few firms, notably Messrs. Boots at their Nottingham works, have adopted the shorter week, and the principle commands an increasing amount of theoretical assent. The Government having announced its complete hostility, British opposition to the draft convention to be discussed by the International Labour Conference is assured. Mr. Elliot has apparently been less successful in spreading his ideas of the "Leisure State" among his Cabinet colleagues than his ideas of national self-sufficiency.

ECONOMIC EXPERIMENT IN CANADA

I. THE CENTRAL BANK

ON February 22 a Bill was brought down to the House of Commons to incorporate "the Bank of Canada." Sponsored by the Government, it was introduced by the Minister of Finance, the Hon. E. N. Rhodes, and supported by the Prime Minister. The introduction of the Bill was immediately followed by some debate, and objections to the form of the Bill were raised by members of the Third party.* It was, however, passed through its two first readings in a few days, and was then sent on to the Select Standing Committee on Banking and Finance. The Minister of Finance, in introducing the Bill, spoke of the establishment of the Royal Commission to consider the creation of a central bank. He quoted the terms of reference of the Commission as follows :—

That, without limiting the general scope of their inquiry into the operation of the banking and monetary systems of Canada, the said Commissioners shall, in particular, examine the provisions and working of the Bank Act, the Dominion Notes Act, the Finance Act and the Currency Act, and the advisability of establishing a Central Banking Institution ; and

That the said Commissioners shall report their recommendations for revising or supplementing the above-mentioned Acts and for the adoption of such other measures as they may deem desirable to promote the revival of trade and enterprise and to facilitate intra-Imperial and international co-operation for the purpose of raising

* At the present time this is almost synonymous with the Co-operative Commonwealth Federation, but in the past it has been known successively as Progressive and Independent. It has contained also some small local parties. For purposes of simplicity, in this article the term "Third party" is used throughout.

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the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.*

The Minister of Finance also quoted at considerable length from the report of the Royal Commission, which had recommended the establishment of a central bank. The Prime Minister, in supporting the Bill, gave explicit assurances that every opportunity would be given by the Government for the consideration by the Select Committee of all points of view in regard to the new bank, and set out shortly the general outline suggested for it. He was followed by the Leader of the Opposition, who congratulated the Government on bringing in the Bill, and expressed general sympathy with its objects, reserving, of course, the right to raise objections to details. Members of the Third party took a more critical view, and made some effort to have the Bill altered before it went before the Committee. Objections to the form of the Bill at this stage were ruled out of order, and the debate closed.

An interesting history lies behind the present Bank of Canada Bill. Shortly after the end of the war a central bank was discussed by members of the Coalition Government, and rejected on the ground that at that particular stage, when finance and politics were disordered, it would be inconvenient and disadvantageous to have a new authority introduced into the situation without any particular experience or prestige. It was thought that such an institution would hamper the Government in its action in regard to the finance of the country, and the proposal was dropped. Even before the war many members of the Third party, particularly western members, had felt very strongly that some new character should be given to the

* *Report of the Royal Commission on Banking and Currency in Canada, 1933.* Ottawa, King's Printer, 1933. Pp. 5-6. The Commission consisted of the Right Hon. Lord Macmillan, P.C., K.C.; Sir Charles Stewart Addis, K.C.M.G.; the Right Hon. Sir William Thomas White, P.C., K.C.M.G.; the Hon. John Edward Brownlee, K.C., M.L.A.; and Beaudry Leman, Esq., B.Sc., C.E.

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banking system of the country. What they asked for was a nationalisation of the banks—that is, the complete direct control of their credit-granting and other functions that affected the public. For some time this opinion grew, but at the decennial revision of the Bank Act in 1923 it became clear to its advocates that no such action was feasible, at all events at that moment. It was at about the same time that the suggestion of a central bank was brought forward and became the subject of discussion among widely scattered groups of people, chiefly in the western provinces. They began to feel that a central bank might be endowed with powers that would enable it to exercise the direct control that they had wished the Government to possess over the policies of the chartered banks. This meant, of course, the setting up of a bank not only with immense powers, but being itself to all intents and purposes a department of government.

In more recent years the direct proposal for the establishment of a central bank has been made by all three political parties, that is to say, by the Third party, the Liberals and the Conservatives. In general one might say that the earliest initiative in the matter came from the first group. The Liberal party, who adopted the idea somewhat later, probably regarded it not only as desirable in itself, but also as a useful political move. Recognising that the members of the Third party took a far more radical view of the matter than they themselves could accept, they hoped that when in power they might introduce a Bill more in accordance with their own ideas, but doing something to placate the indignation of the Third party against the financial order of the day. The Liberal party have not been in power since this policy was adopted by them, and it has fallen to the Conservative party this year actually to introduce the Bill to establish a central bank. The impulse that moved the Government in this direction was probably twofold: a gradually formed conviction that such an institution would be valuable, and a desire to meet public

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opinion. Be that as it may, the policy is one on which the Conservative party is united, and every effort will be made to put through a Bill that expresses their views of what a central bank in Canada should be. They have undertaken to pay every possible respect to suggestions made by the Select Committee. What the net result will be is difficult to say, but it is probable that some compromises will be accepted, and that an Act embodying the general views of the majority of the country will ultimately be passed and the bank established.

The Committee have not yet reached the discussion of a central bank, but have been occupied in the consideration of the policies of the chartered banks and the Bill for the decennial revision of the Canadian Bank Act. There is a good deal of hostility on the part of members of all parties towards some of the policies of the chartered banks, and there again the results of the Committee's discussions are at present uncertain. In the House of Commons on March 8 and 9 there was a full dress debate on the whole question, the time being mostly taken up with rather long speeches by members of the Third party, who were strongly opposed to certain features of the central bank Bill, considering that it directly negated the most important of the proposals that they had been making for some time. Emphasis was laid especially on three points: first, the ownership of the shares in the central bank; second, the control of its policy; third, the powers granted under its charter. They urged that the entire stock be permanently owned by the government. They also strongly objected to the suggestion that, after the term of office of the first appointees, successors should be appointed by the shareholders, who would be members of the public. They expressed, too, a decided feeling that the powers of action conferred on the bank were inadequate. One interesting passage occurred between a member of the Third party and the Minister of Finance. The Minister was asked, when some important question of policy arose and there was a

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difference of opinion between the Government and the management, who would prevail. The Minister replied quite definitely that certainly the management of the bank would have the last word. This was, of course, very definite, perhaps more definite than the Minister intended; but it defines the very essence of the discussion between the two sections in the House in regard to the bank.

The Leader of the Opposition, in speaking to the motion for the reading of the Bill a second time, expressed the policy of his party as being to offer no opposition to the second reading, relying on the word of the Prime Minister that sympathetic attention would be given to suggestions made in Committee; but he indicated that his party held somewhat different views from the Conservatives regarding the structure of the bank, which they would express fully in due time. Mr. Coote, a Third party member, quoted from the report of the (Macmillan) Royal Commission these words: "That the State must ultimately retain sovereignty in matters affecting currency." He then coupled currency and credit, and claimed that the control of the two functions could not legitimately be placed in the hands of "private enterprise." Various quotations were also made from a speech by Mr. M'Kenna, of the Midland Bank, in which he suggested that even in the case of the Bank of England the ultimate underlying control must and did lie with the government. The discussion in the House was necessarily indeterminate, and the Bill was sent on to the Committee for further discussion.

At this point, it is well to consider the economic situation to which this Bill is to be applied. At present, the banking business of the country is in the hands of ten banks, which are governed by a Bank Act that imposes various conditions and restrictions, especially in regard to the security of note issue; but there is no power outside the banks themselves that can effectively influence their credit policy. Not many years ago the general manager of one of the banks, in his speech at an annual meeting, remarked that "we are busy

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carrying on the business of the country." At that time, not only was that true, but his words evoked no criticism; in fact, the country as a whole was well satisfied with the conduct of the banks. But this was in prosperous times, when criticism is always subdued. The emergence of trouble, financial and other, has led the public in the first place to put the responsibility for present disorders upon the banks, and, secondly, to demand that changes should be made in the system so as to force the banks to adopt more sympathetic policies towards debtors.

In the public mind, then, the first duty of the central bank is to exercise such control over the policies of the banks as would ensure their being sympathetic and reasonable in their relations with debtors. They necessarily have the monopoly of money supplies, prospective debtors being unable to turn elsewhere for advances, and it is felt that their policy has not been always one that recommends itself to critical observers. One special question is that of rates of interest. It has been claimed that the difference between the interest allowed on deposits and the interest charged on loans has been continuously excessive, especially in reference to smaller loans and to operations in western Canada. Although a section of the present Bank Act speaks of a maximum of seven per cent., it does not appear to be in binding form, and in fact much higher rates have often been charged. The banks' plea that the rate of interest should be proportionate to the risk involved does not meet with entire acceptance; for the view is expressed that if the risk is so great, no loan should be granted, and that business cannot be seriously carried on where advances have to be obtained at so high a rate of interest. The whole matter was discussed in the report of the Royal Commission, and a majority of the Commission were in favour of leaving the decision regarding maximum rates to the people involved; but that view does not seem to be generally accepted, and in the new Bill there will probably be a provision definitely limiting the rate to seven per cent.

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A further charge is made against the banks, to the effect that the distribution of loans is unfair, the central provinces of Canada being allowed an advantage in that they get first call on funds available for loan. This the banks deny, offering proof that the distribution is a fair one; that their directors are taken from various parts of the country, there being in many sections local directors whose advice is received and taken; and that for each district there is an officer called a supervisor, who has considerable immediate authority to grant loans without reference to head office, and who, by reason of residence in the district, is in a position to understand the needs and character of the population. The Macmillan report makes the suggestion that it would be wiser for the banks to recruit their directors more generally from different parts of the country, so that in their discussions all sections would be fairly represented and adequately served.

The Bill for the incorporation of the Bank of Canada, as it stands, is a conservative document. It grants to the management very considerable powers, including that of inspection of the chartered banks. "The business and powers of the Bank" present no particularly novel features, and probably include everything that could be wisely done by such an institution. Of necessity, detailed directions about its exercise of the function of control are not expressed. In this the management will have precedent to guide them, and they must act in accordance with the atmosphere in which they work, and the materials with which they have to deal. It has been said, and wisely, that the occupant of the governor's chair must be not only a banker but a statesman, and he must proceed slowly. The Bank's power of control and regulation must depend, in the last analysis, largely upon the prestige that it succeeds in establishing, and prestige cannot be acquired in any short time.

The capital of the Bank is to be five million dollars, subscribed by the public, subject to certain limitations.

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No shareholder may have more than fifty shares, and no shares may be held by or for the benefit of any chartered bank or any director, officer, clerk, or employee of any bank. If the stock should fail to be subscribed in full, the balance will be taken by the government. In regard to the reserves, 25 per cent. of the note issue and deposits is to be covered by gold. This is a slight departure from the plan suggested in the Macmillan report, which would have permitted part of the 25 per cent. to consist of foreign assets. In the Bill to be considered any foreign balance held must be over and above the gold reserve. With its head office in Ottawa and such other branches as seem necessary, the Bank will endeavour to cover the interests of the entire country. The management is a matter for the exercise of the greatest possible care. It is laid down that the governor is to be a man skilled in banking, but he must be more than that. He must, as has been already suggested, have the qualities of a statesman; for the business of reconciling the interests of the Bank of Canada with those of the chartered banks will require tact and knowledge of human nature. The staff—appointed, in the first place, by the Governor-General in Council—is to consist of the governor, the deputy governor, and seven directors. When the term of office of these functionaries comes to an end their places are to be filled by election by the shareholders, subject to the approval of the Governor-General in Council. The Bank may not own the stock of any other bank, except that of the Bank for International Settlements. It is to act as fiscal agent for the Dominion government, and possibly for the provinces. An arrangement has been made by which in the course of a few years the entire note issue of the chartered banks will have been transferred to the Bank of Canada. The Dominion legal tender notes will be replaced by those of the Bank of Canada, and on the date fixed the gold and securities now held by the government against that note issue will be transferred; all gold in the hands of the banks, except that

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concerned with their foreign business, will also be transferred, and its place taken by notes of the Bank of Canada.

The deposits of the Bank of Canada will consist mainly of those of the chartered banks, who will maintain their reserves in that form, the amount required being 5 per cent. of their deposits. This will bear no interest, the Bank of Canada being forbidden either to pay interest on any deposits or to accept time deposits. For a time, at all events, the chief activity of the Bank of Canada will be the rediscounting of bills for the chartered banks. Regulations for the conduct of this business are provided in the Act.

It will depend on the wisdom of the management what success may be attained under this remarkably conservative charter. There has been a large amount of criticism of the Bill, both in the House of Commons and outside it, as a practical remedy for the defects of the chartered banks. It will be interesting to watch the line taken by the Liberal members. Provided their criticisms of the Bill are not such as to destroy its character, when passed it will have sufficient general support to place it in a strong position.

In the course of all the discussion about this Bank, it is natural that the general results of the widespread establishment of central banks should have been considered. In the main their creation has been defended, but the defence, even on the part of outstanding supporters of central banks, has been somewhat deprecatory. It is impossible to consider that the most important purpose for which these central banks were created has been fulfilled. They have not proved to be the centre of a new internationalism; they have not been beyond criticism in their dealings with the gold situation; and, lastly, they have failed to bring about the unanimity of purpose that was hoped for concerning the essentials of a peaceful united world. The Bank for International Settlements, shorn of most of its power by the abolition of reparations, remains as a comparatively small institution, acting as a centre for

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discussion and a kind of club for the central banks. That, of course, is not without its importance, but it hardly justifies the existence of an institution of such portentous nominal powers. Before the war there was an immense trade, national and international, carried on successfully and without friction by the banking system as it stood, and perhaps it is hardly fair to suggest that all this elaborate additional machinery has been unable to control a situation that has probably got beyond the possibilities of financial management. In Canada the expectations cherished by the general public of what a central bank is able to do seem to many people hopelessly extravagant.

II. MARKETING REFORM

SINCE the present year began there have been, both inside and outside the Federal Parliament, important developments that may well presage a wholesale reconstruction of Canada's economic life. Before the opening of the session, Mr. Stevens, the Minister of Trade and Commerce, made a speech in Toronto in which he frankly alleged that the big buyers of natural products and manufactured goods, viz., the packing establishments and the big department and chain stores, were making an unfair and improper use of their purchasing power to force down the prices they paid to the producers. The latter were therefore obliged to pay less than living wages to their employees. His observations fluttered the doves, but were generally regarded as the mere *obiter dicta* of a restless Minister. However, he later induced the Government to appoint a special committee of nine members of the House of Commons to investigate business practices, and himself assumed the rôle of chairman.

The reference assigned to the committee was exceedingly comprehensive; it was authorised to investigate the causes

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of the wide spreads between the prices paid to the producer and those charged to the consumer, wage conditions and industrial conditions generally, the effects of mass buying and mass advertising by chain and department stores, stock watering in industrial flotations, the marketing of livestock and other farm products, and all correlated problems. The committee was not long in capturing the public attention; for the first witnesses testifying before it were a group of social workers, officials administering the provincial minimum wage laws, and labour leaders, who drew a picture of employment conditions in Ontario and Quebec which tended to confirm the charges made by the Minister. They asserted that the minimum wage laws were persistently flouted and that the penalties imposed for their violation were too trivial to be effective. Bad as conditions in the Toronto area were by their account, in the Montreal district they were worse, and instances were given of girls working in candy and clothing plants for \$3.50 per week, and of the discharge of female employees who had been paid \$7 per week to make way for boys who were only paid \$3 or \$4 per week. Several of these witnesses attributed the prevalent low scales of wages to the mass buying pressure exercised by chain and department stores, who drove unconscionable bargains with manufacturers hard-pressed for orders, and indirectly compelled the latter to cut the wages of their employees.

The favourite remedy suggested was a stiffening of the minimum wage laws and the provision of much heavier penalties for their infraction. Mr. Tom Moore, however, the president of the Trades and Labour Congress of Canada, submitted to the committee an extensive programme of industrial reform; he advocated, among other things, the drastic amendment of the British North America Act to permit federal regulation of industry, a code system on the N.R.A. plan, applicable to every industry, and the establishment of a federal industrial council armed with broad powers of supervision. The press comment upon

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the disturbing revelations about low wages was generally caustic, and the *Ottawa Citizen*, one of the leading Liberal papers, was moved to declare that the evidence revealed a disturbing survival of the dark ages of industrial barbarism in Canada of the twentieth century.

This exposé of unsatisfactory labour conditions was followed by a sustained indictment of the business practices of the chain and department stores by spokesmen of different associations of retail merchants. It was alleged that by means of mass buying, deceptive mass advertising, and secret trade discounts wrested from manufacturers they squeezed out local competitors and deprived hundreds of honest hard-working people of their livelihoods; that when they had the consumer at their mercy they recouped themselves out of his pocket by raising prices; and that they were responsible for a serious and widespread demoralisation of the business life of Canada. This arraignment was accompanied by various constructive suggestions for curbing their activities. Some witnesses favoured special penalising taxation; others admired the Italian plan for distribution under the corporative state; and a third contingent favoured federal regulation and a rigid code system on the N.R.A. model for the enforcement of higher business standards.

Undoubtedly a very strong case was presented by the small retail merchants, but the large distributors do not propose to let it go by default. It is understood that they are now ready to submit to the committee briefs in rebuttal, depicting themselves as foully slandered benefactors of the public, who by their efficient organisation and superior business methods have kept down the cost of living at a time when all incomes were seriously curtailed, and have saved consumers millions of dollars.

The Stevens committee was given special instructions to investigate the prevalent system of livestock marketing, which has been a subject of continuous criticism by the farming community. For nearly three weeks its sessions

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have been almost wholly devoted to this problem. A series of indignant cattle-raisers have given evidence against the business practices of a small ring of powerful packing companies, whom they accuse of fixing prices day by day through secret trade arrangements. They allege that the farmers are completely at the mercy of this ring, and that until its power is broken cattle-raising cannot become profitable. Their allegations have been supported by cattle-dealers, wholesale butchers and officials of stockyard companies. Critics of the packing companies have expressed a concerted demand that a national marketing scheme for livestock should be established and that all stockyards should be brought under government ownership and operation.

The Stevens committee, as it is now popularly called, has been the target of considerable criticism; its activities are naturally unpopular with the business interests that are the victims of its inquisition, and even so strongly Conservative a paper as the *Ottawa Journal* holds that a parliamentary committee is not the proper body to conduct such a comprehensive investigation and that it will seriously disturb business without the compensation of any tangible result. On the other hand the inquiry pleases the labour elements, who think that it is bound to result in a marked improvement in labour conditions through the adequate enforcement of minimum wage laws and the abolition of sweatshops. The committee, however, has been given such wide scope that after six weeks' labour it has only touched the fringe of its task, which it can scarcely hope to complete before the end of the session. A number of departmental officials are collecting data, and the committee has also enlisted the help of special investigators and accountants, who are checking up information supplied by witnesses; but even this acceleration of its work will probably only permit it to submit a few interim reports and recommendations. For the balance of its work, it may appoint special subordinate commissions, which would carry on inquiries into different problems.

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What the Stevens committee has accomplished is to make it abundantly clear that minimum wage laws have been persistently disregarded in the two leading industrial provinces of Ontario and Quebec, and that there are too many easy ways of evading them. A very real problem exists in the unwillingness of Quebec to go as far as its sister province in legislation for the protection of labour, with the result that in order to meet the competition of low wages in Quebec, which are often deliberately held up as a lure to industrial entrepreneurs, employers in Ontario, with the connivance of the authorities, have felt it necessary to lower their own wage scales. The obvious remedy is uniform federal regulation of industrial conditions, and it is known that officials at Ottawa have been making an exhaustive study of the N.R.A. code system and its practical working in the United States. Moreover it is an open secret that Mr. Stevens is convinced that a similar plan of regulation for Canadian industry is imperative and that some Canadian industrial leaders share his views. The furniture industry, for example, has actually submitted to the Government a code for its own regulation, which was compiled with the help of trained economists, and has asked for its immediate enactment by law. The provisions are modelled largely upon similar American codes.

There exists, however, in the Canadian constitution, one very formidable obstacle to federal regulation of wages, or to a code system; for all questions concerning wages, hours of labour and industrial conditions generally come within the jurisdiction of the provincial authorities. The federal government at present can do little in this field beyond turning the searchlight of publicity upon malpractices, as the Stevens committee is doing. For this reason it has had to admit its inability to secure the adoption of the international eight-hour day convention, which a Canadian delegation accepted. Hence the contention of labour leaders and social reformers is that the British North America Act should be amended without delay so as to endow the federal government with authority to

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regulate industry by laws applicable to the whole of Canada. Public opinion outside Quebec has been moving rapidly in favour of such amendments, which have been publicly advocated by the leaders of the Conservative party, including Mr. Bennett, Senator Meighen and Mr. Henry, the Premier of Ontario.

Mr. Bennett recently declared in the House of Commons that any scheme for the regulation of industry or the consolidation of social legislation under federal authority was impracticable without a re-arrangement of the powers now allotted to the federal and provincial governments, that the time was ripe for such a readjustment, and that, if he remained in office after another election, he proposed to tackle the problem. But this pronouncement at once brought an outcry of protest from papers in Quebec, which urged M. Taschereau, the Premier of the province, to assume his congenial rôle of champion of provincial rights. It is clear that the problem of constitutional amendment—which, incidentally, is desirable for other reasons—opens up a vista of prolonged and bitter controversy.

While the problems of industry are only at the stage of investigation, the Government have evolved in legislative form a programme for the reorganisation of agricultural and other marketing, the fruit of exhaustive studies and consultations with representatives of the interests affected. The Natural Products Marketing Bill, as it is called, embraces all natural products of the Dominion except minerals. The core of the structure is to be a Dominion marketing board, with headquarters at Ottawa; the board is to be endowed with very drastic powers, and authorised to form local boards and to co-operate with provincial marketing boards. It will have power to provide by order-in-council for the regulated marketing of any product, to control both the export and the inter-provincial marketing of any regulated product, and to regulate the importation of any product likely to compete with a Canadian regulated product. It will also have authority to fix the

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quality, grade, or quantity of any regulated product, marketed by any person at any given time, and to compensate for losses incurred through its order to export or to withhold any product from the market, or through fluctuations of exchange in connection with export sales under its orders. It will be empowered to assist by grant or loan the construction or operation of facilities for preserving, storing or conditioning a regulated product, and to assist marketing research. It will be able to compel all producers to secure licences subjecting all their operations to immediate control, and to demand full information regarding the production or marketing of a natural product from all persons engaged therein, as well as periodic returns from them to be checked by an inspection of their books and premises.

The Bill thus provides an administrative framework for regulated marketing, but its utilisation will largely depend upon the willingness of different classes of producers to organise local marketing schemes. These can be initiated in the following manner. A representative group of persons engaged in the production or marketing of a natural product can petition the Government to approve a scheme for the regulation of marketing by a local board under the supervision of the Dominion board, and if both the Minister of Agriculture and the Dominion board are satisfied that the petitioners are sufficiently representative, and that the principal market for the product in question is outside the province where it is produced, then the Government, by order-in-council, can formally approve the scheme and fix the date for its application. Its rules and regulations will straightway have the force of law, applying the principle of the compulsory pool to everybody concerned with the production and marketing of the product. There is no provision, as in the British marketing legislation, for a vote of the interests affected before a scheme comes into force.

The central board is to be armed with powers to establish local boards even where no request for them is forth-

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coming, either from producers or from provincial governments. Furthermore, it is authorised to appoint special committees, on which producers, distributors and consumers shall be represented, in order to investigate—

the cost of production, prices, spreads, trade practices, methods of financing, management, policies, grading, transportation and other matters in regard to the production and marketing, adaptation for sale, processing, or conversion of any natural product ;

and in the light of their reports the board is to be empowered to fix fair price spreads. Very severe penalties, running up to a fine of \$5,000 and two years' imprisonment for an individual, and to a fine of \$10,000 for a corporation, are provided for offences under the Act.

The radical character of the Bill created general surprise ; for it was not expected to go beyond a mild plan of federal supervision for marketing schemes originating under provincial authority, or to surpass similar British legislation (on which, according to Mr. Weir, the Minister of Agriculture, it was modelled) in its complexity, its rigour and its extension of governmental power.

The measure has had a varied reception throughout the country. Spokesmen of different agrarian organisations, like the United Farmers of Ontario and the fruit-growing organisations of British Columbia, have given it their cordial approval. It has received the blessing of Mr. Short, the president of the Millers Association of Canada, on the ground that it will terminate "the insensate competition now prevailing in numerous lines of economic activity." The business and financial communities, on the other hand, regard the scheme as a revolutionary adventure for a Conservative Government ; they dislike acutely the prospect of such a sweeping interference with business, and the *Montreal Gazette*, which represents their views, has turned a cold douche of criticism upon the Bill. In introducing it the Minister of Agriculture declared that its primary aim was to secure better prices for the primary producers, and as a means to that end to facilitate the orderly export marketing of Canada's products. But Conservative confidence that

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it would appeal to the farming community received a rude shock at a by-election held on April 16 in the South Oxford division of Ontario ; for in a constituency predominantly rural they stressed the Bill as their chief electioneering counter, only to see the former Liberal majority of 55 increased to 1,530.

This result emboldened the Liberal party to declare open war on the Bill and to intimate their intention of fighting it clause by clause. On the second reading Mr. Mackenzie King devoted a two-hour speech to an exhaustive and unsparing denunciation. He rose to great heights of indignation, declaring that it contemplated an intolerable invasion of individual rights and "set liberty at naught" ; that it was a fundamentally unsound plan for enforcing scarcity ; that it would involve the establishment of a cumbersome bureaucratic machinery, and open up the possibility of a continuous drain upon the public treasury ; and that it would create monopolies and open the doors of favouritism and patronage. He also argued that many of the Bill's provisions were unconstitutional, and he moved an amendment to the effect that while assistance to the orderly marketing of natural products was desirable, the powers delegated in the Bill to unknown and unnamed individuals should be struck out.

The defence of the Bill was entrusted to Mr. Stevens, the Minister of Trade and Commerce, who contended that since other countries, including Great Britain, were committed to quota systems and to regulation of production and marketing, Canada must have some form of marketing regulation if she was to keep her trade bargains with other countries and do justice to her producers. If the legislation was novel and experimental, he said, "this country and its people, staggering under their loads, have been clamouring for something out of the ordinary." The Bill was supported by Mr. Woodsworth, the leader of the C.C.F. group, who welcomed the Government's adoption of socialistic principles. However strenuous the opposition of the Liberals may be, the passage of the Bill

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is thus assured. Moreover, virtually all the provincial Administrations, even including the Taschereau Ministry in Quebec, have intimated their approval of the objectives of the measure, and have either passed or introduced the concurrent provincial legislation that is necessary to give the scheme a chance of successful operation.

Meanwhile in British Columbia the Liberal Administration of Mr. Pattullo, which took over a welter of financial and economic troubles from its Conservative predecessor last November, has boldly used its majority to drive through the legislature, in face of strong protests from the Opposition and from local business interests, a Special Powers Act, which clothes it with practically dictatorial powers over the finances and the whole economic activities of the province, and enables it to perform between sessions all the functions of the legislature. On the authority of this legislation there has been established a provincial "Economic Council," whose duty it is to study the economic problems of the province and to devise progressive measures of reconstruction, which, if necessary, will be enforced by a code system on the N.R.A. model.

The code idea, indeed, is becoming almost fashionable in Canada; for the legislature of Alberta has passed a law establishing a system of codes for such industries as exist in the province, and the legislature of Nova Scotia has been asked to take drastic measures for the regulation of the local system of distributing gasoline. It is interesting to note, moreover, that, while the federal Liberal party is violently opposed to such schemes of state regulation, some of these measures have been sponsored by Administrations of the Liberal stripe. The new trend of legislation indicates that the doctrines of laissez-faire are now out of favour in Canada, and that the great American experiment embodied in the N.R.A., although its success is still far from assured, has had a profound effect upon Canadian opinion about economic problems.

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AUSTRALIA : PROBLEMS OF FEDERALISM

I. THE CONSTITUTIONAL CONFERENCE

IN political discussions it is always useful to remember that the inconclusive is not necessarily unimportant. Judged merely by the decisions taken, the fortnight spent in Melbourne in February by the leaders of the seven governments of Australia in reviewing the working of the constitution was largely a waste of time. No agreement was found possible except on a few minor points, which could have been, and in fact were, disposed of in less than half a day. Nevertheless this was the first opportunity, since the Royal Commission on the Constitution presented its report in 1929*, for a comprehensive review of the working of Australian federalism; most of the governments had made thorough preparations for the discussions, and there emerged one clear line of controversy of which more will be heard in Australia in the next ten years. Some fundamental issues were clearly stated.

The Conference grew out of a promise by the Prime Minister, made in the hope of averting a secessionist vote at the referendum in Western Australia last year†, to support the holding of a convention to discuss the whole federal problem. This particular proposal did not commend itself either to the Western Australian electors or to a Premiers' Conference held later in the year. Instead, it was agreed that Commonwealth and State Ministers should

* See THE ROUND TABLE, No. 78, March 1930, pp. 408-15.

† See THE ROUND TABLE, No. 91, June 1933, pp. 681-3, and No. 92, September 1933, pp. 905-7.

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themselves discuss the subject of constitutional revision. A Premiers' Conference could not indeed actually initiate constitutional amendments, any more than a convention could. The responsibility of initiating amendments rests with the Commonwealth Parliament alone. But the three less populous primary-producing States (Western Australia, South Australia and Tasmania) have been so discontented of late with their present position that some such interchange of views was clearly called for.

To have held the Conference just at this particular time, however, was rather a pity, though perhaps unavoidable. If delay had been practicable, it might have been wiser to have waited until the Commonwealth Grants Commission had completed its exhaustive enquiries into the position of the three primary-producing States, and until it was possible to discern more clearly how far present difficulties are mere temporary effects of the depression. As things turned out, the Conference opened disappointingly, with far-reaching financial demands on the part of some of the States, and with the frank statement by the Commonwealth that the time was inopportune for any general constitutional revision.

The financial relations of Commonwealth and States occupied most of the time and thought of the Conference. The State Premiers had had a conference of their own before the main proceedings, but they were by no means unanimous in their views. Led by Victoria, all the States except New South Wales agreed in putting forward, as a general proposition, the claim that the constitution should be amended so as to secure increased financial resources to the States. Some specific amendments were proposed in furtherance of this view, but none commanded the support of all five States. South Australia proposed a return to the principle that was in operation during the first ten years of federation, and to secure to the States, by constitutional amendment, one-half of the customs and excise revenue collected by the Commonwealth.

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Allowing for payments already made to the States, this was estimated at present levels to involve the handing over of an additional £7½ million. Victoria suggested that the Commonwealth should be excluded altogether from income taxation—which at present rates would release some £9 million for the States.

In a conference where majority decisions are impossible, objections to any plan become very much more significant than its advantages, and these specific proposals were never very seriously examined. The general proposition, however, was subjected to searching criticism. As the constitution now stands, the Commonwealth's taxing powers are unlimited, save that it must not discriminate between States; and over customs and excise its powers are exclusive. The States thus have concurrent powers of direct taxation, and of indirect taxation other than duties of customs and excise. In theory the resources of the States could be increased in one of three ways: by assigning to them (as South Australia wished) some fixed share of Commonwealth revenues; by giving them an exclusive power (as Victoria wished) in some part of the present area of concurrent powers; or by giving them a concurrent power in some part of the area from which they are at present excluded. The third method was examined carefully but was found impracticable. The first and second, both of which involved restriction of the Commonwealth's taxing powers, were rejected by the Commonwealth, with the support of New South Wales.

The Commonwealth gave three main reasons for opposing constitutional amendments along any of the lines proposed. First of all, much was made of the fact that in order to assist in the restoration of industry the Commonwealth had made remissions of taxation which in a full year would amount to about £9 million, and was budgeting for a small deficit in this year and next. Accordingly, it could not make any substantial concession to the States without either increasing taxation (which it was pledged not to do)

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or else running into heavy deficits (which it would be financially unsafe to do). In any case, if the States needed more money, let them occupy the field of taxation that the Commonwealth had just evacuated. This point was raised to combat the idea that the Commonwealth still has large surplus revenues available, rather than for its intrinsic constitutional importance. But it served also to emphasise the fact that whatever State expenditure is met by the Commonwealth must, of course, be borne by the people of all Australia.

In the second place, it was contended by the Prime Minister—and the argument was ably elaborated by Mr. Stevens for New South Wales—that deficits of the magnitude now being experienced by the States were purely a phenomenon of the depression, and would disappear as conditions improved. It was unnecessary and dangerous to make, on a depression basis, permanent alterations in the financial relations of Commonwealth and States. Special consideration should certainly be given to the position of the three smaller States, but only the future course of export prices, and the ability of Australian industries to strike a balance between costs and prices generally, would show how far State difficulties were due to permanent factors. This was an effective political argument, though it deflected rather than answered the ultimate contention of its opponents that the real constitutional problem sprang from the financial dominance of the Commonwealth—a permanent factor which had its roots in the constitution itself.

In the third place, both the Commonwealth and New South Wales urged that the commitments of the Commonwealth afforded a weighty objection to any proposal for fettering Commonwealth powers. The founders even of American federation recognised the danger of fettering financially the government charged with the responsibility of meeting national emergencies. Not only is the Commonwealth responsible for defence, but it has made itself

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responsible, under the Financial Agreement, for maintaining the financial stability and credit of the whole of Australia. The importance of these considerations was admitted, though perhaps not fully enough recognised, by the other governments.

For New South Wales, Mr. Stevens further expressed the view that (apart from the special position of the three smaller States) the whole financial problem could be solved without recourse to constitutional amendment. State difficulties would be removed if three conditions were fulfilled : first, if the Commonwealth were to shoulder some of the States' debt on soldier settlement during such period as it was being excused the payment of interest on its own war debt overseas ; second, if a certain amount of overlapping in government administration were eliminated ; third, if further treasury bill accommodation could be arranged to tide over the next year or two. The suggestion that the Commonwealth should take over some further portion of State debts was pressed independently by Queensland and by Western Australia, and was supported by South Australia as an alternative to her own plan. It was reported that possibilities along these lines were being investigated, but the subject appears to have been dropped altogether.

In the view of the other States, the constitutional problem of finance, properly so-called, is the growing financial dominance of the Commonwealth. This was surveyed, in the outstanding speech of the Conference, by the Victorian Attorney-General and acting Premier, Mr. R. G. Menzies. The financial provisions are generally regarded as the crux of any federal constitution, and the effect of the Commonwealth constitution in this regard was brilliantly stated, as early as 1902, by Alfred Deakin :

As the power of the purse in Great Britain established by degrees the authority of the Commons, so it will in Australia ultimately establish the authority of the Commonwealth. The rights of self-government of the States have been fondly supposed to be safe-

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guarded by the constitution. It has left them legally free, but financially bound to the chariot wheels of the Commonwealth.

Not only is the Commonwealth's taxing power in terms unlimited, but it has exclusive control of what are in fact, if not in logic, the most flexible source of revenue, customs and excise duties, covering between them most of the field of indirect taxation. For the first ten years after federation the States were provided for in the constitution, but after that the revenues raised by the Commonwealth were distributable at the sole discretion of the Commonwealth Parliament itself. (By the financial agreement of 1927, of course, the Commonwealth did effectively fetter its own discretion, so far as concerns the payments therein provided for.) It should perhaps be added that the constitution (by section 96) expressly empowers the Commonwealth to make grants to States on such terms and conditions as it may think fit.

These provisions affect all the States in the same manner, though in different degree. In their railways, their roads, their water supply systems, their problems of land settlement, of education, of housing, of unemployment, of child welfare, and of agriculture, State governments are faced in general with responsibilities that are increasing rather than diminishing. Their sources of revenue, on the other hand, are relatively inelastic. In the case of the three less populous primary-producing States (Western Australia, South Australia and Tasmania), dependence upon the Commonwealth appears to have become chronic. Students of the United States' constitution will know how far and how fast a similar position has developed there. Hitherto, the Commonwealth has used with great restraint its power of imposing conditions as the price of a grant. But many people think that such restraint is difficult to justify in principle. It would hardly be likely to survive any very radical ventures by one of the States concerned. In any case, the investigations that precede the making of a grant amount in substance to something very like Commonwealth

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supervision. The following passage from the speech of Mr. Butler, the Premier of South Australia, will serve to illustrate the point :

South Australia should not have special investigations made into its developmental projects, nor should it be asked to define its future policy preparatory to receiving a grant. Yet that is what we have been asked to do recently. . . . Let the Parliament of South Australia . . . decide the policy of that State, and not be subject to the opinion of a special committee appointed by the Commonwealth as to whether or not it shall be furnished with the money necessary to give effect to it.

For the more populous States, the problem raised by Section 96 is still, in the main, one of the future. But in Victoria at any rate there is some fear of the extension, under easier financial conditions, of the system inaugurated before the depression in connection with housing and with main roads. The provision of funds by the Commonwealth, by way either of grant or of specially cheap loans, coupled with more or less detailed control over their expenditure, is a mode of establishing supervisory relations that it is politically very hard to resist. There is some fear, too, of the Commonwealth's dominating position in the Loan Council, and some anxiety lest in critical times there might be a tendency to establish some control of loan expenditure, as the natural corollary of the Commonwealth's assumption of responsibility for the financial credit overseas of the whole of Australia.

Mr. Menzies put his view of the alternatives open to the people of Australia in the form of a triple choice. In the first place, he said, we may decide to proceed as at present, and allow the Commonwealth's financial powers to be exercised unchecked. The result would be, in his view, that there would be greater supervision and control of the States by the Commonwealth and that the federal system of government would be reduced to a mockery. The second possibility is an admission that experience has shown that federalism is unstable, and that it would be

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better to adopt consciously and deliberately the unitary system of government. The only other possibility is to reverse present tendencies, and to confer upon the States an independent as distinct from a hierarchical financial status.

With the exception of New South Wales, the other States agreed that merely to leave existing forces to their operation would inevitably be to produce what the Premier of Queensland (Mr. Forgan Smith) called "unification by attrition." For New South Wales Mr. Stevens thought that, always providing some satisfactory permanent basis could be found for making special provision for the three less populous States, present tendencies might easily be left to their operation without endangering the federal character of the constitution. The general contention of the other five States was expressed in their pre-conference resolution that "unless unification is to be adopted as the ultimate goal, amendment of the Commonwealth constitution is necessary to put the State governments in a permanently stable position."

This controversy disclosed the ultimate issue in Australian constitutional development : are we to have a federal system based on the continued existence of strong States ? Except Queensland, all the Governments represented at the Conference answered this question unhesitatingly, some almost passionately, in the affirmative. On this issue the Royal Commission in 1929 had been divided, four members adhering to the federal type and three contending that a unitary government with extensive decentralisation in administration would be the best form of government for Australia. The majority view was based on the vast area to be governed, the wide differences both economic and social between the different communities, the strength of the historic attachment to the States, the advantages of stimulating local knowledge and public spirit in government, and the importance of confining to limited areas the economic and industrial experiments to which Australian democracies are prone.

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These considerations were not canvassed at the Conference except by Mr. Butler, the Premier of South Australia. Others contented themselves with affirming that the overwhelming majority of the people still believe in federalism, and would resist any explicit attempt to destroy it in favour of a unitary system. This is certainly true. The Australian Labour party has unification as one of the planks in its platform ; but the two Labour Premiers at the Conference (Mr. Collier of Western Australia, and Mr. Forgan Smith of Queensland) played no more than a watchful part. Mr. Collier, indeed, explained cheerfully that his whole appearance at the Conference was "without prejudice," inasmuch as the people of his State had voted decisively for secession and a great petition was being prepared praying for Imperial action to set Western Australia free from the Commonwealth. Mr. Forgan Smith did pronounce definitely in favour of a unitary form of government as the proper one for Australia, along the lines laid down by the minority Commissioners in 1929. But both he and Mr. Collier appeared to agree that unification was an impossible policy under present conditions, and that in the meantime steps should be taken to strengthen the position of the States.

Mr. Forgan Smith differed from all his colleagues in thinking that the drift towards unification was inevitable and could not in the long run be arrested. In all States, however, there is growing an anxious feeling that this may very probably be true. The growing interdependence of Australian economic life reinforces at every turn the contention that production, transport, land settlement, industry, and the whole range of trade and commerce can only be controlled, in a country like this, by one ultimate authority, and that must be the authority responsible for defence and external affairs and the tariff.

Nevertheless, if this be the trend of development, it will meet with strong resistance. The leaders of the less populous States went back to their capitals mollified, but not really satisfied, by the Commonwealth's express promise

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to put the States' disabilities grants on a more permanent footing, over and above anything that the Grants Commission may advise when it reports later in the year. They went back profoundly anxious about their future place in the federal system. They went back without any conviction that the Commonwealth Government really understood the outlook of a State whose budget stability depended on the extent to which its policy commended itself to a distant Commonwealth authority. There was much recognition, on all sides, of the fact that Australians are one people, and that to create issues between Commonwealth and States is to set men to wrestle with themselves. But there was little real approximation of points of view. Perhaps a broadly based settlement of the problem of State disabilities would go a long way towards altering the situation. But the prevailing post-conference temper in all State capitals except Sydney was one of disappointment and of criticism of the Commonwealth Government. The *Sydney Bulletin*, on the other hand, was outspoken in its denunciation of "provincialists at Melbourne."

The Conference proceeded, towards its close, to deal with some twenty detailed matters about which some need had arisen for constitutional amendment; but very little agreement was found possible. The Commonwealth had circulated memoranda setting out the present constitutional position, and the States had come prepared to indicate their attitude one way or the other. Since in most cases the changes discussed were in the direction of more extended federal powers, the general attitude on the part of the States was one of opposition—not always, as it appeared, very well reasoned opposition, based on the merits of the proposals themselves.

The Commonwealth cannot have received much encouragement from these proceedings to repeat the experiment of consulting the States in conference as a preliminary step in the initiation of constitutional change. Naturally the fact that some States opposed a given suggestion

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would not of itself in any sense preclude the Commonwealth from proceeding with a constitutional amendment in the ordinary way. But it was doubtless hoped that some agreement might be reached under which the States would exercise their constitutional power to "refer" some of the matters to the Commonwealth Parliament, and thus vest power in the Commonwealth Parliament without the necessity of a referendum. The Conference discussed navigation, industrial law, aviation, company law, the jurisdiction of the High Court in cases between residents of different States, the exhibition of cinematograph films, wireless broadcasting, and several other matters; but only on a proposal authorising the Commonwealth to carry out, within territorial limits, certain fisheries conventions was there complete agreement.

An interesting discussion took place on a proposal from Tasmania to remove the present restriction by virtue of which the Privy Council is precluded from entertaining appeals on matters concerning the limits of the constitutional powers of the Commonwealth and States *inter se*, except in cases where the High Court has certified that the question is one that ought to be determined by the Privy Council. The High Court has exercised this power very sparingly, and has only given a certificate on one occasion. Since most of the constitutional cases that arise in Australia fall within the category just described the result is that in substance the High Court has been the sole interpreter of the Commonwealth constitution. This was deliberately intended by the framers of the constitution, but the Tasmanian Government felt that greater continuity, greater clarity, and greater freedom from local prepossessions would be obtained by allowing appeals to go freely to Westminster. No support was forthcoming, however, for this proposal.

The opposition was based partly on the view that if in a self-governing community the judiciary is not thought to be satisfactory, the remedy is in the hands of the community

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itself ; partly on the view that in the light of Canadian experience there is no certainty of obtaining from the Privy Council greater clarity or continuity of interpretation than from the High Court of Australia ; and partly on general imperial grounds. The constitutional cases not uncommonly arouse considerable popular feeling, and if criticism of constitutional decisions is inevitable (as it seems to be), it is on the whole more satisfactory that the criticism should be directed against a local tribunal than that it should be deflected into nationalist or anti-imperial channels, as might easily happen, here as elsewhere, under the system proposed.

A good deal of thought was given during the Conference to the complex problems of inter-state trade. The ideal of the founders of the federation was embodied in the constitution (section 92) in the form of a resounding but rather vague declaration that "on the imposition of uniform duties of customs, trade, commerce and intercourse among the States . . . shall be absolutely free." A number of difficult questions has arisen under this section, and a long series of judicial decisions has left the position in a state of most embarrassing uncertainty. It is impossible to say how far the section affects the States' powers of quarantine, how far it prohibits the States from regulating, on a uniform and non-discriminatory basis, such matters as transport, or even how far it controls the Commonwealth as distinct from the States. The emergence of State marketing schemes based on the control of domestic sales in order to sustain export markets has also created new problems under the section. The Privy Council in a recent decision treated the section as restricting State powers in this regard much more drastically than the High Court had determined, and as the law stands at present compulsory marketing schemes can apparently be established only by co-operation between the Commonwealth and States, based on the assumption that the section does not operate to control the Common-

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wealth. Some States at the Conference wished to have the section amended so as to enlarge their powers to establish marketing schemes, but the matter was found too difficult for immediate decision, and has been remitted for expert consideration by a committee representing all the governments. This development may perhaps turn out to be the most fruitful single step taken by the Conference.

II. RIOTS AT KALGOORLIE

A CAMBRIDGE man who went from Kalgoorlie to the Boer war has recorded that when homesickness visited him out on the veldt, it was not to England that his heart turned but to the red plains of Kalgoorlie. There is a charm about this city in the wilderness which is undeniable, although judged by all ordinary standards it is waterless. Before the water was brought from the coast, the local salt water had to be distilled. Then the genius of man laid a pipe 350 miles long, and water is now pumped that distance, to make possible in the desert baths, gardens and the amenities of civilisation.

The population of Kalgoorlie is far from homogeneous. In the mines are to be found men of British race, working beside Jugo-Slavs and Italians. The eating-house and refreshment business is largely in the hands of Greeks. Asiatic races are not represented to any important extent, there being a law against their employment on the mines.

"Foreigners" have lived so long on the fields that the children of many of them are already adult. These children are bilingual, speaking the language of their parents as well as English. As a rule, these people naturally become segregated in different national colonies. There are Jugo-Slav areas, and Italian areas. This segregation is intensified by the fact that hotel licences are given to naturalised British subjects. Thus there are hotels where Italian is the principal language used, and Italians the principal customers.

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Mrs. Rosa Giannitti was the proprietress and licensee of the Home-from-Home hotel, and to this hotel on Saturday, January 27, 1934, at about midnight, came George Edward Jordan, a young man well known in fire brigade circles. He was refused admittance, and about this time a window was broken.

Jordan again visited the hotel on the evening of Sunday, January 28, and had an altercation with the barman, Claudio Mattaboni. Jordan received a blow in the face and went away. Later he returned to the hotel; there was another altercation and Mattaboni again struck him in the face. This was outside the hotel, and Jordan fell backwards on the hard pavement, fracturing his skull. He was removed to the hospital and died the next morning. Mattaboni was arrested and has been committed for trial.

Rumour was very busy throughout the district that fateful Monday. Jordan was fairly well known, and it was said that he was stabbed, that he was stoned, that he was kicked to death. Medical evidence at the inquest indicated that Jordan's skull was unusually thin. People say that if only Jordan had had a normal skull, the riots would not have happened. They say that if the hotel had been closed, in accordance with the Licensing Act, that Sunday, the events leading to the riot and the riot itself would have been avoided. Here we must recall that Kalgoorlie has usually decided what part of the licensing laws it will observe. The Licensing Act provides for hours of closing and so on, and particularly forbids open house on Sunday. No Kalgoorlie hotel bothered to observe these restrictions. Even when the police used powers to order the closing of hotels while there was danger of rioting, one of the principal hotels carried on as if there were no order, and the proprietor was fined by the courts.

On Monday, January 29, Jordan died in the Kalgoorlie hospital, and that night a crowd of roughs and young hoodlums gathered near the Home-from-Home hotel. Presently a stone was thrown, and the crowd became active.

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It broke windows, looted the bar, set fire to bedrooms. The fire brigade was called. The crowd interfered with the brigade, obstructing the firemen and chopping the hose with axes. Neighbouring houses, also Italian, were attacked, and then, for good measure, Greek establishments were included in the violence. The mob, gathering courage, proceeded to the neighbouring town of Boulder, where they gutted hotels and shops, in the presence of a large crowd of sightseers.

Next night, Tuesday the 30th, rioting broke out again. The mob assailed the camp of Jugo-Slavs at Boulder. The Jugo-Slavs defended themselves, using firearms. There was something in the nature of a battle near the Ivanhoe dump. One man was killed on each side. Six of the attackers were wounded. Up to this time the local police had done their best, but they were mercilessly ill-used, and there seemed to be little or no help from the citizens. By Wednesday the 31st, reinforcements of police were in possession of Kalgoorlie, and the riot was at an end.

The attitude of Kalgoorlie against "foreigners" is not easy to describe. Indeed it is full of anomalies. It is difficult to imagine the mines at Boulder without Jugo-Slavs and Italians, for these men are of wonderful physique and are great workers. Every now and again we hear of protests against the employment of "foreigners." Nevertheless, they are admitted to the unions, who have protested against the mob attacks on "foreigners" who were unionists. On the other hand, there were resolutions at meetings of miners against working with "foreigners."

Many people in Kalgoorlie believe that the "foreigners" bribe shift bosses and so secure jobs. The contention is that thus the sons of Australian miners are deprived of employment. If, however, officials are open to bribery, it is strange that the temptation only originates with foreigners.

The instant condemnation of the outbreak expressed by the Labour Ministry at present in power in Western

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Australia, and their prompt action to check it, did not win general approval from workers on the fields. Two members of the Ministry who happened to be in the neighbourhood immediately endeavoured to calm the troubled waters. Ultimately they made their influence felt in the councils of the unions, but at first they met only black looks and opposition. There is no saying what might have happened if the crisis had not been vigorously handled by the police. The intended or unintended results of the mob's action might have crippled the town, and this should have been clear to the thinking men in the unions, yet the action of the Government in sending police reinforcements from Perth to Kalgoorlie received nothing but condemnation in union utterances.

The result of the outbreak has been to strengthen the hands of the police department, which has viewed the growth of hooliganism with increasing disfavour. The Licensing Act will now be as strictly enforced on the fields as anywhere else. The proceedings taken as the result of casualties and offences have been accepted without comment. The police are greatly hampered, however, by the difficulties of getting statements ; for the victims of the outrage are so intimidated that they are unwilling to incriminate anyone.

The damage done by the riots has been variously estimated. The only figure having official support is in the neighbourhood of £60,000. Consuls of the countries affected have already opened negotiations with regard to compensation for damage to property and persons. Italy sent £100 for the assistance of her nationals who had been involved.

In Kalgoorlie one hears of "foreigners" and "Britishers," the "foreigners" being those of foreign descent or foreign origin. For instance, in common use of the expression, no difference is made between naturalised Italians, alien Italians, and native-born British subjects of Italian descent. When it comes to international action,

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these anomalies are bound to cause difficulty and perhaps hardship. That there is any continuing vendetta between the various races is open to doubt ; for intermarriage occurs frequently enough not to be a novelty, and partnerships in the prospecting field cross the racial barrier fairly often. Normally, Kalgoorlie is an orderly, good-natured and easy-going community, and it may be expected to settle down to its rôle of the friendly town.

To the people of Australia in general the affair in its suddenness and magnitude gave a real shock. There had been no warnings of danger, and the outbreak appeared so much in excess of the incident from which it arose as to be rather mystifying. The press, both in its leading articles and in the letters of correspondents, was vigorous in condemnation of the riots and hearty in its sympathy with the victims. The feeling that the affair was "un-Australian" expressed at once amazement and shame.

Australia.

March, 1934.

SOUTH AFRICA: THE LION AND THE UNICORN

I. POLITICAL CHRONICLE

OUR last instalment of the chronicle of South African events ended towards the close of January, on the eve of the second session of the seventh Union Parliament. The ensuing three months have been marked by four events: Prince George's tour of southern Africa, a steady recovery of prosperity, the parliamentary session, and the often fiery debates, within and without the walls of the House of Assembly, on the Status Bill.

Of Prince George's visit it can be recorded with satisfaction that South Africans of all colours and political creeds were delighted to welcome their royal visitor, and believe that, in spite of the strenuous social duties he had to face, he enjoyed himself here. There can be no doubt about the return of prosperity. The rains that ended one of the worst droughts South Africa has ever experienced came in time to freshen up the country before Prince George saw it and to send honourable members up to Cape Town for the session in a more cheerful frame of mind than had at one time seemed possible. Conditions were and are improving daily in the countryside, where the rains are being seconded by the efforts of the taxpayer. Farmers' special relief, farmers' interest and mortgage measures, help for the Land Bank, export subsidies in great variety, are all contributing to keep the farmers on their feet. Gold-mining, our other great industry, is booming. The mines are offering more and more employment to Europeans and Bantu month by month; new areas are

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being leased from the State; new ground is being explored, old workings reopened, and even the dumps of tailings worked over; for the world price of gold makes it worth while to crush great masses of low-grade ore and promises a marked extension of life to the industry on which the present standard of living in South Africa depends.

Thus, with agriculture recovering and gold-mining going from strength to strength, the commercial and industrial communities have plucked up courage; there are signs of activity everywhere and unemployment has eased considerably. On the other hand, the diamond mines of Kimberley and Pretoria, for which South Africa has so long been noted, are in a condition of suspended animation, and throughout the country the effects of the strains of the past few years are still apparent. The programme for the session and the budget alike reflect past stresses, present cares, and hopes for the future.

The Earl of Clarendon opened Parliament on January 26. The first part of the session that followed was occupied largely with committee work; it is only since the Easter recess that the results of these labours are being made known. A full statement of the work of the session must therefore stand over till the next number of *THE ROUND TABLE*; here it will only be possible to discuss finance and the Status Bill, and to indicate briefly the scope and nature of the rest of the work in hand.

The Speech from the Throne noted, as usual, the "friendly and cordial" relations that subsist between the Union and "other members of the Commonwealth and foreign nations." The cordiality was emphasised by the election of our High Commissioner, Mr. Charles te Water, to the presidency of the Assembly of the League. It is, however, tempered by the fact that our trade agreements with our nearest neighbours, Mozambique and Southern Rhodesia, are both up for review, not without plain speaking on the part of the new Rhodesian Premier, Mr. Huggins, to which His Excellency tactfully refrained from referring.

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Next, and still on the plane of high politics, three Bills were promised

to bring the Union's legislation into harmony with the present constitutional position and to regulate the King's acts as Head of the Executive of the Union and the use of Royal Seals in connection therewith.

The chiefest of these Bills is the Status Bill, which is dealt with in the next section.

Perhaps half the Speech dealt, significantly, with the troubles of the farmers. Ours is predominantly an agricultural community—overwhelmingly so if the non-Europeans be taken into account, as they ought to be—and what with drought, floods, foot-and-mouth disease, locusts, fallen world prices, the contraction of home markets, and, too often, riotous living on the *platteland* at times when silver was nothing accounted of, the farmers have been hard hit. Moreover, as a recent Economic Commission has shown, the roots of unemployment lie in the rural areas. Hence the emergency measures of agricultural relief adopted in 1933 are to be continued, including the strict limitation of the amount of interest claimable under the Farm Mortgage Interest Act of that year. There is also to be a state-aided, very nearly a state-financed, campaign against soil erosion as well as provision for assisted irrigation, land settlement, rural education (both general and agricultural), the further extension of public health services into the country districts, where it is badly needed, and an overhaul, needed equally badly, of the systems of rural co-operation and credit. At the urban end, there is to be a determined effort, accompanied perhaps by pressure, to induce municipalities, tenderers for government contracts, and other public or semi-public employers to employ more white labour, if possible on a fifty-fifty basis; the coloured folk will come in with the white as part of the civilised labour force of the country, and the redundant Bantu are to seek their livelihood on the land, whether

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their own or other peoples', and in the gold mines, where, for the moment at all events, the demand for their labour is keen. Further, Mr. Hofmeyr, Minister for the Interior, has drafted a Slum Clearance Bill which should strengthen the hands of municipalities in dealing with that evil. For the rest, legislation is promised covering workmen's compensation, insolvency, liquor, criminal procedure and evidence, while General Smuts, Minister of Justice, has introduced a General Law Amendment Bill, a consolidating measure which will bring the laws of the four provinces more closely into line with one another and relieve our judges of many of their present perplexities.

Finance always comes last and unobtrusively at the end of any Speech from the Throne; but since Parliament originated in and still lives by finance, it is fitting that finance should have pride of place in any detailed account of a parliamentary session. The Union has two budgets: one for general purposes, the other for the state-owned railways and harbours. In presenting the latter, Mr. Pirow stated that the surplus on last year's working was a little under £1,000,000, to which must be added a fortuitous £300,000 arising from the sale of stock. This surplus will reduce the accumulated deficit to about £2,500,000, and has already enabled the Minister to restore most of the cuts in wages, and encouraged him to hope that in the coming year it will be possible to spend an additional £1,500,000 in wages, to restore normal working hours, to set all the shops going again at normal pressure, and to embark on a ten years' scheme for straightening and otherwise improving our main lines, at the ultimate cost of another £10,000,000. Meanwhile, the railway administration has taken over the pioneer, but bankrupt, Union Airways, Limited, thereby enabling the Minister to co-ordinate air and rail transport, and strengthening the Union government's hold on the power of the air, which is destined to play an increasingly important part in the affairs of southern Africa.

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The general budget is the most cheering that Mr. Havenga, our Treasurer, has been able to present for several long years. Thanks to the recovery of business, and above all to the large revenues that flow in from the gold mines, the revenue for 1933-34 amounted to nearly £40,000,000, which was about £3,500,000 above the estimate. Since expenditure had been kept within the limits assigned, less by rigid economy than because the amount earmarked for relief of interest on farm mortgages had been over-estimated by more than £1,000,000, the net surplus, after £1,914,000 of accumulated deficit had been extinguished, was £4,510,000. Mr. Havenga, however, prudently declined to utilise this for the remission of taxation. Rather he proposed to use it to wipe out the memory of certain desperate measures that were taken a year back. Of the amount derived from leased gold mines, £1,900,000 goes back to the account from which it was then borrowed, for our mines are after all a wasting asset; £1,000,000 goes towards clearing off the deficit on the pensions fund; £650,000 goes via the Land Bank to help credit and co-operative associations, and £960,000 to the humdrum redemption of public debt.

The estimated revenue for the current year is £36,796,000 and expenditure £33,988,000. The estimated surplus is therefore £2,808,000; but since the budget figures are based on the situation as it was some months back and revenue is still rolling in most encouragingly, it is safe to prophesy that, barring accidents, the estimate will be exceeded. Of this surplus, £287,000 is to be carried forward, but the rest is to go in remission of taxation. First, income tax payers are to receive a primary abatement of £400 instead of £300, and a rebate of 20 per cent. on what remains. The budget next gives restoration of the penny inland and Commonwealth postage, and reduction of other stamp and telegraph charges; the abolition of quit-rents on farms; a slight but very welcome reduction of customs duties on tea, coffee, rice and sundries; and,

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better still, the promise that though the export subsidies that weigh so heavily on most of the foodstuffs of the country, are to continue in full force till June 1, 1935, thereafter they will be diminished by one-third annually and will disappear, let us hope for ever, in the middle of 1937. It is an open secret that but for the dislocation that would have been caused by the sudden cutting down of these subsidies, the Government would have gone much further and faster than it actually proposes to do. For the same reason the Government has dealt gently with the customs tariff, in which revenue and protective duties are most unscientifically interlocked. It is good to know that it is undertaking a thorough overhaul of the whole confused and burdensome system.

Behind and around the discussion of these financial and other measures, a controversy has raged upon the international status of the Union and the future relations of the parliamentary parties to one another. The two issues are intimately connected. The political situation is governed by the fact that the two great parties, the almost exclusively Afrikaner Nationalist party led by General Hertzog, and the mixed British and Afrikaner South African party led by General Smuts, are working together in a pact or coalition, and are contemplating fusion. But a strong section of the Nationalists, strongest in the Cape province, has rallied to Dr. D. F. Malan, ex-Minister of the Interior, and gives the Ministry its support only so long as it maintains "sound national principles." The programme of the projected new fusionist party will be announced towards the close of the session at the end of May. It remains to be seen how far it can be made acceptable, on the one hand, to the small "Old Unionist" wing of the South African party, and, on the other, to the much more numerous Malanite wing of the Nationalist party. Some indication of the difficulties involved has been given in the debates which have recently taken place over the Status Bill.

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II. THE STATUS BILL

THREE years have elapsed since the last full dress debate in the South African Parliament on the constitutional relations between the Union and the British Commonwealth. The occasion then was the submission of the draft of the present Statute of Westminster for the approval of Parliament, and the debate revealed considerable divergence of opinion regarding the effect that the Statute would have upon the status of the Union. The Prime Minister and his Nationalist followers were emphatic in declaring that it involved the right of secession and neutrality, while the members of the South African party were equally emphatic in maintaining that the unity of the Empire remained unimpaired. Ultimately the House of Assembly approved of the draft "on the understanding that the proposed legislation will in no way derogate from the entrenched provisions of the South Africa Act." This understanding is purely conventional, as no reference thereto is to be found in the Statute itself. General Hertzog, in accepting this amendment, which had been moved by General Smuts, was grateful "to have come to finality with regard to our constitutional freedom."*

But "finality" in South African constitutional issues, as our past history shows, is an ideal difficult of attainment. Since 1912, when the Nationalist party came into being, constitutional issues have been the main dividing line between Government and Opposition in Parliament. For the last twelve months the bitterness of party strife has been stilled by coalition, yet in the foreground of the "seven points" upon which the coalition was built stood the maintenance of the Union "as a national unit on the basis of the sovereign independence that had been guaranteed to it by the Statute of Westminster."† The

* See THE ROUND TABLE, No. 84, September 1931, pp. 913-914.

† See THE ROUND TABLE, No. 91, June 1933, p. 689.

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success of coalition gave rise to a movement for the permanent fusion of the two parties; but this march towards fusion has, to say the least, been gravely impeded by the attitude of Dr. Malan and his followers, who hold that fusion with a South African party that includes the "Old Unionists" would be a betrayal of Afrikaner traditions and a surrender to the forces of capitalism and imperialism. At the same time, Dr. Malan is anxious to reunite the two sections of the Nationalist party before the programme of the projected new party is drawn up finally—a desire which General Hertzog, the creator of the Nationalist party, naturally shares. It follows that, if this end is to be achieved and a future split in the Nationalist party averted, the programme of the new party must be such that the Malanites can accept.

Early in the session, these issues were raised in correspondence that passed between the Prime Minister and Mr. F. C. Erasmus, secretary of the head committee of the Nationalist party in the Cape Province, Dr. Malan's stronghold. Both agreed that room must be found for all "Afrikaners," whether English- or Afrikaans-speaking, who shared the same inner convictions; General Hertzog emphasised the point that those convictions must be the test of Afrikanerhood, and not blood and speech as so often in the stormy past. The committee then asked that sovereign independence be so described in the programme that there can be no mistaking its meaning; that the right to make republican propaganda be entrenched; that within a reasonable time steps be taken to appoint a South African as Governor-General, to abolish appeals to the Privy Council, to make nationality square with "sovereign independent status" as defined above, and, generally, to eliminate all "constitutional anomalies." Finally, they asked that their reading of the Statute of Westminster be accepted, to the effect that the Crown is divisible, and that the Union has the right of neutrality and, in the last resort, of secession.

General Hertzog replied that everyone would be free to

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advocate republicanism, monarchism, fascism or anything else; that he was already considering the problem of nationality, and was ready also to consider the abolition of appeals as soon as certain business already in the hands of the Judicial Committee had been disposed of, and the appointment of a local citizen as Governor-General as soon as there was a popular demand for it. He stated further that though, since 1926, he himself had never doubted the reality of sovereign independence, the divisibility of the Crown, and the twin rights of neutrality and secession, he feared that any attempt to define these things would lead to confusion rather than clarification, and might even suggest that South Africans doubted their reality.

The Cape committee obviously did not relish the Premier's ranking of republican propaganda alongside so many other forms of political activity; but they jumped at his admission that he believed in the divisibility of the Crown and the rights that arose therefrom, and also at his assurance that the measures which the Governor-General had announced at the opening of Parliament "to bring the Union's legislation in harmony with the present constitutional position" would be in accord with the idea of sovereign independent status. Meanwhile, to resolve the doubts and even alarms to which the publication of this correspondence had given rise, Generals Hertzog and Smuts exchanged letters which made it crystal clear that the Hertzog-Erasmus pour-parlers were a domestic matter, designed solely to close the breach in the ranks of the Nationalist party and in no sense to define the platform of the projected new party. The programme of that party must still be drawn up by the leaders of the two great parties and confirmed by their respective party congresses. "As to the divisibility of the Crown," wrote General Hertzog, "the right of neutrality and the right of secession, they are matters of interpretation upon which we differ."*

The publication of the Hertzog-Erasmus correspondence

* *The Cape Times*, February 19, 1934.

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on the eve of the introduction of the Status Bill and its two allied measures undoubtedly created a false impression of their object and nature. Rumours were soon current that the Bills would abolish British citizenship in the Union, proclaim King George as "King of South Africa," and destroy the last constitutional safeguard of the provincial system by depriving the King of his veto. Protest meetings were held in Durban, East London, Johannesburg and several lesser centres on the ground that the Status Bill was "destructive of our liberties." The omission to publish these Bills in the Gazette before their submission to Parliament, as is customary, encouraged extravagant criticism under an erroneous impression of their contents, all the more as it was not known at the time that the delay in publication was due to the necessity of consulting His Majesty.

The Status Bill was introduced in the House of Assembly on March 22. It is an instrument "to provide for the declaration of the status of the Union of South Africa, for certain amendments of the South Africa Act, 1909, incidental thereto, and for the adoption of certain parts of the Statute of Westminster." The preamble, after referring to the resolutions of the Imperial Conferences of 1926 and 1930, and more particularly to the well-known "Balfour formula" on Commonwealth relations adopted in 1926, proceeds to define the status of the Union "as a sovereign independent State as hereinbefore defined." Clause 2 declares that the Parliament of the Union is the sovereign legislative power in and over the Union and that no future Act of the Parliament of the United Kingdom shall apply to the Union "unless extended thereto by an Act of the Parliament of the Union." Clause 4 vests the executive government of the Union in its domestic or external affairs in the King, "acting on the advice of his Ministers of State for the Union"; any reference in the South Africa Act and in this Act to the King shall be deemed a reference to the King acting on such advice.

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These are the crucial clauses of the Bill. Among other provisions around which controversy raged are the abolition of reservation ; the deletion of the words " of the United Kingdom of Great Britain and Ireland " in reference to the King's title in the oath of allegiance to be taken by members of Parliament ; and the substitution of " Union national " for " British subject " in those sections of the South Africa Act that define the qualifications of members of Parliament. The last two modifications, when divorced from their context, seem drastic enough, but it is difficult to disagree with the ministerial interpretation of their meaning and effect. The words deleted from the oath of allegiance to be taken by members of Parliament are redundant, because it is patently clear from another section that the King referred to is the King of Great Britain and Ireland as by law established. The substitution of " Union national " for " British subject " involves no real change, since every British subject who could qualify for membership of Parliament under the South Africa Act would become a Union national under the existing law of the Union. The distinction between domicile and residence is too slight to affect the issue for this purpose, and in any event the clause refers only to the qualifications necessary for membership of Parliament.

The Bill was sponsored on behalf of the Government by Mr. Oswald Pirow, Minister of Railways and Defence, the best " neutral " on the ministerial side and the only Nationalist member of the Cabinet who took part in the debate on the second reading. The case for the Government was that the Bill went no further than a declaration of the existing relations of the Union and the Commonwealth ; that it did not in one iota go beyond the resolutions of 1926 and 1930 and the Statute of Westminster ; that it did no more than " dot the i's and cross the t's," and was in no wise influenced by the Erasmus-Hertzog correspondence. General Smuts, in one of the most impressive speeches of his long career, did much to allay doubts and

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suspicions in stressing this view. Sovereign independence, he asserted, meant no more in the Bill than what was implied by the " Balfour formula," the essence of which was the " equation " between Great Britain and the Dominions. He made no secret of the fact that on secession, neutrality and a republic " he stood absolutely where he stood before." No member of the Cabinet advanced the contrary view. The silence of the Prime Minister was significant.

The opposition to the Bill was led, not by a Natal member as might have been expected, but by Colonel C. F. Stallard, a South African party front-bencher and a member for a Witwatersrand constituency. In his opinion the Bill went beyond the resolutions and beyond the Statute of Westminster. It was a matter upon which the other members of the Commonwealth should have been consulted. Clause 4, he maintained, was revolutionary. It destroyed the personal prerogative of the King, it did away with the flexibility of the Constitution and upset its equilibrium. General Smuts, however, contended that the King in his executive government, by what has long been a binding constitutional usage, exercises his powers only on the advice of his Ministers, and that all that the Bill attempted to do was to bring the legal relationship into harmony with existing practice. General Smuts admitted that the King may choose a Prime Minister on his own authority and that there were plausible grounds for assuming that in certain circumstances his personal discretion might be exercised in dismissing a Ministry or even in dissolving Parliament.

In winding up the debate, Mr. Pirow announced that he would move in Committee amendments to clause 4 whereby the reference to the King as acting on the advice of his Ministers would be qualified by the words, " save where otherwise expressly stated or implied," and that the existing constitutional conventions affecting the Governor-General in his choice or dismissal of Ministers,

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and the summons, prorogation and dissolution of Parliament should remain untouched. These amendments will go far to remove the objections to the diminution of the Royal prerogative, for it is a moot point whether the personal prerogative survives in any other sphere. It is perfectly clear that the King cannot declare war or make a treaty without the co-operation of his Ministers, but it is by no means clear whether he cannot refrain from action though advised to take it. Mere inaction is not equivalent to action ; the Ministers would have the constitutional option of resignation. The standpoint of Colonel Stallard and his few supporters was that the translation of a usage into statute law was a material change, for disuse does not destroy the legal efficacy of a constitutional right. The King's personal prerogative may be dormant, but it might come into play in time of emergency, for instance if his Ministers should give him unconstitutional advice. They maintained that the ministerial amendments did not go far enough, and in Committee they pressed staunchly for the preservation of all the royal prerogatives, known and unknown. They fought to the last ditch through an all-night sitting.

As a sop to sentiment the Government restored the reference to " British subject " by specifying in the section dealing with the qualifications of members of Parliament that Union nationality may be acquired *inter alia* by domicile as a British subject.

Objection was raised in some quarters to the retention of the title of Governor-General for the representative of the King, on the ground that it savours of past subjection. These purists might well be reminded that the title of Governor is still used by the executive Heads of the American states, although a century and a half has elapsed since their secession from Great Britain. A more important issue, which does not arise directly from this Bill but is bound up with its principles, is the need for clarifying the present status of the Governor-General. As the repre-

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sentative of the King he is empowered to exercise most of the functions of the monarch ; nevertheless he is not immune from legal process in his personal or political capacity. The prestige of the office still stands high in the Union, but the strong and very natural desire that in the near future the Governor-General should be chosen from our own citizens might conceivably weaken that prestige. The example of Ireland is too patent to be ignored. It might well be considered before the break with existing usage has taken place whether the Governor-General should not be given security of tenure for a specified period and immunity from legal process during his continuance in office.

Since the Status Bill is primarily declaratory of our claim to full nationhood, the debate in the House has necessarily been confined to its effect upon our external relations. The internal aspect has received much less attention. Yet the abolition of reservation has an internal as well as an external effect. The Union constitution is flexible, yet not so fully flexible as that of Great Britain ; for the South Africa Act entrenched some of its clauses by requiring for their amendment a two-thirds majority at a joint sitting of both Houses. It also attempted, by the device of reservation, to give stability to some institutions, such as the provincial Councils, and to safeguard certain principles from sudden changes, *e.g.*, the provisions relating to the House of Assembly. The practical value of reservation as a safeguard has admittedly been slight, as the royal assent has not been withheld from a reserved Bill since Union, but it has always been incumbent upon the Government to proceed warily, and so far no amending legislation affecting the provinces has been brought in without full consultation and some measure of agreement with the provincial authorities. The Government has recognised that the abolition of reservation would derogate from provincial rights, and has readily agreed to bring in an amending Bill for their better safeguarding ; but it is arguable that

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many other clauses of the Act of Union that have hitherto been subject to reservation are likewise entitled to some alternative safeguard. Incidentally it may be noted that the right of appeal to the Privy Council has not been in any way impaired by the Status Bill.

Dr. Malan was unfortunately ill in hospital during the debate, but his immediate followers, several of whom are avowed republicans, spoke and voted in favour of the Bill because they professed to see in it the divisibility of the Crown and the declaration of our sovereign international status with the right of secession and neutrality. With regard to neutrality, however, the Minister of the Interior, Mr. J. H. Hofmeyr, made it perfectly plain that if neutrality is used in the sense of passive belligerency we have possessed and exercised that right since 1914 ; but that neutrality in the international sense is inconsistent with our membership of the Commonwealth.

Perhaps the most unsatisfactory feature of the debate was the diverse interpretations that were given of what the Bill involved. Was it desirable to place on the Statute Book a measure upon whose fundamental implications its supporters were at variance ? Not that the Bill was hastily or carelessly drafted.

If ever a Bill (said General Smuts) was drafted in Cabinet by the whole Cabinet, this is the Bill. Some of the most contentious clauses, some of the clauses over which controversy has raged most hotly, emanated from the members of the South African party in the Cabinet.

This latter statement is puzzling but not illuminating. In justice to the members of the South African party in the Cabinet it must be said that they did not differ among themselves upon interpretation and that they left the country in no doubt what interpretation they placed upon the contentious issues.

The Bill was given a second reading with only seven dissentients, proof not merely of the solidarity of the

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Cabinet but of agreement by the vast majority that the Bill will promote racial peace and bring fusion a step nearer. That fact was emphasised by prominent speakers towards the end of the debate. Dr. Bremer, leader of the Cape Nationalists in the absence of Dr. Malan, insisted that

the matter is not one of politics, but one of natural development which has to be recognised by all who are prepared to co-operate. There is in actual fact no such thing as the British Empire—it is the British Commonwealth of Nations, and together with our fellow citizens of the English race, we can be proud of that association. We recognise the advantages of belonging to the Commonwealth, but we have reached a position of independence, and I think we must seek our future in developing ourselves in such a way that we shall be of importance in the world as well as in the Commonwealth.

To which General Smuts replied :

This is the sort of solution that if . . . I were a dictator, I would dictate. . . . We have had two roots of bitterness in the past ; one root was racial and the other was constitutional. The racial root is withering. . . . Let us cut the other root too. To a large section of our people their pride is not only a national pride, but a personal pride. We shall never have peace in South Africa until we satisfy that. We must settle it. . . . Whether it is neutrality or secession or any of these things, they will be decided not by legal documents nor by the phraseology of a Bill like this, but by the ordeal of facts, of great events which might shake not only this country, but even the world. But sufficient unto the day is the evil thereof. Wise men leave these things alone.

Political opportunism was at a discount during the debates. Several members from constituencies where feeling ran high against the Bill risked their political future by voting for it. There is a strong belief that the old party feuds are dead. A significant illustration of this fact was seen during the budget debate, when one of the two Roosite members in the House joined hands with the Labour party, giving as one of his reasons that in future party alignments would run on economic and not on racial lines. This is all to the good, and by the same token

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Mr. Tielman Roos himself, the sometime leader of the Transvaal Nationalists whose return to politics at the close of 1932 did so much to push the two great parties into coalition, has since declared war on the Ministry for wasting time over status and neglecting the economic troubles of the people.

There is just time to record that Mr. F. C. Erasmus, arrayed in an orange shirt, attended a meeting of Cape Junior Nationalists in Cape Town one night in April to discuss a programme that bears many resemblances to the programmes we have learned to associate with shirts.

Meanwhile, secession and neutrality are issues that by their very nature cannot be determined on legal grounds. Good will, mutual advantages, common interests are the "silken cords" that can alone hold the Commonwealth together. Should these fail, nothing else will succeed. This is the answer to the conundrum, what would happen if the King received conflicting advice from different parts of the Empire.

III. THE LATE PRESIDENT REITZ

IT has been claimed for the Status Bill that not merely in its affirmation of South Africa's freedom, but also by virtue of its having been sponsored by British no less than Dutch political leaders, it will do much to weaken the hold that the republican ideal has upon a section of the population of the Union. Apart from that, it has often been observed of late that republicanism has been losing its appeal, and that it is no longer possible to set the veld aflame with the republican cry, as it would have been even ten years ago. A Nationalist Minister in the Coalition Government has indeed gone so far as to describe agitation for a republic as a bad joke.

It is against this background that one notes the snapping of one of the few remaining personal links with the old republican governments. With the death of President F. W. Reitz,

The Late President Reitz

the last of the South African Presidents has departed. Kruger has gone, Steyn has gone, and now Reitz, in his ninetieth year, having outlived his generation, has also gone. Of those who were members of republican Governments only Dr. Leyds in Holland and General Smuts in South Africa survive. Several of the men who came to prominence during the Boer war period still remain—but within no very lengthy term the post-war generation will be governing South Africa.

Reitz was a worthy representative of his period, a period during which South Africa was rich indeed in the greatness of its men. In history, more particularly the history of the Orange Free State, he marks a transition; moreover, he was the embodiment in his own person of two of the great conflicting tendencies in South African affairs. Like Sir Jan Brand, his predecessor as President of the smaller of the two republics, he was born a British subject, in the old Cape Colony. Like him he graduated through the law to the headship of his State. Like him his prevailing policy as President was one of friendship with the Cape Colony (also therefore with Great Britain), with a united South Africa in prospect, coupled with unwillingness to associate himself with the isolationist ideals of his fellow President, "Oom Paul" of the Transvaal. But Reitz was more of a sentimentalist than Brand, and his keen sense of the distinctiveness of the Afrikaans-speaking people in South Africa made him susceptible to the hostility that was engendered by the adoption by Great Britain of policies offending that sense. Brand's policy remained substantially unchanged by the shocks of the annexation of the diamond fields and the Shepstone adventure of 1877. Reitz was less stable in his adherence to his earlier policy. Already during his presidency he sometimes deviated from it towards closer co-operation with Kruger. Later, when ill-health had compelled his resignation, and when, after his recovery, he had become State Secretary of the Transvaal, his counsels during the critical days of 1899 were not

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counsels of peace, and there were few who felt as keenly as he did the bitterness of the struggle that followed and the manner of its conclusion.

After the Peace of Vereeniging, indeed, he refused to remain in South Africa as a British subject, and became a wanderer in other lands. Later, under the influence of time and of General Smuts, he allowed himself to be reconciled to the new order, and again played a part in South African affairs. The war had left its mark on him physically, and indifferent health was the companion of his later years—even so he filled with distinction the office of President of the Union Senate during the first ten years of Union.

With his passing, South Africa has lost one of its choicest personalities, a man kindly, courteous, and with a keen literary sense—never happier, for instance, than when translating a poem of Burns into racy Afrikaans—an historical figure, who not only made history in South Africa, but who in large measure summarised in his career the history of his time ; a fitting representative of the type of cultured South African “ Boer ” at its best, illustrating all the finer qualities and some of the defects of his people. One of the sons who survive him, a worthy son of a worthy sire, is Colonel Deneys Reitz, the author of *Commando* and *Trekking On*, and a member of the Coalition Cabinet, in which those tendencies would appear to have been brought into harmony, that fought for the mastery in the old President.

South Africa.

April 28, 1934.

NEW ZEALAND AND SOME EMPIRE PROBLEMS

I. THE TRADE IN DAIRY PRODUCTS

THE most difficult and most immediate problem that the Government has to face is what action to take with regard to the proposed quantitative restriction of imports of our dairy produce into Great Britain. When the Prime Minister and the Minister of Industries and Commerce attended the World Economic Conference of 1933, strong pressure was brought upon them by representatives of the British Government to consent to the revision of the Ottawa agreement without waiting for its expiry in November, 1935, so as to enable the British Government to impose quotas on (*inter alia*) Dominion dairy produce. Obviously no Ministry, particularly one so dependent upon the vote of the farmers, could even contemplate asking the Dairy Produce Control Board to make such a suggestion to the dairy farmers of this country. At the same time courtesy as well as self-interest put a curt refusal out of the question.

It was therefore unofficially arranged that Mr. Thomas Baxter, a past president of the National Farmers' Union, and since chairman of the new Milk Marketing Board, should come out to New Zealand, on the invitation of our Prime Minister and with the concurrence of Mr. Elliot, the British Minister of Agriculture, to place before the farmers of the Dominion the views of British farmers. Mr. Baxter interviewed farmers and the Dairy Board, gave an informal address to members of Parliament, and was

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cross-examined in a two hours' conference. His message was thus summed up in one of his speeches: "Our market is saturated and we do not want you to send us any more." His concrete proposal was that New Zealand dairymen should agree to a reduction of 10 per cent. in the amount of cheese exported by them, approximately 10,000 tons, this restriction to be preliminary to a restriction at a later date upon the importation of butter.

The case for the dairy farmers that was made in answer to Mr. Baxter may be thus summarised:

(a) Such a restriction on the export of cheese would penalise New Zealand only, and as the importation of cheese into the United Kingdom has been practically stationary since 1925, this factor cannot be the cause of low prices of milk.

(b) Any reduction in the export of cheese would damage the New Zealand dairy industry as a whole; for many farmers who have developed herds eminently suitable for cheese-making would be detrimentally affected by the swing-over from cheese to butter, and some factories would have to close down.

As to future restriction of butter imports, Mr. Baxter's attention was called to the fact that as the dairy industry is responsible for 45 per cent. of the Dominion's income from exports, such restriction would make it impossible for her to meet her obligations to Great Britain. By far the greater part of the land available for farming is suitable only for dairying, and much is still in process of development. Unless this development can be continued—and New Zealand's financial obligations have been undertaken on a certain basis of planned development of the country—the whole financial structure of the industry will break down and a state of financial paralysis ensue.

The whole system of quota restrictions is retarding the recovery of normal conditions in world trade. There were some who said that saturation point had been reached in butter consumption in 1926, when the consumption of butter in Great Britain was 5,500 tons per week, whereas the average consumption at the present time is 9,000 tons per week. By the development of the Dominion and the

The Trade in Dairy Products

supply of large quantities of high-class foodstuffs at reasonable prices, the cost of living in the United Kingdom has been kept down and its great industrial development aided. The restriction of output in New Zealand will endanger a large amount of British capital, the security for which is dependent upon the improvement and more profitable use of large areas of undeveloped land.

Apparently, from what Mr. Baxter said during his visit, the British Government is averse to reducing the large quantities of low-grade condensed milk and milk powders coming from foreign countries, or to restricting in any way supplies of margarine. These were possible steps suggested in New Zealand, where it is considered that restriction of imports of butter, leading to increased prices, will bring about the further development of margarine production and importation. It is maintained that practically the only advantage that dairy producers have derived from low prices is the increased consumption of butter, with a corresponding decrease in the consumption of margarine. A deadlock was therefore reached.

On the one hand, the Ottawa agreement precludes Great Britain from restricting Dominion dairy produce imports except by voluntary arrangement, while Great Britain's trade agreements with foreign countries, under which certain guarantees have been given, prevent her from acceding to the demand of the Dominions that she should first cut her foreign supplies. On the other, here we have an established industry, upon which the country is largely dependent, with specialist machinery and marketing organisation, efficiently developed in one direction and unable to direct its output into other channels without the expense of scrapping its present plant and re-equipping itself. And if that industry diminished the cheese supply and concentrated more upon butter it would find the market "thrown open to the four ends of the earth."

The unofficial envoy's mission having failed, negotiations were resumed between the Governments. Their content

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was eventually disclosed by the Prime Minister to a conference held at Wellington on March 13 and attended by the Prime Minister and several members of the Cabinet, together with representatives of the New Zealand Dairy Produce Control Board, the New Zealand Farmers' Union, the National Dairy Association, the South Island Dairy Association, the New Zealand Dairy Produce Exporters' Association, the New Zealand Free Marketing Association and the nine wards constituting the electorate of the Dairy Board.

The cablegrams that Mr. Forbes communicated to the Conference contained a definite declaration of British policy to regulate the United Kingdom market, in order to increase price levels and thus alleviate the position of the home producer; they also gave details of the Milk Marketing Board's scheme. The New Zealand Government asked whether the adoption of practically a free tariff, so far as British goods were concerned, would enable New Zealand to obtain the free entry of her produce to the British market. The British Government replied that tariff and quota problems were quite separate and that the British Government was already committed to a policy of regulation of imports. In addressing the meeting the Prime Minister declared that the question of regulation was out of the way for the next two years, until the expiry of the Ottawa agreement, but Mr. Coates, the present Minister of Finance, and leader of our delegation at Ottawa, called attention to the provision in the agreement that—

In the event of circumstances arising which in the judgment of either Government necessitate a variation in the terms of the agreement, the proposal to vary those terms shall form the subject of consultation between the two Governments.

He pointed out that once the British Government had embarked on a policy it did not turn back, and he urged that they should endeavour to reach a friendly agreement. He also pointed out that Great Britain would not make a

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separate agreement with New Zealand and leave the other Dominions out; for the traditional policy of the United Kingdom was to discuss questions with the Dominions as a whole.

Eventually, resolutions were passed by the conference in favour of a stabilisation scheme for the local butter market, of taking steps to improve both the quality of New Zealand butter and cheese and the marketing conditions for them in the United Kingdom, of accepting the invitation of the British authorities to a round table conference to discuss the future development of the industry, and referring to the Dairy Board, in conference with the Government, the question of sending a delegation to the United Kingdom.

Various committees were then set up to report direct to the Government. They recommended, first, a subsidy to the dairy farmer of 2d. a pound on butter fat, or, alternatively, an advance of a similar amount to the industry, to be provided in the following manner. When the general average price for butter fat exceeds 10d. per pound by at least $\frac{1}{2}$ d. per pound, the Government shall collect a levy of $\frac{1}{2}$ d. per pound until the full advance has been repaid. Other recommendations were the immediate reduction of farm costs through derating, a reduction in interest rates, a reduction in tariffs, and thorough rationalisation of the industry. Finally, it was proposed that the Government should set up a Royal Commission to examine ways and means of improving the efficiency of the dairying industry.

The Conference between the Cabinet and members of the Dairy Board concluded on March 23, when the Prime Minister announced that the Board would meet as soon as possible to discuss the representations to be made to the United Kingdom authorities. The Board would submit specific plans to the Cabinet, which would then decide whether it would agree to the sending of a delegation. It had been proposed that the latter should consist of a Cabinet Minister and two representatives of the dairy industry. Mr. Forbes hoped that it would be possible to

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bring about such an improvement in price levels that the question of a subsidy would not arise.

II. SHIPPING SUBSIDIES

ANOTHER question that calls urgently for prompt action is the protection of Australian and New Zealand shipping in the trade between North America and New Zealand and Australia—and also between the British countries, Fiji, New Zealand and Australia—from the subsidised competition of United States vessels. This competition, which threatens the very existence of the New Zealand shipping service, cannot be overcome by unaided private enterprise.

The question has two aspects, the general imperial one, namely, the threat to British shipping generally from the highly subsidised vessels of the United States, Japan and Italy; and the more domestic one of the trade between New Zealand, Australia and Fiji. Concerted action is obviously required, but although the matter has been publicly ventilated and brought to the attention of the Governments of Great Britain, Australia and New Zealand, so far we have had to suffer “the humiliation of our abject submission to such an attack”—to quote the words of the chairman of the P. and O. company, in exhorting the executive and officers of the Union Steamship company to “keep the red ensign of Britain on the seas in the face of the worst storm that has ever threatened British shipping.”

The question is more than one of imperial prestige. The existence of the British Commonwealth depends upon a strong British mercantile marine protected by an adequate British navy. But where the interests of the Commonwealth conflict with those of the United States, we seem to be letting “‘I dare not’ wait upon ‘I would.’” Hence it is as well to set out in some detail the representations that were made to our Government on February 27 by the New Zealand Shipowners’ Federation.

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Shipping Subsidies

Aid to United States Ships

Financial aid is given to the United States shipping companies by their government by means of loans for building and subsidies for running ships, as well as by statutory protection against the carrying of passengers or merchandise by foreign vessels between their own ports.

The Matson Navigation company of San Francisco, now trading between San Francisco, Fiji, New Zealand and Australia, and its subsidiary, the Oceanic Steamship company, have been granted loans for the building of three 20-knot steamers, each of about 18,000 tons gross register, the *Mariposa*, *Monterey* and *Lurline*. The last has just been finished, but owing to the depression is not yet entering upon the service. Subsidies (into which mail carriage scarcely enters) are granted to the Oceanic Steamship company for a service between San Francisco and Sydney, via Honolulu, Pago-Pago, Suva and Auckland for the *Mariposa* and *Monterey*; and also for a monthly service of cargo steamers from San Francisco and Los Angeles to Australia via New Zealand run by the Oceanic and Oriental Navigation company, which is owned jointly by the Matson Navigation company and the American-Hawaiian Steamship company.

The total annual monetary assistance given by their government to the United States vessels across the Pacific to New Zealand and Australia was stated to be as follows:—

Interest saved on loans—	£ (at par).
<i>Mariposa</i> and <i>Monterey</i>	108,189
<i>Lurline</i>	68,050
Subsidy to passenger line (four-weekly)	203,207
Additional subsidies when three-weekly service commences	62,526
Subsidy to New Zealand cargo service (now discontinued; formerly £34,879)	—
Subsidy to Australian cargo service (now via New Zealand)	43,349
Annual total	£485,321

or, omitting the *Lurline*, £354,745.

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The subsidies alone are more than sufficient to pay the whole of the interest at 6 per cent. upon the proportion of the capital cost that was found by the company (one-fourth), plus the interest upon the loan from the government, and to leave each year a sum sufficient to wipe out the government loan in twenty years. The company therefore acquires the ships free of all mortgages to the State at the end of twenty years, having paid originally one-fourth only of their cost and having had interest at 6 per cent. upon this one-fourth for twenty years out of the State subsidy. *In other words, the shipping company has to meet no capital charges in connection with its ships.*

Comparison with British Vessels

British vessels in the San Francisco mail service are said to be paid in subsidies per annum :

From New Zealand	..	..	..	..	..	£22,500
From the Tahitian government	..	..	..	..	..	2,080

with the following addition, if the Vancouver mail service is taken into account :

From New Zealand	..	..	..	..	..	£18,000
From Fiji	..	..	..	..	..	5,000
From Canada (\$100,000)	..	..	..	..	..	20,548

These subsidies, insignificant by comparison with those granted by the United States government, are given for definite services in the way of mail carriage and trade facilities. The United States government also make a discrimination in mail poundage between their own subsidised vessels and foreign vessels.

The object of the ship subsidy of the United States was stated by the United States Postmaster-General* to be to compensate American shipowners for three things : the much higher cost of ship construction, the higher wages of American seamen, and the subsidies of other nations.

* *New York Times*, June 7, 1931.

Shipping Subsidies

These reasons, it is contended, are not valid against New Zealand and Australian vessels. In the case of the new Matson vessels any higher cost of ship construction is far more than covered by government loans of three-quarters of the cost at nominal interest, while the Oceanic and Oriental line cargo boats were purchased from the United States government Shipping Board at the low price of \$10.25 per ton dead-weight capacity.

As regards the wages, the following comparison of the monthly rates on the American vessels with local seamen's wages was made by the Federation :—

			Wages on Matson line converted at par.		New Zealand Wages.		Australian Wages.
Oilers..	..	..	£11 6 1		£15 3 6		£14 5 9
Firemen	..	..	10 5 6		15 3 6		14 5 9
Wipers	..	..	8 4 5		13 3 6		12 9 9
Sailors	..	..	9 15 3		13 3 6		12 9 9

Moreover, New Zealand and Australian seamen receive large additions to their wages in the way of overtime and holiday payments, averaging approximately 24 per cent. extra. No holiday pay and practically no overtime are said to be paid on American vessels.

Between 1885 and 1900 the Union Steamship company of New Zealand, in conjunction with an American firm, carried on a trans-Pacific mail service between Australia, New Zealand, Hawaii and San Francisco ; but in 1900 Congress extended the United States navigation laws to Hawaii, and the Union company had then to withdraw from that trade as it was debarred from carrying either passengers or cargo between Hawaii and San Francisco. Later, a service was established between Australia, New Zealand and San Francisco via Tahiti, but the Tahiti-San Francisco traffic is trifling compared with that between Hawaii and San Francisco.

The subsidised American cargo vessels to New Zealand and Australia are free to pick up cargo at Hawaii on their

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return voyage, whereas British trans-Pacific cargo vessels returning to America, in addition to being debarred from any portion of this trade, are now being seriously attacked in the limited traffic that still exists between Australia and New Zealand and United States ports. Further, the Matson trans-Pacific mail liners derive a large proportion of their revenue from United States-Hawaiian traffic, from which all vessels other than those of the United States are completely barred.

Practical Proposals

The subsidised vessels of the Matson line are now competing in the domestic trade, both passenger and goods traffic, between Fiji, New Zealand and Australia. Already one passenger and cargo vessel, the *Tofua*, has been withdrawn from the service between New Zealand and Fiji. What practical suggestions are made by the New Zealand Shipowners Federation? They propose, first, that British and Dominion governments should apply to themselves the preamble to the White-Jones Act of the United States, which paraphrased would read thus:—

That it is necessary for the national defence and for the proper growth of their foreign and domestic commerce that Great Britain and the British Dominions shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the great portion of their commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of Great Britain and the British Dominions; and it is hereby declared to be the policy of Great Britain and the British Dominions to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine.

Secondly, as a purely domestic action to be taken by the New Zealand government in conjunction with the government of Australia, the Federation ask that we should follow the American example and preserve our purely domestic trade for our own ships. The ships of a foreign country should be debarred from carrying pas-

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sengers or goods between British ports so long as British ships are debarred from trading between the ports of the country affected. In this they put forward no new principle. The government of New Zealand has statutory power, by sections 204-206 of the Customs Law Act, 1908, to adopt by order-in-council retaliatory measures—so far as treaty obligations permit, and subject to the Imperial Merchant Shipping Act, 1894—against the ships of a foreign country that prohibits or restricts the coastwise carrying of passengers or goods or which places British ships or their cargoes and British trade and navigation generally upon a disadvantageous footing by prohibitions, restrictions, duties or preferences. The retaliation may be designed so as “justly to countervail the disadvantages” to which British ships, trade or navigation are thus subjected.

Here is an issue that raises in an acute and practical form the questions debated and shirked at the British Commonwealth Relations Conference at Toronto last year, the real unity of the Commonwealth and the ability and willingness of its members to do something more than give each other assurances of their mutual sympathy and whole-hearted support, viz., to co-operate in a practical manner in what ought to be a common cause. Or is New Zealand to be told, if her Government takes action as suggested, that it is a domestic affair of her own, which does not concern, say, Canada or South Africa, and that she must dree her own weird?

III. IMPERIAL DEFENCE

WHILE the attention of the Government and the public has been pointedly drawn to the danger that threatens the mercantile marine, even more publicity has been given by the press of New Zealand since the New Year to Great Britain's naval weakness. The warnings of experts about the declining strength of the navy, which

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find "strong support in the manifest uneasiness of the Dominions over the possibilities in the Far East and the safety of their trade routes," have been reproduced in some detail. Leading articles founded upon them have called attention to the fact that "one-sided disarmament defeats its own ends by weakening the security of the world's peace just as much as it weakens the British Empire." The secrecy preserved by Rear-Admiral Burges Watson on his return from the conference at Singapore has strengthened the suspicion that the present situation is critical. General approval is given to the speedy completion of the Singapore base. It is pointed out that the base has grown in importance with the trend of events in the Philippines, and that the coming independence of that country will make it vitally important to the Dutch East Indies as well as to the British Empire. It fills "the one great remediable gap" in our national communications east of Suez and the Pacific.

Captain Taprell Dorling ("Taffrail") has warned us "how dangerously disarmed we already are":—

Our Empire to-day (he declares) is a Commonwealth of free self-governing nations linked together by the sea. The doctrine of sea-power is to secure for our ships the free passage of the sea. That free passage is the beginning and end of our safety as an Empire.

This truism would, one would have imagined, have been endorsed by every Dominion, but a New Zealand delegate to the Toronto Conference on British Commonwealth Relations* pointed out in the *Evening Post* the following day how the ignorance of the elementary principles of sea-power had been displayed there by Canadian and South African delegates. He gave the following impression of the attitude shown by Canadians of "Left" views towards the British navy:—

A Canadian memorandum stated that all the protection their ships needed was when they were concentrated at focal ports,

* See THE ROUND TABLE, No. 93, December 1933, p. 42.

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overlooking the fate that would have befallen them on the high seas or in the English Channel in the Great War had the German fleet destroyed the British. Some of the Canadians declared that they didn't need the protection of the British navy, and could have that of the American navy, if necessary; others that, if they did have the protection of the British navy, they were under no obligation to Great Britain, because if Canada didn't exist the United Kingdom would not diminish her fleet by a single ship, or, in the alternative, that the United Kingdom, for her own sake, was bound to protect the sea routes and the cargoes of food ships she required, whether they came from Canada or the Argentine. Nor could we get these Canadian isolationists to agree to any scheme of mutual defence, whether in support of the League of Nations, by whose Covenant they were bound, or in defence of the British Commonwealth. They would commit Canada to nothing. When the question arose they would consider whether the policy suggested was likely to offend the United States or not, and whether they would support it. If they did, they would send land forces to the scene of action, although how they were to get there without the British navy they were not quite clear. One speaker did suggest that in a League war, which is the only one in which the British Empire is ever to be engaged, they would be transported by navies pooled under the League!

The impression left on New Zealanders by the Toronto Conference was that its only value lay in its having so clearly manifested the dangerous length to which the disintegration of the British Commonwealth has already gone. Delegates who stated plain truths about the British navy, advocating its support by the whole Commonwealth; who affirmed the need for the co-ordination of armed forces in defence of the British system of self-government and in support of the League and world peace, were treated by a large number of delegates as if they had made a terrible *faux pas*, their advocacy being regarded as mere "boys of the bulldog breed" talk. The unity of the Commonwealth was openly denied, its existence said to depend upon the League of Nations, and its determination dogmatically predicted should the League fail to function. Concrete and vital problems were all burked. No wonder that Australian and New Zealand delegates wondered whether this really were a British Commonwealth Relations Conference,

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or whether they had not strayed into some Geneva assembly, filled with high ideals and pious hopes combined with impotence to take practical action.

All that has happened since the Conference has brought into high relief its absolute futility from the New Zealand point of view. The German desertion of the League, the breakdown of the Disarmament Conference, the feverish preparations for war, the growing German demand for the return of her mandated territories, the enhanced Japanese industrial competition with British manufacturers, the probable early independence of the Philippines, the difficulties of the British mercantile marine and the decline of the British navy far below the minimum strength required for security, are convincing proof that the Toronto Conference should have concerned itself with the discussion of vital practical questions, among which the defence of the Empire should have been placed first and foremost. Instead, it was occupied largely with the expression of pious generalities about the need of peace, and the support of the League and the "collective" system, to which all delegates might have subscribed without going thousands of miles across the ocean to formulate such "a pale policy."

Not only the Toronto Conference, but also the difficulties raised by the Statute of Westminster in South Africa and elsewhere, indicate how well advised our Prime Minister was when, in commending to the House of Representatives the resolution approving the draft Statute, on July 21, 1931, he expressed himself as not being

one of those who hold the view that this definite establishment of Dominion status is the final solution of the constitutional problems of the British Commonwealth. Indeed it would seem probable that the complete recognition of the equality of His Majesty's various Governments must initiate a new and very delicate series of problems. The wider the powers of the individual Governments the greater the need and the greater the difficulty of co-ordinating their activities into a common policy. The future unrestricted powers of the Dominion Parliaments must give rise to some confusion and no doubt to some conflict of views between His Majesty's various Governments.

The Waitangi Celebrations

It is quite evident from the protest by Colonel Stallard, a Toronto delegate, against the constitutional Bills* introduced into the Parliament of the Union of South Africa that the Statute of Westminster, instead of being a bond securing the unity of the British Commonwealth, is only the apple of discord that is hastening its disintegration.

One delegate on returning from Toronto cited these lines from the chorus in Shakespeare's *Henry V* to describe his view of the attitude of the Canadians who

with pale policy

Seek to divert the English purposes.

O England!—model to thy inward greatness,

Like little body with a mighty heart,—

What might'st thou do, that honour would thee do,

Were all thy children kind and natural!

IV. THE WAITANGI CELEBRATIONS

THE generous and public-spirited gift by the Governor-General and Her Excellency Lady Bledisloe of the Old Residency at Waitangi and of a park surrounding it was greeted with general enthusiasm. In front of the residency the Treaty of Waitangi, which brought New Zealand into the British Empire, was signed 94 years ago. Celebrations were conducted there from the second to the sixth day of February, when, before a gathering of 10,000 people, of whom 5,000 were Maoris, Waitangi was formally dedicated to the nation.

To the Maori, as an East Coast chieftain declared, the site was "holy ground, the shrine where the government and the Church of New Zealand were born." The early history of New Zealand is indeed centred in the Bay of Islands, of which Waitangi will now be the focal point. From Waitangi can be seen the Marsden Cross, marking the spot where Samuel Marsden, on Christmas day, 1814, first preached the gospel to the Maoris. Close at hand is Paihia, with the ruins of the building in which Colenso in

* See above, p. 662

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1835 printed in Maori the Epistles to the Ephesians and Philippians, and a few yards off by the sea-shore is a brass plate commemorating the launching of the mission schooner *Herald* in 1826 by Henry Williams, "a man brave to make peace in the Maori wars." He played a prominent part in connection with the treaty and his translation of it into Maori is classic for its picturesqueness, terseness and simplicity. Looking across the Bay from Waitangi one sees above Russell the hill on which the flagstaff with the English flag was thrice hewn down by Hone Heke because it represented the Queen's sovereignty, the evil influence that had drawn trade and money away to Auckland. In the quiet churchyard lies Tamati Waaka Nene, "sage in counsel, renowned in war," to whose influence the signing of the treaty by the Maori chiefs was mainly due.

Not only was the ground historic but many of the chief figures in the ceremony were of historic descent. Descendants of the first British resident, Mr. James Busby, who drafted the treaty, were present, while others of his descendants and those of Archdeacon Henry Williams and Captain Hobson celebrated the occasion at the gathering in London. Descendants of the chiefs who signed the treaty were there, and also Te Heu Heu, grandson of the great Taupo chief who refused to sign and to subject himself to the authority of a woman.

But there were Maoris who stood out by reason not so much of their lineage as of the fact that they represented the culture to which the Maori can attain: the Maori representatives in Parliament; Bishop Bennett, the first Maori bishop; and above all the Maori who has been so largely responsible for the renaissance of his race, Sir Apirana Ngata. He has made it his life's work to weld rival tribes into a united people, to secure for them better health, better education, to inspire them with new vigour, striving to retain for them the lands that remained theirs, and to encourage them to attain European efficiency in cultivation through their own system of Maori leadership

The Waitangi Celebrations

and communal custom. He took part at Waitangi in a dual capacity: as Minister for Native Affairs in the present Cabinet, and as a leader of the Maori people. He thrilled the assembled people by casting aside the top hat and black coat of civilisation, stripping himself to the waist and donning the Maori mat. His cry was not "Requiescat" but rather the "Resurgam" of the triumphant warrior. *Mere* in hand, he led some 500 bronzed braves, brandishing feather-tufted spears, in one of those *hakas* or war dances, that Domett, Browning's "Waring," thus describes in *Ranolf and Amobia*:—

The leaping, dense, conglomerate mass of men,
Now all together off the ground—in air—
Like some vast bird a moment's space—and then
Down, with a single ponderous shock—again
Down, thundering in the groaning trembling plain!
And every gesture fury could devise
And practice regulate was rampant there:
The loud slaps sounding on five hundred thighs,
Five hundred hideous faces drawn aside,
Distorted with one paroxysm wide:
Five hundred tongues, like one, protruding red,
Thrust straining out to taunt, defy, deride:
And the cold glitter of a thousand eyes
Upturning white far back into the head.

The official celebrations were simple. On February 5 the typical Maori welcomes were given by the assembled tribes to the parliamentary party and to the Governor-General; on the 6th, the anniversary of the signing of the treaty, the tribal groups paid their respects and declared their loyalty, and after a religious ceremony His Excellency laid the foundation stone of the threshold of the *Whare Runanga*, or Maori meeting house: "This," to quote his felicitous words,

will provide a common meeting-ground, where old feuds will be forgotten and new friendships forged, where national issues can be debated and national problems approached from the Maori standpoint and explored in such a way as to assist the *Pakeha** in fully understand-

* European.

New Zealand and Some Empire Problems

ing and appreciating the Maori mind, . . . a centre where pride of race will be fostered and expanded, where Maori culture will be developed, where the Maori language in all its soft and melodious beauty will be perpetuated and where a definite impetus will be given to characteristic Maori arts and crafts.

One of the happiest features of the ceremonies was the arrival of the leading chief and representatives of the Waikato tribe, which for nearly half a century had preserved an attitude of sullen aloofness from Maori and *pakeha* alike. The effect of the Maori wars and the confiscations that supervened was to make the Waikatos one of the most suspicious and sullen tribes, so far as the advances of the *pakeha* were concerned. It took from 1896 to 1929 to obtain entry into the Waikato villages to ascertain their health and social conditions.

This great gathering of Maoris from all parts of the country gave them the opportunity, not only of discussing matters of common interest to themselves, but also of conferring with the Prime Minister and his colleagues on questions of administration, and more particularly on the vexed question of rating on Maori lands, which is regarded from the peculiar standpoint of the Maori as a legalised method of confiscation. Such a conference was the more desirable in that 75 per cent. of the adult Maori population are estimated to be in receipt of unemployment relief. Their needs being modest, the temptation is strong to rest content with their sustenance from the State and to make no effort to help themselves.

Well might the Maoris in one of their hakas refer to the Governor-General as "a tree covered with foliage, whose leaves fall as leaves of affection among all the tribes," and "as possessed of extraordinary *mana* in being able to perform the seemingly impossible task of bringing all the tribes together."

New Zealand:

March 31, 1934.

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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

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Nº 96. SEPTEMBER MCMXXXIV 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).

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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.

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.

NAVIES AND THE PACIFIC

THE late Lord Salisbury, who was Foreign Secretary and Prime Minister from 1895 to 1902, used to say "Never enter an international conference until you have reached a basis of agreement." He knew that the publicity that inevitably attaches to international conferences would immensely increase the evils of failure to agree, and that unless the statesmen could assure themselves beforehand, through the ordinary channels of diplomacy, that a basis of agreement was in sight, it was unlikely that the compromises necessary for an accord would be possible once they had taken up their positions in public. The truth of Lord Salisbury's aphorism has certainly been vindicated over and over again since the last war.

To the Salisbury doctrine, however, might well be added another, "Never enter a disarmament conference until you have first reached political agreement." For armaments are but the instruments of national policy, and unless there is agreement about policy there will certainly be no agreement about the instruments with which policy is made effective. The truth of this can be seen by contrasting the results of the Washington Naval Conference of 1921-22 with those of the World Disarmament Conference. The Washington Conference made a political settlement about the Pacific and the Far East, and a naval accord was then reached without much difficulty. No political agreement, however, was reached about the Mediterranean at the Washington Conference or about Europe at the World Disarmament Conference at Geneva, and in both cases the result was failure to agree about armaments also.

Navies and the Pacific

The success of the forthcoming naval conference wholly depends, in our view, on whether agreement can be reached about the underlying political problems. In this article, therefore, we propose to discuss in the first place the political issues; for the technical problems will largely solve themselves if there is agreement about policy.

I. THE WASHINGTON TREATIES

THE Washington naval agreement was based on three political agreements. The first was that there should be "parity" between the British and the American navies. The second was that arms and fortifications should be so limited that Japan, the United States and the British Commonwealth should each have "security" in its own waters. The third was that the territorial integrity of China and the "open door" there should be maintained. Let us consider each of these points in a little detail.

The only grave difficulty that has arisen between the United States and Great Britain has been over the "freedom of the seas." Naval power can be used only in two ways, to protect trade routes and to put economic pressure on the enemy by interrupting its trade with the rest of the world. From a period before the foundation of the United States, Great Britain, as the principal Power on the seas, had used her navy, to the utmost extent permitted by international law, to bring pressure on her enemies, especially Napoleon, by means of the blockade and its ancillary operations. The United States, as a commercial nation, had been—except during her own civil war when the North blockaded the South—the principal champion of the rights of neutrals as against belligerent interference with trade. During the world war the situation gradually became intolerable for the United States. In their struggle with Germany the allies steadily extended belligerent rights to conform to the conditions of the modern world,

The Washington Treaties

against the constant protests of the United States, until the German submarine campaign against neutral trade forced her to abandon neutrality altogether and to enter the war on the allied side.

But although, after she became a belligerent, the United States adopted without hesitation all the methods of interfering with neutral trade that had previously been used by Great Britain, President Wilson and American opinion never forgot their experience during the early part of the war. The second of Wilson's fourteen peace points provided that there should be :—

Absolute freedom of navigation upon the seas, outside territorial waters, alike in peace and in war, except as the seas may be closed in whole or in part by international action for the enforcement of international covenants.

Great Britain refused to discuss this question with Germany at the Peace Conference, though she declared her willingness to discuss it with the United States after the Conference was over. The Senate's rejection of the League of Nations made the attainment of the Wilsonian solution impossible. Accordingly, after the armistice, the United States resumed the gigantic naval building programme that she had suspended on her entry into the war, with the avowed purpose of giving herself a navy so predominant as to deter any belligerent from treating her trade, when she was a neutral, as it had been treated from 1914 to 1917. Just before the calling of the Washington Conference Great Britain and Japan both began to build in reply, and it was this incipient competition, coupled with the growing tension between Japan and the United States in the Pacific and with the post war slump, that led to the calling of the Conference.

The first political decision taken there was that Great Britain and the United States accepted parity with one another because they had no political quarrels; that the size of battleships should be standardised at 35,000 tons

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with 16 inch guns, and that their number should be reduced, by breaking up older vessels, to 15. The Conference failed, however, to reach agreement about the numbers of cruisers (though it was settled that their maximum size should be 10,000 tons armed with 8 inch guns), because there seemed to be no means of reconciling the cruiser needs of a single compact and almost self-contained country like the United States with the needs of a Commonwealth scattered over the five oceans and entirely dependent, as far as Great Britain was concerned, on keeping open the sea ways for its food supplies. This failure to determine the number of cruisers to be possessed by each country led, a few years later, to the abortive "Coolidge" naval conference at Geneva and in 1930 to the successful London Treaty, which prolonged the life and laid down rules for replacement of battleships and settled the cruiser question by allowing the United States rather more 10,000 ton cruisers than Great Britain, and Great Britain a rather larger total cruiser tonnage, so as to give her the number of small cruisers then needed for the protection of her trade routes.

The freedom-of-the-seas issue was shelved at the Washington Conference; but it was shelved mainly because the attitude of the United States on the subject of neutral rights had been changed by her own conduct after she had entered the war, and by the fact that she now had a navy as powerful as that of Great Britain.

The second main political agreement made at Washington in 1922 was that arms should be so limited as to give "security" to the three main naval Powers in the Pacific. This arrangement replaced the Anglo-Japanese Treaty of Alliance of 1902, whereby, if either Power were at war with more than one other Power, the other would come to its assistance; an alliance which had given security to both countries and stability in the Far East. The Anglo-Japanese alliance was renewed in 1905 in a modified form, and a clause was later added excluding the United

The Washington Treaties

States from its scope. But after the end of the world war American opinion became convinced that in the event of an Americo-Japanese war over China, which at that time was regarded as a possibility, Great Britain would inevitably be drawn towards her ally and therefore against the United States. The United States Government made the ending of the alliance, and its replacement by a multilateral treaty directed against nobody, a condition of the suspension of its own building programme, and the Canadian Government insisted that agreement with the United States was the essential condition of its own support of a Pacific settlement. Accordingly, with the consent of Japan, the Anglo-Japanese alliance was brought to an end and was replaced by two other treaties. The first was a naval treaty whereby the ratio between the navies of Great Britain, the United States and Japan was settled at the figures 5 : 5 : 3, and Great Britain undertook not to fortify Hong Kong, the United States undertook not to fortify Hawaii, and Japan undertook not to fortify the ex-German islands she had acquired under mandate, and certain other islands in the north Pacific. This meant that none of these navies could, in effect, fight a fleet action with any of the others in the Pacific, because their bases were too far apart. It gave, therefore, security to Japan in the north-west Pacific, to the United States in the north-east Pacific, and to the British Commonwealth in the Indian Ocean and the south Pacific. The second treaty was the Nine Power Treaty between the United States, the British Commonwealth, Japan, China, France, Italy, the Netherlands, Belgium and Portugal, agreeing:—

1. To respect the sovereignty, the independence, and the territorial and administrative integrity of China;
2. To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable Government;
3. To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China;
4. To refrain from taking advantage of conditions in China in order

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to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.

At the same time Japan voluntarily agreed with China to restore the old German port of Kiaochow, which she had captured during the war, and the province of Shantung.

The Washington treaties, therefore, settled the Anglo-American and the Far Eastern problems by accepting, as basic political principles, naval parity between Great Britain and the United States, "security" for the three principal Powers in the Pacific, and the integrity of China and the "open door." Once these principles were accepted the completion of technical naval agreements was not very difficult, and the solidity of their foundation can be seen in the fact that the treaties have remained in force, despite some criticism on all sides, for nearly thirteen years.

II. A CHANGED WORLD

BEFORE dealing, however, with the changes that have taken place in the Far East since the Washington treaties were signed, it is necessary to make a brief survey of the changes in the world as a whole; for the Pacific question is inseparably bound up with world problems.

The international world, for fifteen years after the great war, accepted the concepts that underlie the League of Nations. It was an age when, in theory at least, the nations accepted the thesis that all nations were members of a single family represented in the Assembly of the League, that they ought to settle their disputes by the pacific means provided in the Covenant, and that security should be assured by collective action against an aggressor rather than by great national armaments. The League idea, indeed, had been extended to the Pacific and the Far East by the Nine Power Treaty, to which reference has already been made, and by

A Changed World

the Four Power Treaty, also signed at Washington in 1922, whereby the United States, the British Empire, France and Japan undertook to hold a joint conference should a controversy develop, arising out of any Pacific question and involving their treaty rights, which could not be satisfactorily settled by diplomacy and was "likely to affect the harmonious accord now happily subsisting between them."

The authority of the League concept, however, was profoundly weakened by the refusal of the United States and Russia to join. It is now clear, moreover, that its authority largely rested on the facts that the victory of the allies had been so decisive as to prevent, except in Turkey, any effective opposition, and that the stability of the Versailles settlement in Europe was guaranteed by the overwhelming military preponderance of France and her allies.

It is quite plain to-day that—however much they may value the League as a centre for international conference—the nations have very little confidence that it can guarantee their own security. The security system contemplated under the Covenant has broken down, partly because the abstention of the United States has undermined the efficacy of the collective sanctions provided under Article 16, partly because the rise of Nazi Germany has alarmed the whole world about the policy she would adopt if she had equality in armaments, partly because France has been unwilling to give "equality" in armaments to Germany without collective guarantees equal in military value to the arms preponderance that she would surrender, and partly because Japan threw over League principles and the Nine Power Treaty with impunity when she set up the State of Manchukuo and left the League. Neither in Europe nor in the Far East is there any confidence that all nations, or even the majority of the great civilised Powers, will live up to the principles and obligations on which the League of Nations rests, and therefore that if an aggressor State resorts to war its

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victims can rely upon collective action rather than upon their own national armaments for protection.

The inevitable result of these political uncertainties has been the atrophy, if not the breakdown, of the Disarmament Conference. As we have already pointed out, it is the lesson of history that political agreements must precede disarmament agreements, and as it has been impossible hitherto to arrive at a political agreement between France and Germany, or in the Far East, or for really effective collective security, the Disarmament Conference itself has so far failed. There have been two important consequences of this failure. The first has been that, as the re-arming of Germany and Japan has become apparent, almost all Powers have begun to consider their own security in terms of their own armaments and therefore to re-equip and extend those armaments. The re-armament in France, Italy, Russia, the United States and now in Great Britain, which has been the last of the great nations to act, has been very considerable.*

The second consequence has been a re-definition of the attitude of Great Britain to Europe. This was contained in a speech by the Foreign Secretary, Sir John Simon, in the House of Commons on July 13. The essence of that speech was his statement that in approving the Franco-Russian proposal for an "Eastern Locarno," based on the same mutual principles as the Locarno treaties of 1925, Great Britain was entering into no new commitments.

I wish (said Sir John) to repeat it again most plainly and bluntly to the House and the country. We have made it entirely plain from the beginning, whatever may be the interest or encouragement which this country may be prepared to offer to this new pact, we are not undertaking any new obligation at all. That is quite clearly and definitely understood, and there is no possible question or challenge about it.

Sir John further went on to make a special reference to Belgium.

* See p. 863.

A Changed World

Of course (he said) the integrity of the territory of Belgium is no less vital to the interests and safety of this country to-day than it has been in times past. This is a geographical fact which nothing can change. Indeed, changed conditions, especially in connection with the air, have not altered that historic fact at all. They have only served to emphasise it. That is the point of view of our own national security. But here again it is the mutual character of the original agreement signed at Locarno, dealing among other things with the frontier between Belgium and Germany, which constitutes its essential feature and makes it so valuable a guarantee of European security as a whole.

This speech, coupled with M. Barthou's negotiations in eastern Europe and with the apparent intention of Russia to join the League of Nations in September, establishes that differentiation between the world collective system and the primary security system of Europe for which we have often pleaded in these pages. France has long and not un-naturally sought to identify the League of Nations with her own military arrangements for the enforcement of the Treaty of Versailles. This review has frequently expressed the opinion that there was no hope of re-creating the true world League, as originally conceived, so long as the League was identified with the internal politics of Europe or the Treaties of Trianon or Versailles. It has also expressed the view that, while under the Locarno treaties Great Britain had undertaken a special commitment in her own interest for the preservation of the western frontiers (corresponding to the pre-war guarantee to Belgium), her place was in the world system rather than the European system; and that the countries of Europe would never contrive their own security system—parallel to the system of the British Commonwealth, or the Pan-American Union and the Monroe doctrine, or the Washington treaties in the Pacific—so long as there was any hope of getting Great Britain to underwrite the security of Europe for them. That this view has been sound seems now to be proved by the fact that France, Italy, Russia and the members of the Little Entente are now coming together in order

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to ensure by appropriate military arrangements that the European treaty settlements shall not be upset by force, but only by consent arrived at by the collective machinery centred at Geneva.

That does not mean, of course, that Great Britain or the British Commonwealth or any of the other signatories of the Kellogg Pact can disinterest themselves in European questions. War or the threat of war anywhere is their vital concern. But it means that "security" in Europe, in the shape of automatic regional military arrangements that can be put into operation at a few hours' notice, is now recognised to be primarily Europe's own concern. The importance of this development lies in the fact that, inasmuch as Great Britain is in any case not equipped to take part in military sanctions, it sets her free to take the lead in organising those world economic sanctions, based on sea power, which are the essential basis for any world collective system.

III. UPHEAVAL IN THE FAR EAST

LET us now consider events in the Far East since the Washington treaties. In the last dozen years two major changes have come about. The first is that China has taken far longer to organise a stable government than was, perhaps, assumed in 1922. Things are better in China than they were a few years ago, but the authority of the Nanking Government in many provinces is still very weak. The second has been the triumph of the militarist party in Japan over the older liberal and constitutional parties. That triumph began with the Mukden *putsch* in September, 1931, and has led by inexorable logic to the conquest of Manchukuo, its establishment as a State under Japanese control independent of China, and finally to the withdrawal of Japan from the League.

Upheaval in the Far East

It is not the purpose of this article to estimate the rights or wrongs of the Manchukuo episode. There is much to be said on both sides. The root of the trouble was a dualism in Manchuria which, as the Lytton Commission pointed out, could not continue. If the League of Nations had been invoked two years earlier the Lytton proposals might have been adopted. The serious part of the affair was the way in which the change from an impossible situation was made. Japan, under the impulsion of the military clique, ignoring her obligations under the Four and Nine Power Treaties and under the Covenant, took the law into her own hands, thereby compromising her own honour and giving a fateful blow to prospects of making a success of the League system—that is to say to the hope of substituting a pacific for a warlike method of bringing about international political changes.

On the other hand, the Manchukuo affair has given mankind a useful object lesson in the practical realities that must underlie the collective system, especially in the field of sanctions. It is now clear that the economic and other "sanctions" contemplated under Article 16 are illusory guarantees, at any rate against a great Power, unless the whole of the rest of the world or at least all the other great Powers concerned are willing to put them in force, and unless when they do put them into force they are prepared to see them through, if necessary, to the point of war. Sanctions, if they mean anything, mean the coercion of a sovereign State by force, in the interests of peace or international justice. The fact that sanctions have to be applied implies that the State in question will only yield to necessity. It will yield only if it is convinced that the force it may have to encounter is irresistible and will be used, if necessary, to the limit. As Mr. Baldwin said in the House of Commons on May 18,

There is no such thing as a sanction that will work that does not mean war; or, in other words, if you are going to adopt a sanction you must be prepared for war.

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Japan, driven as she thought by the necessities of the local situation, became convinced that the League Powers and the United States would not resort to coercion to prevent her occupying Manchuria. Japan's judgment on the point was proved correct; the collective system in the Far East was shown to be impotent to protect China or prevent the establishment of Manchukuo against a Power which in the last resort was apparently prepared to carry through its policy by force against any opposition. The only condition that might have produced different results would have been a readiness on the part of the United States and Great Britain, backed by the other principal members of the League, to insist (if need be by force of arms) on the settlement of the question by the pacific procedure provided by the treaties. But there was no such readiness, so far as can be judged, anywhere, even in the United States; and the facts that the President could not commit the country to warlike action save with the consent of the Senate, and that the United States was the only country that could exercise effective coercive power in the Pacific, made the rest of the world and especially Great Britain hesitate to take the lead in applying sanctions.

Have these events destroyed the political basis of the Washington treaties? They have certainly destroyed the stipulated integrity of China so far as Manchukuo is concerned. They have led Japan to abjure the principles of the League, and to withdraw from its membership. Have they made Japan abandon her support of the "security" arrangements of the Washington treaties and of the integrity of China (apart from Manchukuo) and of the "open door" there? That is the vital question.

Japan, it seems, has now based her economic future broadly on turning the raw materials of Manchukuo into manufactured articles in Japan and selling them in the immense potential market of China. As an economic system nobody has any objection to this, provided it does not carry with it the establishment of political control in

Upheaval in the Far East

China itself, or the nullification of the principle of the "open door" for the trade and commerce of all foreign nations on equal terms. But does the success of the military party imply that Japan means to give effect to the unofficial programme that was recently outlined for establishing political control over China proper and for giving herself exclusive commercial privileges there, and that she means also to challenge the right of the United States and the British Empire to "security" in their own zones in the Pacific?

The onus of decision rests on Japan. The United States and the British Empire are willing and anxious to abide by the entirely sound political ideals underlying the Washington treaties. They cannot give official approval to the separation of Manchukuo from China, except with the consent of China itself, but it is now clear that they are not going to take action about it. But does Japan, apart from the Manchukuo question, stand by the principles of the Washington treaties or not? If so, naval agreement will be easy. If not, it will be impossible.

The problem falls into two halves. First of all there is the security question. Obviously neither the United States nor the British Empire is going to agree to a naval ratio that will enable Japan to attack Hawaii or Singapore with any prospect of success. Neither Hawaii nor Singapore in any way menaces Japan. With her existing ratio and the non-fortification of Hong Kong and the Pacific, she is complete mistress in Far Eastern waters. As the Manchukuo incident showed, she has full security already. The 5:5:3 ratio is quite misleading as a formula. The figures by themselves make it look as if Japan had an inferiority in the Pacific. The truth is that it gives her superiority in Far Eastern waters. It is quite impossible for Great Britain to maintain more than a small part of her fleet in the Pacific, for she has neither adequate bases nor can she leave her home waters unprotected. Moreover, Singapore is 3,000 miles from Japan. It is equally impossible

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for the United States to denude the Atlantic altogether, and Hawaii is also over 3,000 miles from Japan. On the other hand, the whole of Japan's power is in the Pacific. The Washington ratio gives each supremacy in its own zone, and in the debatable area in the mid-Pacific the ratio is not 5 : 5 : 3, for the United States, the British Empire and Japan, but something like 4 : 2 : 3. If, therefore, Japan seeks to increase her ratio in terms of striking power at a distance, the only answer is for Great Britain and the United States each to lay down two ships to one against her.

The second half of the problem, namely the China question, is more difficult. It is probably true to-day that public opinion in the United States and the British Empire would not regard the integrity of China as a *casus belli*, as they would regard a challenge to Hawaii or Singapore. China was given a wonderful chance in 1922, and has not made a great deal of it. Primarily every nation must stand on its own legs. On the other hand, the Anglo-Japanese alliance was based on the principle of the integrity of China, and any attempt to establish political control over China and to close the open door would be a further breach of the treaties and of the collective system—a state of affairs which would certainly arouse strong feeling everywhere and might lead to an effort to mobilise the rest of the world into taking some kind of collective action. It would seem to be the wise policy for Japan to continue to accept the Washington principles. The fundamental position of Japan, if she carries her expansionist policy too far, is not strong. No nation can easily maintain the largest army, the largest navy and the largest air force in the Far East, and at the same time challenge the antagonism of Russia, the hostility of a great part of China, and pressure from the United States, Great Britain and the other signatories of the Nine Power Treaty. On the other hand, the Washington treaties give her ample security for the future. Nobody questions that Japan has a special position in the Far East,

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and her costs of manufacture to-day are so low that without any preference at all she can probably undersell the West in China in the goods on which she specialises.

There does not, therefore, seem to be any serious reason why a political agreement should not be reached, reaffirming for a further period the three basic principles of security, the integrity of China and the open door. If so, there need be no real difficulty about arriving at a naval agreement covering ratios, replacement, "tonnage and gunnage" in the Pacific. Such an accord would save all three Powers from a gigantic expenditure in new and competitive vessels, and would make possible the continuance of those friendly relations between the United States, Japan and the British Empire which alone can ensure peace in the Pacific.

IV. THE FREEDOM OF THE SEAS

THE Far Eastern question, however, is not the only issue involved in the forthcoming naval negotiations. There is also the Anglo-American question. There is no desire on either side of the Atlantic to depart from the principle of "parity," accepted in 1922, difficult as the adjustment of cruiser ratios may be between countries so differently situated as the scattered British Commonwealth of Nations and the compact United States. But the situation has none the less changed since the treaties of 1922 and 1930 were signed. At both these dates there was still no serious risk of war between any of the great Powers. Germany was disarmed; Japan was still faithful to the Shidehara policy. But to-day it is different. There is risk of war in Europe, and there is risk of war in the Far East. The risks may not be very imminent, but they are there. The British Cabinet has been forced to abandon its old instruction to the fighting services that they could base their plans on the assumption that Great Britain would be engaged in no major war for the next ten years.

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This fact of the renewed risk of war introduces a new element into Anglo-American relations. There is no dispute of any serious kind between the United States and Great Britain (save the minor vexation of the war debts), but if either country becomes involved in war or in economic sanctions while the other remains at peace, there immediately arises the dangerous issue, concerning interference with neutral trade, that is represented by the words "the freedom of the seas." It is this issue which on three occasions has brought Great Britain and the United States to war (1812) or to the verge of war, in 1863 over the *Trent* affair, and between 1914 and 1917.

It is the policy of the United States, as Mr. Norman Davis officially declared at Geneva recently, "to keep out of war." But she can only do this with any real prospect of success so long as Great Britain keeps out of war. As Mr. Walter Lippmann has put it, experience shows that the United States can keep out of local wars, but that she cannot keep out of world wars. What is a world war? Any war in which Great Britain is involved with another great Power. And it is now true also in reverse, for if the United States were to become involved in war in the Far East while Great Britain was at peace, and began to interrupt British trade, the same dangerous issue would arise.

The fact, therefore, that there is once more risk of war in the world means that agreement on "parity" no longer suffices. It is necessary to consider how we are to deal with the situation that will arise if either country becomes involved in war or in economic sanctions when the other is neutral. It is no remedy for either to try to outbuild the other; for the problem does not arise from the ratio between fleets, but from the necessities of naval blockade. On the other hand, it is not a situation that can be allowed to drift either in Washington or London, for the possibilities are too dangerous. Another war in Europe or the Far East might not end civilisation. But a quarrel between the two

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leading democratic nations in the world would be a blow from which civilisation would not easily recover.

The key to the solution seems to us to lie in the Kellogg Pact. All the signatories of that Pact, including the United States, have renounced war as an instrument of national policy. In August, 1932, Mr. Stimson, then Secretary of State, interpreted the Pact as meaning, not only that any war in violation of the Pact must necessarily be a matter of concern to the United States, but that it was difficult to see how any signatory of the Kellogg Pact could be "neutral" over a breach of the Pact or could claim the right to trade with a violator, as against those who were defending themselves or taking sanctions against him. This position has been more formally recognised in the declaration made by Mr. Norman Davis at Geneva in May, 1933, on behalf of President Roosevelt, though there is some doubt about the attitude of the Senate towards it. The declaration reads as follows :—

We are ready not only to do our part towards the substantive reduction of armaments but, if this is effected by general international agreement, we are also prepared to contribute in other ways to the organisation of peace. In particular, we are willing to consult the other States in case of a threat to peace, with a view to averting conflict. Further than that, in the event that the States, in conference, determine that a State has been guilty of a breach of the peace in violation of its international obligations and take measures against the violator, then, if we concur in the judgment rendered as to the responsible and guilty party, we will refrain from any action tending to defeat such collective effort which these States may thus make to restore peace.

The obligations of members of the League of Nations go somewhat further, because they are committed to taking economic sanctions against any nation that resorts to war without having first attempted to solve the dispute by the procedure for the pacific settlement of international disputes laid down in the Covenant. In both cases the practical difficulty is likely to be to decide which is the violator of the Pact or Covenant when war breaks out.

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None the less, the central fact to-day is that the United States and the British Commonwealth are under similar obligations to regard war or a threat of war, not as a lawful incident in international life with which they have no right to interfere, but as a violation of the *pax mundi*. If, in such circumstances, they can agree who is the violator of the Covenant or the Kellogg Pact, it can hardly be morally possible for either of them to supply munitions of war—a term which now covers foodstuffs and most raw materials as well as finished products—to the violator to assist him in his aggression. They might deny him this help by an embargo on exports to the aggressor. Or they might do so by a collective blockade, to prevent all trade with the rest of the world, as is contemplated under Article 16 of the Covenant. The Kellogg Pact, therefore, is in itself an immense security against the development of a local war into an Anglo-American crisis over the “freedom of the seas,” and makes it far more likely that in the event of a crisis threatening war the British Empire and the United States will be able to exert a common and therefore a far more powerful influence in favour of peace or against aggression. The practical difference in future is likely to be that the United States will tend to put an embargo against both belligerents, and to be reluctant to distinguish between aggressor and “aggrieved,” while Great Britain will feel that, if local security arrangements are not sufficient to repel an aggressor, the world ought to use economic sanctions to compel him to give way. But that is a far less dangerous difference than the old issue about the freedom of the seas.

V. THE NAVAL ISSUES

WHAT is the bearing of these political considerations on the technical naval problem? The technical problem falls into two parts. The first concerns the size of the ships. If there is no political agreement and

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every nation drifts back into basing its own security on its own power alone, the cost of competitive building will be terrific: Under the Washington treaties Great Britain and the United States are limited to 15 battleships of 35,000 tons armed with 16 inch guns. These ships, which are nearly worn out and whose life has already been prolonged, will shortly have to be replaced. They cost between £5,000,000 and £7,000,000 each. Replacement alone, therefore, means a capital outlay of between £75,000,000 and £100,000,000 for each of the two Powers. To modernise the rest of the fleet with ships of the existing size would probably cost as much again. Competitive building would add immensely to these huge costs. There is everything, therefore, to be said from the economic point of view alone, not only for avoiding competition, but for reducing the size of these gigantic fleets, so that the battleships may be limited to the minimum size necessary to enable them to deal decisively with cruisers, and the cruisers themselves may be reduced to the size necessary to deal with the armed merchantman and to cover the necessary distances between naval bases at sea.

The second aspect concerns the ratios between the various Powers. At the Washington and London conferences no agreement was possible with Italy and France, partly because they would not formally accept the proposed ratio of inferiority with Great Britain and the United States, and partly because France would not concede Italy equality on the score that paper equality would have meant Italian superiority in the Mediterranean and danger to French communications with Africa. The difficulty between Great Britain and the United States, as already pointed out, relates principally to cruiser ratios. Great Britain declares that, in a world in which there is once more a risk of war, she needs 70 cruisers as the minimum with which she can protect the vital communications and food supplies of the Empire. The United States, having no such essential overseas communications or bases, wants the cruiser tonnage

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quota fixed far lower, and wants to use whatever cruiser tonnage may be agreed mainly for 10,000-ton cruisers, which suit her needs best, but which would give her battle superiority and so destroy in the eyes of the British Admiralty the principle of "parity." The Pacific aspect of the problem has already been discussed. There is also the German claim.

As experience at conference after conference has shown, these riddles cannot be solved on technical lines. The only real solution is the kind of political agreement already suggested for the Pacific, a Franco-Italian agreement, an Eastern Locarno, and an agreement between the United States and the British Commonwealth to the effect that, while standing outside the European regional security system, they will consult together under the Kellogg Pact whenever a crisis threatening war arises anywhere. Then, and only then, will the infinite complexities involved in naval security for all become disentangled. Moreover, the question of the ratio between France, Italy and Germany will be easier to solve once it is understood that Anglo-American naval power is not to be used primarily as an instrument of national security alone but may be the ultimate reinforcement of world peace under the Kellogg Pact.

VI. THE COMMONWEALTH AND COLLECTIVE SECURITY

THERE remains the vital question of the policy of the British Commonwealth towards these vital questions—a policy which it is to be hoped will be threshed out at an Imperial Conference to be held next year. Clearly British policy will be one thing if it has been formulated in agreement with the Dominions and if they have undertaken actively to support it, and another thing if it represents a purely British view backed by the resources of Great Britain alone. In no field is this fact clearer than in the Pacific. Great Britain may be able to take her own line

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in Europe, but the policy she is to pursue in the Pacific must depend largely upon what view is taken by Canada, Australia and New Zealand, and upon what strength they are willing to organise in support of that policy. Even South Africa is concerned because her security also depends upon there being no hostile bases within the Indian Ocean.

The problem of Empire policy, in the new phase of international affairs that has arisen since risk of war has once more appeared in Europe and the Far East, falls into two main parts. The first concerns what may be called defence proper. The second concerns the collective system of maintaining peace. It may be that through the defection of further members the League of Nations will get even weaker, as a system for the security of its members, than it is to-day, and that the spirit represented by Nazi Germany and militarist Japan may extend. In that event defence will once more become a main pre-occupation of the nations of the British Commonwealth. Is each going to rely upon its own geographical position and its own armaments for security? Or are they going to enter into arrangements whereby they assure their own security by combining to assure the security of the Commonwealth as a whole? In our view the arguments for a collective defensive system are overwhelmingly strong. Speaking broadly, no unit of the Commonwealth can make itself secure by itself, and once the process begins it is inevitable that if a Dominion seeks to limit its commitment about Commonwealth security Great Britain will likewise limit her responsibility for the security of that Dominion. On the other hand the whole Commonwealth is safe from aggression, provided the integrity of France and Belgium under the Locarno treaties is maintained, provided the Singapore base is in working order and the Suez Canal is held, and provided there is friendly association with the United States and no serious difficulties arise with her over the "freedom of the seas." That is the regional security system of the British Commonwealth. But like

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all security systems it depends on collective obligations. The major responsibility will still doubtless rest upon Great Britain, who alone is likely to possess a large navy. But the effectiveness of the system depends upon confidence that each nation of the Commonwealth will assume its proper share of responsibility and maintain in good condition the preparations necessary to enable it to discharge that responsibility. In the last issue of this review* was published an article showing how the development of air power has profoundly altered the problem of Imperial defence, and how the Dominion contribution towards a regional collective security system might now take the form of efficient air forces capable of being maintained at or proceeding rapidly to such places as Singapore. For this reason it is easier to arrange for Empire security to-day than it was before the war.

There remains the second aspect of Empire policy—its attitude to the collective system represented by the League of Nations and the Kellogg Pact. There is no doubt that the majority opinion in all parts of the Commonwealth since the armistice has pinned its hopes for the ending of war and the maintenance of national freedom on the League of Nations. It has recognised that the old method whereby each individual nation provided for its own security by its own defensive armaments spells competitive armaments, alliances and inevitable war; and that the only road to lasting security and peace is a collective system designed to secure the settlement of international disputes by pacific means to prevent war and to restrain the aggressor. Two conclusions, however, stand out from the League experience of the last fifteen years. The first is that security must primarily be organised, as M. Briand saw, on a regional basis, and that the attempts to identify the League with the local security of any region such as Europe will inevitably destroy any possibility of creating a world collective system which includes the United States.

* See THE ROUND TABLE, No. 95, June 1934, pp. 490 *et seq.*

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The second is that no collective system will be effective unless it can rely on its members to bring sanctions into play to prevent violation, and that sanctions in the last resort involve acceptance of liability to go to war, but for an international as opposed to a national purpose. Otherwise, would-be aggressors will feel that they can violate their engagements with impunity (as Japan did in occupying Manchuria without invoking the procedure of the Covenant or the Four Power Treaty); disarmament will be impossible, because every nation will feel that in practice it must rely on its own armaments or alliances; and pacific procedure for the settlement of disputes will have yielded once more to the "power-politics" of the pre-war age.

The practical issue, therefore, that now confronts the Commonwealth is how far its members are prepared to give material as opposed to sentimental support to the world collective system, on the assumption that Europe creates its own regional security arrangements and that Great Britain's only automatic commitment to action of a military kind in Europe is under the Locarno treaty and the Straits convention. Are the Dominions, for instance, as well as Great Britain, prepared to sever economic relations with any State that is declared to have violated the Covenant or the Kellogg Pact, and to maintain the forces capable of making such sanctions effective, even if they lead to war through the retaliation of the aggressor, provided other nations do so also? If they are, there is a good chance that a centre of gravity will be created in the world, including the United States, which will be a powerful assurance both for pacific settlement and for security, and therefore against a competition in armaments. If they are not, the system represented by the League and the Kellogg Pact will gradually weaken and disappear, and the Empire will have to depend for its security on its own armaments in an armed, competitive and combative world.

All these questions are inextricably involved in the issues that are due to come up for settlement at the naval con-

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ference next year. If the nations of the Commonwealth cannot agree upon a common policy and upon the steps that each is to take to make it effective, and if the United States and the British Empire cannot agree about their Pacific policy and their attitude under the Kellogg Pact, then the deterioration in the international situation that began with the Manchurian episode is likely to continue, with grave peril to each and all of them, and the eventual certainty of war. But if they are prepared to face the issues fearlessly, and agree upon the measures necessary to make their policy effective, the English-speaking peoples or even the nations of the British Commonwealth alone can ensure that there can be no successful militarist intervention in that great oceanic zone in which liberty and democracy and the settlement of disputes by pacific methods are still the rule of life ; and they will be able, in addition, to exercise under the Covenant and the Kellogg Pact a decisive influence for peace and fair dealing wherever war or aggression threatens the peace of the world.

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Socrates loquitur :

Then comes the famous request for a bodyguard, which is the device of all those who have got thus far in their career as dictators—"Let not the people's friend," as they say, "be lost to them." . . . But once he has overthrown his many rivals, this same friend is to be seen standing up in the chariot of the State with the reins in his hand, no longer leader but dictator absolute.

Plato, *Republic* (Ed. Steph. 566)

IN those carefree days before 1914, a young scholar of Balliol won the Gaisford prize for Greek prose with an admirably vivid and entertaining pastiche entitled "Herodotus at the Zoo." If in a sterner age the examiners are in search of a subject, they might care to consider "Plato at Olympia." For between that gathering of fascists and the experiences in the Greek world that helped to mould the political thought of Plato, the differences are superficial, the likeness fundamental. The glare of searchlights, the batteries of cinematograph cameras, the threadbare melodies of "Merrie England," even the bevy of *dé-sœuvrées* Society maidens, are the exclusive possession of the twentieth century. But these are only the paraphernalia of propaganda, and every age has its own methods. What matters is the speaker's creed and the arguments with which he supports it : and there we revert to antiquity. There is the bodyguard recruited from professional bruisers, veterans from the wars and dreamy youths. There is the same appeal to the victims of economic misfortune, the old claim to protect them against an insidious

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enemy, the "slimy financier"* or the "red hooligan,"* the familiar tirade against the incompetence and dishonesty of the leaders of every other political group and the inefficiency of the ruling political system, the same promise of a new heaven and a new earth. And, by way of interlude, short shrift, in the sacred name of freedom of speech, for all interrupters. Certainly Plato, descending suddenly on Olympia, might well have thought that Time had wrought little change in the minds of men or in their political philosophy.

Yet if he remained amongst us and by question and answer endeavoured to reveal every facet of the truth concerning our political life and the new movement that had entered it, he would find much to astonish him. He would observe that fascism was not an indigenous growth but, like the red hooligan, was "cast up on our shores." He would see here, as in Fascist Italy or Nazi Germany, the glorification of youth—"vital and determined youth" with its "dynamic urge"—combined with the idealisation of an earlier society long since perished. It would not escape him that the movement, in a nation so rich in political traditions as our own, was driven to seek its symbols of "the strength of unity" and its pattern of an ideal society not in its own national past but in the history of Imperial Rome. Nor could he fail to discover that this movement to subvert our political institutions, as the manifestation of a creed outworn, had come into being at a time when the general estimate of those institutions in the outside world had never stood so high.

The Platonic bewilderment at these discoveries is doubtless shared by many readers of *THE ROUND TABLE* here and overseas. That is the justification for this attempt to examine the history of the fascist movement in England, the ideas that it advocates and the reasons for such success as it has achieved.

* These phrases, and most of the other quotations in the article, are taken from the speeches and writings of Sir Oswald Mosley.

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I

THE British Union of Fascists was founded by Sir Oswald Mosley in 1932. It was not the first organisation in this country, nor is it even now the only one, to use the name Fascist. There are at least four such bodies, of which two were founded more than ten years ago, in the first glow of enthusiasm after the march on Rome. All these organisations wear the black shirt as a distinguishing uniform, and they are all, unlike their famous progenitor, anti-Jewish. They appear to have nothing else in common, except mutual incompatibility. The British Union of Fascists is not Sir Oswald Mosley's first experiment in the formation of an independent political group. It is rather the culmination of what for so young a man is a long and variegated career in politics. Sir Oswald Mosley first entered Parliament in 1918 as the Coalition Unionist member for Harrow. He was re-elected in 1922 as an Independent and in 1923 as an Independent pledged to general support of the Labour party. In 1924 he stood as official Labour candidate for the Ladywood division of Birmingham and was defeated, but he came back for Smethwick at a by-election in 1926 and again at the general election of 1929. In that year he entered the Government, and worked as assistant to Mr. George Lansbury in preparing plans for dealing with unemployment. A year later, finding timidity and conservatism where he had hoped for revolutionary activity, he resigned from the Government and the party and formed the New Party. His associates in that venture were the late Lady Cynthia Mosley, three former members of the Independent Labour party in Mr. John Strachey, Dr. Forgan and Mr. W. J. Brown (the Secretary of the Civil Service Clerical Association), and that eloquent advocate of all lost causes both in and out of Oxford, Mr. C. E. M. Joad. The New Party was inspired by the discovery that "dogmas and principles form

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the bulwark behind which old men shelter themselves from the questioning of the young," but this did not save it from annihilation at the general election of 1931, in circumstances indeed in which no new party could have survived. Defections of the faithful and disruption of the party followed, and the experiment is now without interest except as the seed-bed in which some of the proposals of the British Union of Fascists were first propagated.

Sir Oswald Mosley brought to his fascist organisation both substantial assets and serious liabilities. He had youth, energy, courage, wealth and connections, an extensive political experience, considerable powers as a speaker, a flair for advertisement and the modern art of publicity. But his courage is not always distinguishable from effrontery, his changes of political allegiance have been ascribed (not only by censorious spirits) to an unstable judgment and a disappointed ambition, his eloquence is often that of the street corner, appealing to ignorance and prejudice rather than to reason. With all his knowledge of politics he has no administrative achievement behind him, and he affects a personal vindictiveness, which is as rare in our political history as it has been shown to be unprofitable, against politicians and parties whom he has abandoned. But any fascist movement needs a leader and by a kind of apotheosis must fashion for itself the image of his personality that is necessary for its spiritual comfort. Men cannot change their divinities as readily as they change their politics, and the British Union of Fascists will doubtless continue to bear witness to their faith by mass reiteration of the simple truth that M-O-S-L-E-Y spells Mosley.

To the heathen, ideas still mean more than personalities, and it is time to turn to the fascist programme. It may be divided into three parts. The first would contain the economic policy of the party, the second its proposals for rebuilding the structure of government, and the third its views on India, defence, the Empire and foreign affairs. Chronologically this whole body of doctrine has grown up

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round a certain view of the economic troubles of this country and the method appropriate to overcome them. The remedy is one that Sir Oswald Mosley imbibed more than ten years ago from Mr. James Maxton and his other colleagues in the Independent Labour party, and he has adhered to it with a touching and indeed unique fidelity throughout that period. The fascist organisation of government and society begins as a device to facilitate and expedite the realisation of the Mosleian economic policy, and although it has been given the appearance of elaboration by a liberal use of Italian models, not even its author would be likely to claim that it has been thought out in detail. Finally, since any organisation aspiring to the name of a political party is expected to have some view on every political question, chapters on India, foreign policy and the rest have been added to the programme—less, it would seem, as an extension or interpretation of fascist principles than with an eye to their probable appeal to certain influential sections of opinion.

The key to fascist economics is the belief that "the power to produce has far outstripped the mechanism of distribution" and that in consequence "nothing but the rationalised State can hope to overcome the problem created by rationalised industry." We must in future look primarily to an extension of the home market by raising wages and salaries systematically over the whole field of industry. Admittedly our export trade and our income from foreign investments and services will suffer, but the loss will be more than compensated by greater internal prosperity. We shall need, of course, protection—not conservative but scientific protection, given only in return for definite conditions as to wages and prices. To determine those conditions and to fix the degree of protection required by any particular product we shall need commodity boards and a corporation for each industry. And then we shall have to co-ordinate the corporations, and for that we shall set up a planning council and a national corporation, which

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will really be an industrial parliament responsible only to a Minister of Corporations.

The Minister himself will be a member of the other parliament, the political parliament. But he will be in no danger, as he is to-day under our irrational and haphazard constitution, of finding himself one among 615 members of that parliament, all by profession sugar-brokers, chosen for their mastery of the electioneering art. For members of Parliament will be elected by the corporations on a professional or industrial franchise, so that to deal with the predominantly technical problems of government in the twentieth century we shall have an assembly in which every form of technique is represented, not excluding the technique of motherhood. It is true that its opportunities of airing its technical qualifications will be limited, since it will meet only at intervals "to review the work of the Government," and the principal function of its members between such meetings will be to conduct the local government of the country in place of the present local authorities. If and when the electorate, accepting the view that "in an age of urgent change, we have no time for evolutionary process," give the fascist party a mandate to carry out this programme, it will not be open to serious dispute that we shall have become a "rationalised State."

Was it admiration for this experiment in the making of constitutions that moved Lord Rothermere to describe Sir Oswald Mosley as "perhaps the greatest political teacher we have produced in our history"? Or can it have been the discovery that on India and the colonies, on defence and foreign policy they were

both warbling of one song, both in one key?

Nothing in the Leader's past suggested such a possibility. In 1928, as a member of the National Administrative Council of the Independent Labour party, he had been engaged in the drafting of resolutions for the International Congress in Brussels.

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The International reaffirms the right of India to self-government and self-determination. . . .

The International declares that the time has come to end the system of Imperialism by which one race controls the destinies of another. . . .

The International insists that, side by side with this policy to end political Imperialism, a policy must be pursued to end economic Imperialism.

In the same year, at the annual conference of the Labour party, he had spent his eloquence in support of a resolution of portentous length on world peace and disarmament. "The League of Nations," he assured his audience, "was the greatest instrument of national peace ever devised and ever agreed. That great instrument rested on three main pillars—arbitration, security and disarmament." It is difficult to account on subjective grounds for the conversion in so brief a span to views on these subjects so different as those of the spokesman of fascism. The League of Nations must now be reconstructed "in accord with the requirements of reality." It must be ruled by the great Powers and their fascist Governments. But pending the coming of the universal brotherhood of fascism, we must have an air force equal to the strongest in Europe. In our Indian Empire, there must be No Surrender, no truck with the White Paper, no pandering to the anachronistic passion for democracies and parliaments, but strong government, the open door for Lancashire and in the fulness of time perhaps even an oriental type of fascist institutions. For the colonies, systematic development by British capital and the total exclusion of foreign goods.

It will be apparent from this brief summary that the fascist programme might not unfairly be called eclectic. Something has been included for every palate, however jaded. It is not surprising, therefore, that the recruits to the movement should be drawn from all parties and from none. The small shopkeeper and the retired pensioner, both of them afraid of socialism because it is organised, sleep more soundly for the knowledge that they too form

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part, for the first time, of an organisation. Young men and women are lulled by the novelty of the movement into forgetting the disillusionment and bitterness with which unemployment has infected for so many the early twenties. The simple soul who all his life has deplored the supineness and the dishonesty of the politicians, their wriggling and their intrigues, rallies to the cause of the strong man at bay, who is determined to solve his problems rather than to circumvent them. Others, with no liking for fascism and no wish for a dictatorship, have felt that in a fight with Crippsian Labour the Mosley organisation will come into its own.

But while these are types of fascist recruits, it is probable that the movement owes less to its programme than to its organised publicity. Neither money nor imagination has been stinted in that department, and with the modern apparatus of the talking film, wireless and press photography, competent propaganda, even in the political field, will inevitably show results. Whether those results will be permanent, in this age of ephemeral enthusiasms, may well be doubted.

For six brief but glorious months in this year, fascism and its Leader basked in the genial warmth of Lord Rothermere's friendship. His newspapers gave them space, printed their articles, rhapsodised over their meetings, illustrated the Leader in all the poses of an animated existence, extolled his creed as the only solvent of our troubles. *Hurrah for the Blackshirts*, from the pen of Lord Rothermere himself, sounded the keynote. Those limpid tones were not maintained in their full purity. Here and there a doubt crept in, a misapprehension had to be removed. The world needed to be assured that fascism was not aiming at a dictatorship, that it was not anti-Jewish. As time passed, the assurances became more frequent, more laboured; fascist news slipped over to a back page, and the connoisseur in these studies can have felt no surprise when at length the idyll was shattered by the publication of the letters in which Lord Rothermere

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and Sir Oswald Mosley agreed to part. In tones of extreme gentility, resonant with mutual admiration, they revealed to the world that the Rothermere press was no longer to be in alliance with the fascist movement.

It is fair to assume that the alliance brought much gain to fascism and that its denunciation will bring much loss. Every effort had been made to turn it to account. Mr. A. W. Ivens, "O.C. Press Propaganda" in the fascist organisation, had sent a circular on January 16, marked "Strictly confidential and to be destroyed when read," to all his branch organisers and press secretaries, to direct their attention to the "stirring article by Viscount Rothermere" in the *Daily Mail* of the previous day and to instruct them to procure the writing of letters of approval to the editor of that paper. "Of course," said Mr. Ivens, "these letters supposedly are written by readers quite unconnected with the B.U.F.," and after this warning he ended with an exhortation to his officers to "put vim into this campaign." They appear to have responded nobly, but perhaps their letters were in the end outweighed by other letters from other users of the paper, who were neither connected with nor interested in fascism. However this may be, when the end came, Sir Oswald Mosley may well have been reminded of the words which he himself wrote in 1926 in the *New Leader* after his victory at Smethwick:—

Smethwick has been the Waterloo of the Press Lords. They have used every weapon in their armoury and they have failed. On Sunday last Lord Rothermere sadly commented that Smethwick was the end of Democracy. He was wrong. Smethwick is the end of Pressocracy. . . . Smethwick proves that the majority of our population have ceased to believe a single word that they read in the Capitalist Press. . . . These Press Lords died self-slain.

II

IF fascism is to survive in England, it will have to convince a substantial body of the electors that its policy is both desirable and practicable and that its leaders are, as they themselves assert, better men than the "old gang

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politicians." For this, something more will be needed than stunt publicity. But equally, something more will be needed to uproot fascism than the defection of Lord Rothermere. In the long run only argument will carry the electorate, and the one effective reply to an argument is to prove it unsound.

Now the doctrinal armour of fascism is vulnerable at every joint. Examine again for a moment the Mosleian economic theory. It rests on two assumptions, both unfounded. The first is that "science, invention, technique have recently increased the power to produce out of the range of all previous experience," that "the output of a man-hour or a man-day has increased to a colossal extent both here and abroad," and that in consequence "the industries of the world can to-day produce, without running at nearly their full pressure, far more than any conceivable effective demand of the present system can absorb." None of these statements could have been made by anyone who had seen the productive process steadily and seen it whole. Recent improvements in industrial technique are remarkable, but they are neither different in kind from nor greater in degree than those of earlier periods in the industrial age. While the productivity of labour has increased, the increase is not comparable with that which followed the first inventions of machinery. The exaggerations of Sir Oswald Mosley are only possible because he persists in regarding only the last stage in the production of consumers' goods, and takes no account of the elementary fact that the expenditure of capital and of running charges that enables labour to be saved in one process is itself nothing but the employment of other forms of labour. On the Mosleian theory, if a machine is introduced with which one man can make as many boots in a day as ten men previously made, we must assume that the productivity of labour has increased tenfold. If that were true, the problem whether to instal more automatic machinery, a problem with which every manufacturer is familiar, would

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not be a matter of nice calculation to be decided usually on marginal differences; nor should we need, after the technical progress of the last hundred years, more than a fraction of the labour that in fact we require to reach the present level of production. The truth is that productivity over the whole field increases slowly, though steadily. Even in the United States of America, and even in the ten years before 1929, the average annual rate of increase in output per worker was less than 4 per cent. In the United Kingdom, on the figures that Sir Oswald Mosley himself quotes, it was little more than 2 per cent. It is to meet this that we are invited to turn the State upside down and to establish, in Coleridge's phrase, "a contemptible democratical oligarchy of glib economists."

The second false assumption proceeds from the first, and lies in the failure to understand the true relation between production and consumption. Production, so runs the argument, has outstripped consumption, and to redress the balance we must increase consuming power. In a world in which every nation sees in economic independence the highest good, we are masters only in our own house. Let us, therefore, increase the consuming power of our own population and create employment by raising the remuneration of all labour. Here is simply the old confusion between "consuming power" and what an economist has called "money spending power." To increase the "money spending power" of labour by raising wages can give no more than a temporary stimulus to production. In an organised society, just as with Crusoe on his desert island, production is not determined by consumption; on the contrary, the consuming power of this or any other nation is determined primarily by its production. If it produces more, it will be enabled to consume more; if it produces less, it will have to consume less. The improvement in the standard of living of our population during the last hundred years is only a reflection of the simultaneous increase in its production.

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We have dealt more fully than it deserves with the Mosleian economic theory for the reason that it has been exploited on every occasion by the fascists as a device for drumming up recruits. But even if the theory were sound and the policy based on it were the only acceptable economic policy for the country, the new political system would still be neither plausible nor necessary. Its alleged justification is that democracy, as practised through our institutions, is dilatory and ineffective. Debate is interminable, decision infrequent, action unattainable. Therefore we need the corporative State to apply the new economic policy. Earlier in this article the main organs of the corporative State were enumerated. The mere recital of what it is proposed to substitute for an effete democracy is sufficient proof that the new order is either a sham or democracy raised to the *n*th power. If your commodity boards and your corporations and your industrial parliament and your political parliament are to mean anything at all, if they are not to be merely a convenient façade for the modern tyrant, they must make demands far transcending those of our present institutions on the ability of the nation to operate a democratic system. For what is democracy but an attempt by men of different opinions to work together for a common end? Every one of these fascist institutions is so constituted as to include men of different opinions, and those institutions taken together cover not only the sphere of political administration but a wide range of industrial activities in which the State to-day has no part.

Is it surprising that the irreverent have looked beyond and behind the corporative State and uttered the word "dictatorship"? Or, to use the language of the Leader himself, that "the old wives of politics should be trying to keep the nation in bed by whispering 'bogy, bogy'?" It is related that, at one of the many meetings of the National Farmers' Union that Sir Oswald Mosley has addressed, an old farmer said that he was tempted to give the new system

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a trial but would like to know what would happen if it was found unsatisfactory. He explained that he was a dairy farmer, and many years ago had engaged a cowman on the strength of the man's own statements of what he could do. By bitter experience he had been driven to engage his cowmen by the week, so that he could sack them if they failed to live up to their claims. What was he to do if he voted for fascism and found his expectations disappointed? The Leader, feeling, no doubt, a certain embarrassment, assured him that there could be no question of failure. "That," retorted the farmer, "is what all my cowmen say."

III

IT will be objected, no doubt, that this criticism ignores the spiritual content of fascism, the promised transmutation of our common human clay by virtue of this new gospel into something rich and strange. We have forgotten that "the basis of the fascist idea is that Right is right," forgotten, too, that fascism "is the acceptance of new values and of a new morality in a higher and nobler conception of the universe." Has not the Leader told us that "the spirit lives; the rest will follow"? In other words, the same men and women who to-day flounder in the pettiness of an incompetent democracy will to-morrow direct with inspired unanimity the complex organism of the corporative State. It is a seductive prospect. Yet it fails to convince. For the plain citizen its attractions may be blurred by contemplation of this same spiritual transformation in other communities. Is it by casual omission or by design that in his catalogue of "the realities of liberty" the fascist leader has included neither freedom of speech nor freedom of thought or conscience? The remembrance of Dr. Goebbels may conceivably raise doubts whether the denial of freedom of speech and freedom of thought leads necessarily to unanimity of purpose. Corroboration may even be found for the view that divergent

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opinions are not always a mark of decadence, that they are indeed inherent in human nature, and if their public expression is forbidden they will break out in subterranean intrigue. Better, perhaps, a cycle of democratic inconsequence than another glorious thirtieth of June.

"We invite Britain to do things in a different way," says the Blackshirt Leader. "We seek to create the Modern Movement in Britain in a form very different from continental forms, with characteristics which are peculiarly British and in a manner which will strive to avoid the excesses and the horrors of continental struggle." Yet he has begun as they have all begun, with Plato's "familiar device," the bodyguard, and the pretention to use private force for the public good. Of its essence, that is a claim in which there can be no monopoly, and the cohorts of one political group are soon found ranged against those of another. Then comes civil conflict, with the progressive degradation of human instincts, and in the end anarchy or the despotism of force. Man is nearer to the brutes than he cares to admit. If the Olympia rally served no other purpose, at least it imprinted that truth indelibly on the mind of every unprejudiced observer in the audience. The ethics of interruption at political meetings are not the issue, but the expediency of the licensed violence of political partisans. Sir Oswald Mosley is not the first demagogue in our history. But it would be difficult to find among his English forerunners in that art a parallel to the callous brutality of the comment made by this modern Cleon after the forcible ejection of a spectator who had asked an innocent question—

If anyone else wishes to interrupt I would recommend him to do so now, since you can see for yourselves that as the evening draws on interruption becomes more painful.

Herr Julius Streicher, the High Priest of the anti-Semitic orgiasts, has proclaimed that "the baptism which the Mosley movement has already received in bloody battles in public halls and streets assures it a happy future." Men

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attain happiness in divers ways, but it argues little faith in the political sense of the British people, and scant knowledge of its political past, to imagine that by such methods and such arguments as we have described fascism can win over to its cause a majority of the electorate. By the hard road of experience through successive generations this nation has assimilated the first principles of social and political wisdom. It has learned to judge its leaders less by their words than by their works, to distrust exaggeration and to treasure fairmindedness, to reconcile the claims of exuberant youth with the less flamboyant merits of maturer age, to hate the bully and to protect the underdog. Unresponsive to general ideas or new philosophies, it is an admirable judge of what is practicable. But above all it is accustomed to think for itself and freely to express its mind. These are characteristics confined to no one class of society, to no locality and to no single party, and in this lies the strength of our political system. When a people so nurtured looks out over Europe and sees what has been so admirably described by the Dramatic Critic of *The Times* :

This is the whole lesson of the journey now ended : that the Rhine has become a rough frontier between two ways of life, mutually exclusive ; to the West, to think for oneself is a virtue ; to the East, if the violence sprung from an inferiority complex ultimately prevails over the surviving opposition, there will be created from Strasbourg to Vladivostok a prison of the mind —

when it sees this and when the other implications of the Blackshirt doctrine are made clear to it, this nation may be trusted to resolve that not only in Mr. Baldwin's sense shall the Rhine be the frontier of England and that the abiding place of fascism shall be sought beyond that frontier.

THE FUTURE OF COLONIAL TRUSTEESHIP

I. THE TRADITION OF A TRUST

THE term "trusteeship" is commonly used, often rather loosely, to denote the character of British rule over backward peoples. The idea of a political trust goes back to the days of Burke and the great emancipators, but, like so much else in British history, it long remained a principle or tradition unformulated in any document or expressed in any specific pledge. It was not till 1885 that the British Government, in conjunction with the other signatories of the Berlin Act, definitely undertook in one particular field—the British territories within the Congo basin in Africa—to watch over the preservation of the native tribes, and to care for the improvement of the conditions of their moral and material well-being. More recent, and of wider scope, are the formulas and pledges connected with the Covenant of the League of Nations. Article 23 includes an undertaking "to secure just treatment of the native inhabitants" of territories under its signatories' control. Article 22 declares that to the territories taken from the former German and Turkish Empires,

which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilisation.

And in accepting the mandate for Tanganyika, for example, the British Government pledged itself "to promote to the

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utmost the material and moral well-being and the social progress of its inhabitants"; and *inter alia* "to respect the rights and safeguard the interests of the native population" with regard to land, and to "ensure to all nationals of States members of the League of Nations, on the same footing as to (its) own nationals . . . complete economic, commercial and industrial equality." The same or similar undertakings are involved in the other mandates.

The subscription of these formulas and pledges meant no departure from the British tradition. The mandate system, indeed, was regarded as the embodiment of that tradition. It was said by high officials, with experience of both fields, that the administration of a mandated territory was no different from that of a Crown colony. And on at least two occasions the identity in principle has been officially admitted. In the White Paper of 1923 on the position of Indians in Kenya (re-affirmed in the 1927 White Paper), His Majesty's Government recorded their opinion that

The annexation of the East Africa Protectorate . . . in no way derogates from this fundamental conception of the duty of the Government to the native races. As in the Uganda Protectorate, so in the Kenya Colony, the principle of trusteeship for the natives, no less than in the mandated territory of Tanganyika, is unassailable.

And in his address to the Legislative Council in 1933 the Governor of Nigeria declared that

in Nigeria proper, as in the mandated territory, our duty is gradually to train the people so that—whatever may be the generations or even centuries that it will take—they may ultimately be able to "stand by themselves," in the words of Article 22 of the Covenant.

Nor, of course, can the extension of the principle be confined to Africa. If the principles of trusteeship are right in Kenya and Nigeria, they are right in Malaya or the South Sea islands.

It is sometimes asserted that the theory of trusteeship is a masterpiece of hypocrisy, a cloak to cover the naked

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selfishness of "economic imperialism." It is true, of course, that our occupation of tropical territories was never altruistic. We wanted new supplies of raw materials and new markets for our manufactures; and occupation was the only way to prevent these raw materials and markets from coming under the control of rival foreign Powers. But higher motives were honestly linked with the economic and political. The British humanitarian tradition is an historical fact. We did give a lead to the world a century ago in abolishing the slave trade and slavery; and more than once since then the extension of British rule has largely, and sometimes mainly, been determined by a genuine desire to protect the peoples concerned from those and kindred evils. Not that we have ever admitted that the economic development of the tropics is necessarily injurious to the welfare of the natives, that (to quote the famous jibe) "philanthropy and five per cent." are incompatible. Wilberforce urged that the expansion of "legitimate" trade was one of the surest methods of killing the slave trade. Livingstone linked commerce with Christianity as a means of fulfilling our duty to "civilise" Africa. And it is becoming more and more obvious in these days that the execution of a "trust" for the welfare of the natives, involving as it does the provision of costly public services for their physical and social advancement, depends for its efficiency on an adequate local revenue, which in turn depends on economic development.

The nature of our economic system before the war enabled us to assert a second claim. Most other colonial Powers, including the United States, maintained a privileged position for themselves in the commerce of their colonies. We, being free-traders, disclaimed all preference on principle. Foreigners were as free as British subjects to trade in British colonies. The products of foreign colonies competed openly with those of British colonies in the British market. British interests, it is true, enjoyed some indirect advantages from the fact of British rule, but the

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value of these can be exaggerated, and the "open door" was genuinely open. And this could be pleaded as a sort of justification or excuse for the relatively large size of our colonial empire. "We develop it," said Mr. Joseph Chamberlain, "as trustees of civilisation for the commerce of the world"—a text which Lord Lugard cited, in his classical study of African administration, to illustrate his well-known doctrine of the "dual mandate"—half for the natives, half for the world.

It may be observed that, while in two of the three classes of mandated territories the "open door" has similarly been maintained, if not for the whole world, at least for the members of the League, and, by subsequent arrangement, for the United States, no reference is made in the Covenant to any such secondary trust. Now it would be plainly contrary to fact to suggest that the sole purpose and test of our policy in the tropical colonies is the interest and advancement of the natives; but there are very real dangers in giving to the term "trust" or "mandate" such a double application. For one thing, it is doubtful whether British public opinion was ever really interested in promoting world trade apart from the British share in it. We maintained the "open door" because we thought it paid us, economically and politically. For another, the second use of the term tends to blur and weaken the effect of the first. It ignores the possibility of conflict between the economic development of the tropics and the protection of the natives; whereas, of course, the danger of such a conflict is inherent in the colonial problem, and applies to the principle of trusteeship its severest test.

II. COTTON QUOTAS AND OTHER PROBLEMS

THERE can be little doubt that the British people desire to maintain the principle of trusteeship. The public interest in the centenary of the abolition of slavery shows that we are still proud of our humanitarian tradition;

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and to those who look ahead it seems clear that, even in relatively backward countries, the increasing stimulant of European contact and the steady growth of education will make it progressively harder to govern or to trade with peoples who believe that their interests are deliberately subordinated to those of the ruling Power. As regards principles and methods of government, our policy still accords, on the whole, with these ideas. Constitutional reforms in Ceylon and the West Indies, the development of indirect administration in tropical Africa, the scheme of decentralisation in Malaya, and the closer attention given to education—all this and much more is inspired by an honest desire to help the peoples concerned, sooner or later according to the varying standards of their past achievement and present capacity, to stand on their own feet. The only difference, indeed, from pre-war policy is a clearer realisation that, however long it may take to reach it, some kind of self-government is everywhere the ultimate goal.

But in the economic field there have been changes since the war. The revolution in our economic system at home was bound to affect our economic ideas about the Empire as a whole. Just as in the nineteenth century, after the downfall of protection, we attempted to impose free trade on our "white" colonies—and were only prevented by the powers of self-government they had already attained—so now the natural tendency is to bring our "black" and "brown" colonies within the new system of imperial preference. M. André Siegfried, one of the British Empire's friendliest critics, prophesied a few years ago that under the pressure of world economic forces we would try to refashion our tropical Empire into a closed economic area of the eighteenth century mercantilist type*; and that indeed is what some of our own imperial enthusiasts demand from time to time, in the belief that our economic problems can be solved by an exclusive "exploitation of our tropical estate." Nothing so drastic, of course, has yet

* *England's Crisis*, by André Siegfried. (Jonathan Cape. 1931.)

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occurred, but one or two things have been done that point in that direction.

(1) *Ottawa Preferences*

Already at the close of the war the "open door" was no longer quite open. Differential duties were temporarily laid on the export of palm-kernels from West Africa in order to foster the manufacture of vegetable oil in this country at Germany's expense. Small preferences were also arranged between Great Britain and the West Indies and one or two other colonies. But it was not till the Ottawa Conference that the preferential principle was extended to cover almost every part of the Empire in which it was not ruled out, as it is for instance in the Congo basin, by the treaty rights of foreign Powers. The Colonial Secretary himself went to Ottawa to represent the colonies, and, speaking in the House of Commons on July 12 last, he claimed that the agreements he had secured there had not only benefited British and Dominion exporters to the colonies, but had also helped the native producers to fight the economic depression by widening and safeguarding their markets in Great Britain and the Dominions.

This article is not concerned with economic controversy nor with the effect on international relations of a closing or partial closing of the "open door." It must suffice for the moment to stress the fact that it is no longer open. There has been relatively little discussion of this aspect of the Ottawa policy; public opinion seems scarcely to have realised that, whatever its merits, it was a radical departure from pre-war principles, and that it differentiates the economic status of those colonies to which it has been applied from that of a mandated territory. We can no longer claim to be trustees for the commerce of the world. It should not be forgotten, moreover, that, while the Ottawa agreements between Great Britain and the Dominions were concluded between democratic governments representing their peoples, those affecting the colonies were concluded

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by the Secretary of State on their behalf, and that, although he doubtless consulted their governments, he was in a position in most cases to put his decisions into effect, whatever local opinion might be. Only seven of the colonies are sufficiently advanced to possess legislative bodies that are not controlled by an official majority; and in one of those, Ceylon, where the new constitution has not yet secured political harmony, the State Council repudiated an important part of the preferential agreement.

(2) Japanese Competition

These points require still greater emphasis with regard to the recent imposition of anti-Japanese duties and quotas. On May 7 last the President of the Board of Trade announced in the House of Commons that

the Governments of the colonies and protectorates for which such action would be appropriate would be asked to introduce import quotas which, except in the case of West Africa, would apply to all foreign imports of cotton and rayon goods. . . . In the most important of the West African colonies . . . there were treaty obligations which precluded differentiation in favour of our own goods. It was for this reason that on May 16 of last year notice had been given to release the West African colonies from their obligations under the Anglo-Japanese treaty, and action there would be limited to Japanese goods.

On the face of it those measures are intended to serve no other purpose than the protection of British exports from Japanese competition: they are a move in the world-wide conflict between this country and Japan. It can be argued, of course, that the interests of the colonies—political, strategic, financial, commercial—are so closely linked with our own that any sacrifices they may make are made in a common cause. But has it been adequately recognised that it is a sacrifice for the poorer natives of the tropics to be deprived of the chance of buying cheap Japanese goods? The Nairobi correspondent of *The Times* reported* that

* *The Times*, May 11, 1934

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East African opinion did not regret that the imposition of the duties in East Africa was barred by the Congo treaties.

It is felt (he wrote) that the limited native purchasing power has been used, money circulated, and trade kept alive by Japanese goods at a critical time, which would have been less probably the case with more expensive British articles. An example of such indirect benefit comes from Tanganyika, where medical officers declare that the purchase of cheap Japanese rubber shoes has done more to prevent hookworm disease than all the efforts of the health department.

It is much the same in West Africa. Hard-hit as they have been by the fall in the price of ground-nuts and palm products, the poorer natives in Nigeria are still able to buy cheap Japanese shoes or singlets, but not the more expensive British product. It is the same story in Ceylon.

A high tariff on Japanese cotton piece goods (to quote again from a correspondent of *The Times*) would not, it is believed, in any way increase the sale of the British commodity; it would merely deprive the consumer of something which he demands and is now just able to afford.

In Malaya anxiety as to the effect of the duties on the *entrepôt* trade is stiffened by a traditional attachment to free trade, which in the course of last century raised Singapore from an obscure village to one of the world's great ports.

It is not surprising, therefore, that the imposition of the duties has met with some local opposition. In Nigeria and the Gold Coast, it is true, the requisite measures were accepted by the unofficial members of the Legislative Councils, but it was pointed out that, if the cost of living was to be raised in Nigeria to protect British trade, Great Britain should do more than she has done for Nigerian products. At Singapore, on the other hand, the unofficial members of Council unanimously opposed the Bill, which could therefore be carried only by the votes of the official

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bloc. In Ceylon, after some hesitation, which was apparently due to a desire to bargain with the British Government for the better protection of Ceylonese products in the British market, the Board of Ministers decided to withhold support from the duties, and to "leave it to the Secretary of State to treat the question as one of Imperial significance, if he desired, and to take such steps as he thought fit."* An Order-in-Council has since been made vesting in the Governor of Ceylon power to regulate textile imports by quota.

It would be impossible (said the Secretary of State) that Ceylon should be excluded from a broad imperial policy of this kind, which is regarded as essential in the economic interests of the Empire as a whole.

It may be that this local opposition is inspired by a false or narrow conception of the ultimate interests of the colonies concerned; but in brushing it aside how much consideration has the British Government given to those interests? Mr. Runciman's announcement of the Government's decision was of a brief official character: he merely stated that, pending a settlement by co-operation with the Japanese, action must be taken to prevent their "continuously expanding their exports in our markets to the detriment of Lancashire." The Government were thus "obliged to resume their liberty to take such action as they deemed necessary to safeguard our commercial interests." As regards the colonial markets, the action mentioned would be taken "with a view to reinstating this country in the position in those markets which she held before the present abnormal period." A reasoned explanation of the Government's policy was not to be expected on this occasion; but since it was only in the colonial sections of "our markets" that immediate action was to be taken, it is strange that Mr. Runciman could not find room for a single sentence to show that anything

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but "the detriment of Lancashire" and "our commercial interests" had been considered.

(3) *Paying for Air Mail*

A third example of new tendencies may be taken from a different field. The air service provided by Imperial Airways between London and South Africa by way of the Sudan, Uganda, Kenya, Tanganyika and the Rhodesias is aided by a subsidy which amounts this year to £246,000. Of this total Great Britain provides £100,000, South Africa £94,000, and Southern Rhodesia £10,000. The residue of £42,000 is made up by Kenya (£15,000), Uganda and Tanganyika (£10,000 each), Sudan (£5,000) and Northern Rhodesia (£2,000). Those five territories are not, like the first three, self-governing. They are all under "trust." One of them is "mandated." Their total revenues have averaged in recent years about £10 to £12 million. No doubt they share in benefits that the service confers on all the territories it traverses. No doubt, too, there are political and strategic questions to be taken into account. But the disproportion between a payment by Tanganyika, for example, of over one two-hundredth of its revenue and a payment by Great Britain of less than one seven-thousandth is marked. Sir Edward Grigg went so far as to say in the debate on the Air estimates on March 19 that "the proportion in which the subsidy is divided is an exploitation of the African taxpayer for the benefit of the taxpayer here." No one supposes, if that be so, that it was deliberately intended; but it seems doubtful if the relative utility and cost of the service to the African native and the Englishman at home were reckoned up with a due sense of our responsibility as "trustees," and it is satisfactory that Sir Philip Sassoon promised that this aspect of the question would be fully considered.

* *The Times*, July 21, 1934.

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III. A NEW POLICY

THE point to be repeated and emphasised about these three examples of our recent policy in the colonial field is that the policy is new. It assumes a different relationship between Great Britain and the colonies than that of the pre-war trusteeship, or at least a different conception of trusteeship. The old theory, as defined at the outset of this article, was that the interest of the ward was the Government's over-riding concern. Private commercial enterprise was certainly encouraged, but, broadly speaking, in the belief that it did not injure and should not be permitted to injure the peoples under "trust." We were content with the incidental indirect advantages that accrued to us from British rule. We did not ask the peoples ruled to pay for more than the local cost thereof, and when they could not meet even that, we made good the deficiency ourselves. The new policy is on other lines. It can hardly be said, perhaps, to be based as yet on any very definite theory. Things seem to have been done to meet particular needs, or to fit in with other policies, without considering their logical implications. But at least the outline of a new colonial doctrine seems to be taking shape, a doctrine that tends to regard colonial territories less as a class in themselves, and more as an integral part of the Empire, and to identify their interests more closely with those of the Empire as a whole. It suggests that their new path of progress lies in imperial co-operation. Where treaties permit, it substitutes reciprocal "Ottawa" preferences for the "open door," and with the same proviso it calls for aid in Great Britain's economic conflict with Japan. It takes for granted a subvention to an imperial air service. Going one step further, it might perhaps assert that the colonies, enjoying the general benefits, the freedom and security, inherent in their connection with the Empire, should share also in its

A New Policy

general burdens over and above the local cost of their administration. The conception of the relationship between ourselves and the colonies, in fact, would seem to be no longer that of trusteeship, but rather that of partnership.

In principle, no one can quarrel with that. Partnership in the colonies, as in India, is the natural outcome of trusteeship. It has been said, indeed, that the separate consideration given to the colonies at Ottawa implied a rise in their status, and that the discussion of the new preferences in their legislatures was a step in the direction of fiscal autonomy. There would be more force in that if the majority of most colonial legislatures were not bound to vote in the last resort as the Colonial Secretary in London wished, and if the only important colony that possesses a real measure of fiscal autonomy, Ceylon, had not disagreed with the British Government's proposals. There is danger, indeed, in regarding peoples as partners who in fact are still only wards. It may lead to imposing on wards what partners would refuse. George III's Ministers believed themselves justified in asking the American colonies to contribute to imperial defence. The attempt to impose free trade on Canada in the eighteen-fifties was inspired by a quite genuine belief that it was good for her. To be a just judge in one's own cause demands a super-human virtue, and, if indeed such a doctrine as that outlined above is to be adopted, let us take care to define it clearly and truthfully. To talk of "co-operation" unless we are sure it is voluntary goes far to justify what is said abroad of our national hypocrisy.

We are face to face in fact with an imperial issue of quite first-rate importance. Let us recognise it as such betimes, and not allow it to be decided by a series of hand-to-mouth decisions, without thinking out the principles involved. Above all, it must not be decided without the fullest public discussion; for the final responsibility lies with the British people. The "trusteeship" for the welfare of the millions of coloured peoples is not vested

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in their colonial governments. In most of the colonies the Governor can secure his end in the legislative as well as the executive field by ordering, if need be, the official majority in the legislature to vote as he directs them. But the Governor is under the instructions of the Secretary of State, who is himself the agent of Parliament, and, more particularly, of the House of Commons, which represents and is responsible to the British people.

Theirs, then, is the ultimate responsibility. Their opinion must decide the issue. It must not be settled by a policy of drift or in "a fit of absence of mind" without consulting them. And so far no such consultation has taken place. Neither in Parliament nor outside it has there been any real public discussion of the new colonial policy. Full attention was given to the part played by the Dominions in the Ottawa agreements, but scarcely any to that of the colonies. The anti-Japanese duties were announced without even a bare reference to their interests. Nor can it be pleaded that public opinion in this matter can be taken for granted. It is impossible to say what it is. Is it, for instance, convinced that the application of "imperial preference" in the colonies is economically or morally justified? Has it considered and decided to face the reactions of such a policy on the attitude of other nations towards the British Empire, especially that of the United States?

Nor is it British public opinion only that must in these days be consulted. Every effort should be made to inform the educated section of any community concerned as to the purpose of our policies, and, as far as possible, to obtain its views. It need not be assumed that they will differ from our own. In 1919, while the African members of the Gold Coast Legislative Council voted against the palm-kernel export duty, those of the Nigerian Council voted for it because Sir Frederick Lugard had straightforwardly appealed to them to recognise what they owed to British rule. What is almost certain, on the other hand,

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to provoke dissent and antagonism is to impose a measure especially an economic measure, on a colony without troubling to explain and justify it as clearly and fully as possible. The suspicion that the political ideals of our "trusteeship" do not conform with our economic purposes is unhappily as inevitable in the colonies as it used to be in India; but it is not yet so widespread, and everything possible must be done to combat it. Not only in Ceylon and the West Indies, but in more politically backward communities in Africa and elsewhere, the educated native is closely watching what we do and how we do it. And at all costs we must try—and it is not by any means impossible—to convince him of our sincerity and to keep his good will. For, however we interpret our "trust," every student of colonial problems knows that its successful execution depends, and will increasingly depend as time passes, on the sympathy and co-operation of the native peoples.

BRITISH AGRICULTURE AND EMPIRE TRADE

I. OTTAWA : BEFORE AND AFTER

SINCE the British Commonwealth of independent nations emerged from the old colonial empire, it has never been built upon any central economic plan or organisation. Repudiated as an ideal, such a scheme was prevented in practice by the prevailing fiscal creed of Great Britain, and by the industrial ambitions of the Dominions. Nevertheless, even while this country still adhered to the free-trade faith, certain principles were traceable in the general terms on which trade was conducted among the British nations. The free-trade system of the United Kingdom ruled out preferences on the principal exports of the Dominions, but it guaranteed them an open and unlimited market for their produce in this country. That market was the mainstay of their primary industries, and thus at second remove of their rising manufactures. British Governments of different complexions had, moreover, recognised the principle that whenever an import tax was imposed it should be accompanied if possible by a measure of imperial preference. At the other end, while we had to meet protective barriers in the Dominions against our manufactured exports, we were given a preferential position there, and our cheap imports of food and raw materials enabled us to keep and enlarge our markets while our average standard of life steadily rose.

A major change was effected when this country adopted industrial protection, and more especially when the Ottawa agreements were signed. The implied principle

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of those agreements was industrial specialisation among the different members of the Commonwealth, safeguarded by a system of tariffs and preferences. The principle of the open market for Dominion primary produce in the United Kingdom was still maintained, though modified in detail by certain voluntary restrictions aimed at securing a higher price level. For her part, Great Britain continued to attach importance to the obverse aspect of the open market principle, namely, her ability to buy her food-stuffs and raw materials cheaply; she relied on this to keep down her industrial costs in comparison with those of her competitors, many of whom had artificially raised their costs of living by agricultural protection. Thus we insisted at Ottawa that the preferential tariffs on wheat and copper should be granted only on the condition that Dominion supplies were available at the world price.

The trend of British agricultural policy towards protection is working still another revolution in the principles of Empire trade. The open market for Dominion primary produce, if not curtailed already, has admittedly a very dubious future. The traditional British policy of buying necessities as cheaply as possible, in order to sell cheaply on a high standard of life, has been, by implication, abandoned. The broad specialisation of economic function within the Commonwealth, that is to say, the concentration by this country on manufacture, while the Dominions and other new lands produce our non-perishable raw materials and food, has been set limits as an object of national policy.

II. BRITISH AGRICULTURE

BRITISH agriculture is a specialised industry, adapted to the climatic and economic conditions of these islands. In 1930-31, the latest year for which returns are available, over 70 per cent of the net output of British agriculture consisted of livestock and livestock products.

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The following table shows in detail the distribution among the various products.

NET OUTPUT OF AGRICULTURE, 1930-31 (England and Wales)						
Product					Value in £ million	Percentage of total
Beef and Veal	..	..	..	..	29.9	14.8
Mutton and Lamb	..	..	..	..	15.6	7.7
Pig Meat	..	..	..	..	19.5	9.6
Milk	..	..	..	..	47.5	23.4
Milk Products	..	..	..	..	7.5	3.7
Poultry and Eggs	..	..	..	..	21.0	10.4
Wool	..	..	..	..	1.3	0.6
Wheat	..	..	..	..	3.6	1.8
Other Corn Crops	..	..	..	..	6.2	3.0
Potatoes	..	..	..	..	11.7	5.8
Sugar Beet	..	..	..	..	6.8	3.3
Hops	..	..	..	..	0.9	0.5
Hay, Straw, etc.	..	..	..	..	4.0	2.0
Fruit	..	..	..	..	7.8	3.8
Vegetables	..	..	..	..	12.3	6.1
Flowers	..	..	..	..	1.5	0.8
Glasshouse Produce	..	..	..	..	5.6	2.7
Total	..	..	..	..	202.7	100.0

These figures are all net, that is to say, there has been excluded from them all produce consumed in further agricultural operations. Thus they include food consumed by the farmer and his family, but omit crops used for fodder, whether on the farm or elsewhere. The gross figures, of course, would show a much higher proportion of corn crops, and of hay and straw; for over one-half of the former group, and four-fifths of the latter, were used for farm purposes. The general character of British agriculture, however, is best portrayed by net totals. The trend also is of great significance. Between the agricultural censuses of 1925 and 1930-31, aggregate net output, valued at the

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prices of the latter year, increased by 3.9 per cent. But output of dairy produce rose by 12.7 per cent., and that of poultry and eggs by no less than 62.7 per cent., while the output of livestock fell by 8.0 per cent., and that of farm crops by 4.6 per cent.

In 1931, the last year before the protective régime began, the following values of certain agricultural commodities were imported into the United Kingdom.

UNITED KINGDOM IMPORTS, 1931 (in £ million)					
				From Foreign Countries	From British Countries
Wheat and Wheat Flour	..	..	..	18.0	16.4
Barley, Oats and Maize	..	..	..	14.6	1.4
Beef, chilled	..	..	..	20.1	0.0
Beef, frozen	..	..	..	0.9	1.9
Mutton and Lamb, frozen	..	..	..	5.0	13.2
Bacon and Hams	..	..	..	34.6	1.7
Poultry	..	..	..	2.5	0.6
Other Meat	..	..	..	9.1	4.3
Live Animals, for food	..	..	..	0.0	16.0
Butter	..	..	..	24.4	21.9
Cheese	..	..	..	1.5	7.5
Cream	..	..	..	0.4	0.4
Condensed and Dried Milk	..	..	..	4.5	0.6
Eggs	..	..	..	13.3	3.3
Potatoes	..	..	..	5.9	1.0
Onions	..	..	..	1.8	0.0
Tomatoes	..	..	..	3.1	1.5
Fresh Vegetables	..	..	..	1.6	0.0
Apples	..	..	..	4.3	3.6
Other Fresh Fruit*	..	..	..	2.4	0.7
Hops	..	..	..	0.2	0.0
Wool, raw	..	..	..	5.7	27.0
Hides and Skins (not fur skins)	..	..	..	2.6	3.4
Totals	..	..	..	176.5	126.4

* Pears, cherries, gooseberries, strawberries and plums.

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The total of £303 million does not, of course, measure precisely the competition that British agriculture met from overseas sources of supply. It makes no mention of sugar, which competed with home-grown beet, or of preserved fruits and jams. Nor does it allow for the indirect competition of such articles as margarine or imported beverages. On the other hand, not every item on the list was fully or immediately competitive. The grains other than wheat, for instance, were used largely as raw material for other branches of home agriculture. Again, chilled and frozen meat reaches a different range of consumers from those who normally eat home-grown meat—a very important point to which reference will be made later. Moreover, a large proportion of the imports of fruit and vegetables came in when British produce was out of season. Bearing in mind all these qualifications, we may say broadly that the United Kingdom market for agricultural produce of a kind that is grown both at home and abroad has been divided hitherto fairly equally between the British and the overseas farmer.

By 1933, total imports of the items listed had been reduced in value to £250 million. This drop was largely the result of the further fall of prices that had taken place meanwhile, but it was partly also the result of protection in one form or another.

Since protection for British agriculture has assumed such varied shapes—tariffs, import quotas, subsidies—its scope and character cannot be summarised in a few words. The first protective measure of the National Government was the Horticultural Products (Emergency Duties) Act of November, 1931, which imposed import duties, ranging up to 100 per cent. of the value, on a wide variety of fruit and vegetables, in some cases during special seasons only. These duties, originally temporary, were made permanent in August, 1932. The Import Duties Act of February, 1932, spread the protective net much wider, imposing a 10 per cent. tariff on all foreign imports, save for a short

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“free list”; but a number of the most important farm products—wheat, maize, beef, mutton and lamb, pig products, wool—were among the exemptions. The Import Duties Advisory Committee, set up under the Act, later recommended the application of specific duties to imported potatoes; the duty on main crop potatoes was raised again last year. In August, 1933, the import duties on barley and oats were raised from 10 to 20 per cent., and last January the duty on oats was further raised to 3s. per cwt., equivalent at current prices to about 50 per cent. *ad valorem*.

The next measure of tariff protection for British agriculture was the Ottawa Agreements Act of October, 1932. It was part of the contract with the Dominions that duties should be imposed on foreign butter, cheese and eggs, while Dominion produce would continue to come in free. A duty of 2s. a quarter was also imposed on foreign wheat, but as it was accompanied by the proviso that adequate Dominion supplies should be available at the world price it cannot be reckoned as a measure of protection for home wheat growers. The only other piece of tariff protection for British agriculture that has to be recorded is the series of high duties imposed in July, 1932, on imports from the Irish Free State. The primary purpose of these duties was not protective, but such was inevitably their effect, especially in the markets for fat and store cattle, poultry, butter, eggs and cream.

The non-tariff forms of protection must be reviewed according to the different products to which they have been applied. Wheat comes first. By the Act of 1932, British wheat growers were guaranteed a price of 10s. a cwt., equivalent to 45s. a quarter, for their grain, or proportionately less if their total production should exceed—as it now does—a certain basic figure (27 million cwt.). This guaranteed price has been at times more than double the market price during the currency of the Act. In 1933, home-grown wheat sold at prices ranging from 6s. 10d. a cwt. in July to 4s. 5d. at the end of the year. The subsidy

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is provided from the proceeds of a tax on all flour imported or milled. The total sum thus distributed to farmers during the last crop year was about £4½ million. The grant of so large a subsidy to so small an item in British farming is all the more remarkable in that the Government has consistently advocated the limitation of world wheat production, and in that the benefit is very unevenly distributed between farmers in different parts of the country. More than half the total wheat area of Great Britain is in the eastern and north-eastern counties of England. Within that region, wheat "deficiency payments" varied in 1932-33 from an average of £89 per 100 acres of farmed land on north Essex and south-west Suffolk boulder clays, to £15 per 100 acres on south Essex london clays.*

The sugar beet subsidy, which is ten years old, may be mentioned at this point, since it has much in common with the wheat scheme. The subsidy of £6 10s. per ton of beet sugar cost £2½ million last year. Thus on wheat and sugar beet, which together accounted for about 5 per cent. of the net output of British agriculture, there was paid last year a total subvention of about £7 million, not including the rebate of excise on home-grown sugar. A marketing scheme for sugar has now been promulgated by the Government and has been the subject of public enquiry. Its basis is twofold: the apportionment of sugar-refining business by quota among a specified group of refiners; and the levy within the industry of a charge on all refined sugar, out of which the subsidy on home-grown sugar beet will continue to be paid. This provision assimilates the scheme to the "deficiency payment" plan for wheat.

More vital to British agriculture as a whole are the measures that have been taken during the last two years for the protection and assistance of livestock and dairy farming. The Ottawa agreements laid down that imports of foreign

* *An Economic Survey of Agriculture in the Eastern Counties of England, 1932.* University of Cambridge, Department of Agriculture.

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frozen beef and frozen mutton and lamb should be progressively cut to 65 per cent. of their 1931-32 amounts. The Australian Government undertook to limit the export of frozen mutton and lamb to the United Kingdom in 1933 to the level of 1931-32 shipments, and to use its best endeavours to ensure that exports of frozen beef in 1933 should not exceed 110 per cent. of exports in the base year. New Zealand undertook merely to give reliable estimates of shipments of mutton and lamb as early as possible in each export season. The United Kingdom Government, in return, undertook that no restriction would be applied to imports of meat from New Zealand and Australia up to June 30, 1934. As for chilled beef, which had not hitherto been exported in appreciable quantities by the Dominions owing to their greater distance from the market, foreign supplies were to be kept down to 1931-32 amounts. The Ottawa agreement on meat was reinforced by a plan of voluntary regulation of supplies, which was agreed upon between the United Kingdom and Argentina, as well as the Dominions concerned, in November 1932. Argentine beef exports to this country were to be cut down by 10 per cent., and mutton and lamb exports by 20 per cent. The Dominions would cut down their mutton and lamb exports by 10 per cent. Part of the bargain with Argentina was that no import duties should be levied on meat before November 1936.

British livestock farming was defended against a further source of competition when fat cattle imports from the Irish Free State were cut by 50 per cent., by an Order of December 1933. This measure was primarily protective in purpose, and its chief connection with the political dispute with the Free State Government was the omission to secure the latter's consent. Imports of beef, veal and offal from the Irish Free State were prohibited altogether. The Government of Canada at the same time agreed to limit exports of fat and store cattle to this market to 100 per cent. of 1933 quantities; but so much opposition was aroused

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among Canadian cattle-raisers that the understanding has not been ratified.

The expiry of the Ottawa agreements on meat supply raised once more the whole question of future British policy towards livestock farming. While the price of fat sheep has appreciably risen since 1932, the price of beef has remained at a very low level. The want of restriction on imports of frozen beef from the Dominions has been the factor most generally blamed, and indeed frozen beef imports were actually higher in quantity in 1933 than in 1932. The Fat Stock Reorganisation Commission pointed to two other contributory causes, namely, absence of knowledge about the volume of home-produced meat coming forward for slaughter, and the failure of the exporting countries to adhere strictly to their undertakings. The Commission were able to find no practicable substitute for supply regulation that was capable of immediate application. They acknowledged that (having regard to the requirements of consumers as to both volume and price) such regulation might fail to restore prices of home-produced meat to a reasonable level, and they recommended, as a first choice among possible reinforcements, a levy on the lines of the Wheat Act. This line of action has been provisionally adopted as part of government long-term policy, but for the present it is barred by the terms of the Argentine agreement. Argentina has refused to modify the agreement in this sense. The Dominions concerned have also expressed their opposition both to a levy on their supplies and to quantitative restriction. After conferring with the High Commissioners, the Government therefore felt constrained, until their hands should be free, to adopt an interim policy to aid British livestock farmers. This takes the form of a direct subsidy of 5s. per cwt. (live weight), or 9s. 4d. per cwt. (dead weight), on cattle sold for slaughter. The subsidy is granted for the period of seven months ending March 31, 1935, and is estimated to cost £3,000,000. Later, any such payments that may be made to beef pro-

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ducers are intended to be recouped out of the proposed levy on imported beef, but whether the £3,000,000 will be repaid by these means has been left undetermined.

The scheme of assistance for the pig industry need not be described in detail here, because it scarcely affects the Dominions. But it has several features of general interest. There is no guaranteed price, but all contracts for bacon curing have to be endorsed by a marketing board set up under statutory authority, and in fact when last November the curers were faced with heavy losses on their contracts the Government helped them with a loan, to be recouped out of a levy on future contracts. That situation arose because the supply of bacon pigs from home sources exceeded by one-third the total that had been expected. The chief exporters of bacon to this market had already agreed to restrict supplies by 20 per cent. of their former volume; when the November crisis arose the Government, after vain negotiations with the Danish producers, imposed a further cut of 16 per cent. As a result of these steps, the price of Danish bacon has risen considerably. Indeed, we have been paying Denmark more money for a less quantity of bacon. The complications of a quota policy are well illustrated by these incidents. At the World Economic Conference last year, the United Kingdom delegation moved "that a very definite distinction should be drawn between import quotas arbitrarily fixed for protectionist purposes, and production or marketing quotas established by international agreement with a view to the raising of prices." Was the second cut in bacon imports "arbitrarily fixed for protectionist purposes"? It certainly was not established by international agreement, and the raising of prices was only a secondary objective.

The milk marketing scheme has met with equal though rather different entanglements. The essence of the scheme is the equalisation of return to farmers by the compulsory sale of their milk to regional pools, co-ordinated under a central marketing board. The board is responsible for enter-

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ing into contracts with milk distributors and for disposing of surplus milk, at prices fixed each month, to manufacturers of cheese, butter, chocolate and other products. Even in winter there is now an excess of milk to the extent of 20 per cent. over liquid requirements, and in summer it may rise as high as 40 per cent. The price of milk for manufacture, which must obviously vary with the price of imported cheese and butter, as well as with the volume of the home surplus, has been as low as 3½d. a gallon, when the wholesale price for liquid milk has been 1s. 1d. a gallon.

The curtailment of imports, which was applied to bacon, has not been possible here; for the Ottawa agreements precluded us from restricting the import of Dominion butter and cheese until November 1935. Last year some 60 per cent. of our imports of butter and cheese came from the Dominions. Not long after the Ottawa Conference, the New Zealand Government asked the United Kingdom Government whether it would not be possible to restrict imports of foreign dairy products into this country, with a view to raising the price obtained by Dominion producers. The Government replied that they could not sufficiently cut foreign imports without applying some restriction to Dominion butter and cheese also; they therefore suggested that the Dominions should agree to curtail their exports by 10 per cent., foreign imports being thereupon cut by 20 per cent. Neither New Zealand nor Australia was able to assent to this proposal, which was denounced in some quarters in those Dominions as a breach of the spirit of Ottawa. The British Government have therefore resorted to the device of a subsidy. For a period of two years they have provided funds (estimated at £3-£3½ million) to make up the price of milk for manufacture to a minimum of 5d. a gallon in summer and 6d. in winter. The subsidy takes the form of an advance to the milk marketing boards, who are to repay it out of their resources if the price of manufactured milk should exceed those minimum levels. The liability to repay is limited to the period March 1936

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10 March 1938. At the same time, the Government provided a maximum grant of £1,000,000, spread over two years, for a campaign to increase the demand for milk, and £750,000 to launch a campaign for securing a purer milk supply.

Other governmental measures for the protection of home agriculture include a hops marketing scheme, which may be described as a co-operative monopoly among existing hop-growers, coupled with import restriction; and a marketing scheme for potatoes, which sets out to limit the volume of the home crop coming on the market, by means of acreage quotas, and especially to prevent periodic gluts.

While it is plainly impossible to sum up these various measures of assistance to British agriculture, something must be said of their monetary cost to the consumer and taxpayer. If we put the wheat subsidy at £4½ million, and the aid to sugar-producers at £6 million (including remission of excise), and if we calculate the due proportion of the milk and beef subsidies for twelve months, we find that the total of these direct subventions is no less than £18 million per annum. The cost, to the consumer, of quota policies designed to raise the price by restricting the supply cannot be so precisely determined, since any movement of prices may be due to other forces than restriction in this market; but the quota certainly has raised the price of imported bacon, and presumably also that of imported mutton and lamb. Whatever the extra cost of these products to the consumer may have been—perhaps £10-12 million annually—it represents so much less money available for spending on other goods—including, indeed, the products of British agriculture.

III. REORGANISATION, RESTRICTION AND PROTECTION

THE aims, ostensible or implied, of British agricultural policy are threefold—reorganisation, restriction, and protection. These three purposes are intimately linked. The chaotic methods of production and marketing that

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rule in many branches of British agriculture demand conscious and scientific organisation. But can that be achieved under a régime of unlimited imports? And if home production is to be planned according to the possibilities of the market, does that not ideally require an international effort in the same direction, embracing the British plan as a part of world-wide regulation? Nevertheless, these three aspects of agricultural policy may be considered separately, because each has a different bearing on the principles of Empire trade.

Of reorganisation there is little that need be said here. So long as it takes the form of an effort to economise in distribution costs, to the advantage of both producer and consumer, it is plainly unexceptionable. If, on the other hand, a so-called marketing scheme is allowed to become a producers' monopoly aimed merely at limiting output and raising prices, it defeats its own ultimate purpose; for before long the public will round upon it and leave either worse chaos than ever or a full-blooded socialist regimentation. Of the inherent merits and defects of governmental interference with private trading, this is no place to speak. But policies of restriction, as distinct from organisation, have a sharper significance for the British Commonwealth. First, it must be recognised that so long as wants go unsatisfied among the poorer classes of our people, restriction can never be more than a second best means of dealing with unprofitable conditions in any primary industry. The alternative of widening markets not only adds to the sum of material welfare; it enlarges the opportunities of employment in the primary industries, and it gives to debtor countries (who are also for the most part primary producers) a more elastic means of paying their debts. On the other hand, world prosperity is but the sum of the prosperity of different trades and interests; hence world economy must be injured if a great primary producing industry is allowed to collapse for want of organisation of production to meet the market. Moreover, the fluctua-

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tion of prices for primary commodities is to some extent a psychological regulator of trade in general.

Yet the common argument, that if primary prices could be raised by restriction, trade generally would recover to the level of the period when higher prices ruled, is an economic fallacy. Statistical research and analysis show that low prices are primarily a symptom, and only secondarily a cause, of world depression. It may be argued that to restore purchasing power to the agricultural community is to provide markets for industrial products, but this is to overlook two things: first, by far the greater proportion of world trade, internal and international, consists of the exchange of one manufactured product for another, as contrasted with the exchange of raw commodities for manufactures; second, the more that manufacturing communities are forced to spend on primary products, the less they have to spend on the goods they produce themselves.

Thus restriction schemes come with dubious economic credentials, and each of them must be carefully scrutinised from the point of view of the general welfare. The first practical test is that the scheme should be supported by the generality of producers wherever they may be situated. As regards any particular product, a mainly consuming country cannot claim to know better than the producing countries what production policy is good for them. If, moreover, the principle of restriction is sound for any industry, it should obviously be enforced, as far as possible, by gradually eliminating the least efficient areas and the least efficient individual producers.

In accordance with these tests, the persistent objections of the Dominions most affected to the restrictive principles of British Government policy should have caused us serious misgiving. The speeches of Mr. Bruce and Mr. Forbes at the World Economic Conference gave warning of the vehemence with which restrictive policies are opposed in Australia and New Zealand. On his recent visit

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Mr. Forgan Smith, Premier of Queensland, declared that his Government regarded the proposals put forward for the limitation of sales in Great Britain of Australian products as "a policy of despair, which would result in arrested development in the Commonwealth, lead to further deflation and increase unemployment." In the opening speech of his election campaign Mr. Lyons, the Commonwealth Premier, declared that restriction of production for export could never be willingly accepted by Australia.

Restrictive policies that proceed in the face of such opposition from the principal producers themselves must plainly be ranked as measures of local protection. Quotas and tariffs are alternative methods of securing such protection, each of which has its own merits and defects. We are not concerned here to debate the issue between them, though we are bound to point out that the quota method is the more dangerous to good relations between the countries of the Commonwealth. The arbitrary element that it is bound to contain, the necessity that it creates for government intervention, at the point both of export and of import, the limit that it sets to the reward of enterprise and efficiency in expanding the market by reducing costs—these factors render it much more repugnant than the tariff to Dominion producers, and give them a grudge against the United Kingdom such as the latter method of protection would not arouse. There are, admittedly, important considerations on the other side; but even if they gain the day, the principle of the free list for Empire goods, which was an essential element of the Import Duties Act, becomes rather unreal if it means only that the Government prefers quotas to tariffs as a means of protecting home agriculture.

The one vital need in all this controversy is to be honest about our acts and intentions. The British Government is trying to protect the farmer, not only from foreign but from Dominion competition. There is nothing to be ashamed of in that design. The Dominions protect their

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secondary industries against United Kingdom as well as against foreign manufactures. There are many reasons why we should adopt an analogous policy for our agriculture. It is still one of the largest, and in a sense will always be the most important, of our industries. It has suffered more disastrously than almost any other from the world depression and the consequent low level of prices. It provides an essential and stable source of employment. Beside these economic reasons, there are also compelling non-economic reasons for protecting agriculture. Excessive reliance on overseas sources of supply for foodstuffs must be a grave element of strategic weakness. True, we can never be self-supporting even in primary necessities, and an attempt to make ourselves so would defeat its own ends by accomplishing both our economic ruin and the physical deterioration of our people. But if we can grow more food at home—not necessarily by dint of importing less—without lowering our standard of life, we shall be increasing our margin of safety in the event of another war or blockade. Perhaps the argument that most appeals to the individual citizen is an æsthetic and sentimental one. An England without a smiling, tilled and tended countryside would be a prospect worth a big sacrifice to avoid.

To judge how far in fact the stability of British agriculture is threatened, and what measures of organisation and protection are best suited to the circumstances, is an expert task beyond the range of this article. We should have to consider the problem of agricultural mortgage debts in a protracted period of low prices—a problem which the Dominions have already been compelled to tackle vigorously. We should have to take into account the impoverishment of agricultural capital through the high assessments on land for death and estate duties. Here, however, we are concerned only to discuss the relation of actual and prospective policies to the structure of the British Commonwealth.

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IV. THE ECONOMICS OF THE COMMONWEALTH

CIRCUMSTANCES compel us to reconsider British economic policy in all its aspects. Whatever may be the outcome of that consideration, if the Commonwealth means to us what we profess it to mean we must have a Commonwealth economic policy as well as a United Kingdom policy, the latter being a harmonious part of the former. Ottawa was disappointing to many who hoped for a decisive move towards genuine economic co-operation, because the conference failed to subordinate its deliberations to a distinct Commonwealth economic policy. The Canadian Tariff Board has now confessed that it cannot interpret in a practical fashion, at least as concerns the woollen industry, the "equalisation of costs" clause in the Ottawa agreements, which may be regarded as the leading principle of economic policy there adopted. Perhaps at Ottawa the Dominions were most to blame for the want of a common objective. When, however, it is the protection of home agriculture that is in question, the responsibility is ours in the United Kingdom for considering the principles of Commonwealth economic policy to which we adhere, before we formulate our national policy.

It is no answer to point to the Dominions' own failings when similar problems have arisen in connection with their own economic policies. The tenuous mesh of Commonwealth co-operation will become but a figment if opportunities are missed, whether by ourselves or by the Dominions, for planning a concerted policy on matters of common interest. There is still grave danger that the need for a Commonwealth plan may be neglected in connection with government help to the shipping industry. In announcing the conditional grant of a "defensive subsidy" of £2,000,000 to tramp shipping on July 3, Mr. Runciman did indeed remark that in considering long-term policy it was essential to have the co-operation of the

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Dominions and India; the Government, he added, were informing the other members of the Commonwealth of the position, and seeking their views as to possible lines of action. But such a collection of comments is very different from the Empire-wide enquiry that is necessary if the resultant action is to be a Commonwealth policy for the salvation of a Commonwealth interest, not merely a United Kingdom policy adopted in the light of Dominion observations.

For the Government to acknowledge that we must have a Commonwealth policy for agriculture would be the most important step towards their deciding what that policy should be. But can we foresee on what lines such a Commonwealth system would be likely to develop? Negatively, we may say with assurance that the principle of restriction of output in the interest of higher prices cannot possibly form the permanent basis of Commonwealth policy for primary production; for it has been decisively rejected by the Dominions most intimately concerned. In so far as their outlook is correctly expressed by such men as Mr. Lyons, Mr. Bruce or Mr. Forbes, these Dominions take a dynamic view of their economic position. They regard themselves as expanding countries, finding work for more and more men, and profits for more and more capital, from their own lands and from the Mother Country. If we place any hopes, social or economic, in the future of emigration to British countries, we at home are bound to take a similar view of the Dominions' future. As a New Zealand writer in *THE ROUND TABLE** put it,

Unless this development (of dairy production) can be continued—and New Zealand's financial obligations have been undertaken on a certain basis of planned development of the country—the whole financial structure of the industry will break down.

The continued rapid expansion of primary production can scarcely be regarded as an extraordinary future for the

* *THE ROUND TABLE*, No. 95, June 1934, p. 676.

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Dominions, since for many years already it has been the most striking feature of their economic life. In 1871, Australia's output of wheat was but 12 million bushels, yet by 1911 it was 71 million bushels, and by 1921 it was 129 million bushels. Ten years later it had risen again to 191 million bushels. Similarly, her wool production, which in 1871 was only 179 million lb., had risen to 721 million lb. by 1921, and after another decade to 1,007 million lb. Her butter production—42 million lb. in 1891, rising to 267 million lb. in 1921, and to 391 million lb. in 1931—advanced on an equally steep curve. These are typical figures, figures that have been the foundation both of prosperity in the Dominions and of a high standard of life at home.

The Dominions may be excused for seeing their future in the same colours as their past. Under the encouragement of British Governments, with the assistance of British public and private funds and British scientific research, they have been seeking and still seek how further to increase their primary output. There is still indefinite scope for the application of machinery and chemical fertilisers to agriculture. The age of machines has only just begun, and the age of hungry millions is not yet over.

But to what end do the Dominions thus strive to improve the productivity of their land and the opportunities that it offers for capital and labour? As machines increase their wealth, their own urban populations grow, and form a rising home market for their primary production. The consummation of this trend is shown in the United States, where official policy already looks forward to a time when that country, formerly one of the greatest suppliers of raw produce to the rest of the world, will have no surplus of primary commodities to export, except cotton and tobacco, perhaps not even those. While it is well to take a long view, such a future for Dominion primary industries is evidently a great way off. For their rising production they look to expanding overseas markets, first among which is the

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United Kingdom. Generally speaking, their dependence on this market is greatest in just those commodities which are most urgently threatened with limitation.

If the British market is restricted they will seek markets elsewhere; that is the unmistakable reaction to Mr. Bruce's recent visit to Australia, in the course of which he urged upon his countrymen the necessity, whether they desired it or not, of planning their national production so as to accord with the new policies that were being promoted in Great Britain. But if the Dominions seek rising markets elsewhere they will have to bargain for them. The countries that take their produce in added quantities will expect in return a privileged position in Dominion markets. We may not lose our own favoured position under Dominion tariffs, but every special advantage given to an individual foreign country is bound to cut into our preferential margin.

On the face of it, there is no reason why the hope of the Dominions, that the United Kingdom will provide a steadily expanding market for their products, should be falsified. It is true that our population is approaching a stationary level; that the taste is spreading for eating less meat; that the consumption of wheat is bound to be inelastic in a country at our standard of material welfare, where all should have bread enough to fill their bellies; and that as the standard rises people spend their spare income, after necessities have been secured, not on more food so much as on services and on highly manufactured articles. On the other hand, our standard of life is still low enough for a future all-round rise to bring great masses of people on to a plane where they can eat more meat, more butter, more vegetables. Since 1926 our consumption of butter, almost solely by reason of its growing cheapness, has been raised from 5,500 tons a week to 9,000 tons a week. Butter and butcher's meat are still luxuries for the poor. Home-killed meat is still a luxury even for the comparatively well-to-do. Thus British agriculture is bound

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to benefit even more than Dominion agriculture from a rising standard of life in this country ; for home-produced butter, cheese, eggs, and meat all command a substantial premium over similar imported goods, whether from the Empire or from foreign countries. The specialities of British agriculture, prime meat and milk, can be deprived of their sure and growing market only if they become too expensive for actual and prospective purchasers.

It is clear that the long-term interests of home and Dominion agriculture are not conflicting, but complementary. The prosperity of both is identified with expanding markets based on lower costs and on a rising average standard of life. Meanwhile, British agriculture is in a state of serious depression, and such long-term policies may not be enough to secure its immediate salvation. Hence special assistance with a view to lowering costs or artificially expanding the market may be necessary as a temporary measure. This is no place to consider the merits of different possibilities of this kind, but in the interests of the Commonwealth as a whole it is far better to apply a subsidy to the point of consumption (for instance, giving milk to school-children) than to the point of production ; for the latter type of plan tends to aggravate the relative over-production that it is intended to remedy.

Some measure of protection against foreign imports may also be held necessary. But it is a remedy whose possibilities have been greatly exaggerated. We must sell our manufactures abroad, and this means not merely that we must buy from those countries who happen to be our principal customers, but also that we must maintain a certain fiscal moderation over the whole field of foreign trade. International trade, which is many-cornered, must moreover be always considered in relation to financial movements. To deprive debtor countries of the means to pay their debts is to impoverish the holders of foreign investments, and by so much to impoverish the market for British food products. But even if there were none of these complica-

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tions, the quantitative restriction of imports of foreign primary products would be a measure of very limited utility. Goods are not destroyed by being kept out of England. The pressure towards lower world prices may well be heightened by such devices. And if, in this defended market, prices rise temporarily, there is no assurance that consumers will buy more British farm products to replace the cheaper foreign goods that they have been compelled to forgo.

Hence, although temporary protection may be held necessary, the greatest possible freedom of world trade, resulting in the widest possible world markets, is clearly the long-term ideal for British as for overseas agriculture. The liberation of world trade is a slow and difficult task, but we may make a start within the British Commonwealth, where political, racial and historical bonds reinforce mutual economic interest. The fact that British agricultural policy is in the balance gives this country another opportunity to strive towards freer trade within the Commonwealth. Not long ago the New Zealand Government enquired what would be the United Kingdom Government's view of a proposal to give British manufactures free entry into New Zealand in return for a guarantee of an unlimited market for Dominion agricultural products. By the admission of the New Zealand Government themselves, this was not intended as an offer, but was, on the contrary, a device to strengthen their hands against internal critics who were demanding such a policy. Nevertheless, the Dominions Secretary's reply might have poured less icy water on a suggestion which, if it were practicable, would be highly advantageous to this country. Genuine "Empire free trade," in the sense of the greatest possible freedom of trade within the British Commonwealth, is an ideal to which supporters of widely different fiscal policies for this country would gladly subscribe. Our agriculture no less than our manufacturing industry stands to gain by the freeing of trade within the Commonwealth ; for the first

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condition of agricultural prosperity in this country is a prosperous home market, which in turn depends on the fortunes of our great exporting industries.

The freeing of Commonwealth trade must be based—as the Ottawa agreements themselves were meant to be based—on the principle of international specialisation. It is, of course, a principle to which limits have been set both by policy and by necessity. In a world without a threat of war, or in a world guaranteed against exchange fluctuations and wide changes in the purchasing power of money, it could be pushed much further than is at present possible. Moreover, in the sense of concentration by the Dominions on primary production, while the United Kingdom concentrates on secondary industry, the principle of specialisation has been greatly qualified by the Dominions themselves; and we too would rightly protest against its being carried to the length of destroying home agriculture.

Nevertheless, even in that broad sense the principle has value as expressing the need for greater freedom of trade, and less artificial support of uneconomic industry. In its narrower but no less important sense, the principle of specialisation means that within each industry, whether primary or secondary, there should be an understanding regarding the types of products on which the different countries of the Commonwealth should concentrate. Such specialisation must not be confused with a mere division of markets. British agriculture is already a highly specialised industry, and it would be a misfortune if it were to lose this character. Its products generally command a higher price, and appeal to a wealthier class of consumers, than corresponding imports from the Dominions. Where they do directly compete, there is no reason why British agriculture, with its market at its door, should not meet its Dominion rivals on level terms. On the other hand, it ought not to have to face competition artificially supported and stimulated. We should set our face against dumping by the Dominions as well as by

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foreign countries. Thus we could reasonably make the point that schemes involving a levy on internal sales of butter or cheese in order to subsidise exports would deprive a Dominion of its title to a free and open market in the United Kingdom.

Empire economic co-operation, as we found at Ottawa and are finding again, is no simple or easy task. It must take account, among other hard facts, of the need for helping British agriculture, which finds its competitors as much in Commonwealth as in foreign countries; of the insistence of the Dominions upon protecting their secondary industries; and of the dependence of this country upon foreign markets and investments, which compel us to treat imports of foreign primary products with a moderation that we might otherwise be tempted to abandon. Yet no less important than these cardinal facts are the principles of economic policy to which we ought to hold because we are members of a great Commonwealth whose strength is our strength and whose prosperity is our prosperity. The first principle is expansion of the market, as contrasted with restriction of the supply. Even home agriculture does not benefit in the long run by the latter form of protection. The second principle is greater freedom of trade within the Commonwealth, secured perhaps on the inducement of an open market for Dominion primary products in the United Kingdom. The third principle, that of specialisation, is largely subordinate to the second, though it also applies to British agricultural policy from the domestic point of view.

The present agricultural policy of the British Government fails by these tests. It is conducted with energy, ingenuity, and a praiseworthy insistence that agriculture must not be allowed to rot for the sake of a false and temporary cheapness to the urban consumer; but it is conceived from too narrow a viewpoint. If we look beyond the immediate and sectional problems, it becomes clear that agriculture, here as well as abroad, must find its prosperity

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first in internal organisation and second in an expanding market; that an expanding market depends on the prosperity of British industry, which in turn ultimately depends on the ability of oversea countries to buy from us, in return for what we buy from them; that for this reason, and because the main products of British agriculture command a higher price than the imported article and appeal to different consumers, the interests of Dominion and home farmers are not conflicting but complementary. Hence our agricultural policy ought to be founded upon a view of economic policy for the Commonwealth as a whole, taking into account especially the international debt system that rules between the Dominions and ourselves. And Commonwealth policy for agriculture, as we have seen, cannot safely or profitably be built upon either subsidies or the restriction of supply; it must be based on specialisation, on the repudiation of dumping, and on the greatest possible freedom of trade, at least among ourselves.

Debates in terms of local interests, of concessions, sacrifices, advantages and bargains, bring us no nearer to a Commonwealth policy. Its objective must be the good of the Commonwealth as a whole. That, indeed, is compounded of the interests of the constituent parts, but it is a chemical and not a physical compound, a synthesis, not a mere summation. The policies of the members of the Commonwealth cannot be fused by discussion, nor harmonised by administrative machinery; they can be unified only by having a common objective.

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THE Congress of the United States, that overburdened legislature, adjourned on the 18th day of June. Ten days later President Roosevelt gave one of his "intimate fireside talks" to his fellow countrymen, availing himself, as he has skilfully done before, of the medium of the radio. His message was designed to be a message of cheer. The Congress, he said, had been equal to its task of "completing and fortifying the work" begun in March, 1933. It had passed the Corporate and Municipal Bankruptcy Acts and the Farm Relief Act. It had "strengthened the integrity of finance" through the Fletcher Rayburn Bill for the regulation of securities exchanges. It had provided a rational method of increasing foreign trade through reciprocal trading agreements. It strengthened our naval forces, "made further advances towards peace in industry through the Labor Adjustment Act," and "supplemented our agricultural policy through measures widely demanded by farmers themselves." "It took definite steps towards a national housing program" and created a new federal commission to regulate communications. Finally, and most important in the President's mind, "it reorganized, simplified and made more fair and just our monetary system, setting up standards and policies adequate to meet the necessities of modern economic life, doing justice to both gold and silver as the metal bases behind the currency of the United States."

The President said that he had continued to recognize three related steps toward saving and safeguarding our national life. These are the three R's of the President's

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program—Relief, Recovery, Reform. Substantial gains, he claimed, had justified the course followed. Weekly pay envelopes had gained, hundreds of thousands had been re-employed in industry. The value of farm products had risen. He could cite statistics to show the “great increase in bank deposits” and “scores of thousands of homes and farms” saved from foreclosure. He then put the query straight to his listeners—“Are you better off than you were last year? Are your debts less burdensome? Is your bank account more secure? Are your working conditions better? Is your faith in your own individual future more firmly grounded?”

Assuming an answer in the affirmative to all these inquiries, the President launched out in a reply to his increasingly numerous and articulate critics. “Plausible self-seekers and theoretical die-hards will tell you of the loss of individual liberty.” But he assured his listeners that no single jot of the great assurances of the Bill of Rights had suffered any impairment. Any one who disagreed with him was by implication a plausible self-seeker or a theoretical die-hard or both.

It is not the overwhelming majority of the farmers or manufacturers or workers who deny the substantial gains of the past year. The most vociferous of the Doubting Thomases may be divided roughly into two groups, first, those who seek special political privilege, and, second, those who seek special financial privilege . . . The program of the past year is definitely in operation, and that operation month by month is being made to fit into the web of old and new conditions. This process of evolution is well illustrated by the constant changes in detailed organization and method going on in the National Recovery Administration.

We are still feeling our way in solving problems which relate to self-government in industry, especially where such self-government tends to eliminate the fair operation of competition. In this same process of evolution we are keeping before us the objectives of protecting on the one hand industry against chiselers within its own ranks and, on the other hand, the consumer through the maintenance of reasonable competition for the prevention of the unfair skyrocketing of retail prices.

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The first principle of the future program is the providing of people with better homes; the second is “to plan the use of the land and water resources of this country to the end that the means of livelihood of our citizens may be more adequate to meet their daily needs”; the third is “to use the agencies of Government to assist in the establishment of means to provide sound and adequate protection against the vicissitudes of modern life—in other words, social insurance.”

“A few timid people, who fear progress, will try to give you new and strange names for what we are doing. Sometimes they will call it ‘fascism,’ sometimes ‘communism,’ sometimes ‘regimentation,’ sometimes ‘socialism,’ but, in so doing, they are trying to make very complex and theoretical something that is really very simple and very practical—what we are doing to-day is a necessary fulfilment of what Americans have always been doing—a fulfilment of old and tested American ideals.” He likened the changes in our social, political and economic system to the present additions being made in the White House, new plumbing and electric lights and air conditioning in an old building without impairment to the dignity and beauty of its architecture. “It is this combination of the old and the new that marks orderly peaceful progress—not only in buildings, but in building government itself. Our new structure is a part of and a fulfilment of the old.”

A few days later the President stepped aboard a cruiser to visit some of the American insular possessions in the Caribbean and in the Pacific.

This “intimate fireside talk” has been quoted at considerable length for several reasons. In the first place it is the most authoritative recent statement of the aims and purposes of the New Deal. In the second place it represents a recognition on the part of the President and his Administration of the growing opposition to the Administration program, the difficulty of reconciling the reformers with the “timid people.” In the third place

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it is remarkable for the particular things that it does *not* contain.

When it is remembered that American business had been waiting patiently for this authoritative utterance from its national leader, it is easy to understand public disappointment. The address contained no intimation of future monetary policy, no assurance regarding the proposed scope of permanent governmental control or supervision of American business, no definite pronouncement on the moral obliquity or rectitude of the profit motive in private enterprise, and no suggestion of any particular sphere of human activity appropriate or inappropriate to its operation. While declaring for certain major ambitions in the way of reform, reconstruction and "social insurance," he gave no hint as to how these changes were to be secured. The expression about "doing justice to both gold and silver as the metal bases behind the currency" means, as was no doubt intended, precisely nothing.

Much of the legislation passed by the last Congress seems hasty and ill-advised to some Americans who must shoulder the odium of being called "timid people who fear progress." They may be critical enough to inquire whether the passage of the Fletcher Rayburn Bill does really "strengthen the integrity of finance," or whether peace in industry is actually promoted by any legislation at the last session of Congress or by any new spirit exhaled by the New Deal. If so, why the strikes of Detroit and San Francisco? Is a new federal commission to regulate communications an agency for relief, for recovery or for reform? If they wish to carry criticism further, they may pursue an inquiry into whether the larger number of dollars in the weekly pay envelope represents greater purchasing power, whether the volume of re-employment is fostered or retarded by governmental policies, whether the rise in prices of which the President boasted in the first part of his intimate fireside talk may not conduce to "the unfair skyrocketing of retail prices" denounced in the last part.

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Not all Americans will answer the President's fivefold inquiry in the affirmative. Some of us are quite definitely not better off than we were last year. Many security holders and professional men are worse off. To many the debt burden has not been alleviated. It is extremely doubtful, for reasons to be discussed in a moment, whether anybody's bank account is as secure. Working conditions have probably not changed materially. And while the country as a whole is probably in better spirits than a year ago, many thoughtful and intelligent men are more dubious of their own future and the nation's than ever before. Even among those who feel that conditions have improved there are many who do not concede the implication that the policies of the New Deal are responsible. Such people bitterly resent any assignment to a category of seekers of special political or special financial privilege. Others who feel that the encroachment of government upon the field of enterprise is not a "fulfilment of old and tested American ideals" rankle under the epithet of "plausible self-seekers and theoretical die-hards."

It is doubtless too much to expect that any popular utterance of a political leader will be a profound statement of eternal verities, but it seems reasonable to inquire whether the intellectual thinness and vagueness of this particular utterance is not too dangerously characteristic of a national mood. The *Literary Digest* straw vote, framed on the question, "Do you approve on the whole the acts and policies of Roosevelt's first year?" shows 61.15 per cent of the 1,705,562 responding as in the affirmative, a slightly (about 4 per cent.) greater preponderance of votes than he enjoyed in the popular vote of November, 1932. Despite the vagueness of the question and the increasing confidence of the opposition, this vote affords no evidence that the President has lost touch with the electorate.

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II

THE fiscal year came to a close on June 30. The following day was New Year's Day, fiscally speaking, but no confetti was thrown. This was perhaps fortunate. Some of our thinkers might favour making confetti legal tender. The new year opened with the largest peace-time deficit in the nation's history. In the last twelve months the national debt has been increased by some four and a half billion dollars, or by about 20 per cent., and now stands approximately at 27 billions. As against these new liabilities must be considered the magic "increase" in our resources through devaluation, the value of new investments by the Reconstruction Finance Corporation, and a net gain in the Treasury's cash.

"Ordinary" national expenditures in the year last past, including interest and sinking fund, came in round figures to \$3,100,000,000. The extraordinary expenditures came to four billions. These include relief of one sort or another, either in its simplest form or in the cost of fabricated employment. As against these expenditures, government revenue showed an improvement for the first time since 1929. Due chiefly to revenues realized from the repeal of prohibition, yield from internal revenue taxes rose to \$1,485,000,000, an increase of more than 70 per cent. from the previous year. Customs duties increased by 20 per cent. due to the very moderate recovery in foreign trade. Income taxes gained 10 per cent. to yield \$850,000,000 and the new processing tax to raise funds to aid agriculture produced \$370,000,000. Thus the revenue for the year exceeded ordinary expenses by the trifling amount of one hundred million dollars, but fell behind total expenses by nearly four billions, only a little more than half the seven billion dollar deficit that the President predicted last December, but still the greatest peace-time deficit in the country's history, 25 per cent. higher than the previous

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high mark in 1931-32 and thirty-two times as large as any deficit between 1870 and the World War, a period which included some of the worst years in the nation's history. The only reason why the deficit was not larger was because the various spending agencies of the government were slow in getting under way.

The budget of ordinary expenses for the new year is about 25 per cent. higher than in the year just past. This is due mostly to projected expenditures for our spoiled child, agriculture. What the emergency budget will run to no one quite knows. The President has wide powers. The Reconstruction Finance Corporation has a couple of billion unexpended. The Public Works Administration has a billion. Other items bring the putative total up to six billions. Thus the revenues will remain at about 45 per cent. of total disbursements.

Some of our economists think that this is all right. Others think not. The pump-priming metaphor is still used, but despite a lot of priming we have not gotten the pump of private industry to going very well. Mr. Keynes was here and talked to some important people who are said to have listened to him respectfully. He said that

for six months at least, and probably a year, the measure of recovery to be achieved will mainly depend on the degree of the direct stimulus to production deliberately applied by the Administration. Since I have no belief in the efficacy for this purpose of the price and wage raising activities of N.R.A., this must chiefly mean the pace and volume of the government's emergency expenditure.

Mr. Keynes thinks that government expenditures, exclusive of refinancing and advances to banks, should run as high as \$400,000,000 a month. Less than that might be a mere futile waste and not accomplish the priming. "So little divides a retreat from an advance." He did not define the maximum of budget unbalancing which he thought could be practised without hazard.

Mr. Keynes scorns the idea that business "left to itself" would work out its own salvation. He thinks the pump

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will not prime itself. Nevertheless the sticking point in the recovery movement remains now where it was six months ago, in the failure of employment to expand in the capital goods industries.* Federal expenditures, so far from stimulating private expenditures, appear definitely to have retarded them, and while certain liberalizing amendments to the Securities Acts were passed at the last session of Congress the outlet for capital funds into new investment is still largely obstructed both by tangible and by psychological obstacles. Mr. Keynes admits the "perplexity and discomfort which the business world feels from being driven so far from its accustomed moorings into unknown and uncharted waters." But he doubts if it could have been avoided without "undue concession to conventional ideas." The whole question seems to be what is a conventional idea worth and how much shall we concede to it.

The government debt reached a peak of \$26,594,000,000 on August 31, 1919, when it was \$250 per capita. It had climbed to that impressive figure from one and a half billion dollars before our entry into the war. In the prosperous decade following the war (our prose writers are now busy coining descriptive adjectives for the period), the debt was reduced to \$16,185,000,000 (\$131 per capita). It is now at a new peak slightly above the war peak. Figures compiled by the League of Nations in 1933 show our per capita debt at \$214, France's at \$262 and Great Britain's at \$696, but these figures are misleading because the per capita debt in this country is heavily increased by the large obligations of states and municipalities, which would bring the figure of \$214 for the United States up to an estimated total of \$372. On the other hand, the above figures do not include the indebtedness of France and Great Britain abroad, an incubus from which this country is happily free. Other computations showing the ratio of national debt to national wealth and to national income are favorable to this country, but here again it is possible

* See THE ROUND TABLE, No. 94, March 1934, pp. 314-5.

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to draw inferences which may be too sanguine. For the greatest part of the American national debt is carried in its banks: The Bank of England reports less than \$450,000,000 of government securities (at present rates of exchange for sterling), against five times that sum in Federal Reserve Banks. The ten British clearing banks report less than \$2,700,000,000 of all securities, as against \$8,700,000,000 in government securities alone in the member banks of our Federal Reserve system.

III

THIS brings us to a consideration of the present banking situation in the United States. In the public mind the improvement in our banking situation is the most striking achievement of the New Deal. Most of the banks are now reorganized and reopened. Indebtedness of member banks to the Federal Reserve Banks and the Reconstruction Finance Corporation has been greatly reduced. Only two small bank failures have occurred in the last six months. Market values of corporation securities, notably bonds, in bank portfolios have increased. Government bonds are at record highs.

Nevertheless the present situation will not bear too close a scrutiny. In an able analysis of the condition of bank credit in the United States prepared by Mr. H. Parker Willis,* he points out the consequences of the fact that "the banks of the country are lending less and less (only about 19 per cent. of their total advances), through commercial loans, to active business and more and more to the government. The test of soundness and liquidity is the holding of government bonds. The constant encroachment of the government in all fields of business is tending to convert the credit paper of the country into the form of government paper, and, of course, tending to take it out

* *The Commercial and Financial Chronicle*, July 14, 1934.

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of the bank-credit form of advances to business. Many banks are basing their operations more and more upon government securities as collateral—in other words, are asking that the paper of their customers be endorsed or guaranteed by the government.” Most students of banking, he thinks, would consider this an unsound situation. But we are, he says, “living in a ‘new era,’ in which the teachings and experiences of the past are at a serious discount, and a mere reference to former dangers is probably not enough to emphasize the lessons and warnings that are applicable to existing methods of banking in the United States.”

To-day the banks (Reserve Banks, member banks, non-member banks and mutual savings banks) are carrying in their portfolios no less than sixteen billion dollars of government obligations, or 60 per cent. of our entire national debt.

The presence of this vast body of securities in the banks would be a source of instant danger, were it not for the artificial market for the bonds maintained by the Government itself, partly through the machinery of the Reserve Banks, partly through the direct purchases of the Treasury itself. It must not be forgotten (1) that the bonds are practically convertible into currency at Reserve Banks, and (2) that the so-called “stabilization fund” of some \$2,000,000,000, established under the Devaluation Act of last January 30, as well as various subordinate funds and organizations of the Government, are being used, and may be used, as the Administration desires, for the maintenance of the current prices of government issues. The Government, by its act of seizure of the gold of the banks, is the proprietor of the entire gold of the nation, aggregating 4,500,000,000 (old) gold dollars. It is the evident belief of many members of the banking community that, with these vast resources behind it, the Government can succeed in keeping the bonds at, or above, par, and the paper currency thus equal to par in government bonds. The whole banking system is thus being made to rest upon and revolve around government credit; and the entire reliance of the nation rests upon the goodness of such credit. Whereas the banks were formerly the bulwark of government credit, they are now dependent upon it.

Mr. Willis points out that the prevailing confidence that government bonds can be kept at par is not warranted,

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that the Federal Reserve Banks, denuded of their gold, “have long since ceased to be of any importance whatever in estimating the position of the nation from the standpoint of banking safety or liquidity.” There is a limit to the extent to which banks may “buy” government bonds, marking up the proceeds in the form of deposit credits, which, when called for by depositors, can be paid in notes obtained from the Reserve Banks by pledging bonds. This ring-around-a-rosy stops when the public begins to suspect something is wrong. But, as Mr. Willis observes, the exponents of the New Deal in public affairs belong essentially to the same intellectual school as was responsible for the New Era of the '20's, a school which rejects experience as a guide in the affairs of men. The historians who deal in adjectives whereby to characterize decades may be bothered by the '30's. But some of them, studying the New Era and the New Deal, may retreat to the familiar Gallic aphorism, *Plus ça change, plus c'est la même chose*.

How much longer will banks be willing to place among their assets the unsecured notes of the nation representing the ability of future generations to be taxed? Federal needs are to take one-fifth of our income next year. Annual output of currency and credit is now probably nearly as high as current savings. The assets of the banks are largely represented by the evidences of our government's inability to pay its bills. Many financiers predict the emission of greenbacks or a further devaluation of the dollar or both. But there is as yet no manifestation of a panicky flight from the dollar into commodities, chattels or equities. Stocks are notably lower than a year ago. Some commodity prices are higher, but many of these are so much influenced by crop and drought conditions that they scarcely can be said to be indicative of the effects of an inflationary policy.

As for the Administration, it is said to be less confident than a year ago as to the efficacy of its monetary policy or the economically curative effect of a rising price trend. But some of the President's monetary advisers still insist

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that their medicine is good, and that all the country needs is a more liberal dose. Senator Thomas, of Oklahoma, a leader of the inflationist school, is as positive as ever. His 1,400 word telegram to Mr. George L. Harrison, Governor of the New York Federal Reserve Bank, sojourning at Basle with the central bank governors assembled for the board meeting of the Bank for International Settlements, is a model of political vehemence, if not of sound economic theory. He "warns" Governor Harrison that any step taken to stabilize the dollar with the pound or tie it to a fixed weight in gold, "is a usurpation of the powers and prerogatives of Congress."

Some bankers owning government and other fixed obligations, have acted as though they thought it would be to their advantage to retain this (the present) deflationary dollar. This might be so, provided they could do it without precipitating a social overturn or nation-wide repudiation. But the resulting ruination of farmers, bank depositors, home and other property and equity owners, by forced payment of increased taxes and unreduced debts in dollars of such greatly increased purchasing power, creates the feeling that mortgages and other contracts and the power to increase taxes are instruments of injustice. By attempting to hold us to this unjust dollar, you are helping to undermine the social sanctions upon which our free institutions rest . . . Our people must control their own money. England is the creditor end of the British Empire, just as Wall Street, which you represent, is the creditor end of the United States . . . The purchasing power of the dollar must be reduced to at least the level of 1926 . . . Your reported activities can lead to so many serious consequences, that I am communicating with my fellow members of Congress concerning them.

Mr. Harrison returned to the United States on the same boat with Mr. Montagu Norman. How will Mr. Thomas's friends in Congress regard so dire a portent?

IV

IN the general flux and turmoil, the N.R.A. has not been undisturbed. In May there was an enlivening period when Mr. Clarence Darrow pointed out its evils, and General Johnson its virtues. Mr. Donald R. Richberg,

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who is becoming more and more prominent in the affairs of the N.R.A., is for economic planning,

an ideal in harmony with political planning for self government . . . in harmony with the ideals of those who first wrote the Declaration of Independence, and then the constitution of the United States. To preserve and to fortify our democratic institutions, we are in effect seeking to write an economic constitution for the establishment of self-government in industry. If we can write into that constitution a representative form of government, based on a free choice, a free functioning of the representatives of all interests, using the sanction of political government merely to enforce the considered judgments of the majority, we may devise a method of industrial self-control which will last long after the present experiments in political control in other nations have disappeared.

But, apparently disheartened by the case of the pants presser in New Jersey who undercut the code price, the authorities are giving up the codes in "personal" service industries. Price-fixing provisions are no longer to be put into new codes. The Recovery Administration now (July 16) describes itself as "endeavouring in the light of its experience to formulate general policies so that interested parties and the organization itself may know and work toward definite N.R.A. aims." This can scarcely be construed as other than an admission that N.R.A., after thirteen months of existence, does not know its own definite aims and has not formulated its general policies.

But Dr. Rexford Tugwell, who has now been confirmed

Erratum. For Assistant Secretary read Under-Secretary.

One the apparent belief that what is known as 'business recovery' is the one panacea. All the while industry is making technological improvements. I find little evidence that advocates of 'business recovery' are weighing the consequences of technology; if they have any realization of what may happen, I have not heard of it. Among those who are obsessed with the speciously simple 'recovery' formula, there seems scant recognition of the human deterioration among the unemployed." A caustic person might

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observe that among those obsessed with the speciously simple "reform" formulas, there seems scant recognition of any of the realities of life.

The secret of converting copper into the best gold was familiar to the alchemist Arnold of Brussels shortly before the discovery of America. All that was necessary was to take hens and put them in captivity so that they could not eat anything but beans. Then one took fifteen eggs from them, put them in a secret place, and let them stand until they were reduced to one. Then they were taken and put in a furnace and allowed to burn "with sufficient combustion." From this powder the best gold was obtainable, but only, the alchemist observed, "if you know how to operate wisely."

Alas, that Arnold of Brussels is not now accessible in our hour of need. For no doubt he knew how to operate wisely. Perhaps he could have calmed the new and disruptive discontent of labor and averted the general strike in San Francisco. The causes and significance of these labor disturbances are too profound to be dealt with in the compass of this article; it must only be said that we have certainly not seen the end of them.

But it must not be thought that we have achieved nothing permanently constructive or valuable in the last three months. On the evening of July 17, Jack Dillinger, America's most celebrated gangster criminal, walked out of the Biograph Theatre in Chicago into a federal police trap. Fifteen federal officers, who had lain in ambush for him for two hours and four minutes, closed in on him, and, as he was drawing his gun, shot him dead.

United States of America.

July 28, 1934.

THE PROTECTORATES AND THE UNION

A PROBLEM that has long been lurking in the shadows of South African politics has recently been thrust right into the limelight. That problem is the future of the Crown Colony of Basutoland, the Protectorate of Swaziland, and the Bechuanaland Protectorate, the three Imperial native territories in South Africa, hereinafter called for convenience "the protectorates." It is a problem that concerns the European and Bantu inhabitants of the three territories, the British Government whose High Commissioner rules them, the British taxpayers who assist them with grants-in-aid, the Union of South Africa whose territory either surrounds them or whose borders march with theirs for many hundreds of miles, and also the people and Government of Southern Rhodesia and the British South Africa Company.

Since the war voices have been raised from time to time in favour of transfer, either from within the Union or from the tiny European communities in the protectorates. In 1925 the newly installed Nationalist-Labour Government presented the British Government with a formal note asking for transfer; but, on being told that "certain obligations" made it impossible at the moment, they did not press the point. Again, at the abortive London Economic Conference of 1933, Union Ministers discussed the matter privately with the Secretary of State, and this time they were told that the moment was not propitious. Now they feel that their case is stronger. The Tshekedi incident in the latter part of 1933,* recently published

* THE ROUND TABLE, No. 94, March 1934, pp. 438 *et seq.*

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information on the backward condition of the protectorates, and, finally, the coalition between the main bodies of the Nationalist and South African parties, have all encouraged them to revive their proposal. Towards the close of April General Hertzog raised the issue pointedly in the House of Assembly,* and there are those who believe that the forthcoming visit to Great Britain of his very good colleague, General Smuts, will not be occupied solely with his installation as Rector of the ancient University of St. Andrews. This being so, it may be well to state shortly what these protectorates are, how Great Britain came to be possessed of them, and, as far as can be estimated, the case for or against transfer as seen by the parties most directly concerned in South Africa.

I. THE THREE TERRITORIES

BASUTOLAND, wedged in between the Cape, the Orange Free State and Natal, alone of the three areas is entirely surrounded by Union territory. Swaziland is bounded on three sides by the Transvaal, and on the east by Portuguese East Africa. The Bechuanaland Protectorate, on the other hand, has many neighbours: the Transvaal to the east, the Cape Province to the south, the mandated territory of South-West Africa to the west and north, and Southern Rhodesia to the north-east. The geographical situation of the territories is thus important. Whatever happens in any one of them affects one or more neighbours; conversely, whatever happens in neighbouring territories affects them. For not even an Imperial protectorate can live to itself alone.

The Bechuanaland Protectorate is far and away the largest of the three. It has never been surveyed accurately, but it covers at least 275,000 square miles, say three-fifths of the area of the Union itself, or three times that of Great Britain.

* *Cape Times*, April 26, 1934.

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Basutoland is much smaller, some 12,000 square miles, rather less in area than Switzerland, which it resembles so closely; both in configuration and in its enclosed position in a State system. Swaziland is smaller still, a mere 7,000 square miles, equivalent to the area of Northern Ireland. Taken together, the protectorates cover nearly 300,000 square miles, an area one and a half times that of Germany.

It is hard to estimate the numbers of their inhabitants, since no authoritative figures are available since 1921. What is certain is that Basutoland is much the most densely populated of the three, for there were nearly 500,000 Basuto at that date. Swaziland came next in density with 110,000, and Bechuanaland a bad third with 150,000. Taking the three territories together, there were then some 6,000 Europeans, including officials and their families, nearly half of them in Swaziland, and close on 3,000 coloured folk and others. It would not be far wrong to say that there must be to-day nearly 1,000,000 Bantu all told, perhaps half of them in Basutoland, as against 10,000 or 11,000 Europeans and coloured people.

The means by which Great Britain became possessed of these territories has an important bearing on the problem of transfer to the Union. None of them was taken by conquest; the chiefs came under British rule either at their own request (in Basutoland and Bechuanaland) or by treaty (in Swaziland), and all in the furtherance of the aims of British policy. Under these circumstances certain questions have to be faced squarely. Can the British Government divest itself of its responsibilities unless the tribesmen agree that it should? And ought the Union to ask it to do so?

To tell the full story of the annexations and the causes thereof would be to traverse nearly a century of South African history. It is sufficient here to recall that in the eighteen-thirties Moshesh, chief of the Basuto, probably the ablest man that ever ruled a Bantu people, built up a confederacy of tribes in the mountainous area that lies

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to the west of the Drakensberg, the backbone of South Africa, and in the adjacent cornlands that lie on either side of the upper Orange and Caledon rivers. Competitors for those cornlands appeared presently in the shape of European emigrants from the Cape Colony. The pushing and jostling for lands to which neither party had an unimpeachable claim led at last to heavy fighting between the Basuto, who were determined to hold on to all they could, and the Free Staters, who were moved by a like ambition and by a resolve to break up the Basuto confederacy. The Basuto war of 1865-68 either actually involved, or threatened to involve, all the South African states and colonies, till at last the then High Commissioner, Sir Philip Wodehouse, having wrung a reluctant assent from the Secretary of State, promptly exceeded his instructions and annexed Basutoland outright, trusting to come to terms with the Free Staters about frontiers afterwards. In spite of his frontiersmen, President Brand agreed to divide the cornlands fifty-fifty. All to the west of the Caledon went to the Free State, which still speaks of them as the Conquered Territory; on those to the east of the river, the Basuto were enabled to maintain their tribal life, though with increasing difficulty.

For some years, from 1871-84, Basutoland was administered as a separate territory by the self-governing Cape Colony; but attempts to disarm the tribesmen, combined with threats to some of their land, led to a war in 1880, in which the colonial levies got the worst of it and the peace of the Free State was imperilled. In the end, the Cape handed Basutoland back to the Imperial authorities in 1884, and in their hands it has been ever since.

The story of Swaziland is even more chequered. Swaziland slopes down from the eastern edge of the Drakensberg in three great steps to the low Lebombo mountains, which separate it from Portuguese East Africa. The topmost strip, the high veld, 4,000 feet up, is healthy and

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well-watered; the next, the middle veld, is at least well-watered, but the last, the low or bush veld, is hot in summer, malarious, and poorly watered. In the early days, the Swazis were usually the good allies of the Transvaalers, if only from fear of the neighbouring Zulus. But Swaziland lies between the Transvaal and Delagoa Bay, and in 1875, when the Transvaal was contemplating a railway to that port, Mbandini, king of the Swazis, was induced to set his mark to a treaty which made him a subject of the republic. Then came the British annexation of the Transvaal and Swaziland and all, and in due course the retrocession. But Swaziland was not returned. Both the Pretoria Convention of 1881 and the London Convention of 1884, which superseded it, guaranteed the Swazis their independence.

Presently Swaziland became the scene of a wild scramble by concessionaires, behind whom moved the rival Governments of Natal and the restored South African Republic seeking to gain control. Soon the bibulous Mbandini had given away almost every concession that the wit of man could devise, and then his unhappy country was caught up in the web of Imperial policy. To cut a long story short, by the Swaziland Convention of 1894, the territory was placed under the administration of the South African Republic, but to the very end Great Britain refused to allow President Kruger to incorporate it completely in his State. At the close of the South African war, Great Britain, having annexed the Transvaal and its dependencies, placed Swaziland under the control of the Governor of the new Crown Colony; but in 1906, just before the Transvaal was granted self-government, it transferred the administration to the High Commissioner. Meanwhile the now defunct Mbandini's concessions had been laboriously disentangled, with the result that, as far as land was concerned, about one-third of Swaziland remained to the tribesmen, while the rest was either secured to the concessionaires or became Crown lands.

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The story of Bechuanaland is also a complicated one. The whole region that is loosely called Bechuanaland lies along the western borders of the Orange Free State and the Transvaal. The eastern belt, nearest to the two ex-republics, is comparatively hilly, thinly covered with grass, shrubs and trees, and moderately furnished with *fontains* (springs). To-day bore-holes usually find water there. But though vegetation persists in the vast undulating bulk of the territory further west, surface water is lacking and bores too often strike solid red granite. The central area fades away into the Kalahari desert, of which the less said the better. Malaria is prevalent more or less throughout.

The key to the history of Bechuanaland is the eastern strip, for it is very fair cattle country, and through it ran first the Missionaries' Road from the Cape to central Africa, and, later on, the Cape-to-Cairo railway. From time to time, from the eighteen-forties onwards, the Transvaalers laid claim to varying extents of the country, but for numerous reasons—usually British opposition—they never made good those claims. The crisis came in 1885. Spurred on by fear that the Germans, who had just established their footing in south-west Africa, would join hands with the expansive Transvaalers and thus cut off British and colonial trade from central Africa, the Imperial Government sent Sir Charles Warren up with troops to warn off white competitors. Bechuanaland south of the Molopo river became the Crown Colony of British Bechuanaland, while, by arrangement with the chiefs, the rest of the territory farther north so far as the borders of Lobengula's Matabeleland became the Bechuanaland Protectorate.

It was through the Protectorate that Rhodes's British South Africa Company advanced to occupy the Rhodesias; indeed, under the charter of 1889, the Protectorate was described as part of the "principal sphere" of the company's operations. Rhodes always hoped that it would pass under Chartered rule. That did not happen. In the middle of 1895 British Bechuanaland was indeed incor-

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porated in the Cape Colony, of which Rhodes was Premier; but in face of the protests of the leading Bechuana chiefs, led by Khama, chief of the Bamangwato, no more than a railway strip along the Transvaal border was handed over to the Chartered company. It was from that strip that some of the Jameson Raiders started at the New Year of 1896, thus effectually ending all immediate prospect of any further transfer to the company. The long-drawn-out South African war of 1899—1902 rendered any comprehensive settlement difficult; but it can be said that between 1895 and 1904 Khama and other chiefs accepted substantial reserves; title to the lands in the Tuli, Gaberones and Lobatsi Blocks along the railway and the Transvaal border, and in an isolated block near Lake Ngami, was vested in the company under certain reservations; while the remainder of the lands, a very considerable area, were vested as Crown lands in the High Commissioner. Further, the British South Africa Company retained certain mineral rights, a fact that will have to be considered if the question of transfer to the Union or anyone else is to be carried through.

All three protectorates are administered under the Dominions Office. The High Commissioner is in effect Governor. He legislates by proclamation and administers through a resident commissioner in each territory, and through a civil service which is distinct from the British colonial service and which, since union, has been staffed to a considerable extent by South Africans in order to ease the transition to Union control, which has never been lost sight of. In Basutoland the chiefs retain a large amount of jurisdiction, adjudicating in purely native cases, subject to an appeal to the magistrates' courts. A further appeal lies to the court of the resident commissioner, on which, since 1928, a judicial commissioner may sit either alone or with the resident commissioner. A final appeal lies to the Judicial Committee of the Privy Council. The Pitso, the Basuto national council, consisting of 95 members nomin-

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ated by the chiefs and five nominated by the Government, meets regularly to advise on native affairs, but possesses no executive powers.

The system is much the same in the large tribal areas of Bechuanaland and Swaziland. Since 1920 the Bechuanaland administration has been assisted by two advisory councils, the one European, the other Bantu, while in Swaziland a European advisory council has been elected regularly since 1921. In both territories appeals from the magistrates' courts have lain, since 1912, to a special court presided over by a judge or advocate of the Supreme Court of the Union.

The revenues are exiguous and expenditure necessarily hardly less so :—

1931-2.	Revenue.	Expenditure.
	£	£
Basutoland	266,869	280,189 (Education, £45,734 ; Police, £35,415)
Bechuanaland	106,635	155,820 (Police, £29,813 ; Capital Works, £27,548 ; Education, £5,022)
Swaziland	111,839	118,756 (Police, £17,756 ; Allowances to Chiefs, £14,288 ; Public Works, £13,912 ; Education, £10,531).

Those figures speak for themselves. With resources such as these not even the most enlightened administration can do much to further the material or spiritual progress of the tribesmen committed to its charge. Those figures also constitute one of the strongest arguments of the Union, and of the Europeans within the protectorates who desire it, for a speedy transfer to the Union.

II. ARGUMENTS AND OPINIONS

AS far as can be judged in the present nebulous stage of the debate on transfer, the Europeans in Basutoland are interested but divided, while the more considerable body in Swaziland hesitates to express an opinion until the conditions of transfer are made clearer. The real agitation for transfer comes from the European farmers in Bechuanaland.

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These dwell in the three blocks along the railway line and the Transvaal border, and the Ghansi block near Lake Ngami, which have already been mentioned, and in the Tati district further north on the borders of Southern Rhodesia. In 1924 and 1926 many of the inhabitants of the three railway blocks petitioned the United Kingdom Government and the Union Government for at least the incorporation of those areas in the Union. Their request was refused ; but now, in response to General Hertzog's pronouncement, a delegation from Tuli, Gaberones and Lobatsi, with the support of the distant men of Ghansi, has repeated the demand. The deputation claims to speak for 98 per cent. of the adult white population in the three first-named areas, but it is clear that some are hanging back ; for the deputation states that some traders would probably support the movement for transfer if they could be assured that the transferred territories would not be swamped by "an undesirable type of trader, such as Asiatics and so on," who would exploit the natives and menace old-established firms. The deputation also observes that representation in Parliament would facilitate matters. Tati, for its part, looks for incorporation in Southern Rhodesia.

There is much to be said for the point of view of the small and isolated European communities in Bechuanaland, and indeed in the other Protectorates. The geographical and administrative advantages of incorporation are as clear to them as they are to the Pretoria authorities. Many of them are bound to the Union by ties of blood or marriage ; all of them, and their Bantu neighbours also, are really parts of the Union's economic system ; they are treated as parts of the Union for customs purposes ; their law is based on that of the Union or, at the least, of the old Cape Colony ; a Union lawyer presides over their highest local courts. They can hope for more assistance from the comparatively wealthy Union than from their own poverty-stricken Governments ; they can hope to avoid the embargoes that

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for one reason or another the Union is apt to put upon their cattle, far and away the principal product of the protectorates; they can expect greater facilities for the prospecting and working of minerals, which are at present limited to a little gold- and tin-mining in Swaziland, to the merest beginnings in the non-tribal areas of Bechuanaland, and to nothing at all in Basutoland.

Most of the above-mentioned arguments when turned the other way round become the Union's arguments for the transfer of the protectorates. Representatives of the great Johannesburg mining interests came out strongly in favour of immediate transfer even before any official pronouncement was made in Parliament, and one London paper even suggested that the campaign for transfer would furnish "a rallying point for the new party fusion," appealing on the one hand to Afrikanders anxious to see the last of Imperial rule in southern Africa, and on the other to Rand interests keen to develop the minerals of Bechuanaland and to draw upon the supplies of native labour more freely even than they do at present. There is truth in that interpretation, though by no means the whole truth. It is further stated openly, sometimes with approval, sometimes with disapproval, that the inclusion of the protectorates would give the Union great areas of Crown land with which it could implement its promise made long ago, on the passing of the Native Lands Act of 1913, to give the Bantu more reserves in exchange for the limitations then put upon their right to purchase land freely. Crowded Basutoland and Swaziland would not afford any relief; there are probably few responsible people to-day who would repeat the bland suggestions of the Prime Ministers of the Orange Free State and Natal at the time of Union that the Basuto should be asked to give up part of their country in exchange for land in the Bechuanaland Protectorate. But the fact remains that there are vast empty tracts in Bechuanaland available as reserves, and though the quality of much of that land is poor, a good deal could be done with

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it by an administration that was prepared to spend money. But whatever weight may be allowed to these considerations, it would be unfair to the Union Government and people to rank them above the administrative considerations that General Hertzog put forward in Parliament.

Economically, the interests of the territories are inseparable from the Union. It is to the Union that they must look for an outlet for their marketable produce. Swaziland, it is true, geographically could find an independent outlet to the outer world through the Portuguese port of Lourenço Marques, but from a practical point of view this is a possibility hardly worth considering, and the Portuguese territory could offer no prospects as a market. At present, and for as far ahead as anyone can see, the native inhabitants of the territories are, and must continue to be, dependent for their livelihood on employment in the Union. The gold mines of the Witwatersrand alone employ at present about 45,000 native labourers from the three territories, and without their earnings the communities from which they are drawn could not maintain themselves. The tribal lands are no longer adequate for the support of their people on the tribal methods of cultivation. Basutoland is a tragic example of neglect. Overstocking, primitive methods of cultivation and soil erosion on a vast scale have ruined the productive capacity of the land, and the family incomes cannot meet requirements without the earnings of the able-bodied men in the labour market of the Union. A large expenditure is required immediately if the soil of Basutoland, or what remains of it, is to be preserved from erosion and exhaustion.

The maintenance of peace and order in the territories is also a matter that very intimately concerns the Union. There is no force in the territories capable of dealing with any disturbance of the peace on a large scale. In the Tshekedi affair, as will be remembered, the naval squadron at Simonstown was called upon to carry out a demonstration in force in Bechuanaland, but distance, to say

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nothing of other considerations, would make it difficult to rely upon the navy in a case of sudden and real emergency.

It is from the native peoples themselves that there comes the chief opposition in South Africa to the proposed transfer. It may be that many natives in Bechuanaland are in favour of transfer, but fear to speak out. In any event, they have not spoken out, and the only authentic Bantu opinion we know at the moment is dead against transfer, as it has always been. The chiefs petitioned Prince George, during his recent tour of southern Africa, that they might remain under the Crown; since then the executive committee of the Cape Native Voters' Convention has declared against transfer. The protectorate natives may be poor, and some of them may grumble against the half-hearted system of dual control, which guarantees to their chiefs their remaining powers and yet relieves them of the healthy checks and responsibilities of untrammelled tribal life; but the chiefs feel that their powers are safe, their followers feel that their lands are safe, and all of them feel that, on the whole and within the means at their disposal, their rulers are sympathetic. Loyalty to the chief is still among the Basuto and Swazis a deep and powerful sentiment, and that same sentiment would influence them to resist being removed from the direct government of the King to an impersonal power like the Union Government, of which they know little and to which that little does not attract them. The Basuto hold strongly to the tradition that when their chief Moshesh surrendered to the Imperial authorities it was promised that the nation would always be ruled by the Great Queen or her successors. They will not be easy to persuade that a transfer to the Union is not a breach of that promise. "Tell her Majesty," said Moshesh, "that I have given her myself and my blanket, and the lice in my blanket." To-day, as the mail train crosses the Caledon river bridge to make the run to Maseru, the administrative capital, over the solitary mile of line in all Basutoland, a Basuto policeman comes stiffly to attention

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beside the tall flagstaff from which floats the Union Jack. He stands there for his people, the lice in the blanket, whom Father Moshesh gave to the Great Queen.

III. NATIVE POLICY AND THE SOUTH AFRICA ACT

THE problem of the future status of the three protectorates thus largely turns on the "native question." This, indeed, was recognised by the framers of the South Africa Act of 1909, who accordingly attached certain conditions to the transfer that they obviously contemplated would take place before long. Section 151 of the Act lays down that

The King, with the advice of the Privy Council, may, on addresses from the Houses of Parliament of the Union, transfer to the Union the government of any territories, other than the territories administered by the British South Africa Company, belonging to or under the protection of His Majesty, and inhabited wholly or in part by natives, and upon such transfer the Governor-General in Council may undertake the government of such territory upon the terms and conditions embodied in the Schedule to this Act.

The Schedule was the result of a compromise.* Lord Selborne desired to extend to the protectorates after transfer a system that had been instituted in Natal after the Zulu rebellion of 1906, whereby an expert and more or less permanent commission should rule, subject only to the most general control by the Union Parliament. The South African politicians, fearing an *imperium in imperio*, would not consent to it. At an early stage the High Commissioner, speaking for the Secretary of State, had to warn them

that it would be practically impossible to secure the assent of the House of Commons and the country here to any Constitutional Act

* An account of the negotiations and some of the correspondence that passed between Lord Selborne, the then High Commissioner, and Sir Henry de Villiers, who as President of the National Convention stated the views of the South African delegates, can be found in *Lord de Villiers and His Times*, by E. A. Walker, chap. xxv.

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which failed explicitly to provide for the security of the native population in the protectorates ;

and thereafter he and the Colonial Secretary gave way on many points, "fully relying," as Lord Crewe said on one occasion, "on the Union Parliament to deal with these matters in a reasonable and liberal manner."

The effect of the Act and the Schedule is that any territory transferred is not to be incorporated in the Union, but is to be administered as a separate territory, under the Prime Minister, advised by a permanent commission. The legislative authority is not to be the Union Parliament, but the Governor-General in Council. His proclamations in that capacity would have to be laid before Parliament, and would have to be repealed if both Houses should, in the same session, pass resolutions requesting repeal. Otherwise the Union Parliament is to have no direct control over the territory, nor is there to be any direct representation of the inhabitants in Parliament. The King may disallow any such proclamation within one year from its date. No land in Basutoland, and no land forming part of native reserves in the other two territories, is to be alienated from the natives. It is not necessary to discuss in detail the other provisions of the Schedule to the Act in which this form of government is prescribed, beyond making it clear that what was intended by transfer of any of the territories was not incorporation in the Union, but government as a separate territory, with due regard to native interests. Any Bill passed by the Union Parliament amending or altering the provisions of the Schedule has to be reserved for the signification of His Majesty's pleasure.

In one important respect, however, the constitutional effect of the Schedule has been changed since the passing of the South Africa Act. At that time disallowance by the King and reservation of Bills for the signification of His Majesty's pleasure involved reference to an authority outside the Union. But since the Imperial Conference of 1926 it has been an accepted principle that, in exercising

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powers of disallowance in respect of Dominion legislation, or dealing with Bills of a Dominion Parliament reserved for the King's pleasure, His Majesty should act upon the advice of his Ministers in that Dominion. This principle has now been made part of our South African law by the Status Act passed last session. It is clear, therefore, that the inhabitants of a territory administered under the Schedule will no longer be able to look to the Imperial Government as an ultimate controlling power over any legislation or amendment of the Schedule by the Union Parliament. There can be no doubt that this consideration weighs heavily with the native peoples of the territories in forming their opinion on the question of transfer.

It must be recognised, however—as it always has been recognised—that, at any rate in the case of Basutoland and Swaziland, transfer to the Union is ultimately inevitable. It is impossible to conceive that these two small enclaves in Union territory can continue indefinitely to be administered by a different Government. The case of the Bechuanaland Protectorate is not so obvious. Parts of it may find a closer affinity with Southern Rhodesia. But that it can continue its separate existence indefinitely is also unthinkable. Recognition of this fact has had, at any rate since the Act of Union was passed, a paralysing effect upon the administration of the territories. This is in itself a strong reason for taking action in the near future. The only justification for a refusal to terminate the present state of uncertainty, so detrimental in its effects on both parties, must be a reversal of the hitherto accepted policy regarding the ultimate destination of the territories.

The reason most commonly urged against transfer is distrust, or positive dislike, of the policy of the Union in native affairs. The colour bar, whether legal or customary, by which natives are excluded from most skilled occupations, the pass laws, the lack of interest in native education, all have their part in creating an atmosphere hostile to the handing over of these native peoples to the Union Govern-

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ment. No doubt, the Union's record in native administration is on many points open to criticism. On the other hand, the impression created in certain quarters, that the attitude of the Union Government to its native people is one of selfish injustice, is quite unjustified by the facts. The Transkei, where large native communities are living under an efficient and progressive system of local self-government, is an object lesson which should be allowed to count for something on the other side. Overseas critics, moreover, will do well to remember that it is not a question of an illiberal Afrikaner policy against a potentially liberal British policy. Some of the most outspoken champions of "White South Africa" are men of British stock, and conversely there are Afrikaners who hold a thoroughly liberal policy.

The suggestion which is sometimes made in England, that the Union should produce an acceptable "native policy" before the question of transfer could be considered, is not a reasonable contribution to a solution of the problem.* What is usually called "the native question" here covers the whole ground of the relations, political, social and industrial, between white and black in South Africa. These are matters of growth and development in public opinion, which, as it moves, is reflected, and to some extent directed, by changes in government policy and action. No statement of policy in set terms could adequately lay down the lines on which that development should proceed.

It may safely be asserted that even those South Africans who hesitate to see their Government take over the protectorates, at all events until it has proclaimed its future policy for the natives already in the Union, would agree that, if the terms of the Schedule were loyally carried out, the protectorate natives would not suffer and might even benefit. They have every reason to believe that their present Ministry, which contains a strong liberal wing,

* See p. 802 for the opinion of Lord Selborne's committee on this point.—EDITOR.

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would conform to the Schedule in letter and in spirit. The real safeguard for the Schedule lies, where it has always lain, at all events since the war, not in the right of reservation but in the good sense and decency of the majorities in the Union Houses of Parliament.

Nor can one regard the opinion of the natives as entitled to the decisive word on a question such as this, involving as it does considerations of their present and future interests which the great majority of them are not capable of appreciating. It is on such considerations that the question must ultimately be decided, and it should not be beyond the reach of statesmanship to lay down a system of government, with the guarantee of the Union Government and Parliament, which would be satisfactory to the European friends of the natives, and which the natives could be advised to accept. In any case action should be taken soon one way or the other. The worst policy is that of drift and suspense.

Meanwhile, the Dominions Secretary has repeated the promise, made from time to time by himself and others of equal authority from 1909 onwards, that there will be no transfer without adequate discussion at Westminster, the fulfilment of the terms of the Schedule, and consultation with the European and Bantu inhabitants of the protectorates—a reminder that transfer must take some time to effect. But we are wondering whether the appointment of Sir William Clark as High Commissioner in succession to Sir Herbert Stanley, with the brand-new title of "High Commissioner for Basutoland, the Bechuanaland Protectorate and Swaziland," presages a brand-new and more amply financed Imperial policy. For that alone could provide a sufficient answer to the strong Union claim for speedy transfer.

South Africa.
July 1934.

The Protectorates and the Union

IV. A POSTSCRIPT FROM LONDON

WHATEVER may be the force of the arguments for the immediate transfer of the three protectorates to the Union, it is clear that British official and public opinion is not ready to accept them without the most careful investigation. The arguments in favour of transfer are not, perhaps, fully known in the House of Commons; nor, perhaps, is it yet generally recognised there that on any reasonable interpretation of the South Africa Act the present régime in the protectorates was intended to be no more than temporary. An informal parliamentary committee, under the chairmanship of Lord Selborne, has been formed to consider the whole problem. It has so far expressed no opinion on the rights and wrongs of transfer, but it has carefully analysed the constitutional position. It has pointed out that the passage of the Statute of Westminster and the Status Act does not alter the fact that the general conditions (though not the time) of transfer were agreed between South Africa and the United Kingdom Parliament and set forth in the Schedule to the South Africa Act. Now that the security originally contemplated for their observance has been removed, clearly some new agreement to replace that security will be necessary which is appropriate between autonomous communities within the British Commonwealth. In the committee's view,

It does not seem reasonable to ask either the native or the European inhabitants of the territories to express an opinion on the proposed transfer before the report of the Select Committee (of the Union Parliament on native affairs) has been published or before they know the native policy which the South African Government and Parliament have adopted.

Caution is the key-note of informed British opinion on this matter. Parliament clearly recognises its obligations towards the inhabitants of the protectorates, and knows, moreover, that its decision is bound to have repercussions far beyond the borders of the Union.

CRISIS IN THE CANADIAN CONSTITUTION

SINCE the law and custom of the Canadian constitution were last reviewed in *THE ROUND TABLE*,* far-reaching changes have resulted from the Imperial Conference of 1930 and the Statute of Westminster. Round these changes, which are of general or possible application to the British Commonwealth as a whole, has gathered a voluminous literature of exposition and criticism, to which no one would lightly wish to add. On the other hand, many of them have a special Canadian aspect which deserves attention. There have also been developments in Canada concerning the Judicial Committee, and the interpretation of the law of legislative powers, while the economic situation has exposed fundamental defects in the working of our constitutional law and has noticeably aroused the public awareness of these problems.

I. THE GOVERNOR-GENERAL

THE Imperial Conference of 1930 laid down certain rules regarding the office of Governor-General. The parties interested in his appointment are His Majesty, whose representative he is, and the Dominion to which he is appointed. Constitutional practice, to the effect that His Majesty acts on the advice of his responsible Ministers, applies to the appointment of a Governor-General, the Ministry responsible for the advice being that of the Dominion. The channel for communication between His Majesty and the Dominion is a matter that concerns them

* See *THE ROUND TABLE*, No. 89, December, 1929.

Crisis in the Canadian Constitution

alone, and the manner in which the instrument containing the Governor-General's appointment should embody the principles thus set forth is also a matter upon which His Majesty is advised by his Ministers in the Dominion.*

In the spirit of these agreements, and on the responsibility of the Canadian Cabinet, the letters patent of June, 1905, constituting the office of Governor-General for Canada, were revoked, and in March, 1931, new letters patent were issued under the Great Seal of the Realm, and the royal warrant authorising its application was countersigned as the law demands. This royal warrant contained for the first time a statement recording that the proceedings were taken at the request and on the responsibility of the Prime Minister of Canada, who also countersigned the Governor-General's commission. Obviously there has been advance towards constitutional autonomy, as well as an inexplicable compromise. There does not appear to be any reason in law or practice—and certainly none exists in the British North America Act—why the letters patent should not issue apart from any intervention by a Minister in the United Kingdom. The matter, however, may be of little importance, as the action taken in March, 1931, does not necessarily bind Canada for the future.

The instruments and instructions are of more interest. There are a few changes of significance: there is no longer any mention of instructions by order of the Privy Council or through one of His Majesty's Principal Secretaries of State, and leave of absence can be given to the Governor-General by the Dominion Prime Minister. These signs of constitutional progress, however, are of little import compared with the survivals that continue. The Governor-General is still ordered to transmit to London all laws assented to by him or reserved by him, with marginal abstracts, along with fair copies of the journals and minutes of the proceedings of the Parliament of Canada. It is very difficult to understand either why such instructions were

* Cmd. 3717, p. 27.

The Governor-General

included or how they can be carried out. They have been defended on the ground that, although assent and reservation are governed by the resolutions of the Imperial Conferences of 1926 and 1930, yet the British North America Act in this respect still remains law. The defence is an ingenious administrative afterthought invented to cover lack of skilful insight; and, as a matter of fact, it both proves too little and proves too much. We might well ask, if the argument were sound, why the instructions do not specifically include everything that the Governor-General is ordered to do by the British North America Act. We might also ask, under what law—it is certainly not the British North America Act—is the Governor-General to annotate the laws of Canada that are passed, or forward to England the fair copies of the minutes and proceedings of the Parliament of Canada.

Then, too, since the Governor-General is the personal representative of His Majesty and "is not the representative or agent of His Majesty's Government in Great Britain or of any department of that Government,"* where is all this meticulously safeguarded material to be sent? On the basis of existing agreements, the guardianship can be only of the kind provided in such unfortunate terms by the Imperial Conferences for the Colonial Stock Act,† and presumably some peculiar shrine will be created

* Cmd. 3717, p. 27.

† The safeguards of the Colonial Stock Act were recently brought in question when the Government of the Union of South Africa proposed to repeal the section of the South Africa Act, 1909, under which Union legislation may be disallowed. After consultations with the Government of the United Kingdom, the Union Government gave a voluntary undertaking, which is to replace the constitutional safeguard. South African legislation that appears to the United Kingdom Government to alter any of the provisions affecting trustee stocks to the injury of stockholders, or to involve a departure from the original contract with them, will not be submitted for the royal assent except after agreement with the United Kingdom Government. A Bill has been presented to Parliament at Westminster authorising the Treasury to accept an undertaking in the agreed form from any Dominion Government that prefers this alternative to the existing constitutional provision.—EDITOR.

Crisis in the Canadian Constitution

for the purpose in London. No other argument can justify either sending the laws of Canada and like documents to England, or the exercise of the discretionary power of reservation. More unfortunate still is the survival of express instructions to the Governor-General to take into his own special consideration, after receiving ministerial advice, any criminal case where a pardon or reprieve would affect the rest of the Empire or any place beyond the jurisdiction of the Canadian government. Not only is the retention of such a clause singularly inexpert, but the clause itself is unworkable. It assumes a situation in which the Canadian Ministers would not decide with wisdom and statesmanship, while action under it would place the Governor-General himself in an impossible position.

The truth is that the whole question of the Governor-General's instructions has never been squarely faced, nor the propriety of their continuance in any form examined. The instructions are given on Canadian advice and are drawn up in Ottawa. There is no necessity for them whatever, and any reference to them ought to have been eliminated from the letters patent, since both the reference and the instructions themselves are relics of outworn conditions. Indeed, it is unfortunate that the office of Governor-General was not recreated as a viceroyalty in the fullest legal sense. Whatever the changes in custom may have been, he remains in law an officer whose powers and functions, while ample and adequate for the executive government of Canada, are yet definite and defined. In addition, he is still under legal disabilities imposed by statutes of the United Kingdom. It would be wise to place the entire procedure of appointment under the Canadian Seal, while in the future the exact ambit of the viceregal prerogatives must be worked out in Canada.

The Statute of Westminster

II. THE STATUTE OF WESTMINSTER

THE Statute of Westminster has given Canada and its provinces certain powers, some of which need reconsideration, while at the same time it has introduced further statutory rigidity. Under the influence of the Prime Ministers of Ontario and Quebec,* the Prime Minister of Canada was forced, during the Imperial Conference of 1930, to leave vague certain aspects of the proposed Statute of Westminster until he had consulted the provinces. The result of the consultation was that the Statute excludes all constituent powers in Canada. The British North America Acts, 1867-1930, are specially protected, and it is clear that any future amendment to them enjoys a similar protection†. We shall return to this subject later. Other aspects of the Statute of Westminster are of importance here. Canada has already begun to exercise its powers under the Statute. The disputes over extra-territorial legislation have been disposed of by a statute that gives extra-territorial force to every statute of Canada enacted before December 11, 1931, which explicitly or implicitly was intended to have such application.‡ This precedent will be followed in future federal legislation. We need not discuss the dangers that are supposed to lurk in the exercise of such power, as they are problematical and concern the United Kingdom as much as Canada. One point of importance, however, does arise. Canada and, more recently, the United Kingdom have passed statutes on the nationality of married women in the terms agreed on at the Hague Conference of 1930 and the Imperial Conference of the same year.§ Under this legislation a Canadian woman does not lose her status as a Canadian citizen and subject of His Majesty if she does not acquire her husband's

* *Law Quarterly Review*, Vol. 48, pp. 191 *et seq.*

† *Juridical Review*, Vol. 45, pp. 337-8.

‡ The Extra-Territorial Act, 1933 (23 and 24, Geo. V., c. 39).

§ Cmd. 3717, p. 22.

Crisis in the Canadian Constitution

nationality on marriage.* No other State in the British Commonwealth has adopted similar legislation. Are the Canadian women affected subjects of His Majesty only in Canada and in the United Kingdom, and not in the other Dominions? There is no evidence that the statute of the United Kingdom is intended to apply to Australia, New Zealand, South Africa, and the Irish Free State; and in the light of the preamble to the Statute of Westminster we must not presume such application. Furthermore, the statute of the United Kingdom cannot be taken as implementing the Canadian statute, for no request to that effect was made by Canada. Here is, then, a possible conflict of laws, a possible hurt to one of His Majesty's Canadian subjects which should be erased.

The Canadian Criminal Code Amendment Act of 1933 has formally abolished appeals to the Judicial Committee in criminal cases. This action is taken under the authority granted by the Statute of Westminster to repeal or amend any Act of the Parliament of the United Kingdom applying to Canada—in this case the Judicial Committee Acts.† Many difficulties and possibilities emerge from this initiative. The Canadian legislation clearly requires careful interpretation. The abolition of the appeal in strict criminal cases is a simple matter, but the term might be taken to cover penal provincial statutes. We might have conflict between a criminal judgment given by the Supreme Court of Canada, and an opinion from the Judicial Committee on a civil appeal. It is perfectly true that under the Statute of Westminster the Dominion can bar all appeals from federal courts to the Judicial Committee, but it cannot bar appeals from the provincial courts. On the other hand, under the same statute the provinces have the power, specifically requested by them, to abolish appeals to the Judicial Committee from their own courts. Here is a situation of grave importance. The complete abolition of

* An Act to amend the Naturalisation Act (21 and 22 Geo. V., c. 39).
† 3 and 4 Will. IV., c. 41; 7 and 8 Vict., c. 69.

The Statute of Westminster

appeals to the Judicial Committee, apart from all legal problems, is essentially a matter for wise agreement. For one or two provinces to take independent action would be chaotic; and we must take care that we do not create a situation such as existed for many years in Australia.

In actual fact, there is little likelihood at the moment of any further legislation in this connection by the Dominion or the provinces. The legal profession still remains conservative. However, the opinion is gathering strength that Canadian law must be finally interpreted in Canada, and we are told less frequently to-day that the jurisdiction of the Judicial Committee is necessary to protect religious, racial and minority rights. Indeed, those most concerned with such rights are gradually finding out that the protection of the Judicial Committee has been a myth skilfully exploited by the politically wise.* Still more significant are the utterances of important public men. As president of the Canadian Bar Association, Mr. L. S. St. Laurent, a distinguished member of the bar in the province of Quebec, declared:—

There is no doubt a growing feeling in Canada that, at least in ordinary disputes between parties, final decisions should be arrived at in our own courts . . . I have no doubt that some day ordinary clients will be content . . . to accept their fate from our own Canadian courts.†

The statement of the Hon. Ernest Lapointe is even more important, since he is one of the most outstanding Ministers of Justice that Canada has ever had, and since his words are more comprehensive than those of his fellow French-Canadian. Speaking at Montreal, on January 16, 1932, Mr. Lapointe said:—

Je ne puis trouver une seule raison justifiant le Canada d'être le seul pays au monde de son rang, sa population, et son intelligence à confesser son incompétence à décider lui-même ses conflits judiciaires. . . . Notre magistrature et notre barreau n'ont rien à envier à

* Cf. "The Privy Council and Minority Rights" in *Queen's Quarterly* (1930), pp. 668 *et seq.*

† *Canadian Bar Review* (1931), pp. 335 *et seq.*

Crisis in the Canadian Constitution

ceux d'aucun autre pays. Les partisans de l'appel au Conseil Privé disent qu'il est un lien entre les Dominions et la Couronne, qu'il procure à tout citoyen britannique le droit d'aller au pied du trône pour avoir justice, et surtout qu'il est une protection pour les minorités. D'abord, il n'est pas vrai que tous les citoyens britanniques vont au pied du trône par l'entremise du Conseil Privé . . . si l'on se rappelle les conflits en Irlande, en Australie et même au Canada, à la suite de certains jugements du Conseil Privé, il est difficile d'y trouver un lien puissant avec la Couronne . . . Quant à la protection des droits minoritaires par le Conseil Privé, c'est une légende . . . je veux attaquer ce fantôme, ce mythe du Conseil Privé protecteur des droits minoritaires à l'encontre de notre Cour Suprême. Et je supplie mes compatriotes de ne pas se prêter aux manœuvres des réactionnaires qui ont combattu chaque développement de l'autonomie canadienne, et qui proclament avec jactance que c'est Québec qui maintiendra le droit d'appel en Angleterre. Nos droits et nos traditions, nous en sommes nous-mêmes la meilleure protection et la sauvegarde la plus sûre. Aucune autorité en dehors du pays ne saurait les protéger efficacement à notre place. Le Canada est maintenant majeur, il peut se passer de tutelle, même judiciaire.*

These statements are not only important in themselves, but they also serve to gather up a good deal of floating, if less influential, opinion.

III. FEDERAL AND PROVINCIAL POWERS

IT is natural at this point to turn to the distribution of legislative powers. In this connection there have been few fundamental changes of recent years. The Dominion has, indeed, filled a gap by granting jurisdiction over divorce to the province of Ontario, and thus a flagrant social disability has been removed; but in the deeper and more essential matters we remain much as we were before. Many have seen in the more recent decisions of the Judicial Committee a swing towards strengthening the federal powers. When, however, the judgment acknowledging

* *Le Statut de Westminster et l'Évolution nationale du Canada* (Montréal, 1932), pp. 17-19.

Federal and Provincial Powers

Dominion control over combines* is carefully read, it will be seen that there is in reality only a legitimate extension of the ambit of criminal law. The importance of this decision lies rather in the fact that the Privy Council went out of their way to correct an impression left by their language in a previous decision,† to the effect that the Dominion could only fall back on its "trade and commerce" power to support a general power which the federal legislature possessed independently. This correction is valuable, as the tendencies shown by the Judicial Committee in the past had run counter to the basic conceptions of the constitution, according to which wide authority over trade and commerce should be exercised in national interests. The decision granting the federal legislature complete control over aviation‡ is doubtless nationally convenient; but not much in the way of fruitful progress can be gleaned from it, as the subject-matter is quite modern. The decision is not without its difficulties; and the same may be said of the decision that brought radio under federal control.§ There are dangers that provincial powers may be subordinated by the side-wind of a treaty; while the mixing-up of legislative powers under Sections 91 and 92 with the treaty power—such as it is—of Section 132 of the British North America Act is contrary to the whole spirit and form of the Act.

Perhaps these cases are important, from our present point of view, in that they disclose a new method of "twisting" the Act, a method which, as a learned jurist has recently said, "may be fraught with more error than the literalistic doctrines of Haldane."|| The decision of the Privy Council under which women were admitted to the Senate is not connected with our present subject,

* [1931] A.C. 310. (*Proprietary Articles Trade Association v. Attorney-General for Canada.*)

† [1922] A.C. 191. (*In re Board of Commerce Act.*)

‡ [1932] A.C. 54. (*Attorney-General for Canada v. Attorney-General for Ontario.*)

§ [1932] A.C. 304. (*In re Regulation of Radio Communication.*)

|| Cf. *Canadian Bar Review* (1933), pp. 581 et seq.; 664 et seq.

Crisis in the Canadian Constitution

though the fact may be noted that women can now enjoy that honour.* The judgment, however, raised certain points which are, perhaps, the most important innovations since our last survey. In the first place, Lord Sankey, L.C., laid it down that it was not necessary to-day to apply to Canada decisions and reasonings that had commended themselves to those who had to apply the law in different centuries to countries in different stages of development; that the British North America Act planted in Canada a living tree capable of growth and expansion within its natural limits; that the provisions of the Act should not be cut down by a narrow and technical construction, but should be given a large and liberal interpretation. All this is excellent doctrine, completely different from that enunciated by the Privy Council for generations in interpreting the British North America Act. Unfortunately, his Lordship robbed it of any healing virtues, of the power to become a new road of constitutional salvation, by adding that it had no application to the distribution of legislative powers. Elasticity and strictness go ill together in interpreting the Act. We can only hope that a step forward has been made, although the path is thick with judicial fog. To Lord Sankey we are also indebted for a new process of interpretation in the aviation case already referred to. The strict rules of statutory interpretation disappeared when his Lordship quoted almost word for word from Lord Carnarvon's speech on the second reading of the British North America Act on February 19, 1867.† The strict rules disappear, because neither punctuation nor reference reveals the sense of the quotation. For a nation whose constitution has been divorced by judicial decisions from its origins and historical intentions, it is, perhaps, pardonable to clutch, respectfully but not without hope, at any straws thrown to us in the whirlpool of judicial chaos.

* *Edward v. Attorney-General of Canada*, [1930], A.C. 136.

† [1932], A.C. 54 (*per Sankey L.C.* at p. 70); cf. *Hardinge, The Fourth Earl of Carnarvon* (Oxford, 1925), vol. 1, pp. 305 *et seq.*

The Grant of Honours

IV. THE GRANT OF HONOURS

IN connection with legislative power an interesting question has recently arisen. As is well known, the names of Canadian citizens appeared for the first time for many years in the honours lists of 1934. Their absence had been due to the fact that in 1919 the Canadian Parliament passed a resolution praying, *inter alia*, that the King might be pleased to refrain from conferring any title of honour or titular distinction on Canadian citizens. The interesting question now is: can Canada by any legal means control the granting of titles? The prerogative of honours has never passed to the Governor-General, and in the United Kingdom it is uncontrolled by statute. Even were it so controlled, the statute would not apply to Canada except on Canadian request. The law and custom in connection with titles in Canada rest on the following procedure. The Canadian Cabinet recommends, nor are any honours conferred on Canadians without such recommendation. In other words, a convention of the constitution prevails; but the legal responsibility lies with the Government of the United Kingdom. The reason behind this seems to be that nearly all titles of honour have validity throughout the King's dominions, although it is interesting to note that apparently Knights of St. Patrick and of the Thistle have no rank in England. The Governor-General could be given the power by the Crown, or by the Canadian legislature, to confer local titles of honour (a power which belonged to the Lord Lieutenant of Ireland), and indeed Quebec rejoices in an Order of Agriculture, with commanders, officers and knights, created under Quebec statute. Such honours have or would have no validity outside the legislative jurisdiction concerned. No legal power exists in Canada to control by legislative action the prerogative of honours in the imperial sense.

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Action of a legal nature is not, however, impossible. Those titled persons who are not Canadian citizens, and who have therefore no legal right to "land" in Canada, could be legally included by Canada among the "prohibited classes" in the Immigration Act. In the present state of public opinion such drastic legislation might not be forthcoming, but at any rate it could form a reasonable ground for discussion. In addition, Canada might legally prohibit the sending of recommended names to England through the Canadian Cabinet. Such statutory action would govern the Cabinet as long as the statute remained in force; but of course it would have no legal control over the prerogative, and legally the King could still confer honours on Canadian citizens. It has been suggested, with the support of Professor Keith,* that Canada could prohibit the use of titles in Canada, while it could not legally control the conferring of them.

This suggestion is doubtless correct, but it raises some difficult problems. Are titles of honour "property" or "civil rights"? Beyond controversy, a peerage is "property," and so it would seem is a baronetcy,† while a knighthood or a minor honour is clearly a "civil right." If this argument is correct, it appears that the control of the use of titles in Canada would lie with the provinces under their exclusive legislative authority over "property and civil rights." We could thus arrive at the strange position that a Canadian citizen might be "Lord" or "Sir" in one province and "Esquire" or plain "Mr." in another. On the other hand, it might be possible for the federal legislature to control the use of titles under its "peace, order and good government" power; to borrow Lord Haldane's words, the federal legislature can pass legislation in a legislative field of exclusive provincial competency in times of "some extraordinary peril to the national life of Canada... a menace to the national life

* *Constitutional Law of the British Dominions* (London, 1933), p. 38.
† *In re Rivett-Carnac's Will*, (1855) 30 Ch.D. 136.

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of Canada... an epidemic of pestilence."** Action along these lines might also form a proper basis for discussion, and if the legality of such legislation were argued before the Judicial Committee, the possibilities of national self-revelation are almost infinite in their humorous variety. At any rate, the British North America Act seems to create difficulties at every turn, though we may learn, indeed, that the theory, too often lightly accepted in Canada, that honours emanate directly and personally from the King (except in the case of the Royal Victorian Order) is an idle and farcical perversion of facts.

V. LAW VERSUS ECONOMICS

THE truth is that we have outgrown the British North America Act. The Dominion of Canada is attempting to-day to carry on the highly complex life of a modern industrial state under a constitution drawn up for a primitive community, scarcely emerging from pioneer agricultural conditions. In the United States the constitution has been developed by the courts, from the time of Marshall, C.J., as a more or less living, growing scheme of government, and judicial decisions have made flexible an eighteenth century document singularly rigid in form. With us, on the other hand, the provinces have grown in power in despite of the deliberate intentions of the "fathers" of federation. Strict statutory interpretation has virtually made them the controllers of the residuum of legislative powers.

Worse still, under cover of all this has been preserved the legal, political and economic philosophy of *laissez-faire* utilitarianism—free enterprise, as little control over business as possible, individual competition and initiative; with concessions of social legislation here and there in

* *Toronto Hydro-Electric v. Snider*, 1925 A.C. 396 (*per* Lord Haldane at pp. 409-410).

Crisis in the Canadian Constitution

the name of efficient "individualistic" nationalism. Life remained reasonably secure, and no great and violent crises provoked a united national challenge. But dangers accumulated as the augmentations of provincial power over "property and civil rights," procured by judicial decisions, thwarted legislation of growing national necessity. Nine provinces, individually and separately, were attempting to deal with the complexities of the twentieth century, while the Dominion was driven from field after field that the "fathers" had intended it to occupy. Upheld with an almost suicidal tenacity, provincial "rights" have become national wrongs. In addition, there has existed an almost childlike mentality, which the outsider is liable to miss. The British North America Act has been erected into a kind of ark of the covenant, to which has been given something akin to primitive ancestor worship. It is true that men of insight and wisdom saw dangers ahead and called for timely changes; but legal insight and political wisdom, in a small community like ours, are too often forced to retire before a public that denounces any criticism of the British North America Act as "disloyalty." On platform after platform, those who scented legal and economic dangers, who ventured to suggest that they heard cracks and strains in the legal underpinnings of our national life, were called "socialists," "communists," "bolsheviks," "traitors to King and British institutions and to their fatherland." Now the day of reckoning is at hand.

Before the economic depression the federal legislature, with the "generous" permission of the provinces, had already undertaken to assist in providing old-age pensions—a subject-matter purely and solely provincial. "What is the constitution among generous friends?" The example and procedure were perhaps unfortunate; perhaps, as the issue may show, they were creative. Then came the crash. Unemployment, a purely provincial subject-matter, increased by leaps and bounds. To it were added the complex problems of industrial life in a manner never before experi-

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enced—fair competition, hours of labour, rates of wages, minimum wages for men, marketing organisation, the financial structure of companies, mass-production—provincial subject-matters transformed into the very bones of national survival before the compelling forces of a world agony. Once again the Dominion stepped outside its legislative ambit and voted millions for unemployment. Nor was this the end. As province after province turned to it for assistance, the Dominion came forward with vast funds to prevent a financial crash. The Prime Minister of Canada, however, began to scent danger in the transfer of federal moneys to provincial control. A Dominion-provincial conference suggested constitutional changes. The provinces, however, stood firm on their "rights," while they almost demanded the continuance of federal aid.

The Dominion might have hammered out some sort of agreement, the better to guard the federal tax-payer in face of the insistent demands of provincial necessity. Before such an opportunity came, however, more powerful events suddenly changed the issues. On the public platform, before Parliament assembled, Mr. H. H. Stevens, federal Minister of Trade and Commerce, criticised in emphatic and unequivocal terms the whole economic structure of the nation, as shot through with greed, exploitation, and positive social corruption. He promised action. When Parliament assembled, a committee of the House of Commons was set up, presided over by Mr. Stevens; and for weeks the newspapers have been "featuring" the evidence given, much of which seems to reveal labour conditions that all good citizens may well deplore. We are not here concerned with the immediate problems and we express no opinions on them. There is, however, a wider issue.

While many of the matters with which the Stevens Committee is dealing are under provincial legislative control, it is likely that the federal legislature will deal with them under "the peace, order and good government" clause—

Crisis in the Canadian Constitution

fective, as the Judicial Committee has laid down, in a national crisis.* Such legislation, however, can obviously only be a makeshift, for emergency treatment cannot cure the deep and fundamental in the constitutional law of the country. Nevertheless, the situation contains some hopeful aspects. The Prime Minister of Ontario has declared that the time may now be ripe for considering the question of constitutional revision. Sir Henry Drayton, one of the most distinguished of our public men and a former member of the federal Cabinet, has come out in strong support. Even more important are events in Parliament. The Right Hon. Arthur Meighen, Government leader in the Senate, has declared that if the British North America Act is not soon constructively changed there may be little left worth worrying about. The Prime Minister of Canada has placed himself on record in the House of Commons to the effect that the constitution must be changed. He pointed out that, under the Statute of Westminster, changes can be made after resolutions of both Houses, but he was equally clear that political difficulties must be boldly faced.

The issues are now clear-cut—are we to allow one or two provinces to control our national destiny? Changes are not merely demanded by events, they are overdue. It seems probable that the Government will go to the country with constitutional questions to the fore. Whatever an election may disclose, this at least may be said, that at long last it will no longer be possible to look on the British North America Act as a sacred and inviolable instrument. The persistent forces of national affairs—the pressure of the last four years of depression, with its poverty, unemployment, increasing failures, contracting trade, lower wages, miserable market prices, narrowed credit, depreciating currency, ever-increasing debts, notwithstanding the substantial measure of recovery already achieved—have all combined to rob “1867” of romantic glamour.

* Toronto Electric Commissioners v. Snider [1925], A.C. 396.

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We do not dispute the magnificent creative faith of that year, any more than we dispute the creative work of Noah; but we see it, after many days of blind worship, in its just and proper setting. The outspoken words, fortified by the economic situation, have called us to our senses. To those outside Canada, the situation may appear strange and complicated; to Canadians themselves it is no less complex, and, above all, unexpected in the strong changes in public opinion that it evinces. We have now a clear choice to make: shall we continue as a loose league of “sovereign” provinces, into which the unfortunate judgments of the Privy Council had practically transformed us, surviving legally in order to break culturally and economically? Or shall we boldly recognise that a nation of vast potential wealth and of remarkable human achievements must not be sacrificed at a constitutional altar erected in a far-off pioneer past, and itself long since robbed of creative vitality by the barren processes of judicial obscurantism?

Canada.

July, 1934.

CIVITAS DEI

THE object and scope of Mr. Lionel Curtis's book* are no less ambitious than its title. The title is borrowed from that of *De Civitate Dei*, St. Augustine's monumental work, which it is part of the purpose of this volume to criticise. The object, though Mr. Curtis himself describes it as that of discovering a guiding principle in politics, is really no less than that of defining the *summum bonum*, the end and purpose of human existence, and of stating the process by which it may be achieved. The whole history of Christian civilisation falls within its scope. Dealing with this vast subject within the compass of a single volume of less than 300 octavo pages, the fruit of wide reading and intense devotion to his subject, Mr. Curtis has given to his readers a work of arresting interest. However widely many may differ from its arguments or its conclusions, to whatever criticism it may be exposed on the ground of over-simplification or excessive dogmatism, the book is marked throughout by a vivid eloquence, a ringing sincerity and an impeccable courage.

The key to his problem Mr. Curtis finds in the spirit—to some extent, however faintly, immanent and incarnate in men—that prompts them to serve each other and not themselves. This is that spirit which in its fullness is God. It is, to the author, the supreme personality, the ultimate reality; and all human institutions are to be judged according as they do or do not tend to develop this spirit among men and to perfect it by the only possible method, that of day to day exercise in the practical affairs of life. In the sphere of politics then, though Mr. Curtis

* *Civitas Dei*, by Lionel Curtis (London, Macmillan).

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will not admit any distinction between that sphere and that of life itself, Mr. Curtis stands with Aristotle: the State is *γενομένη μὲν τοῦ ζῆν ἕνεκα, οὕσα δὲ τοῦ εἶ ζῆν*.* But by reason of the teachings of Christ and of the history of the world since the days of the Greek philosopher Mr. Curtis's conception of what *τὸ εἶ ζῆν* means is very different from, and much wider than, Aristotle's.

In his sketch of world history Mr. Curtis finds throughout the ages a conflict between two opposing principles: the "principle of authority," absolute, theocratic, supposedly divine in origin and backed by supernatural sanctions; and the "principle of the commonwealth," which may shortly be described as that of self-government resting on the virtue, common sense and practical experience of ordinary men. To a great extent this is the conflict between East and West. To Mr. Curtis it is almost indistinguishable from the conflict between evil and good, darkness and light, illusion and reality; and is only not eternal because of his lively faith that in the course of the life of the world the "principle of the commonwealth" must in the end prevail.

The germ of this "principle of the commonwealth," in its political self-expression, Mr. Curtis finds in the Greek city states of classical times, or at least in the more democratic of them, where men had so far learnt to prefer the public welfare to their own selfish individual interests that it was possible to carry on government through the machinery of public assemblies in which minorities were content to accept and to be bound by majority decisions. The struggles of Hellas with the Persian Empire of the fifth century B.C. afford the first illustration that Mr. Curtis gives of the perennial conflict between his two contending principles. Hellas prevails; and though she herself, as is shown by the story of Athens, too often fails to be true to her own principle (largely because she has not

* For as the State was formed to make life possible, so it exists to make life good. Aristotle, *Politics*, Ch. II, translated by J. E. C. Welldon.

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hit upon the device of assembling representatives with power to bind their constituents, which might have enabled her to apply that principle to a community too large and scattered to be gathered together in a single market place), her political message to the world is never wholly lost.

Rome, in origin resembling a Greek city state, confers upon all the peoples of the Mediterranean seaboard the blessings of order, unity and law, but fails, as Hellas failed, to apply in a wider sphere the principle on which she governed herself as a simple primitive republic; and becomes Imperial Rome, the parent of the Byzantine Empire, under Cæsars or Emperors adorned with the trappings and armed with the powers of a pretended divinity.

Next comes the history of Judaism and the tremendous story of the impact upon the world of the personality of Jesus of Nazareth. As Mr. Curtis's treatment of this theme, which occupies about a third of his short volume, is certainly the most original, so it is likely to be the most interesting part of it to the majority of his readers. To the Jews is attributed the conception of monotheism, which "raised their minds from superstitions which divide the world to spiritual truths which bind it together," and which "arises from an effort, whether conscious or otherwise, to explain by hypothesis a psychological fact—the sense men have of a difference between right and wrong. . . . Righteousness was conceived as the will of God." But this God was originally, in their minds, a tribal deity among others, and jealous of the others. The heathen are to be rooted out; and only very gradually does the idea of Jehovah as the one God of Israel give place to the idea of him as the one God of the universe. Even so, there is a fundamental distinction, on which Mr. Curtis in a deeply interesting passage lays great stress, between the vision of Ezekiel of the Kingdom of God as an exclusive kingdom confined to the Hebrews, and that of Jeremiah as a kingdom to which the Gentiles will be admitted if they repent.

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Jeremiah's "idea led on to Christianity. The soul of Ezekiel issued in Judaism." In either case the kingdom was as yet conceived of as a kingdom on earth: the primitive eschatology of the Jews, some centuries before the book of Job was written, could admit of no other idea.

While historic Judaism lasted, with its centre at the temple in Jerusalem, it was the view of Ezekiel that prevailed; and, highly spiritualised as was its underlying religious idea as compared with surrounding paganism, the political organisation of post-exilic Judaism was that of a typical oriental theocracy, where a close oligarchy of priests bore absolute rule over their people, and enforced upon them an elaborate code of ritual rules, supposedly based on a law divinely communicated to Moses, affecting every detail of their ordinary lives. As in all theocracies, this priesthood was armed with supernatural terrors; and as, through an infection of paganism, the deity whose will it claimed to interpret was one who must be placated by blood-sacrifices and costly offerings from the pious Hebrews who came on pilgrimage to Jerusalem from all parts of the world, the priests themselves, along with their power, derived no little material wealth from the process. This conservative oligarchy, true to type, "closed the canon," refused any addition to the recognised scriptures, the interpretation of which was their own monopoly, and were prone to treat all reforming "prophets" as pestilent agitators and disturbers of the peace. Not in this Jerusalem, which stoned the prophets, was the "principle of the commonwealth" to be found. Its rulers were not likely to welcome any political change in a system that suited them so admirably; and when the Roman Empire had been extended over the whole basin of the Mediterranean they were quite content that the system should be carried on under the protecting ægis of the Cæsars.

Space will not allow of more than the briefest mention of Mr. Curtis's account of the origin of the Pharisees, of the Maccabees, or of the tragic history of the various sects of

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the Zealots, who in their ardour to re-establish the kingdom of the house of David on earth strove with the hierarchy, with Rome, and not less ferociously with each other, till Jerusalem with its temple falls in a final welter of blood and flame before the arms of Titus. It must suffice to say that to many this will prove not the least arresting part of the book; for (let us admit it frankly) the number is but small of those even among the well-educated who, like Mr. Curtis, have studied the works of Josephus.

It is time to turn to the central theme of all, the mission of Jesus of Nazareth. Here it is that Mr. Curtis's work is most likely to come as a shock to many devout minds: here it is that the author's courage of his convictions is most finely shown. We have seen that, to Mr. Curtis, claims to supernatural origin are the usual justification, supernatural sanctions the most potent weapon, of the "principle of authority," which he regards as the power of darkness. With him it is a settled conviction that the course of nature, the orderly sequence of cause and effect presupposed in all rational human thought, is never interfered with by divine command; and that a belief in "miracles" is merely the product of minds too simple or too enslaved **rerum cognoscere causas*. Jesus of Nazareth, then, was a man, begotten and born as other men are, with a mortal body and an immortal soul like theirs, but with a grasp of reality, a dæmonic force of leadership, and a zeal for the development of the human virtue of serving others and for its growth through practical exercise—in his phrase, for the "kingdom of God" which is "within you" and is also "amongst you"—such as has been accorded to no other man before or since. If this be to deny the divinity of Christ, Mr. Curtis might reply that it is to assert the divinity of man, and to claim that every man to the extent that he has virtue in him is to that extent divine, and that Jesus differed from his fellows in the fullness of his virtue and therefore in the fullness of his divinity.

* To discover the causes of things. (*Virgil*.)

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Mr. Curtis holds that everything miraculous in the ordinary sense of the word that has been attributed to the life, death and resurrection of Jesus is the fruit, not indeed of pious fraud, but of legend, originating in the belief, ingrained by habit and tradition in the minds of his contemporaries and followers, that what is divine must be attested by what is miraculous; a belief so strong as to lead them not only to ascribe to direct supernatural intervention phenomena for which they could not account otherwise, but even to convince themselves that they had actually seen interferences with the ordinary course of nature which had not, in fact, occurred. Mr. Curtis thinks indeed that Jesus himself, conscious of his own extraordinary mental and spiritual power, was sufficiently under the influence of the prevailing tradition of his age and race to believe that it was in his power to work miracles; but Mr. Curtis is insistent that, true to his mission, which was to dethrone autocracy and to enthrone the virtue existing in the hearts of men, Jesus deliberately abjured the use of autocracy's secular weapon; and that this is the whole meaning of the story of the temptation in the wilderness.

We cannot in these pages debate the vast problem here involved, but one criticism of Mr. Curtis's handling of it must be offered. He relies heavily on those texts of scripture which support his thesis, but neglects or dismisses as unworthy of credence those which do not. He quotes, for instance, with complete conviction of its authenticity, the story of the Pharisees and Sadducees asking Jesus for a sign from heaven and receiving the answer:—

An evil and adulterous generation seeketh after a sign; and there shall no sign be given unto it, but the sign of Jonah,

and explains the answer as meaning that "as Jonah preached repentance to the Gentiles with success, so a time will come when the Gentiles will hear and accept the Gospel, while Israel will reject it." The explanation is borrowed

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from *A New Commentary on Holy Scripture*, a work of generally admitted orthodoxy, edited by Bishop Gore and others, and is based on the passage which follows next but one after the words quoted; but that which immediately follows them reads:—

For as Jonah was three days and three nights in the belly of the whale: so shall the Son of Man be three days and three nights in the heart of the earth.

This, which Mr. Curtis does not quote, is an unmistakable reference to the supernatural, and there is no less textual authority for it than for the words before and after it. Similarly the text about the power to bind and to loose, on which the Church has laid so much stress, is described as “a few words attributed to Jesus by one of his biographers” and dismissed, in effect, as something which he cannot have said, or cannot have intended in the meaning that has been attributed to it. An historian cannot treat his classical authorities in this way. If he does, he is in reality claiming himself to be the judge of what they ought to have said, and therefore did say, and thus to be entitled to rewrite them. But Mr. Curtis is possessed by a faith which can remove not only mountains, but the canons of historical criticism.

From the philosophical standpoint that he has adopted, Mr. Curtis proceeds to a vivid but reverent account of Jesus's final struggle with the corrupt hierarchy of Jerusalem, of the fear inspired in them by his influence over the multitude which he led, and of the Passion, the judicial murder of the last and greatest of the prophets. To Mr. Curtis the struggle is the supreme illustration of the conflict between his two contending principles. To him, religion is not an affair of the relation of the individual soul to God, in the sense that there is any distinction between a man's duty to God and his duty to his neighbour, between religion and politics. “To engender in men a desire to serve each other is the end and object of human existence.” The desire of service grows only by

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exercise of the power to serve, and the power to serve must be continuously increased as men can bear it. Thus the world's greatest religious teacher was *ipso facto* its greatest political philosopher.

To his mind religion and politics were merely two aspects of life, a sphere viewed from two different angles. He believed that men could grow to perfection in so far as they based their relations on the infinite duty of each to all. This supreme conception could only be realised by gradual developments such as we, in our language, would describe as political.

The spread throughout the Roman Empire after the fall of Jerusalem of a Christianity still profoundly influenced by Jewish and Imperial ideas of theocratic authority still leaves us in a world in which government is not based on the original teachings of Jesus. Though the spirit of the Greek city state may survive in scattered municipalities, the Roman and Byzantine Empires proceed upon the principle of autocracy; the Church itself under the Papacy and the Holy Roman Empire alike adopt it.

Only as feudalism decays and the English constitution begins to shape itself, with a parliament of representatives of the people having power to bind their constituents, which ultimately becomes the repository of sovereignty, does Mr. Curtis find the “principle of the commonwealth” emerging into the high places of government. He justifies his brief sketch of British constitutional history—which, as he says himself, “is or should be familiar to every child who has passed through a high school”—on the ground that he sees

in these threadbare and commonplace details the first beginnings in the Christian era of the process whereby that creative and potent idea, the Kingdom of God, as viewed and expounded by Jesus of Nazareth, is destined to be realised.

This may seem, especially in these days when Europe is strewn with the wrecks of parliaments, an overweening claim to make for the political system which the people of our race have evolved to suit themselves, and which has

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been copied, not always with success, by others. To represent it as the final synthesis in the political sphere of all that is best in Greek, Jewish and Roman thought, as the embodiment of the ideals of freedom, virtue and law, is to rate it high indeed. But Mr. Curtis's contention may be conceded that it is the only system we know which, while providing for real government and sovereignty (the idea of which is by no means to be confused with that of autocracy) lays the burden of responsibility on the shoulders of the maximum number of people whose sense of public duty qualifies them to bear it, and provides for the quickening of that sense of duty through the constant exercise of it.

Nor will Mr. Curtis admit that in the course of the millions of years to which our world has still to look forward the other races of men will be found incapable of the adoption in the fullest possible sense of the principle that he extols. His imagination reaches forward to the realisation of Tennyson's dream of "the Parliament of man, the Federation of the world." He does not believe that the still small voice which was first overheard in the cities of Greece and was raised to the sound of a trumpet in England will be silenced till all men have heard it and learned to obey one paramount law, based on the mind and conscience of all.

To people of our race it may well be a sobering thought that, even in a vision, it should have been reserved for them to be the pioneers of a mission so august.

We understand that *Civitas Dei* is intended to be merely the first volume of a larger work dealing with the British Commonwealth and its place in the world, and that the author designs in a further volume to treat of the imperial problem in the light of the criteria of political action which he has sought to establish in *Civitas Dei*. The merits of this book prompt the earnest hope that he may be able to fulfil his purpose.

IRISH FREE STATE: MR. DE VALERA'S PROGRESS

I. THE SENATE DEFENDS ITSELF

MR. DE VALERA has now painfully learned that, like the famous animal in the Zoo, the Senate is very naughty. When attacked it defends itself. The Bill for its abolition passed the Dail on April 20 by 70 votes to 51, and on May 30 the debate on the second reading began in the Senate itself. After Mr. de Valera had delivered a short, and almost contemptuous, introductory speech, the Chairman, Mr. Westropp Bennett, a County Limerick farmer, announced that, following a precedent set up by his predecessor, Lord Glenavy, during a debate on relations with Northern Ireland ten years ago, he proposed to leave the chair in order to speak from the floor of the House. He then proceeded to deliver a remarkable reply to the attacks of the Government on the Senate. Statesmanlike in tone, clear and cogent in argument, and devastating in its exposure of ignorance and misrepresentation, this speech in itself went far to justify the existence of the Senate. It was certainly one of the finest speeches so far delivered in the Free State Parliament. Mr. Bennett began by exposing the various misrepresentations of Mr. de Valera and his colleagues, proving that in many cases they had stated the exact opposite of the facts. He then analysed the actions of the Senate during Mr. de Valera's first Administration, and showed that, apart from the Bill for the removal of the oath of allegiance, the Senate had received during that time 22 non-money

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Government Bills, many of them highly contentious, sixteen of which it passed without amendment, and that the amendments made in the remaining six were nearly all agreed to by the Dail. Mr. de Valera's statement, made before the election of January 1933, that a hostile Senate was constantly attempting to harass the Government by mutilating its measures or wilfully delaying them, was therefore, he pointed out, completely untrue. He added that there was too much talk about liberty in this country and too little attention paid to the things that ensure it. It was the truth that made men free, and the opposite that bound them. There could be no liberty without liberty of the mind, and no liberty of the mind without truth.

Mr. Bennett then proceeded to expose Mr. de Valera's fallacies in the domain of history and political science, more particularly in his statements concerning the experience of France and the United States, pointing out that in both countries a second chamber was found essential, and that no country of any importance under full constitutional government to-day has a single chamber system. He asserted that Mr. de Valera's policy of establishing a single chamber government would lead here, as elsewhere, to a dictatorship of the Left, and that the country, reduced to penury by the Government's economic policy, would eventually sweep them aside and replace them by extremer men. Then, passing from theory to practical politics, he compared the work done by our Senate with that done by the Senates of Canada and South Africa, and proved that the Free State Senate, during the last ten years, has done, roughly, three times the amount of work done by the first, and more than ten times the amount of work done by the second. The work of revision done during that period in the Free State Senate, by way of accepted amendments that definitely improved legislation, far exceeded that done by any other second chamber in the British Commonwealth. In the same time they had rejected only three

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Bills, while the Canadian and South African Senates had rejected thirty-three and thirteen respectively. He contrasted with the attitude of Mr. de Valera that of General Hertzog, who for six years voluntarily left in existence a hostile Senate, which had rejected three major Government Bills.

Replying to the charge that the Senate had been partial towards Mr. Cosgrave's Administration, he proved that the proportions of amendments made by the Senate in the measures of both Governments were similar, but that the work of revision under Mr. de Valera's Administration had been somewhat heavier. As regards the power of delay, they had held up one Bill and rejected another during the Cosgrave régime, but out of 109 Bills presented by the frankly revolutionary de Valera Government they had only rejected four. Mr. Cosgrave's Public Safety Bill, which they passed, was rendered necessary by a crescendo of murder and outrage; Mr. de Valera's Blue Shirt Bill, which they rejected, was directed against an organisation guiltless of disorder.

But the most important and most sensational passage in his speech was his claim that the Bill for the abolition of the Senate was both inaccurate and unconstitutional: inaccurate inasmuch as several references to the Senate had not been eliminated from the constitution, and unconstitutional because the constitutional amendment, made in 1929, whereby the period for amending the constitution by ordinary legislation was extended from eight to sixteen years, was invalid, and because the abolition of the Senate was not an amendment of the constitution within the meaning of its terms. The object of Mr. de Valera's campaign, bolstered up by calumny and false representation of history, was, he said, to establish a dictatorship of the most obnoxious kind, masquerading in the guise of parliamentary government. He then made a deadly parallel between the actions of Mr. de Valera in office and those of Mr. Lang of New South Wales, who

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abolished the Législative Council of that State, and defaulted on the payment of interest to British bondholders ; and he pointed out that after careful study and inquiry the present New South Wales Government had set up a new second chamber on the model of the Free State Senate. Closing this powerful speech, he referred to the unfair attacks on the Independent members of the Senate, who are largely Protestants and ex-Unionists, and who had given their best to the service of the new régime. They were attacked, he said, by neo-Nationalists, who paid lip service to Tone and Davis, but violated every principle these men ever enunciated. Finally, he quoted an impressive and apposite passage from Demosthenes to the effect that it was impossible for one who commits injustice, breaks oaths and indulges in falsehood to acquire lasting power. In the affairs of the State the principles and the foundations must be truth and justice.*

Mr. de Valera, who had listened to this formidable indictment with ill-concealed rage, left the House upon its conclusion, and did not return till the last day of the debate, when he delivered a long and rambling speech, which was largely a repetition of his previous speeches in the Dail, and did not seriously attempt to answer the Chairman's speech. Historical examples were, he suggested, useless, because they proved one thing only. He repeated that he had a hankering after some kind of second chamber for purposes of revision, but contended that neither history nor reason nor practical experience had proved the case for a second chamber in general.

Other notable speeches during the debate were made by Senator Douglas and Senator O'Hanlon. Senator Douglas proved that Mr. de Valera had used the criticisms of the French Senate made by Professor Barthelémy, but had suppressed his conclusion, namely, that "the existence of a second chamber is the fundamental institution of all

* This great speech has now been published in pamphlet form with full references.

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organised democracy." Senator O'Hanlon showed that John Adams, whom Mr. de Valera had cited as one of the American advocates of a single chamber, had said that he could not think that a people could be long free, or ever happy, whose government was in one assembly. Senator Sir John Keane, during the debate, referred to the action of the Senate in 1928 and 1929, when they acquiesced in the removal of the referendum and initiative and the extension of the period for amending the constitution, whereby he held that they had lost their effective control and opened the door to further inroads on the constitution. Senator Douglas has now introduced in the Senate a Bill to revive the referendum on constitutional amendments and it will be interesting to see the reactions of Mr. de Valera to this democratic project.

During the Dail debates on the Bill for the abolition of the Senate two amendments were made by the Government to meet the criticisms of the Opposition. These make it impossible to remove the auditor-general or the judges without a Dail majority of four-sevenths, but, as Senator Browne pointed out in the Senate debate, this protection can be easily removed by legislation once the Senate ceases to exist. On June 1 the Senate finally rejected the Bill by 33 votes to 15. The position now is that the Bill is suspended for eighteen months, unless a general election, in which the Government is successful, intervenes, when it would become law.

The relations existing between the Government and the Senate were further illustrated by the recent inquiry of the Senate Committee on Procedure and Privileges into the action of the Minister for Defence, Mr. Aiken, in prohibiting two duly authorised visitors who were wearing the blue-shirt uniform of the League of Youth from entering the Senate chamber on February 21. The Committee found that the Minister and the Clerk of the Dail, who had supported his action, were guilty of a breach of privilege, and that the Minister, in spite of his public

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statement to the contrary, knew when he issued his prohibition that the Chairman of the Senate had authorised the admission of these visitors. The Senate also limited the time for the operation of the annual Army Act, as a protest against the Government's appointment of unqualified ex-I.R.A. men to take command of the new volunteer force. Incidents such as these, and the acrimony of the Dail debates, reveal the personal bitterness and hatred of our leading politicians, the unfortunate heritage of the civil war, which, apparently, nothing but time will efface. Cardinal MacRory, the Catholic Primate, has recently appealed for a spirit of charity in public affairs, but so long as support of personalities rather than principles dominates our popular political outlook there is little hope of much change.

II. GRAVE CONSTITUTIONAL ISSUES

THE grave questions raised in the speech of the Chairman of the Senate concerning the validity of recent alterations in the constitution have now been brought before the Courts in a case in which Mr. Jeremiah Ryan, a farmer and retired military officer from County Tipperary, and four other members of the Blue Shirt organisation seek an absolute prohibition against their trial by the military tribunal on various charges, including conspiracy to shoot with intent to murder, unlawful assembly, and the possession of fire-arms. They contend that the Constitution (Amendment No. 17) Act of 1931, under which the military tribunal was set up, is unconstitutional, and that therefore the tribunal has no lawful existence, jurisdiction or validity.

In order to understand the basis of this contention it is necessary to examine briefly the constitutional position in the Irish Free State. It is quite different from that in Great Britain. In Great Britain, the sovereignty of Parliament is absolute. It has an acknowledged right to

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modify the constitution, and is both a legislative and a constituent assembly. The Free State Parliament, on the contrary, is not a sovereign legislature, because its powers are limited by the terms of the constitution and by judicial decision. The Free State has a rigid written constitution, under which constitutional or fundamental laws are distinguished from ordinary laws, and cannot be changed in the same manner. Moreover, the constitution provides that—

All powers of government, and all authority legislative, executive, and judicial in Ireland, are derived from the people of Ireland and the same shall be exercised in the Irish Free State through the organisations established by or under, and in accord with, this Constitution.*

The constitution also contained a provision† that amendments of the constitution within the terms of the Treaty could be made by ordinary legislation, by the Oireachtas or Parliament, for eight years after it came into operation, but that after that period had expired any amendment should, after its passage through Parliament, be submitted to a referendum and approved by a majority of the voters on the register, or two-thirds of the votes recorded, before it became law. Moreover, even during the first eight years, any such amendment should be submitted to a referendum if that course was demanded by three-fifths of the Senate, or one-twentieth of the voters on the register.‡ The constitution was the subject of considerable amendment during the first eight years, but most of these amendments only embodied a number of technical changes suggested by the practical experience of its working. A more comprehensive revision was initiated by the tenth Amendment Act, passed in 1928, which abolished the referendum and the initiative at the instance of the Cosgrave Government, in order to forestall an attempt of the Fianna Fail party to use the initiative for the introduction of legislation to abolish the parliamentary oath of allegiance.§ Finally,

* Article 2.

† Article 50.

‡ Article 47.

§ See THE ROUND TABLE, No. 72, September, 1928, pp. 816 *et seq.*

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the period during which constitutional amendments might be enacted by Parliament without a referendum was, in 1929, extended to sixteen years.*

It is now contended that this last amendment was *ultra vires*, inasmuch as an ordinary Parliament, which was not a constituent assembly but merely the agent or delegate of the people, could not by its own act extend the scope of its own power or authority. It is argued that the provisions of Article 50, enabling amendments of the constitution to be made by ordinary legislation during the first eight years, were designed only to enable technical improvements of detail to be effected, but not to offer scope for such comprehensive constitutional changes, which undermined or repealed principles in the constitution, as have in fact been enacted. In other words, the constitutional power of amendment could not be used constitutionally to do away with the constitution. If amendments were to be made in fundamental articles, this, it is contended, could only be done by a fresh constituent assembly, or by extra-legal methods. It will be seen that this argument raises a much debated problem of modern constitutional theory, whether it is within the competence of the agencies invested with the power of constitutional amendment to revise drastically the structural organisation of the State.

In the Irish Free State, where both the contingency and the risk of change are greater than in more conservative communities, this problem is now of considerable importance. Obviously, if the Courts were to decide that the Act extending the time for amending the constitution by ordinary legislation was unconstitutional, the results would be extremely serious and far-reaching. In the first place, the Act establishing the military tribunal, which was passed in 1931, and all the Acts since passed by Mr. de Valera's Government for the amendment of the constitution, including those for the abolition of the parliamentary oath

* Constitution (Amendment No. 16) Act, 1929.

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of allegiance and the right of appeal to the Privy Council, would be clearly illegal. It would, of course, follow from this that any executive actions arising out of these Acts, such as the sentences imposed by the military tribunal under both the Cosgrave and de Valera régimes, would be equally *ultra vires*. Moreover, the proposed abolition of the Senate would be clearly impossible by ordinary legislation. Modern experience has shown the vital need for an authoritative agency invested with the constitutional power to protect the fundamental safeguards of liberty, not only against encroachments by the executive, but also against ill-digested and panic measures of the legislature. Such power is given to our judiciary,* and, although they have not much experience in dealing with such momentous issues, they lack neither the courage nor the ability to do so. The Attorney-General, on behalf of the State, of course argued that the power of amending the constitution during the first eight years of its existence covered the alteration, repeal, or deletion of any article, and that Parliament during those eight years was, and owing to the extension of the period for amendment by ordinary legislation still is, in effect, a constituent assembly.

The High Court have now decided unanimously, following a decision of the Privy Council†, that the constitution should be liberally interpreted in accordance with its own terms, and that the power to amend by ordinary legislation during the first eight years gave a power of alteration in the widest sense of the word, including, in default of express exception to the contrary, the power to extend the time for amending the constitution by ordinary legislation. They therefore held that the Act of 1929, extending the time for amending the constitution by ordinary legislation to sixteen years, was valid, and therefore the Act establishing the military tribunal, since passed, was also valid, and that body was lawfully established. It

* Articles 65 and 66.

† *Edwards v. Attorney-General for Canada*.

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follows, of course, from this decision that no article of the constitution is fundamental, and that all, or any of them, can, for the present at all events, be repealed by ordinary legislation. It is understood that an appeal against this decision will be made to the Supreme Court, which includes Chief Justice Kennedy, who was the legal adviser of the Free State Government when the constitution was framed. Pending the final decision of this important issue, General O'Duffy's appeal to the Supreme Court, against the decision of the High Court that the military tribunal was entitled to try him on the charge of being a member of an illegal organisation, has been adjourned.*

Another serious constitutional question will be discussed in the case of Moore and others *v.* the Attorney-General for the Irish Free State and others, which is an appeal to the Judicial Committee of the Privy Council in respect of an important decision of the Free State Supreme Court concerning fishing rights in the river Erne. The Judicial Committee has given the petitioners leave to argue the question of the validity of the Free State Act abolishing the right of appeal to the Committee, and the hearing of this argument will take place in October. It will raise questions of vital importance, which may include those that have been raised before the Free State High Court. A peculiar legal position has also been created by the recent High Court decision in the case of Captain Hughes. This ex-officer, who is a prominent member of the Blue Shirt organisation, was convicted by the military tribunal of attempting to obtain confidential official information by bribing a detective officer, and was sentenced to two years' imprisonment. This conviction has now been upset by the High Court, on the grounds that the certificate from the Minister (which is required by the Act before such a prosecution can be initiated) was not recited in the conviction, and that therefore, as a record of a judgment by an inferior court, the conviction was bad on its face. The

* See THE ROUND TABLE, No. 95, June 1934, p. 587.

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Government, without explanation, thereupon released 37 other prisoners, in whose convictions a similar mistake was apparently made.

III. THE ANGLO-IRISH DISPUTE

MEANWHILE the dispute with Great Britain continues its miserable course. It is now two years since it began, and although both sides protest their desire for peace they seem equally unwilling to take any step that might bring it nearer. Mr. de Valera is clearly now content to let the Free State suffer indefinitely the serious economic loss involved, in the hope that either a European war or a change of Government in Great Britain will eventually deliver him from the mess into which he has landed the country. Mr. MacEntee, the Minister for Finance, threw an interesting light on the Government's attitude when he said in the Dail, on May 17, that the Government hoped that the cost of bounties and subsidies on agricultural exports was not going to be a recurring item in their annual expenditure. They hoped that, as Deputy McGilligan had said, there would be a realisation on the part of their friends on the other side of the water that their relation to them was one not merely of geographical proximity but also of great strategic importance to Great Britain in time of war. Because we had trade advantages to offer Great Britain that the Dominions had not, and because we could be of material assistance to her in times of national crisis, from the point of view of British national security it would be an unpardonable mistake—the consequences of which would be heavily visited on her own people—to strangle our cattle trade and cripple our agricultural industry. The Government hoped that, through the ultimate realisation of these important facts by all parties, it would not be necessary to continue these export bounties and subsidies indefinitely.

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On the other hand, a month previously, Mr. de Valera, speaking at Arva, County Cavan, on April 7, said that the British market had gone and never would come back ; and in the Dail, on May 25, he made a remarkable speech on the relations between England and Ireland, which illustrates very well his extraordinary mentality. The British, he said, were always irritated because the Irish would not submit to the system of government that had been given to them, and thought that the Irish should be delighted to be united with Great Britain. His reply was, supposing Germany had won the Great War and had annexed Great Britain to the German Empire, what would the British people have said ? That, in effect, was what had happened to Ireland. Ireland had not yet secured independence. If she had, why was Cobh being held, and why were the British maintaining parties of troops on Irish soil ? Was it with the will of the Irish people that the six northern counties were cut off from the rest of the island ? It was quite true that they were free to a very large extent. But there were certain things that they would not have if they were really free. If South Africa was satisfied with its status that was the South African people's own affair. Ireland was a nation before South Africa was thought of. It was as old as the British nation. Here, indeed, Mr. de Valera made a point that is often forgotten. Ireland is a self-conscious European nation, a Dominion neither in origin nor in substance, and the Treaty of 1921 has failed largely because it overlooked this essential fact and sought to treat a mother country as a developed colony.

Mr. de Valera went on to say that he had been asked why they did not declare a republic. It was because when they did so they wanted the declaration to be effective ; they did not want a débâcle as in 1921. Their policy was to explore the possibilities of the position in which they found themselves in order to get the maximum amount of freedom out of it. When they came to the end of their

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limit they would ask themselves how long it must be borne. In this connection it is interesting to remember that Mr. de Valera accused Collins and Griffith in 1921 of yielding to Mr. Lloyd George's threat of "immediate and terrible war." When asked by the Opposition to state what threats were now being made to prevent him from declaring a republic, he could only refer to economic action. If there was a position of real equality between the two countries, he added, common interests could be determined and a form of association agreed upon, to the mutual benefit of both. This, of course, means that he still believes it possible to revive the proposals for external association between the Free State and Great Britain embodied in the famous Document Number Two, and advocated by him in 1921. It is difficult to see what difference there is between external association and complete separation, for all international relationship can be covered by the term "external association."

In the House of Commons, on May 29, Mr. Thomas, the Dominions Secretary, said that his attention had been called to Mr. MacEntee's speech, and that he was glad to note its conciliatory tone, which Mr. de Valera's subsequent statements did not confirm. He added that the British Government were ready at any time to enter into negotiations with the Irish Free State Government for the settlement of all outstanding questions. The default of the British Government on the American war debt payments, and the German suspension of transfers of long-term debt service, encouraged a Labour member to move in the House of Commons, on June 18, for the repeal of the special duties on Free State agricultural produce. Mr. Neville Chamberlain, the Chancellor of the Exchequer, said that there was all the difference in the world between the default of the Irish Free State and the other defaults mentioned. The British Government was merely the channel between the Irish farmer, who bought his land and agreed to pay annuities, and the owner who sold the

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land to the farmer. The British Government agreed to pay the owners, and the Free State Government agreed to collect the annuities and hand them over to the British Government for the purpose of meeting the obligation that the British Government had undertaken towards the owners. The Irish Free State Government was still collecting the annuities, and was withholding them from the British Government. The dispute between the Irish Free State and the British Government, although it originated in its present form in the withholding of the land annuities and certain other payments by the Irish Free State, was actually a political dispute. If the British Government had agreed to the Irish Free State's becoming a republic, and to other breaches of the Treaty, the dispute might have been settled. The duties had been put on to recoup, as far as possible, the British taxpayer for the loss that was unjustly and unfairly imposed on him by the action of the Irish Free State. It was expected that the default up to March 31, 1935, would be £14,512,000, of which it was estimated that £10,000,000 would be recovered by the duties. Mr. Chamberlain declined to give an assurance that the duties would not be continued as protective duties when the dispute ended. He could not say on what terms they would be able to settle with the Irish Free State, or commit himself to particular conditions.

Mr. de Valera, speaking in the Dail on June 22, characterised Mr. Chamberlain's statement as a complete misrepresentation. The Free State, he said, was simply refusing to meet a claim which they regarded as unjust, and which was not founded on any legal or moral right. If there was any movement by people in Great Britain to bring about a settlement, it must be based upon some understanding of the Free State Government's case. He argued that the land purchase advances were made on the joint credit of Great Britain and Ireland, and that the combined effect of the Government of Ireland Act of 1920, the Treaty, and the agreement of 1925, which relieved the

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Free State of any liability for the British national debt, was to transfer to Great Britain the obligation of repaying the land purchases advances, and to Ireland the right to receive them, a right exercised by the Government of Northern Ireland. The question of the Free State Government's being a "channel" did not, therefore, arise. It had a right to collect, but it had no duty to transfer the moneys. Anything like the suggestion that there was a contract between the bondholder and the tenant-farmer was absurd.

Speaking in the Dail on June 6, Mr. MacDermot, one of the Opposition leaders, taunted the Government with maintaining the ideal of a republic and indefinitely postponing its realisation. Mr. de Valera, he said, was a bogus explorer, and the expedition into the adventurous wilds on which he invited them amounted to nothing more than a stroll round Stephen's Green. In other words, the Government were striking off fetters of cotton wool and knocking down castles of pasteboard. Demonstrations of that kind might impress our more foolish citizens, but they gave us a reputation abroad for childishness and self-deception. The policy of the Government was feeble and tinkering, a policy of pin-pricks. It poisoned our relations with the British Government, increasingly estranged the North, and was a demoralising influence on our own people. The preaching of republicanism by a Government that retained a non-republican constitution rotted the minds of our young men, excused the existence of organisations that used sinister methods to achieve aims of violence, weakened the authority and prestige of the Government, and produced hatred, dissensions and confusion of mind and purpose. They should, he said, either take the republic, and face the music, or have the courage to accept free and equal partnership in the British Commonwealth, the only method by which ancient animosities could be appeased, and North and South welded together.

In reply, Mr. de Valera made another long speech; the Opposition, he said, had taunted the Government with

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being afraid to declare a republic, but the majority of the Irish people were prepared to accept the consequences of separation from Great Britain when the test was put to them. He would be willing to prophesy from the whole of Irish history that separation from Great Britain would take place, and it was becoming easier as time went on. They in the Free State were prepared to say to the British that they would give them a preference over other countries if Great Britain would give a similar preference to their goods. That, he said, was the sort of bargain that would last between the two countries, for it was based on equity and common interest. They had no enmity towards the British. They had no desire to injure them in any way. They were simply out to secure their own rights. They would not accept treaties or documents that were forced upon their people with threats. On July 5, Mr. Thomas, in reply to a questioner in the House of Commons, who asked whether the Government were prepared to consider the ending of the dispute with the Irish Free State on the basis of a united Ireland, said that no Government would coerce Ulster into an agreement against its will; they would not get a settlement by capitulating to terms that in the end would be more disastrous than the existing situation.

Mr. MacEntee, the Minister for Finance, speaking in the debate on the Appropriation Bill in the Senate, on July 12, made a statement on the present plight of the Irish farmer, and suggested that, while the land annuities might have given the British the opportunity of taking steps to restrict the Irish cattle trade, steps which they would in any event have taken sooner or later, they had little bearing on that trade at the present moment. The Irish Free State was the only country that could give Great Britain the raw material to supply its production, and he expressed the belief that it would enjoy that advantage, irrespective of what its political relations with Great Britain might be. Concluding, he said that the recent local

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government elections, and in fact the whole history of the Free State, showed that, even though it might entail great economic suffering, the mass of the Irish people were not prepared for the full acceptance of the British Commonwealth of Nations. They should be given the right to choose for themselves what their relations with the Commonwealth were going to be, and to be free to make that choice. The best way to settle that question was to put the Irish Free State in a position of complete independence in regard to the Commonwealth, and then let the people of Great Britain, on the one hand, and the Irish people, on the other, negotiate what their future relations were going to be. Pronouncements of this kind, which ignore the existence of Northern Ireland and its attitude, are of little use, for the Irish people are not confined to the Free State. And so, with the constant repetition of these now rather monotonous statements and arguments, this senseless controversy proceeds. It is a tragedy that the statesmanlike common sense responsible for the recent Anglo-French and Anglo-German agreements, and for the negotiations with South Africa, seems to vanish when Irish affairs come up for discussion.

IV. THE LOCAL ELECTIONS

THE local elections, which took place on June 26, reveal no serious change in public opinion. The numbers of each party returned were as follows: Fianna Fail, 728; United Ireland, 596; Independents, 371; Labour, 185. Of the Independents, 118 are said to favour Fianna Fail and 253 United Ireland. This means that the Government bloc holds 946 seats against 934 held by its opponents. Four county councils—South Tipperary, Kilkenny, Queen's County and Waterford—which had anti-Government majorities, were superseded before the election by managers appointed by the Minister for Local Government, on the

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grounds of alleged maladministration, and no elections were therefore held in these areas. General O'Duffy, somewhat foolishly, claimed before the election that his party would secure a majority in every county council. In fact, they have done so only in eight out of twenty-three. The most remarkable feature of the election results is the number of Independent candidates returned, but this is due to the operation of the proportional representation system of voting, which favours the return of powerful local personalities, who, with their relations and friends, are often able to obtain the necessary quota, regardless of their political affiliations. Labour has done very badly. In the Connaught and Ulster counties it secured no representation at all on the county councils, and only eleven seats in Munster. This shows that the Labour party, like the young lady of Riga, is likely to come back, from its ride with Fianna Fail, inside the tiger. The election was fought without disturbance, and, largely because of the Blue Shirt organisation, there was no attempt to intimidate or interfere with voters. All parties are notoriously hard up, as people have no money to spend on politics, and consequently, except for crude slogans, largely personal, painted on walls and roads, there was very little publicity or excitement.

On the whole the result proves that the Government, even on the restrictive property-occupation franchise on which the election was fought, are able to hold their own, and there can be little doubt that in a parliamentary election they would probably improve their position. Mr. de Valera, however, has not received the clear vote of confidence that he obviously expected, as at least half the responsible citizens are shown to be opposed to his policy. Before the election General O'Duffy unwisely stated that his party regretted the election could not be fought on the wider franchise; whereupon the Government took him at his word and re-introduced in the Senate the Bill to enlarge the local government franchise, which that House

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had rejected last year. It promptly rejected it again. It is clear that Mr. MacEntee's optimistic budget* has been a strong point in Mr. de Valera's favour, and has been accepted by many people as proof of the country's prosperity, although most of those with property have only to examine their individual position to realise that this is a false conclusion. There seems to be no reason why Mr. de Valera should not now continue in office till the end of his normal term in 1938. By that time he will have abolished the Senate, and carried the other Bills that have been suspended by that House. These include the Bills for the abolition of university representation, the alteration of constituencies, and the reduction of the number of members in the Dail, the passage of which will strengthen his position in a general election.

On the other hand, his relations with the Irish Republican Army have not improved. Mr. Tom Barry, one of their leaders in the south, was recently tried by the military tribunal for being in possession of a machine gun and revolver ammunition, and was sentenced, on conviction, to twelve months' imprisonment, a result which did not increase the Government's popularity with his supporters. Mr. Rutledge, the Minister for Justice, recently pointed out that if there was a change of government, the whole of the I.R.A. would be mopped up within twenty-four hours, and that he knew everything that happened at their meetings. This statement was obviously made for the purpose of reminding the I.R.A. that there are worse possibilities than Mr. de Valera. There is no doubt that the Civic Guards must now have full information concerning the I.R.A., as they have become a public organisation since Mr. de Valera came into office; consequently, their suppression would be comparatively simple if General O'Duffy were returned to power. But the I.R.A. have their own internal troubles as well. Their leaders have split, with our natural fissiparous tendency, into two

* See THE ROUND TABLE, No. 95, June, 1934, p. 596.

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separate parties, one led by Mr. Maurice Twomey, the Chief of Staff, and Mr. Sean MacBride, and the other by Mr. Peadar O'Donnell and Mr. Michael Price. The difference between them concerns tactics rather than principle. The Twomey group, who are in the majority and retain control of the I.R.A. proper, do not favour direct political action, whereas Mr. O'Donnell and his associates (now known as the Republican Congress party) advocate the establishment of a workers' republic through political methods, such as the contesting of elections and the penetration of the trade unions. The annual pilgrimage of the I.R.A. to Wolfe Tone's grave at Bodinstown was enlivened by a definite clash between these rival groups. Wolfe Tone, whom all the extreme organisations seek to appropriate as their patron saint, seems to have a bellicose effect on his votaries. The only real difference, however, between the new organisation and the I.R.A. is that the former is openly communist in aim and policy, while the I.R.A. prefers to camouflage, at least for the present, its communistic leanings.

Meantime, the tale of petty outrages continues. Since the United Ireland party was formed last September, over four hundred outrages have been reported in the press as having been committed against its members or supporters. Of these approximately 132 can be classed as major outrages, in that they were committed under arms, but only 35 persons have been convicted and punished for all these offences against public order. A disquieting development in Dublin has been the tendency of crowds of hooligans to pursue and maltreat members of the Blue Shirt organisation when in uniform, and it is not surprising that some of the latter have lost their heads and retaliated. In one recent case a Blue Shirt was convicted of manslaughter, having, under considerable provocation, shot one of a crowd attacking him.

Our economic position has not altered materially during the last few months. Our export trade is still declining.

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During the year ended May 1934 our adverse trade balance increased by £4,000,000. It is now almost precisely equal to the value of our exports. The Free State's total trade is, to-day, little more than half what it was five years ago. The effort of the Government to build up an industrial life and organisation continues. Its most recent effort in this direction is a Bill intended to restrict still further the investment of foreign capital in Irish industry. Mr. Lemass, the Minister for Industry and Commerce, claims that since 1931 the employment in the food, drink, and tobacco industries has increased by 2,000, in the apparel industry by 4,500, and in the metal manufacturing industry by 2,000. But the other side of the picture is represented by the outspoken criticism of Mr. Norton, the leader of the Labour party, who, speaking in the Dail, did not hesitate to state that there is a most cruel and inhuman exploitation of child labour in connection with these factories; as well as by the fact that the Free State is one of the few countries in the world where unemployment is definitely increasing. It is believed that the Government intends shortly to introduce legislation which will practically prevent British fire and accident insurance companies from doing business here, and that some form of government guaranteed insurance scheme will be proposed. It is also probable that the banking system will once more be brought under review, and that the establishment of a central bank under government control is possible. Obviously, such a step would facilitate the raising of future government loans.

The Irish Free State.

August, 1934.

GREAT BRITAIN: HOME AND FOREIGN AFFAIRS

THE issues that have been uppermost in British politics during the past three months are not, properly speaking, issues of the moment: they are, if not always, for a long time with us. The Joint Select Committee that is to advise Parliament on the future constitution of India has been considering its report, and meanwhile the agitators against the White Paper plan have been skirmishing with its defenders up and down the country, particularly in Lancashire. There has been an effervescence of fascism which has stirred all three leading parties into vehement championship of our traditional liberties. And largely because of fascism abroad, foreign politics and defence still occupy much space in our newspapers, our parliamentary debates, our thoughts and our conversation.

I. LANCASHIRE AND INDIA

THE Committee of Privileges completely and unanimously exonerated Sir Samuel Hoare and the Earl of Derby from Mr. Churchill's charges of tampering with the evidence before the Joint Select Committee on the Indian reforms. The Committee of Privileges were

clearly of opinion that the Manchester Chamber of Commerce were, in fact, not over-persuaded or talked into an opinion which they did not honestly form.

Sir Samuel and Lord Derby had admittedly brought to the Chamber's attention the fact that publication in India of

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certain passages in the original memorandum of evidence would gravely prejudice the success of the Lancashire mission, which had been given a mandate of co-operation and good-will. But the decisive influence in altering the Chamber's mind was messages from the mission in India itself.

In an important part of their report, the Committee of Privileges discussed the character of the Joint Select Committee, which Mr. Churchill had described as "sitting in a judicial capacity."

The Committee (ran the report) is concerned with questions partly of policy and expediency and partly of constitutional theory and practice. . . . The ordinary rules which apply to tribunals engaged in administering justice or deciding issues of fact between contending parties cannot be applied to the Joint Committee.

Many of its members had already, before their appointment, formed opinions about its subject matter. Its proceedings were open to press comment. Witnesses before it might appear as advocates of a particular political theory or might represent a particular interest for which they asked protection.

This point was naturally seized upon by the Conservative opponents of the White Paper, who have strongly protested against the Government's policy of keeping India out of party debate while the constitutional reforms are being considered by the Joint Select Committee. The *Morning Post*, the leading die-hard journal, gave this interpretation of the Privileges report.

The Committee, that is to say, having already made up its mind on the case to be considered before it was appointed, there could be no harm in trying to influence the witnesses (so long as the attempt was not successful).

Mr. Churchill himself made play with the same argument in the debate on the report of the Committee of Privileges. He refused to withdraw or modify his charges. The report,

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he claimed, had established that the Secretary of State and Lord Derby, through the best of motives and in a perfectly honourable manner, had attempted to deter the Manchester witnesses from presenting the evidence they desired.

The incident has had two main effects. It has embittered still further the personal and political antagonisms aroused by the India issue in the Conservative party. And it has woken ancient strife in the Lancashire cotton industry. At the end of June Mr. Churchill addressed a big meeting in Manchester, at which he appealed for "the exhumation of the corpse" of the original evidence laid before the Select Committee. A resolution to this effect was carried, demanding "that effective guarantees for the maintenance of the mutually advantageous trade between Great Britain and India should be inserted in the proposed new Indian constitution." Later the malcontents requisitioned a special meeting of the Manchester Chamber of Commerce, at which they submitted a resolution re-affirming the original proposals of the Chamber for safeguarding British trade in India, as expressing the true interests and needs of Lancashire. The resolution, however, was defeated in favour of an official amendment pledging support for the efforts of the Chamber

in representing to H.M. Government their anxiety in connection with the White Paper proposals. The meeting wishes particularly to endorse and emphasise what has already been submitted to the Joint Select Committee . . . to the effect that the British Parliament is under an obligation to avoid any situation which would imperil the existence of the cotton trade. The meeting therefore urges on H.M. Government the paramount importance of inserting in the proposed new Government of India Bill definite safeguards for the British cotton textile trade with India, so that, while in no way interfering with the development of the Indian cotton industry, such safeguards will ensure a reasonable chance of the continuation of the old-established and important trade in British cotton textiles in India.

Both parties to the dispute hailed this result as a victory for their side.

The Lancashire conflict runs deep. Can special interests

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be protected under the new régime in India by constitutional checks and safeguards? Or is their surest defence the grant to India of a constitution that will give the reins to men of moderation and sense, and maintain between India and Great Britain the good-will that a stinting of self-government might well destroy?

II. SOCIALISM, FASCISM AND SEDITION

THE Unemployment Bill* has passed into law, though not all of its provisions are yet operative. When it is brought fully into force, public assistance to the able-bodied unemployed who have fallen off insurance will be administered exclusively under national statute by a national authority, headed by an Unemployment Assistance Board. Sir Henry Betterton, lately Minister of Labour, has been appointed first chairman of the new Board. A man of courage and intelligence, liked by all parties, he was a popular choice; but some Opposition critics have vigorously expressed their doubts whether it is wise to appoint as chief administrator of an Act one who has been himself largely responsible for the terms of the Act and for piloting it through Parliament.

The appointment entailed some ministerial changes—a delicate matter when the balance has to be maintained between the different groups that compose the National Government. Mr. Oliver Stanley succeeded Sir Henry Betterton, and was himself succeeded at the Ministry of Transport by Mr. Hore-Belisha. The latter's position at the Treasury was filled by Mr. Duff Cooper, the Financial Secretary to the War Office; Mr. Hacking, who took over Mr. Duff Cooper's post, was succeeded as Parliamentary Under-Secretary to the Home Office by Captain Crookshank. The general post strengthens the "young Tory"

* See THE ROUND TABLE, No. 93, December 1933, p. 126, and No. 94, March 1934, p. 354.

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element in the Government, especially in view of the fact that Mr. Stanley enters the Cabinet. The more far-reaching reorganisation of the Ministry that was predicted when the Prime Minister's health compelled him to rest for several months has not taken place. In Mr. MacDonald's prolonged absence abroad Mr. Baldwin presides at the Cabinet, and while Mr. Baldwin is himself on his usual continental holiday Sir John Simon acts in his place: Conservatives of the Right have openly grumbled at this preference of the National Liberal Foreign Secretary over the Chancellor of the Exchequer or some other Conservative member of the Cabinet.

Sir Henry Betterton's appointment necessitated his resigning his seat in Parliament. Rushcliffe again returned a Conservative, as it has at every election since the war. The most noteworthy outcome of the election was the decline in the Liberal vote. The total poll was 6,000 lower in the by-election than in 1929; of that 6,000, Labour lost 1,000 and the Liberals over 5,000. Electorally, the Liberal party is in an unhappy position. If it puts up candidates at every by-election, some are bound to do badly, and their failure damages the party's prestige; on the other hand, if the fight is frequently left to Labour and Conservatives, the electorate gains the impression that there are only two parties worth bothering about. At Rushcliffe the Liberal vote does not seem to have been given preponderantly to the Labour candidate, as in certain other by-elections; but small polls make interpretation difficult. At West Ham, Labour regained a seat that they lost in 1931, but their vote dropped by more, compared with 1929, than did the Conservative vote. An extreme Left candidate, representing the Independent Labour party, threatened the Labour cause at the by-election, but he obtained little more than one-thirtieth of the poll. At another by-election of the quarter, at Merthyr Tydfil, rival Left-wingers appeared, an I.L.P. representative and a Communist. Their combined poll would have placed them a

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moderate third to an official Labour candidate and a Liberal (who incidentally did very well); but as rivals each of them lost his deposit. Thus even in the most depressed areas extremism seems to make little appeal. The other by-elections to be recorded (Hemsworth in the West Riding, Monmouth, Twickenham, Weston-super-Mare, and Fermanagh and Tyrone) produced no change in the habitually Conservative representation.

The voting has given evidence of three things. First, there is little political enthusiasm among the electorate. No party, and no issue of the moment, seems violently to attract either their hatred or their devotion. Second, communism makes no noticeable headway in seducing the Labour voter from his party allegiance. Third, the Liberals lack something that is needed to appeal to the masses—leadership, perhaps, or a policy sharply distinct from that of the other two parties. A well-known Liberal, Major H. L. Nathan, M.P. for North East Bethnal Green, has publicly joined Labour. He severed his connection with the Liberal party in the House eighteen months ago, by crossing into Opposition before the decision to do so was taken by the party leaders. In his view,

The Liberal party, whatever its achievements in the past—and they were many and great—as an organised political force is doomed. The electors have shown clearly—and never so plainly as in the last few months—that they want to return to the two-party system.

If that is true (it certainly cannot be accepted as proved) two sources of comfort will be found by those, whether they call themselves Liberals or not, who view with concern the difficulties of this great party. First, the leaven of ex-Liberals will check the tendency shown in certain Labour circles to count personal and parliamentary liberties as little worth beside the need they allege for sweeping reorganisation of finance and industry. Second, the three-party system always threatens the possibility of parliamentary deadlock, to the public discredit of democratic

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institutions. Fugitive alliances of minority blocs presage a triumph of fascism.

In a recent address Sir Herbert Samuel acknowledged that the reason why there was no prospect of the return of a strong Government of the Left was because "the progressive forces—both of leadership and of numbers—are divided; they are divided between Liberals and Labour." The barrier to co-operation, he added, was that Labour had tied its fortunes to the theory of socialism. Attachment to socialism was, indeed, underlined in the Labour party's most recent statement of policy, issued by the National Executive Committee of the party under the title *For Socialism and Peace*. Public ownership and control of the principal industries and services is declared to be an essential step in a fundamental economic reconstruction. Fair compensation should be paid to existing owners, but thereafter they should have no further part in the control or management or policy of the publicly owned concern. Drastic reorganisation—in most cases immediate public ownership—is demanded for banking and credit, transport, electricity, water, iron and steel, coal, gas, agriculture, textiles, shipping, ship-building and engineering. The Governor of the Bank of England should be appointed by the Government and be responsible to a Cabinet Minister. The joint stock banks should be amalgamated into a single banking corporation and run by a small directorate appointed by the Government, which would indicate the general lines of policy. While the manifesto asserts that reform of the procedure of the House of Commons is urgently necessary, it is at pains to assert the democratic and anti-fascist principles of the Labour party, which "seeks to attain its purposes by persuasion, and not by violence, and to maintain that right to full freedom of criticism and association without which human life is deprived of dignity and fullness."

Of the character of fascism in Great Britain an earlier article in this number has written at length. Here we

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may simply note the hot indignation aroused by the events that took place at the Olympia meeting, addressed by Sir Oswald Mosley, on June 7. Among the eye-witnesses who publicly protested against the violence used upon interrupters by black-shirted stewards were several Conservative members of Parliament. In answer to a question in the House of Commons, the Home Secretary pointed out that in accordance with settled policy it is no part of the ordinary duty of the police to deal with interrupters at public meetings held on private premises. They have no legal authority to enter the premises except by leave of the occupier or the promoters of the meeting, or when they have good reason to believe that a breach of the peace is being committed. Nor is it any part of the duty of the police to act as stewards at meetings. At Olympia, the police were not called into the meeting, though on one occasion a party of policemen entered the building on being informed that a man required attention. The Home Secretary pointed out, however, that hitherto police practice had been based on the assumption that in dealing with interrupters stewards would act without undue violence and would themselves avoid illegal acts. If this assumption was found to be unwarranted as regards meetings arranged by any organisation, the whole question of police action inside such meetings would have to be reviewed.

Scenes of disorder on the scale which we have recently witnessed (said Sir John Gilmour) cannot be tolerated, and if they continue it may be necessary to arm the executive authorities with further powers for the purpose of preserving public order.

No definite action has yet been taken in this direction, and perhaps no statutory changes are necessary. The possibility of banning the wearing of political uniforms is also under consideration by the Government. They will doubtless be reluctant to create a new and necessarily vague offence, and will prefer, if it is possible, to rely upon

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the law as it stands and the common sense of British citizens.

Meanwhile, they themselves have been accused by their opponents of fascist intentions in promoting the Incitement to Disaffection Bill, commonly known as the Sedition Bill. From the point of view of the Government, it is a timely and essential measure to check seditious propaganda among the armed forces of the Crown, if necessary by preventive action against those who seek to beguile the men from their allegiance. From the point of view of the Opposition, it is an abuse of official authority, a threat to free speech, an encroachment on the liberties of the subject—liberties that were won, in face of just such legislation, by Wilkes and other heroes of British democracy. It is strange, perhaps, that the Minister in charge of a Bill against which such accusations can plausibly be raised should be Sir Thomas Inskip, the Attorney-General, who pleaded not long ago for the continuance of National Government on the very ground that a reversion to party politics would let in the enemies of democracy, who would carve up our cherished liberties.

It is stranger still that the Labour party, whose socialist policies must necessarily inflate bureaucracy and enhance the power of the executive, should find on this occasion a notable ally in Professor Sir William Holdsworth, the distinguished author of the *History of English Law*. For Sir William has frequently protested against the encroachment of bureaucracy and executive authority upon the judicial and legislative fields, and it is mainly on this ground that he has based his criticism of the Sedition Bill. Yet after all, Sir William and the socialists are no less companionable bedfellows than bookies and anti-gamblers in opposition to government totalisators, or bootleggers and teetotallers in defence of prohibition. His main objections to the Bill were three: that Section 2 (2), which created an offence of doing, or attempting to do, an act preparatory to the commission of an offence under another

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section, was contrary to the spirit of our criminal law, in its loose definition of a crime; that far too wide powers were given to a single Justice of the Peace in the determination of what was a suspicious act justifying search or arrest; and that the Bill revived that notorious threat to individual liberty, the general search warrant. On the last point he quoted with effect the famous judgment of Chief Justice Camden in *Entick versus Carrington* in 1765:—

With respect to the arguments of State necessity (said Lord Camden) or a distinction that has been aimed between State offences and others, the common law does not understand that kind of reasoning, nor do our books take notice of such distinction.

Need we look further for a text against fascism?

The Government have struck out Section 2 (2), have given to two magistrates the authority (previously given to one) to order a search of a suspected person or premises, and have made further concessions on the Bill in Standing Committee. In this, though they have not yet placated Sir William and other critics, they have given evidence of their good faith in the defence of our liberties. Sir Thomas Inskip, in a heated defence, described the Bill as one of those minor measures conceived to be necessary to prevent our liberties from being interfered with. Abuses of power could not be limited by any Act of Parliament. The checking of them must depend on the control of the House of Commons over the executive. The real safeguard, he declared, was not in putting amendments in the Bill, but in retaining freedom of parliamentary discussion. If under the search warrant clause things were seized under conditions which were not proved to be justified, there would be such an explosion of popular indignation that no Government could survive for twenty-four hours. Sir Thomas doubtless exaggerates; for it happens not infrequently that through mistake, excess of zeal, or very occasionally malice, unjustifiable charges are brought against individuals, and the surface of the political waters

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is barely ruffled. But he has made it plain that he and his critics fight on the same side against a common enemy—arbitrary power seeking to destroy the rule of law. Quite recently the law strikingly asserted itself by procuring the acquittal of two well-known communists, Messrs. Pollitt and Mann, who had been arraigned on a charge of making seditious speeches. In brief, judge and jury found the police evidence too good to be true. Mr. Justice Talbot, summing up, declared that there was no law in this country against either the forming or the expression of opinions on any public matter—political, social or economic—so long as it had not been directed to an illegal offence.

III. FOREIGN POLICY AND THE AIR

AMID this restlessness at home, turbulent conditions abroad have kept foreign policy in the centre of public and parliamentary interest. The different parties denounce each other, in this no less bitterly than in other fields ; but that British public opinion is largely united on the essentials of our foreign policy was proved by the general welcome given to Sir John Simon's pronouncement on the Barthou plan for an "Eastern Locarno." After outlining the proposal—a regional pact of mutual guarantee between Russia, Germany, the Baltic States, Poland and Czecho-Slovakia, and a tri-partite guarantee, involving Russia, Germany and France, to reinforce the Locarno treaties—the Foreign Secretary described the conditions that he had attached to British support, in his conversations with M. Barthou. First, "whatever the interest or encouragement which this country may be prepared to offer to this new pact, we are not undertaking any new obligation at all." Second, the guarantees must be genuinely mutual, so that there should be no suspicion of building up one combination against another—Russia and France must give the same guarantees to Germany as, in association with her,

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they gave to each other. Third, the pacts must be subordinate to the general collective system represented by the League of Nations ; and to this end the U.S.S.R. should be brought into the League, where Great Britain was prepared to welcome her warmly. Fourth, the opportunity of the pacts should be used for a fresh attempt to secure international disarmament, on the basis of "the principle of German equality of rights under a régime of security for all nations."

If these conditions were fulfilled, the proposal well deserved the support of the British Government and the British people. Opposition and Government supporters alike applauded ; even Mr. Churchill was found approving the entry of the Soviets into the League, and affirming that it was the interest of Russia to preserve peace. The pronouncement, indeed, turned despair into hope in many a man's contemplation of the European cauldron. But the problem of security and pacification is like a Chinese puzzle ; how often, with those baffling pieces of wood and wire in our fingers, have we imagined that the solution was found, when most of the elements had slipped cunningly into place, only to discover that the whole must be taken apart again because some forgotten piece would in no wise fit ? Perhaps for a like reason M. Barthou's ingenious solution of the European riddle was given a premature acclaim. Afterwards the doubters began to formulate awkward questions.

How will Poland, embarked willy-nilly on the shifting tide of Russo-German relations, view the prospect either of an alliance between them or, in the alternative, of their fighting on her soil the battles to which the new guarantee system might one day compel them ? Will Germany be willing to add to her non-aggression agreement with Poland a positive guarantee of existing frontiers, to be backed by the arms of France, Russia and the Little Entente ? Will she not view the proposed system as a fresh *Einkreisung*, masquerading in the thin disguise of mutuality—as an attempt, that is to say, to bring Russia and the Baltic

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States into the pro-French bloc of the Little Entente and Poland? Will the Baltic States, including Lithuania, accept any more readily than Germany the permanence of their present frontiers? Is this but another instrument for solidifying the whole territorial situation in Europe as it arose from the peace treaties and the subsequent conflicts? What of the countries not invited to participate—Hungary, for instance? Above all, how does the plan bear on the most inflammable issue of all in Europe, that of Austrian independence?

There are, indeed, objections to every human device, and doubtless these hypothetical troubles are more than balanced by the remarkable merits of the Barthou plan. But before the chancelleries of Europe had had time to weigh the various arguments, or public opinion to express itself, events occurred that placed the whole project of an "Eastern Locarno" in the shadow of an immediate threat to peace. The Nazi coup that brought Dr. Dollfuss to his death was indeed defeated—largely, it seems, because the insurrectionaries over-estimated the public support behind them; but as a result the unstable equilibrium of Austrian politics has become even more precarious. Though Herr Hitler made haste with lively gestures to wash his hands of the affair, not all the perfumes of Arabia (or Arya if you will) can out the damned spot that marks the record of his public attitude towards Austria. Another and better opportunity of intervention may come one day. Henceforward, perhaps, he will be deterred a little, from what he has acknowledged in *Mein Kampf* to be his eventual design, by the clear proof that in order to secure Austria he will have to fight Italy—and if Italy then doubtless others too. The embitterment of Italo-German relations was one of the most unhappy results of the assassination of Dr. Dollfuss. Perhaps the best that can be said of the incident is that it has helped to fuse Austrian opinion, has reduced the strength and enthusiasm of the malcontents, and has given to Germany a stern warning.

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Official British policy is simple and unchanged. We support the independence of Austria. We have, indeed, put our name to protocols in which Austria herself promised to maintain it, and we share with Austria in more general instruments guaranteeing the integrity of all subscribing countries. But we uphold the independence of Austria as a matter of high policy as well as of treaty engagement; for her absorption into the Reich would set Italy at Germany's throat, would clasp Czecho-Slovakia in geographical pincers, and would threaten the whole balance on the Danube. The mass of British people, perhaps, know little about the terms of our international undertakings or the strategic dangers of central Europe. But they could, and did, instantly appreciate that interference by a great Power in the internal politics of its smaller neighbour is a base breach of international rights, and that the assassination of Dr. Dollfuss was a miserable crime.

There has been no debate in the House of Commons on foreign affairs since the events of July 25 in Austria, but they were fresh in everybody's mind when five days later the House debated the programme of increased air defences that had just been announced. The programme, which if fully carried out will raise the number of machines in the Royal Air Force from 844 to 1,304, is to be spread over five years, and is in any case contingent on the circumstances of the future, including the progress of the Disarmament Conference. Even the critics of this decision admit that it has not been taken lightly or wantonly; for the air force programme of 1923, which was then intended to be carried out with as little delay as possible, has never been completed, and in the last few years, while other countries have been largely increasing their air forces, we have held our hand in the hope of success at the Disarmament Conference, or in fear of prejudicing its prospects. During the last four years, according to Mr. Baldwin, whereas our increase of air strength has been but 42 machines, France has added between 300 and 400 machines to her force, and

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has appropriated £15,000,000 for re-equipment over and above the annual air estimates ; Italy, though she has increased her strength by no more than 65 machines, has provided £2,750,000 for the "renovation" of her air force ; the United States has not only increased her strength by 240 machines, but has also just approved a programme of 1,184 additional aircraft for the naval air service ; Russia, for whom precise figures are difficult to obtain, "is making considerable increases to an already very large force." As for Germany, she is, of course, forbidden by treaty to possess any military air force ; but she leads the world in civil aviation, and it stands to reason (according to the Lord President of the Council) that when she has the right, or seizes the right, to re-arm, "she has every argument in her favour, from her defenceless position in the air, to try to make herself secure."

Mr. Baldwin was not altogether happy in drawing what he perceived as the moral of these facts. No doubt there echoed in his mind the memory of earlier speeches in which he depicted the horrors of a future war in the air.

The only defence (he said in November 1932) is in offence, which means that you have to kill more women and children more quickly than the enemy if you want to save yourselves.

This is, indeed, no argument for putting ourselves in the position of seeing our own women and children slain without being able to make an equal or more drastic retort ; but it is an argument for putting every ounce of effort into securing an aerial disarmament convention, even at the immediate cost of military or political interests. The Government, said Mr. Baldwin, stand by the British draft convention presented to the Disarmament Conference. That plan envisaged the complete abolition of military and naval aircraft, subject to an effective supervision of civil aviation to prevent its misuse for military purposes (a problem which has not been solved). This ultimate goal not being immediately attainable, we had proposed that before the expiry of the convention every

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national air force should be reduced, the maximum being 500 aeroplanes. Mr. Baldwin claimed that an increase of our air strength, so far from prejudicing the success of the Disarmament Conference, might spur it to more fruitful efforts. The main obstacle to its success at the moment was the insistence of Germany on an immediate measure of re-armament and France's refusal to agree to it.

This gulf (he went on) is not easy to bridge, but it is not likely to be made any wider by our remedying the deficiencies in our national defences. . . . If the other nations find that we are no longer content to remain comparatively disarmed in this respect when they are all armed, and that increasing expenditure on their part may be met in like manner by ourselves, that in itself will be no mean weapon to use in inclining them to discuss more seriously than some of them have yet done the question of aerial disarmament.

The unhappy thing is that this or similar arguments may be used by other countries, not least cogently by those now compulsorily disarmed.

But plainly Mr. Baldwin's want of ease in arguing the Government's case lay not so much in his anxiety for disarmament as in the lack of certainty in his mind upon what fundamental conception of international politics British defensive policy must be based. He laid stress on our collective obligations, and on the need for having adequate forces to carry them out ; if we have not, our strength when sanctions come to be used against the aggressor, and the influence of our guarantees in maintaining the general peace, are alike enfeebled. But the Lord President was not able to say—because it would have been untrue—that we ourselves relied in any direct sense on collective guarantees to ensure our own security ; and there were passages in his speech that suggested he was thinking in terms of a broken-down League and of a European system of alliances, balance and national policies, such as ruled before the war. In a sentence hailed with delight in France as recognising at last the unity of purpose and interest between that country and Great Britain, he declared that

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when we think of the defence of England we no longer think of the chalk cliffs of Dover ; we think of the Rhine. Mr. Churchill was still more outspoken. Germany, he said, is the specific danger. If Germany is secretly re-arming in the air (as many people believe),

then there is cause for the very grave anxiety which exists in all parts of the House, not only because of the physical strength of the German air force, but I am bound to say also because of the character of the present German dictatorship.

The Foreign Secretary's reply was cautious, but he declared, after referring specially to Germany, that the purpose of the Government's proposals was to secure, among other things, that at no moment during their stewardship would this country fail to have a military air force adequate to the circumstances with which we might have to deal. This basing of defensive policy on the definite contingencies that seem to present themselves is doubtless wise in the troubled world that we know. But it may be asked—and the Opposition did not forget the question—what has this to do with the declared aim of parity in the air with any foreign Power. If Germany is the potential enemy, why seek parity with France ? If on the other hand our purpose is to be strong in defence of the collective system, why plan in terms of limited alliances and special objectives ? The fact is that we have not yet thought out our position in the world of to-day. Perhaps our hesitation is all to the general good ; for an uncritical faith in a weak collective system would be as dangerous as a flat decision to go back to isolation or alliances.

It is a deplorable fact that although Mr. Baldwin declared that the air armament proposals formed part of a comprehensive scheme covering imperial defence, not a single contributor to the debate discussed air defence as a co-operative business of the British Commonwealth, or referred to the size, the nature and the purpose of Dominion air forces.

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There was another aspect of the air armament proposals that received but little attention in the debate, and that was the cost to the taxpayer. An estimated total of £20,000,000 is to be spread over five years. This is not very much in itself, but unfortunately it is not the only new expenditure that has been incurred or promised since the budget was so triumphantly balanced. The proposed subsidy to tramp shipping * is to cost a maximum of £2,000,000 for one year, of which, at a guess, one half may be paid out before the end of the current financial year. No less than £3,000,000 is to be paid into the new Cattle Fund for the benefit of British graziers, † all before March 31 next ; by that time, expenditure under the Milk Bill ‡ will have amounted to £1,882,000. Various other supplementary items, excluding the additional air vote that will be needed, bring the total of unbudgeted expenditure to well over £6,000,000. The revenue returns, it is true, have been buoyant, but when the economy motive is apparently so little regarded it is time to take thought for a more distant future than the next few months, and to ask ourselves whether before long another purge like that of 1931 may not become necessary in the national finances.

* See p. 762.

† See p. 754.

‡ See p. 756.

CANADA : CONSERVATISM ON THE BRINK

THE first half of 1934 has witnessed some important developments in Canadian politics, their most significant feature being a serious retrogression in the fortunes of the Conservative party. Moreover, this comes at a time when the party, at least in the federal field, has been displaying, under the leadership of Mr. Bennett, a zeal for progressive legislation and adventurous economic experiments that has not been habitual to it in the past. The Ministry, indeed, achieved during the session that has just ended a notable record of legislative accomplishment of a very useful type. The Bill providing Canada with a central bank, the Natural Products Marketing Act, and the new franchise measure, which creates a permanent register for federal elections, and promises to curtail the length of campaigns, will all effect far-reaching changes in their respective spheres of operation; substantial relief was granted to debt-burdened farmers, an adventure in currency inflation was launched by an amendment to the Dominion Notes Act, the Bank Act underwent its decennial revision, and there were very useful, if humdrum, achievements in the recasting and consolidation of federal legislation on shipping, corporations and insurance. Few sessions since the war have yielded such a large and important list of new legislation.

Yet, while the session was in progress at Ottawa, the Conservative party suffered two grave reverses in provincial politics; following the loss of Nova Scotia and British Columbia in the latter half of 1933, it has now to contemplate ruefully the passing of two other large provinces,

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Ontario and Saskatchewan, into Liberal control. By far the worst blow was the devastating defeat that befell them in Ontario on June 19. For years Ontario has been what would be called in the United States a "rockribbed stronghold" of the Conservative party. It was as long ago as 1904 that a Liberal Ministry last held office at Toronto, and in the intervening years the Conservative supremacy was unbroken, save for a brief interregnum of a Farmer-Labour Government after the war. In the last legislature, elected in October, 1929, the Conservative party held four-fifths of the seats, and it seemed assured of almost indefinite continuance of political control in the province. The Liberal party was weak, badly organised and rent by internal quarrels, and the independent agrarian movement had petered out. But a succession of developments after 1930 wrought a rapid change in the political scene in Ontario. In that year the province felt the full impact of the depression, which brought about a collapse of industry, widespread unemployment, hard times for farmers, increased government expenditures and diminished revenues; and just at this time the Conservative Ministry was deprived of the leadership of Mr. Howard Ferguson, who had been the chief architect of its victory in 1929, through his acceptance of the office of High Commissioner in London.

It soon became plain that his successor, Mr. George Henry, though a trusted colleague, could not bend Ulysses's bow. His Administration was before long in trouble, struggling with a host of baffling economic and social problems. Meanwhile, the Liberals, who had been afflicted with incompetent or unsatisfactory leaders ever since the Hon. N. W. Rowell migrated to federal politics in 1917, had chosen in 1932 a new leader, Mr. Mitchell Hepburn, who at the age of 30 had won a seat in the Federal Parliament at the general election of 1926. Grave misgivings about his youth and inexperience were entertained when he was selected, but he soon proved to be exactly the sort of leader

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that the times demanded for an Opposition faced with an uphill fight. The Conservative press has been fond of hurling such epithets at him as "cocky," "blatant," "irresponsible" and "reckless"; but he was not long in showing himself to be an expert electioneering artist of the Lloyd George brand, with an infinite capacity for witty vituperation, and a real gift for the telling phrase and the gibe that sticks. Retaining his seat at Ottawa, but blithely neglecting his duties there, he campaigned for two years up and down Ontario, and found large audiences to listen to his vitriolic indictment of the Henry Government for a long list of sins. He charged it with incompetent stewardship of the province's affairs, with wasteful extravagance in administration, with crass neglect of the unemployment problem, with favouritism to political friends, and with other misdemeanours; as the depression deepened, he managed to capitalise successfully the widespread popular discontent.

He also found invaluable ammunition in some scandals involving the honour of Ministers. The most serious of these charges concerned a transaction whereby in 1930 the Ontario Government had acquired for the Hydro-Electric Commission of Ontario a large power development on the Abitibi canyon in northern Ontario, owned by a company whose finances were in such a sad plight that the value of its \$100 bonds had fallen to below \$30. The Ontario Government, nevertheless, agreed to place a value of \$90 on these depreciated bonds, and it was a great day for Mr. Hepburn when it was revealed that, at the time of the transaction, Mr. Henry had held personally \$25,000 of these bonds, and was the director of an insurance company owning \$200,000 more. The Premier was charged by his opponents with using his high office to avert financial losses for himself. There was great dismay among the better element in the Conservative party, and influential Conservative papers like the *Ottawa Journal* and the *London Free Press* urged Mr. Henry to resign forthwith;

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but he stubbornly clung to the Premiership, essaying some naïve explanations of his conduct, which merely served to convince the public that, if he was honest, he was extremely stupid.

Faced with a rising flood of popular indignation, and worried to death by Mr. Hepburn's wasplike attacks, the Conservative Government, last spring, played its final card in the shape of a measure liberalising the liquor laws so as to permit the public sale of wine and beer in hotels and clubs under strict government regulation. Mr. Hepburn, however, countered this move by endorsing the proposed legislation, and declaring that he would permit nothing to divert public attention from the misdeeds of the Ministry. The latter, having waited till almost the last available minute before plunging into the chill waters of an election, made the campaign as brief as possible. But from the start it was on the defensive, and Mr. Hepburn was able to keep the unhappy Ministers running round in baffled despair like frightened poultry chased by a fox.

The Liberals also decided that it would be good strategy to introduce federal issues into the provincial contest; they therefore proceeded to lay the blame for industrial unemployment, agricultural depression and other troubles on the fiscal and other policies of the Conservative party, and to argue that the defeat of the Administration in Ontario, by driving another nail into the coffin of Mr. Bennett's Ministry, would be a long step towards the reversal of these policies. Faced with this attack, Mr. Bennett intervened in the election with a radio appeal on the eve of polling, but it failed to rally the thousands of disaffected Conservatives, who either stayed at home or voted Liberal. The Government had also to cope with the attack of the new C.C.F.* party, which nominated candidates in about 30 seats, and, as the event proved, drew votes in the industrial centres from Conservative rather than from Liberal candidates.

* Co-operative Commonwealth Federation.

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All the portents indicated that the Conservatives would be defeated, but nobody was prepared for the tremendous landslide that swept them out of office and gave the Liberals a more commanding majority in the new legislature than their opponents had ever enjoyed after their greatest triumphs. Out of 90 seats in the legislature, Liberal candidates of the official stripe captured 65, and 7 more were filled by members of hyphenated nomenclature, who are pledged to co-operate with the Liberals. Hence although the C.C.F. returned but a solitary member, the Conservatives found their representation reduced to 17, the lowest in the party's history. They find, however, some little comfort in the figures of the popular vote, which were as follows : Liberals, 717,055 ; Conservatives, 593,133 ; C.C.F., 98,489 ; others, 83,030.

Mr. Hepburn, who at once took office, has formed a Cabinet that is counted presentable, but only two of his Ministers have had any administrative experience outside local affairs, and it has yet to be tested in the hard school of office. Although its tendency to enforce the rule of *vae victis* in politics by dismissing office-holders of Conservative leanings displeases the enemies of the "spoils" system, it has already been able by its house-cleaning activities to effect considerable economies in administrative expense. It has also initiated an inquiry by two judges into the Abitibi power deal, and proposes to hold similar inquisitions into other transactions of the late Government. During his campaign Mr. Hepburn pledged himself to abolish the office of Lieutenant-Governor, on the ground that the latter's functions could be adequately performed by the Chief Justice of the province. Since assuming office he has invited Lieutenant-Governor Bruce to resign voluntarily, but it is doubtful if he will carry out his threat to withdraw the annual vote for the maintenance of Government House at Toronto, as there is no popular enthusiasm for such a move.

On the whole the change in the Ontario Government

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was generally welcomed ; for the provincial Conservative party was obviously suffering from most of the maladies that arise from unduly prolonged tenure of office. But for the Liberal party generally the recapture of Ontario after thirty years of futile striving was indeed a "crowning mercy," and Mr. Mackenzie King, Mr. Taschereau and other Liberals proceeded forthwith to predict the impending doom of the Bennett Ministry at Ottawa.

The simultaneous Conservative defeat in Saskatchewan, which polled on the same day, was less surprising ; for this western province is a predominantly agrarian community and its inhabitants have acquired an ingrained animosity to the high tariff policies favoured by the Conservative party. Accordingly, ever since its organisation in 1905, the province had an unbroken succession of Liberal administrations until in 1929 it ejected the Gardiner Ministry and installed a Conservative Premier, Mr. J. T. M. Anderson, in office. Lacking a majority in the legislature, however, he had to rely upon the support of Progressives and Independents, and as the agricultural depression grew worse with the decline in prices, aggravated by a series of droughts, his Ministry led a difficult and embarrassed existence. By-elections also revealed that the voters were ready for a change.

By the beginning of this year the Liberals under Mr. Gardiner, who had meanwhile reorganised their forces, saw only one serious obstacle to their return to power, namely the growing strength of the new Co-operative Commonwealth party. It had secured in the province a very competent and attractive leader in Mr. M. J. Coldwell, a school teacher in Regina who had had a successful career in the municipal politics of that city. Moreover, the very radical programme of the C.C.F. seemed likely to appeal to debt-ridden farmers, who had for several years been hard put to it to make a bare livelihood, and who were in a thoroughly disgruntled mood.

During the election the Liberal leaders adopted a very

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plain strategy for dealing with the Conservatives ; they simply branded them as complaisant accomplices of the Ministry at Ottawa in foisting upon Saskatchewan a high tariff policy. The latter, they asserted, by provoking fiscal reprisals on the part of other countries, had injured numerous foreign markets for grain and thereby depressed its value, and had also raised the costs of production when they ought to be lowered. As in Ontario, the cry was raised that the defeat of Mr. Anderson would bring nearer the end of Mr. Bennett's reign at Ottawa. In his election manifesto Mr. Gardiner said :

The objective of the Liberal party is to find outlets for the surplus of wheat and other farm produce which Saskatchewan sells. The Liberal party will insist upon the immediate removal of obstructions to trade between Canada and other countries desiring to trade with her.

There seems little doubt that the unpopularity of Mr. Bennett's tariff policy played a large part in the wholesale defeat of Conservative candidates.

As polling day approached, the Liberal strategists, realising that their most dangerous antagonist was the C.C.F., concentrated their fire upon its candidates. They denounced them as socialist revolutionaries who were bent upon nationalising everything and transforming independent yeomen into servile tenants of the State. The Liberal campaign lacked nothing in exaggeration, Mr. Coldwell being depicted as a dangerous minion of Moscow and credited with the real name of "Goldberg," a charge wholly fictitious. The C.C.F. candidates, who had been nominated in practically every constituency, stood by the collectivist programme of the party, tempered with reservations about the private ownership of land. During May, when another severe drought had reduced the farmers in large areas of the province to despair and made them indifferent to Liberal vaticinations about the bolshevist designs of the C.C.F., the latter party seemed to be making rapid headway. But when a generous rainfall in the early

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weeks of June improved crop prospects the farmers began to see dangers in the C.C.F. programme.

In consequence, when the ballots were counted, it was found that Saskatchewan had reverted to its old traditions by giving the Liberals an overwhelming majority of 50 out of the 55 seats in the legislature ; the remaining five seats fell to the C.C.F., not a single Conservative being elected. The membership of the new legislature is not, however, a fair reflection of the state of popular opinion ; for although the Liberals polled nearly 146,000 votes they were actually in a minority, the C.C.F. securing 98,000 and the Conservatives 90,000. The advocates of proportional representation are making the most of this situation.

As a result of these two provincial elections, the Conservative party finds itself in control of only two out of the nine provincial administrations, namely, those of the small maritime provinces of New Brunswick and Prince Edward Island. Now provincial political machines can be very useful allies in federal elections, and the Conservative members at Ottawa fully realise under what a handicap they will be in seven provinces when they have to face the voters. They are also depressed at the voters' slashing treatment of Conservative Administrations and policies during the past year ; and they are frankly puzzled why economic recovery, which has been going on steadily for the last nine months and has already brought the index of the physical volume of business back to its highest level since midsummer 1930, has not soothed the present discontents and brought the country to a more tolerant view of the Conservative party and its works.

It is not as though the Bennett Ministry had been unresponsive to the radical temper that has been manifesting itself among the voters. Indeed, the most interesting development of last session at Ottawa was the Government's series of leftward moves, which earned the enthusiastic commendation and the active support of the C.C.F. group. But still the tide of public opinion has con-

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tinued to run strongly against the Conservatives, and for this fact two primary causes are assigned by the political experts. First, the high protectionist policy, which the Conservatives put into force after the election of 1930 and have not substantially relaxed, has antagonised a wide variety of interests. It is unpalatable not only to the farmers but also to other primary producers like the lumbermen, fishermen and miners; it is anathema to all the importing interests; it is unpopular in the seaports; and it is disliked by financial interests like mortgage companies, which are embarrassed by the farmers' inability to pay their debts. The cold truth is that under present conditions there is not available in Canada the necessary political support for a policy of rigid economic nationalism. If all the interests that are adversely affected by it combine forces, as they now seem to be doing, it has no chance of survival.

A second obstacle to Conservative hopes is the curious personality of Mr. R. B. Bennett, the Prime Minister. He is wont to declare that he was "mortised and tenoned" in Conservative principles, but time and again during his career as Premier he has shown a contemptuous disregard for them, and by no stretch of the imagination could he be classified as a normal Conservative. His possession of a great fortune, together with the control of a very prosperous industrial establishment, has enabled him to meet the spokesmen of "big business" on their own ground as an equal, and has made him indifferent to the pressure that they have been able to exercise successfully upon most Canadian Ministries. As the Central Bank Bill, the measure for currency inflation and the Natural Products Marketing Act all prove, his Government has been much less tender to "big business" than was the last Liberal Administration at Ottawa. But unfortunately for himself and his party Mr. Bennett persistently reveals his authoritarian temper in action and speech; he both looks and talks like a pillar of the "big business" world, and the plain folk of Canada

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have apparently made up their minds that he is no friend of theirs, and have turned their thumbs down for him and his party. Nor has Mr. Bennett taken the trouble to acquire a personal following whose loyal devotion would compensate for this marked disability under which he now suffers as a politician. He has been indefatigable in his labours, and has already left his mark as a reformer of outworn institutions on sane progressive lines, but he seems to be lacking in the qualities that gave Macdonald, Laurier, Borden and Mackenzie King, in turn, long tenures of office.

Accordingly, the outlook for the Conservative party in the federal election, which must take place within a year, is decidedly gloomy. It is true that the statutory term of the present Parliament does not expire until July, 1935, but there are obvious difficulties about the Government's clinging to office for another twelve months. Ever since the last two provincial elections the Liberals have been vociferously claiming that Conservative policies have been repudiated by the country, that the Government has no longer a mandate, and that it should test the verdict of the voters without delay. In the closing days of last session Mr. Mackenzie King intimated that as soon as Parliament reassembled he would move a vote of no confidence in the Ministry; he even went so far as to threaten that, if the Government remained in office in defiance of popular disapproval, he would obstruct the passage of supply. The Liberal case for an early dissolution will be greatly strengthened if a miniature general election now fixed for September 24 to fill vacancies in four federal seats, all in Ontario, yields the same sort of disastrous results for the Government as other recent by-elections.

Some people believe that such an outcome would force the Government to go to the country, but there is the difficulty that it will be virtually impossible to put the new registration and franchise system, which received the approval of Parliament last session, into operation by the end of this year. A more convincing forecast is that

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Parliament will be re-summoned in November instead of January and will sit through the winter. During the last session, according to this prediction, the Government would pass a series of measures of industrial reform, based on the recommendations of the Stevens committee on price spreads and wage conditions, now finishing its work with the status of a Royal Commission, and would try to evolve a programme that would recapture the goodwill of the voters. Then it would dissolve Parliament in April or early in May and seek a new mandate, fortified by hopes that by that time the errors of the new Liberal provincial Administrations would have produced a reaction. This course would avert an unpleasant squabble, which has already begun, about Mr. Bennett's mandate to represent Canada at the important gathering of the statesmen of the Commonwealth in London during the celebrations of the semi-jubilee of King George's accession to the Throne.

Canada.

July 26, 1934.

ECONOMIC PROBLEMS IN AUSTRALIA

I. BRITISH AGRICULTURAL POLICY

THE visit of the High Commissioner in London (Mr. Bruce) brought home to the Australian people some disturbing facts and policies. The British Government were determined to stimulate a revival of agriculture in Great Britain. As a means of doing so, their present policy was to regulate the importation of foodstuffs, and it was anticipated that this regulation would be extended to Dominion products, in the shape of a check on expansion or an actual reduction, as soon as the terms of the Ottawa agreements permitted. It was not the function of a High Commissioner to formulate an Australian policy to meet the situation that threatened ; but obviously it called for serious thought by the whole community, and principally of course by the Governments, both Commonwealth and State. A conference of Governments was held at Canberra, followed by a further conference of State Ministers of Agriculture and the Commonwealth Minister of Commerce. Mr. Bruce also addressed representatives of producers and commercial organisations.

As the conferences were secret and the *communiqués* not very communicative, rumour and speculation were encouraged. There were strong reactions against any suggestion of restricting exports, and even a check to expansion was regarded as a disastrous prospect for a country that had planned its development with the aid of heavy expenditure, represented by corresponding overseas

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loan liabilities. The situation affected not only the present primary producers but also the hopes of re-employing those now out of work and of finding work for the natural increase of population, not to speak of any prospect of absorbing immigrants; it involved also public finance, both internal and external. It appeared, too, in the course of discussion that the prospective British policy was not merely a bargaining counter, to be met by the provision of a better Australian market for British manufactures; nor could Great Britain, whether as a creditor or as a trading country, throw the whole burden of her policy of restriction upon foreign countries, in the interest of the Dominions. It was not, of course, overlooked that Australia's capacity to meet her overseas obligations depended upon her overseas markets. Current history readily suggested that when these markets were cut off by the creditor country's policy, new considerations entered in; and the producers' representatives pointed out that the British policy was calculated to encourage extremist policy in Australia.

A statement by the Prime Minister on May 8 cleared up some of the more obscure points, and expressed the Government's present attitude. There were as yet no definite proposals by either the British or the Commonwealth Governments, and the initiative lay with the British Government. Regulation of imports by Great Britain might not mean a reduction of supplies from Australia, but it might impose a check on expansion. Still, the situation was so grave as to require the urgent consideration of Commonwealth and State Governments, as well as of producers themselves, in view of the organisation and co-operation that new marketing conditions might make necessary. The policy to be followed was a search for new markets rather than a curtailment of production.

In the past Australia has concentrated on Empire markets, but it must now seek an expansion of foreign trade. . . . There is an ever increasing disposition for countries to confine their purchases to countries which buy from them, Australia will do the same.

British Agricultural Policy

This was neither petulant nor minatory in the conditions of to-day; for a country is unlikely to find new markets without undertaking to buy in them.

An examination of the principal factors in the situation will show at once the probable effects both on economic conditions and on public opinion in Australia.

The last twenty-five years have witnessed a remarkable expansion of rural development in every Australian State. Every government has been impressed with the desirability of making greater use of the large areas within its boundaries. In every region where there was a chance of developing a more intensive production, schemes for effecting such development have been set on foot. Wide areas of forest have been cleared for dairying or for fruit-growing. Millions of acres previously used for "extensive" grazing have been put under wheat, or mixed wheat and sheep. Costly water supplies have often been necessary to permit these changes in some areas. Railways and roads have been laid down, and the various social organisations necessitated by closer settlement have been brought into being. Other districts have been prepared for irrigation, and large reservoirs with their attendant channel systems are now in operation. The major part of this development has been undertaken on the basal assumption that markets for the increased production would be forthcoming, and Great Britain has been looked upon as the most important of those markets.

The various governments have borrowed freely and have pledged their credit to obtain capital for the development of these undertakings. Since the war, the British Government itself has also taken part in these efforts by endeavouring to stimulate migration by the provision of money for development at low rates of interest. The aggregate sum advanced to settlers to enable them to develop their farms has been of the order of £85 million.

Recent railway construction has not been entirely for development purposes, but the major portion of new mileage

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in recent years has had that end in view. Since 1917, when the Trans-Australian railway was opened, about 5,500 miles have been constructed at an average total capital cost of over £10,000 per mile, and many lines built prior to that date would never have been laid down except for the desire to foster agricultural production; £50 million may therefore be taken with safety as a rough estimate of the extra capital borrowed for Australian railways as a result of more or less planned agricultural development.

The irrigation schemes that have been constructed cover roughly a million acres. The total cost of headworks and reticulation, and of preparing the land for production, is certainly of the order of £50 million. The cost of roads, schools, and other equipment of social and administrative service is also large but is more difficult to estimate.

Accordingly, it is reasonable to suppose that, taking these items together, certainly not less than £150 million of State and Commonwealth indebtedness has been incurred in the expectation of expanding markets for primary products. Apart from debts of this class, there is also the money that has been borrowed by farmers themselves from banks and other lending institutions, from private mortgagees, and from wholesale and retail houses of various kinds. The total of this indebtedness is not accurately known, but it is not likely to be less than another £150 million.

The world agricultural crisis has naturally caused very serious financial embarrassment to Australian governments on account of the difficulties that they have encountered in collecting interest on their advances. These difficulties are one of the main reasons for the predicament in which the treasurers of the several States find themselves. The shock that the depression of agriculture has given to the general economic structure of the country is equally important. On top of all this there appears to have been a radical alteration in British agricultural policy, and when once the new machinery for controlling imports is brought into being it is very unlikely to be readily jettisoned.

British Agricultural Policy

Experience of the course of tariff development in other countries suggests that restrictions are likely to become intensified rather than lightened when once the principle has been accepted. Hence the Commonwealth Government's intention, as already stated, is to look more and more in other directions for our markets. But the following considerations will show how difficult that may well be for certain of Australia's main export commodities.

It is true that Great Britain apparently does not propose to make any change in her attitude towards many products from Australian rural industry, such as wool, hides and skins. In the case of other products, such as beef, the new policy will have an effect but it will be of comparatively slight importance to the finances of the average farmer and of the States, because export beef is produced on large holdings, which do not involve large numbers of farmers, and have neither been the object of much capital expenditure nor been financed directly by the State.

The forms of rural production that have been especially stimulated by the application of borrowed money during the last two decades are butter, mutton and lamb, wheat, dried and fresh fruits. For the production of most of these commodities climatic conditions endow Australia with certain natural advantages. In these cases Australian costs of production are definitely lower than similar costs would be in importing countries, and compare very favourably with costs in other exporting countries. Of such commodities, which are in fact part of Australia's natural contribution to overseas trade, Great Britain takes about two-thirds of Australia's exports. Each requires brief consideration.

Exports of butter and cheese have doubled since 1927. The causes have been numerous; the dairy cow population increased by 16 per cent. because many wheat farmers and some small wool growers, finding prices too low for profit, began to supplement their earnings by increasing the number of cows they kept, and also because new dairy

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farms were coming into production or methods were being intensified. In addition, home consumption declined by about 5 per cent. and the average productivity per cow rose by about 12 per cent. This last result was due partly to the greater use of supplementary rations owing to the cheapness of grain, partly to a succession of favourable seasons, and partly to the steady influence of educational propaganda stimulating better methods.

Of this export of dairy products Great Britain took over 90 per cent. It is therefore a fair inference that the application of a system of regulation of Australian butter imports into Great Britain may cause a very serious situation in the Australian dairying industry. It is useless to talk of finding other markets as if they grew on hedges or in the ground. Other countries that import dairy produce in any quantity are few in number and already fully supplied. The effect of restriction by Great Britain must be a super-saturation of the home market, which, in the absence of new outlets, would lead either to controlled production, with all its attendant difficulties, or to mass bankruptcy of the producers.

The effect of British policy upon British home production is, of course, a matter for British decision. It seems at least possible, however, that the recent gains of Australian butter have been made at the expense not of the British dairy farmer but of the trade in substitutes for butter. If this is so, restriction of imports from Australia would not necessarily bring any correlative advantage to British agriculture.

The present low prices for butter will naturally cause a diminution of the Australian supply, unless the farmer can obtain further support for home prices. The price of butter-fat on the farm is about 8d. per lb. (Australian currency); at this figure supplementary feeding is scarcely economical, and lack of it will diminish the "off season" supply. In addition, many of the "casual" dairymen will probably drop out; and last, but by no means least, past experience

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suggests that seasons less favourable to pasture growth will recur in the near future. All these factors will tend towards readjustment of the system along what used to be regarded as "natural" lines.

The wheat position is somewhat different. Great Britain has taken about one-half to one-third of Australia's exports during recent years, but these seasons have been somewhat abnormal. The Australian pound was further below parity with the United States dollar than it is to-day; consequently Australian wheat found a readier market in the East than could the similar grain grown on the Pacific slopes of North America. Now that American currency has depreciated and a special trade agreement has been made between the United States and China, Australia is no longer able to sell such large quantities in the latter country. It follows that the Australian exporters have again to look for their main markets in European countries, most of which are still in the grip of the policy of self-sufficiency in breadstuffs. Great Britain remains Australia's only large market. The British policy of a guaranteed price for a limited home crop has naturally stimulated further British production to the disadvantage of all who expect to sell wheat in Great Britain.

Another important factor is the special qualities of Australian wheat. The flours produced from most European wheats are lacking in colour and also in the capacity to produce a large loaf. The latter is a rather more essential quality than the former. Australian wheats produce flour of a good white colour, but are not "strong" in the baking sense. Now as a European miller must give first consideration to producing a flour that gives a large loaf, it follows that when he has to buy wheat he naturally turns to the "strong" Canadian wheats first. In these days of limitation of imports, therefore, the Australian product will be at a disadvantage in the selling scramble. The present season, in which the price of Australian wheat in London has been about 15 per cent.

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lower than Canadian, despite the fact that only two-thirds of Australia's quota has been sold, is indicative of the position.

Australian exports of mutton and lamb have increased markedly in recent years with the progress of closer settlement. The United Kingdom takes over 90 per cent. of these exports. If Great Britain intends to press for further restriction of imports, with the idea of fostering the consumption of the home-produced article, there must inevitably be an over-supply on the Australian market, with consequential rapid decline in price. Again it is useless to suggest finding new markets as if they could be produced by a conjurer's wand. The world is not in the habit of eating mutton. Great Britain is the only market of considerable size, and the creation of new markets would at best be a long business.

The final result might be a swing towards wool-producing sheep, but it is not always easy to grow high-grade wool in districts suitable for raising lamb and mutton. Further, there remains the very definite question whether the British farmer can produce mutton and lamb at prices within the purchasing range of the masses of the people; if he cannot, then curtailment of imports may lead to the consumption of less meat rather than of more English meat.

The fresh fruit position is somewhat different. Apples are the chief concern of Australia. Here it must be agreed that there is some evidence that exports require re-organisation. Present prices do little more than pay for packing and freight, and with present systems of distribution it seems difficult to sell Australian apples at a lower retail price than 6d. per lb. in England. At this figure it may well be found that the British market is virtually saturated during parts of the import season. Australian growers are endeavouring to limit exports in certain ways. If the present reports of a large increase in the acreage planted in Great Britain are correct, and if the quantity of fruit cool-stored increases, then the position of the export trade

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from the Commonwealth will be at a further disadvantage, particularly in those seasons when growing conditions have endowed the home-grown fruit with satisfactory keeping quality.

An examination of the position from the point of view of the individual producer in Australia shows that farmers differ widely, both in the scale of their indebtedness and in the character of their operations. Some have inherited holdings more or less free from debt, some have gone into debt in order to enlarge their properties or to start their sons on the land, and many have been busy developing their holdings from the "bush" in the last decade; those of this last group have usually been doing so with loans from government institutions. In general the most recent attempts at settlement have been in districts where the soils are less fertile or the climate less reliable than in the districts of older development. Such districts could never have been developed at all without the aid of modern machinery, which enables large areas of low-yielding land to be used. The effect of a restriction of output on such a system of agriculture is by no means straightforward. If the farmer cannot plant a fairly large area the use of his machinery becomes uneconomical. The possibilities of producing other crops are so limited that they may be regarded as negligible. The land thrown out of cultivation can usually be used only for grazing. This change to grazing is actually happening in some places as a result of the depression. In other instances, where the holdings are too small and the carrying capacity is too low, the farmers are carrying on, living on a pittance or using up their slender resources. Some adjustments, by amalgamation of farms or by reduction of interest charges, are inevitable.

In such circumstances, migration schemes fade away as a practicable policy until both the existing population and migrants alike, in taking up life upon the land, are ready to accept it as a way of living rather than as a road to fortune.

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These are among the consequences that a sudden change in its economic conditions brings upon a new country planned for development and caught midway in its expansion. Self-sufficiency has not yet gone so far as to confine these consequences to the country itself.

II. THE COMMONWEALTH BASIC WAGE

WAGE adjustments have been an important feature of depression policy in Australia. In January 1931, the Commonwealth Arbitration Court made its important declaration in favour of a 10 per cent. reduction in the real basic wage, and varied nearly all awards in conformity with that declaration.* As the quarterly cost-of-living adjustment was in operation, the total fall in the nominal basic wage from the 1926 level was 30 per cent. at its maximum in the first quarter of 1933. This policy of applying a 10 per cent. reduction in real wages was continued until May 1933, when the Court, in reviewing its original declaration, decided to change the index number on which the cost-of-living adjustment was made. The index number used at that time measured changes in the prices of food, groceries and house rent. This omitted clothing and miscellaneous expenditure amounting to about 40 per cent. of the typical family budget. The Court selected an "all-items" index number including this expenditure. The prices of foodstuffs, exposed as they were to the full operation of the fall in Australian export prices, had declined more rapidly than prices of clothing and other protected and sheltered goods that are included in the "all-items" index. Hence wages, adjusted according to changes in the more restricted index number, fell after 1929 more than they would have fallen had they been adjusted by the "all-items" index number. The Court, in May 1933, adopted the latter index number, and grafted it on to the

* See THE ROUND TABLE, No. 83, June 1931, p. 659.

The Commonwealth Basic Wage

old food-and-rent index from the end of 1929. It did not restore the 10 per cent. cut in real wages, because it held that economic conditions were not favourable to such restoration. Nevertheless its decision at that time had the effect of raising the real basic wage by about 6 per cent.

Wage-fixing tribunals in Australia are much too frequently criticised for neglecting the productivity of industry in making their awards.* During the depression the Commonwealth Court has paid special attention to this problem; in fact its decisions in the past four years have been determined mainly by its own estimate of the capacity of industry to pay. In the case of some sheltered industries, its estimates have been based too narrowly on the capacity of the industry immediately concerned, regardless of the effect of higher prices on unsheltered industries. In general, however, it has taken a wider view. No precise measure of capacity to pay is available to the Court. It has to hear evidence on the economic condition of the country—export prices, and the prosperity of export industries, unemployment, profits of industry, estimates of the national income, the condition of public finance, the general economic policy of Commonwealth and State Governments. Armed with the information on these and related problems presented to it in evidence, the Court must arrive at a rough general estimate of the economic position and of the capacity of industry to pay a given wage rate. The Court has repeatedly indicated its desire to maintain as high a wage as circumstances permit. On the last occasion on which it reviewed the basic wage (April 1934) the Court expressed the view that some improvement

* We deal here only with the Commonwealth Court awards. During the depression State Courts in New South Wales and South Australia have made wage adjustments roughly comparable with those made in Commonwealth awards. In Queensland and Western Australia the Courts have consistently refused to follow the lead of the Commonwealth in reducing real wages. The basic wage fixed by these Courts is only 13 per cent. below the 1928 level. Consequently the real basic wage has risen. Wages Boards operate in Victoria and Tasmania and they tend to follow the Commonwealth Court.

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was evident in industry. In a majority decision Chief Judge Dethridge and Judge Drake-Brockman concluded :

The position may be summed up by saying that there is now an increase of confidence among the community resulting in freer expenditure and some increase of investment in industry, but that former prosperity is far from being restored.

Their judgment provided for a higher real basic wage than the depression wage fixed in January 1931, but they arrived at this position by a rather devious route. This was unfortunate because it left the impression that no concession was granted to wage-earners. Going back to the harvester wage of 1907,* and using the original index number of food, groceries and house rent (all houses), these judges found that the average basic wage for the six capital cities would have been 65s. They adopted this as a new starting point, abandoning both the Powers 3s. (see footnote), which had been added since 1922, and the 10 per cent. cut, which had been imposed in 1931 and continued nominally in the award of 1933 (though actually the use of the "all-items" index number restored 6 per cent. of the 10 per cent. cut). Thus, if the real or effective basic wage be taken as 100 in 1929, the 1931 decision reduced it to 90. By the 1933 award it was raised again to 96. The award of 1934 took this standard for Australia as a whole.

For different States there were, however, considerable changes. The Court adopted an "all-items" index for varying the award between States and for future cost-of-living adjustments. For technical reasons concerning the computation of the index numbers, this change had the effect of lowering wages in some States and raising them

* This was a rough empirical estimate by Mr. Justice Higgins of the wage that reputable employers should be paying. He fixed this wage at 42s. per week. It was subsequently accepted as the Commonwealth basic wage and adjusted quarterly according to changes in the cost of living. The Powers 3s. (so styled after the name of the judge who conceded it) was added in 1922 to compensate wage-earners for the lag in adjustment at a time of rising prices, and continued when prices fell, first to make up for past losses, thereafter from sheer inertia.

The Commonwealth Basic Wage

in others. Though the variation was undoubtedly fairer than the old one, it naturally caused a good deal of resentment in States that experienced lower rates under the new procedure.

In a separate judgment Judge Beeby took a slightly more hopeful view of the economic position, which he held to be much better than in May 1933, when the Court last reviewed the basic wage. He stated, however, that

recovery was not sufficient or permanent enough to justify belief that the Commonwealth can get back to pre-depression standards.

Agreeing with his colleagues that the spending power transferred from wage-earners by the original 1931 wage cut was not all spent by employers, he quoted figures to show that the proportion of national income going to wage-earners had fallen during the depression. He doubted whether this change could contribute towards Australian recovery. While stressing the importance of productivity as a basis for wage determination, he thought that more consideration should be given to the effects of depression policy on the distribution of national income.

The Court should, to the fullest extent permitted by changed economic circumstances, restore the reductions in real wages.

He proposed an average basic wage rate of 66s. for the six capital cities and agreed with his colleagues that the "all-items" index number should be used for future adjustments.

All judges decided in favour of adjustments in amounts of not less than 2s. per week. Unless the index number changed sufficiently to cause a variation either way of 2s. no change in the basic rate was to be made. Two days after the Court's decision, the cost-of-living figures for the first quarter of 1934 were published. They showed that on the old methods a rise of 1s. would have been made. The majority judges announced in these circumstances that they would raise their basic figure from 65s. to 66s. Thus by a

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different route they reached the same conclusion as Judge Beeby.

There is one other important, though technical, feature of the judgment. The Commonwealth Arbitration Act gives to awards of the Court the force of law, and the High Court has held: (1) that by virtue of the paramountcy of Commonwealth law an award will override any State statute with which it conflicts; (2) that an award may bind a State with respect to its industrial employees, as for instance in the transport services. This has been a cause of much dissatisfaction to State governments, which have put forward their consequent lack of financial control over State undertakings as a serious factor in the adverse financial position of the States. Recently, indeed, several States challenged, though without success, the jurisdiction of the Arbitration Court. The latest decision of the Arbitration Court, however, now gives to State governments, within certain limits, the freedom they have claimed. The award itself provides that the wage provision shall not operate where, in the case of employees on State transport services, the State Parliament has made the same wage deductions as it has imposed on other employees of the same grade not covered by Commonwealth awards. This is an important abdication of authority on the part of the Arbitration Court, under pressure of the argument that "those engaged in State transport services have no moral claim to escape a reduction or deduction equal in degree to that imposed generally upon other employees of the State in similar grades."

III. SECESSION IN WESTERN AUSTRALIA

SINCE the electors of Western Australia voted on April 8, 1933, by a majority of nearly two to one, in favour of withdrawal from the Australian Commonwealth,*

* See THE ROUND TABLE, No. 91, June 1933, pp. 681-683, and No. 92, September 1933, pp. 905-907.

Secession in Western Australia

further steps towards secession have been taken. In March the Government of Western Australia published *The Case of the People of Western Australia* "in support of their desire to withdraw from the Commonwealth of Australia established under the Commonwealth of Australia Constitution Act (Imperial), and that Western Australia be restored to its former status as a separate self-governing colony in the British Empire" (Government Printer, Perth); and the Western Australian Parliament has since adopted an Address to the King, and applications to the House of Lords and House of Commons. These documents ask that the Imperial Parliament should pass an Act to effectuate the withdrawal of Western Australia from the federation, and its restoration to its former position as a separate self-governing colony (but now with the status of a self-governing Dominion), and that this Act take effect without any legislative step by the Commonwealth of Australia.

Western Australia, a little later than the other States in approving of federation, became by proclamation under the Commonwealth of Australia Constitution Act a party to the union "in one indissoluble federal commonwealth"—a phrase nowhere quoted in the address or the applications or the supporting *Case*—to which the other five States had already agreed. It may seem strange that this case for secession from a union entered into by agreement of all the partners and solemnly declared to be indissoluble should be addressed not to Western Australia's co-partners, the people of the other States, but to the British Government and in a vague way to the people of the United Kingdom. But Western Australians feel that it is useless to appeal to the people of the eastern States, whom they regard as profiting by their grievances and who do not treat secession as a serious political movement. Moreover, secession would in any case demand an Act of the Imperial Parliament, if only to settle legal doubts whether the power of altering the constitution can apply to changes

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in membership of the union. But these considerations do not seem to justify an appeal by one State to the British Government and Parliament without any consultation with the other States. They certainly would not justify the British Parliament in taking any action without regard to the views held in other parts of Australia, and it can scarcely be believed that people in Western Australia seriously expect that to-day *ex parte* applications to London will produce any effect.

Of feeling for national unity, or appreciation of what federation has done for national thought, the *Case* gives small evidence. If it is to be taken as representative, this is one of its gravest features. Not only do the writers stress the sentimental ties with Great Britain, but they go out of their way to point out the qualities that in their view distinguish Western Australians from Australians of the eastern States. Everywhere in Australia there is less enthusiasm for federation than there was a generation ago; but nowhere else, it may be asserted, would its benefits in the spheres of thought and ideas and in the power of joint action for common interests be rated so low.

Why is this? In part, it is due to the distance of Western Australia—2,000 miles from the main centres of eastern Australia, with an uninhabited area between; in part to economic difficulties caused by federation, of which the principal are the hindrance to local secondary industries caused by free trade with the eastern States, and the hindrance to primary industries caused by the tariff; and in part to unwise and unfair legislative and administrative measures of the Commonwealth Parliament and Government.

In the early 'nineties "eastern Australia" was going through an experience of adversity the memory of which still remains with middle-aged and elderly people and which doubtless helped the eastern States in facing the crisis of the last few years. From such a chastening experience Western Australia escaped. When times were at their

Secession in Western Australia

worst in the eastern colonies, a vista of boundless prosperity from the goldfields of Coolgardie and Kalgoorlie opened up before Western Australians. Thus they became accustomed to a standard of prosperity far higher than has been usual in other parts of Australia. This lasted until the war; then, when the yield of gold declined, the settling of vast areas by wheat farmers promised an indefinite continuance of prosperity on a more certain basis. The State Government undertook many schemes of development, not all of them wisely conceived. When the price of wheat fell, and it was apparent that the schemes of settlement would involve vast losses for the Government, Western Australia found herself facing an adversity which her recent experiences had ill qualified her to meet. Probably the degree of adversity is no greater than in the eastern States, but Western Australians do not realise this, and so they have looked about for an explanation outside their own mistakes and outside the crisis that has overtaken the whole world.

The explanation they have found is in their membership of the federation and in its adverse effects on their industries.

The Commonwealth tariff is held up as the principal culprit. Four-fifths (compared with two-thirds for Australia as a whole) of the total production of the State is primary; most of this is wheat, and 90 per cent. of the wheat is exported. A tariff that has benefited the manufacturers of the eastern States and has added to the costs of all production in every State is a particularly heavy burden to a State of predominantly primary production. But the case against the tariff and other federal legislation seems to be much overstated; as, for instance, in a passage in the *Case*, in which it is asserted that the "calamitous condition" of the primary industries is definitely due to federation and federal policy and "cannot be attributed to any material extent to the world trade depression" (and this in face of figures which the *Case* itself gives of a

Economic Problems in Australia

fall in the export value of wheat from an average of 5s. 7½d. in the period 1917-18 to 1929-30 to an average of 2s. 9½d. for the last four seasons). A judgment on the validity of Western Australia's economic case against the Commonwealth may, however, await consideration of the findings of the Commonwealth Grants Commission, whose report has been published too late for notice in this number of THE ROUND TABLE.

The writers of the *Case* complain bitterly of encroachment on the spheres and resources of the States by federal legislation and by the decisions of the High Court. They complain also of the "cavalier attitude" of the Commonwealth to the States in matters of administration. The other States, especially the smaller ones, share these disabilities and grievances. Whatever the outcome of this campaign for secession, there will be many in other parts of Australia who will hope that at least it will bring about a contraction of the powers of the Commonwealth and a restraint in using its powers and applying its laws.

Australia.

June, 1934.

SOUTH AFRICA: POLITICAL MELTING POT

SOUTH African politics are to-day in solution. The two great parties are passing through a process of "fusion," and, as is inevitable when two bodies, neither of them entirely homogeneous in composition, go into the melting pot, there is set up a process of disintegration beside the process of coalescence, new elements are thrown off, and, in the absence of a known chemical formula, the ultimate result is not easily predictable. By the end of this year South Africa will doubtless have a strong central party led by Generals Hertzog and Smuts, but the number, the nature and the strength of the opposing parties and groups that will by then have taken shape cannot as yet be foretold, save with the protection of a peradventure.

But first, at once for completeness of record and for the better appreciation of subsequent events, it is necessary to conclude the account of the Union's 1934 parliamentary session, which was commenced in last quarter's ROUND TABLE. As a whole the record of the session can be viewed by the Government with considerable satisfaction, and to that extent its hands have been strengthened in launching the move towards fusion. Coalition, it feels itself able to say after its first real parliamentary test, has been justified by results. But coalition is in the nature of things merely a temporary expedient. It is a junction, not a terminus. The choice at once arises between going on and going back. And where co-operation has yielded good fruit, it is surely better to go on to consolidate that co-operation than to go back to the futility and stagnation into which South African politics, on the basis of the old outworn party divisions, had fallen.

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The session was satisfactory to the Government in respect both of what was achieved and of the manner of the achievement. The Cabinet itself appeared to have forgotten entirely the heterogeneity of its origin, and its teamwork was both cordial and effective. Similar cordiality characterized the relations of members generally. Even in the discussion of matters, such as those dealt with in the Status Bills, which raised issues going to the root of the sentimental divisions of the past, the prevailing note was one of goodwill. It was significant that speeches coming from quarters, and couched in language, that in the past would have been dangerously provocative, gave rise to nothing more than ridicule, or were allowed to pass with the reflection that it was just "pretty Fanny's way." Moreover, the Government, with great advantage, made extended use of Select Committee procedure. Several Bills of major importance were referred to Select Committees prior to second reading, with the result that members were encouraged to feel that they had been given an effective part in the framing of legislation. In other ways, too, the relative freedom from party strife fostered the conception of Parliament as the supreme council of the nation.

It is also worthy of remark that, as the session advanced, General Smuts, to an ever increasing extent, won tacit recognition as the leader of the House. The Prime Minister was glad to leave the parliamentary field to a very large extent to his former rival, now his effectively co-operating colleague; the House generally accepted with readiness the leadership of one whose domestic prestige has undoubtedly never stood as high as it does to-day. One of the most interesting of the political trends of the last year has been the changed attitude towards General Smuts of his former Nationalist opponents—a change prompted by the appreciation of his willingness to take the second place in a Coalition Cabinet when he had an election victory and the Premiership within his grasp, and stimulated by the

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manner in which, it is admitted, he has subsequently "played the game."

That being the atmosphere of Parliament, the Government's legislative achievement was impressive. The constitutional legislation referred to in the last issue of *THE ROUND TABLE** attracted most attention; it did not, however, prevent the admission to the statute-book of a very considerable economic and social programme, much of which could have been successfully undertaken only by a Coalition Government. The session was of outstanding importance at once in the number of Bills passed and in the range, taken together with the importance, of the subjects dealt with. An important and very timely Mineral Law Amendment Act should be of great value in stimulating the opening up of new avenues for mining development, while a Miners' Phthisis Amendment Act, bearing as it does on the dread disease which is the most painful part of the price paid by South Africa in the exploitation of its wealth of gold, indicated that the interests of the mine-workers had not been overlooked. At the same time, there was secured to the workers generally the advantage of one hundred per cent. increases in the rates of compensation for injury, though the pressure from the trade unions for the creation of a State compensation fund was resisted; and a new attack on the housing problem, which is far more serious than it should be in the towns of South Africa, in view of their youth, was launched by the passing of a Slums Bill. Constructive work of importance was also done for the rehabilitation and the confirmation of the Union's agricultural industry, which, as time goes on, must take over to an increasing extent the burden borne by the gold mines to-day in supporting its economic structure. Important changes of policy were initiated, and given legislative effect, in land settlement and irrigation; two considerable irrigation schemes were launched, one of them the boldest that South Africa has yet undertaken; and a Livestock and Meat

* *THE ROUND TABLE*, No. 95, June 1934, pp. 662 *et seq.*

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Industries Bill was enacted which should be of considerable importance in the building up of a meat industry, so essential for the country's future.

The end of the session was almost immediately followed by the publication of a programme of principles, which had been agreed upon between General Hertzog and General Smuts as a basis upon which their parties might be expected to agree to unite. That programme is now before the country. It has been endorsed in principle by the central authorities of the two parties; during the next six weeks it will be referred for approval to the provincial and Union congresses; the next step will be the dissolution of the two parties, and the rise of a new party out of their ashes.

The document on which the two leaders have agreed is, perhaps, typical of its kind. It is for the most part dull, sententious, and platitudinous, and most of its clauses have attracted neither comment nor criticism. But perhaps all that is an indication of the narrowness of the limits to which the political differences of the two great parties have in recent years really shrunk. As a matter of fact, the controversies that have been elicited by a document purporting to compose those differences are almost entirely confined to two paragraphs in the section dealing with the constitutional position. These are, perhaps, of sufficient importance to necessitate quotation in full:

Section 2(c).—The maintenance is affirmed of the existing relationship between the Union and the British Commonwealth of Nations and co-operation with its members, subject, however, to there being no derogation from the status of the Union, and no assumption of external obligations in conflict with its interests.

Section 2(d).—While the party stands for the maintenance of the present constitutional position, no one will be denied the right to express his individual opinion about or advocate his honest convictions in connection with any change in our form of government.

The paragraphs quoted bear very clearly upon themselves the marks of compromise, of give and take. In the first of them, the South African party has done the taking.

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Even allowing for the proviso, the affirmation of the British connection and of Commonwealth co-operation is clear and satisfying. It is an interesting fact that it is at once more definite and more comprehensive than any similar affirmation ever made in a programme of principles issued by the South African party. There has always been a certain hesitancy in this connection in that party's written professions of faith, inspired doubtless by the desire to meet the Nationalist criticism that it was disposed to put Empire before country. It is interesting that these same Nationalists who launched that criticism in the past should be disposed to-day to enter a party that is to make an affirmation in the terms quoted.

To some extent, of course, that is accounted for by the concession to Nationalist sentiment in Section 2(d) represents. That section has come to be known as the "republican propaganda clause." True, it does not equal freedom for the advocacy of individual opinion in respect of any form of constitutional change, whether it be towards fascism or communism, towards closer imperial union or republicanism—in form indeed it may be described as no more than an affirmation of one of the essential liberties of the individual citizen—yet everyone knows that its purpose is to build a bridge into the new party for those good republicans of the past, who, for all their contentment with the present position of South Africa in relation to the British Commonwealth, are unwilling publicly to abjure the cause for which they once fought.

It is significant that, in addition to the affirmation of the British connection in Section 2(c), it has been thought fitting to preface the concession of the right to freedom of individual opinion expressed in Section 2(d) by a governing clause emphasizing that the party as a party stands for the maintenance of the present constitutional position. This perhaps implies a confusion of thought, in that it is difficult in theory, and may be more difficult still in practice, to draw a line between the individual *qua* party-member

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and the individual *qua* citizen advocating a constitutional change that the party is pledged to oppose. Yet in these matters it is the spirit that matters—the letter killeth, the spirit giveth life—and the essential thing is that for the majority of Nationalists to-day, and indeed for the great majority of those of them who are also ex-republicans, republicanism is a dead issue, commanding no more than a sentimental allegiance; and that being so, willingness to respect that sentiment is probably the best means of avoiding the revival of the issue. It is perhaps not an incorrect method of describing Section 2(d) to say that it puts republicanism into its proper place in South African politics, by regarding it as an academic question on which it is possible for men to agree cheerfully to differ without any impairment of essential co-operation.

This indeed would appear to be the prevailing view taken in the Union about this “republican propaganda clause.” The great mass of the South African party, English-speaking and Afrikaans-speaking, refuses to be alarmed by it, and its Head Committee endorsed the programme of principles with but one dissentient vote. The majority of the Nationalists, for all their republican and secessionist aspirations of the past, are willing to accept Sections 2(c) and 2(d) taken together as a fair compromise. A considerable section of that party, however, led by Dr. Malan, is standing out against the fusion basis, one of the main reasons given being just this, that Section 2(d) reduces republicanism to the status of an academic question, beyond the range of practical politics. At the meeting of the Federal Council of the Nationalist party this section constituted a substantial minority representing just over one-third of the votes. There is doubtless some significance in the fact that the Nationalist minority comes mainly from the Cape, where republicanism never has been at home. While those who fought to the last ditch for the republics in the Anglo-Boer War are to-day for the most part prepared to follow General Hertzog, the present

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champions of republicanism are to be found mainly among those who stood outside that conflict, or have grown up since it terminated, and to whom it would appear to appeal primarily as a party political cry, useful for the furtherance of other issues and the prosecution of other aims.

It seems clear, then, that Dr. Malan and his followers are to stand outside the new party and go into opposition, so that, despite the temporary reconciliation between the Prime Minister and Dr. Malan referred to last quarter,* the position in the main is as it was described in the March issue of *THE ROUND TABLE*.† In one respect, however, there has been an important change. At the beginning of the year it seemed possible that General Smuts would carry virtually his whole party with him into fusion. Since then, however, there has taken place the Hertzog-Malan reconciliation, which stimulated among many South African party members and supporters a certain suspicion of the Prime Minister's *bona fides*, and in the atmosphere thus created there were launched the Status Bills with their attack, real or imagined, on distinctively British sentiments. In the light of these events the fact that General Smuts secured the almost unanimous support of his Head Committee for fusion was a remarkable tribute to his leadership; it seems certain that his leadership will also receive overwhelming endorsement at his party congresses.

Even so, a considerable amount of disaffection remains among the rank and file of his supporters, more especially in those parts of the country, notably Natal and the border districts of the Cape Province, which are served by newspapers that have set themselves to stimulate it. It is in those areas too that there chiefly flourishes an organisation called the “New Guard,” for the protection of “British interests,” which differs from movements of the shirt variety only in the fact that it has not yet actually selected

* *THE ROUND TABLE*, No. 95, June 1934, pp. 663-4.

† *THE ROUND TABLE*, No. 94, March 1934, pp. 426 *et seq.*

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a particular colour of shirt for itself. It would undoubtedly be possible to secure, as one of the by-products of fusion, the establishment of a British party which would draw its inspiration from the opposition to the Status Bills and the "republican propaganda clause." The only possible leader of such a party would be Colonel Stallard, who led the attack in Parliament on the Status Bills. Colonel Stallard is, however, at heart too good a Britisher really to be a racist; he could not be happy in leading a purely racial party such as this would be. Moreover, he has the defects of his qualities, and is not of the type that can keep a following united for any length of time. It is by no means clear that he is willing to launch such a movement. If he does, he will attract only a section of the old Unionist party, and it is difficult to foresee such a movement assuming more than passing importance in South African politics.

There are then in prospect, as by-products of fusion, probably two parties who will oppose the new "fused" party from opposite angles, and will thus to a large extent neutralise each other. There are, however, other elements, mainly in the existing Nationalist party, that are likely also to be dislodged. It is inevitable that, with a strong Government in power, disaffection should spread among those elements in the economically discontented sections of the community, the importance of whose votes, at a time when parties were equally divided, enabled them to extort concessions that are no longer so easily obtainable.

There is first of all the Afrikaans-speaking working man, whose race-consciousness has hitherto prevailed over his class-consciousness, and who has voted Nationalist in preference to allying himself with a Labour party which, in origin and in conception, was British. He will almost certainly drift away from the new united party. It is, however, by no means clear where he will drift. Labour has been trying, recently with some measure of encouragement, to give itself an Afrikaans orientation. Dr. Malan is quite clearly out to woo this element.

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Then too there is the, as always, politically incalculable Mr. Tielman Roos, who recently, in a fit of pique against Generals Hertzog and Smuts, went back on his promise to support the united party, and anticipated the publication of its programme of principles by launching a new party of his own, known as the Central party. Mr. Roos's opportunism makes him always a factor to be reckoned with. So far, however, his venture has not been an outstanding success. What success he has achieved has been mainly among another disaffected element in the community, the maize-farmers, whom the Government had offended by refusing to agree to institute a system of compulsory co-operation for the forcing up of maize prices—at the expense, of course, of the consumer. It would seem, however, that this is a passing phase, and that Mr. Roos will be driven to find another foundation, if he is to establish for himself a position of importance on the political stage. That foundation he may well find in the "have-nots" of the rural areas, the landless and tenant classes, who make up what are generally termed the "poor whites."

So then it would seem that South Africa is threatened with a spate of small parties alongside its big new united party, no one of them strong enough to hold out the hope of becoming an alternative Government for some time to come. No doubt there will be many moves on the political chessboard. It is probable that Mr. Roos will come to a working agreement with Labour, possible that he will be driven to co-operate with his old antagonist in the Nationalist party, Dr. Malan. One fact, however, would appear to be as certain as political prophecy can be—that South Africa may look forward to having a strong Government for several years, or at least for as long as Generals Hertzog and Smuts, both or either, remain on the political stage.

South Africa,
July, 1934.

NEW ZEALAND: THE DAIRY FARMER AND THE QUOTA

I. THE GOVERNMENT AND THE DAIRY BOARD

AFTER months of desultory argument between the Government and the leaders of the dairy industry, the former has decided to assume sole responsibility for the negotiations with the British Government on the vexed question of the exports of dairy produce to Great Britain.

The Dairy Export Control Board was set up by Parliament in 1923—as an outcome of the short depression of the early 'twenties—to have full control of the marketing and export of dairy produce. On the whole, it has functioned satisfactorily; that is to say, while times were good and the British market was able to absorb all of our exportable surplus. Its only noteworthy reversal of policy occurred in 1926-7, when for a few months it attempted to fix the selling price of butter on the English market, and then reverted to partial control. On the other hand, it has achieved distinctly favourable results in the elimination of waste and overlapping in marketing. The Board consists of twelve members, of whom two only are appointed to represent the Government. It cannot, therefore, be said that the State has any undue influence in its deliberations and policy.

When it was suggested by the New Zealand delegates at the Ottawa Conference that imports of foreign produce into Great Britain should be restricted, the New Zealand Dairy Control Board was not prepared for the corollary,

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the quota on imports from New Zealand, and when that was mooted some months later the Board was not at all inclined to acquiesce. The Board had been strongly represented by Mr. W. Goodfellow in the entourage of the New Zealand delegation at Ottawa. Quotas on dairy produce were not referred to in the agreements, and none of the delegation seems to have been prepared for the raising of this question as Great Britain's new agricultural policy developed.

Faced with a steady expansion of the output in New Zealand, and having discovered no new market in which to dispose of the surplus, the Board has been unable to make any suggestion to its constituents regarding the course they should take to market this butter. In the midst of a depression affecting the whole world, it can hardly be criticised for its failure to find new markets; and the flooding of the existing market in Great Britain by stocks suddenly shut out of European countries, and by additional supplies forwarded under subsidies, both from European butter producing countries and from Australia, was a development it could hardly have foreseen and provided against. The official estimate of our total butter production for the current season is 168,500 tons, an increase of 9·5 per cent. over the season 1932-3, and 22·6 per cent. over 1931-2. The home consumption is less than one-fifth of the output.

The average price received for butter-fat by the New Zealand factories last season was 8·93d. per pound, as compared with 11·03d. per pound in the preceding season. For the current season, it is estimated at probably 8·00d. The difficulty facing many New Zealand farmers, in view of the great drop in the prices of their produce, lies in the fact that they bought their land when the average price per pound was more like the 28·10d. that ruled in the season of 1920-1, or the 18·48d. that ruled in 1928-9. Later on, the low prices that have been ruling may be expected to restrict production, but of that there is no sign yet.

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When Great Britain began to talk of quota regulation, the producers here turned naturally to see if there was any way of bargaining for free admission—anything that New Zealand could offer in return for a continued open market in Great Britain. Organisations were promoted to foster the idea that a general reduction of New Zealand tariffs in favour of Great Britain might lead the British Government to waive altogether the proposed quota restrictions on New Zealand produce. Much propaganda was put before the country, and the Tariff Commission, which was considering a revision of customs duties, was bombarded with carefully studied representations in favour of an all-round reduction of duties on British imports. The possibility of bargaining for an open market was so strongly canvassed that in October the New Zealand Government cabled the following enquiry to the Secretary of State for the Dominions :

There is a widespread belief on the part of producers in New Zealand that if we undertook a drastic reduction or removal of New Zealand's protective tariff on United Kingdom goods, His Majesty's Government in the United Kingdom would guarantee continuance of unrestricted entry of New Zealand primary products. His Majesty's Government in New Zealand would be grateful if His Majesty's Government in the United Kingdom would indicate their attitude towards this suggestion.

Mr. Thomas's reply was to the effect that the suggestion would involve a modification of British policy, and could hardly be considered with reference to New Zealand alone ; "nor, we think, could an examination of such a question take place on the basis of a suggestion put forward by particular trade interests."

It became clear early in March that the Government must sooner or later take a hand in the discussion. The Minister of Finance (Rt. Hon. J. G. Coates), in a pamphlet published in 1933, had suggested to the dairy industry that it should resign itself to the quota idea, and lay its plans for the future accordingly. The advice was not

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at all palatable. Weeks passed with the Board still at sixes and sevens, the plight of heavily mortgaged dairy farmers not a whit more hopeful, and the Government sensing more and more clearly its responsibility for taking a hand in the negotiations. On March 13 the Government summoned representatives of the Dairy Board and of other interests concerned to a private conference, and asked them for concrete suggestions. The conference proposed that a subsidy should be given on butter-fat, and that a Royal Commission should be set up to inquire into the whole position.* The Government demurred to the subsidy proposal on the grounds that there was no money available for the purpose, that the industry was already over-producing, and that a subsidy on butter-fat would be resented in Great Britain. Thereupon Mr. Goodfellow, the *deus ex machina* of the dairy industry, came out as a critic of the Government's policy or lack of policy. Without excusing the Dairy Control Board, he accused the Government of "having shown an almost callous disregard for our only worth-while customer." At the same time he put forward, on his own initiative, a series of proposals for the future, including reduction of tariffs in favour of British goods ; reduction of the high exchange rate (with a countervailing subsidy to soften the fall for the primary producers) ; the reorganisation of the Dairy Control Board ; the "patting" of butter for the British market ; and the opening up of new markets in the Far East.

Early in April another conference was held in Wellington between the Dairy Control Board and the leading members of the Government. What occurred at it was not disclosed at the time, and was a matter of surmise for a week or two. According to the *New Zealand Herald* (April 18) the Prime Minister (Rt. Hon. G. W. Forbes) and the Minister of Finance pressed hard for the acceptance of the quota by the New Zealand dairy industry. The Board had previously been solidly against the quota, preferring to fight

* See THE ROUND TABLE, No. 95, June, 1934, p. 679.

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out the issue on a free market on the basis of quality and price. Accordingly it stubbornly resisted, but eventually by a majority of one vote it resolved that :

If the Government can see no other way of raising prices the Board reluctantly agrees to a quantitative restriction.

One of the most stalwart opponents of the quota on the Board (Mr. Dynes Fulton) was at the moment in London. But for his absence, the favourable vote would probably never have been reached. Though the Board was still evenly divided on the question it seems to have been taken for granted that the decision thus recorded gave the Government a mandate to proceed, and that the next step would be the setting up of a small supreme council to take control of the negotiations.

Meanwhile the publication of the cablegrams between the Government and the Dominions Office gave rise to a controversy about the supposed "offer" of tariff reduction by New Zealand. The party use that had been made of this supposed offer in the British press was to some extent echoed in New Zealand, and was allowed to obscure the real question at issue. The press, however, almost unanimously agreed that no offer had been made. Obviously while the matter was being hotly contested before a Royal Commission, and while the whole strength of the secondary industries was being exerted against any reduction in the tariff, the Government could not afford to make such an offer. Mr. Forbes explained that he had sent the cablegram, stating a purely hypothetical case, for the sole purpose of obtaining an authoritative contradiction of the assertion frequently made that the offer by New Zealand of a free market for British manufactures would be answered by unrestricted entry for our products into Great Britain. What really emerged from the exchange of telegrams was a broad hint from the British Government that the question was one for discussion between Governments and not for sectional bargaining. Nobody can well

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cavil at the interpretation given by the *Evening Post* (April 2) :

It is for the Dominion people, as represented by the Government, to say if they will trade secondary industries' protection for immunity from the quota for dairy producers. The farmers cannot say that, for they would be selling something which they do not own. Until the Government is prepared to say whether it will sanction such a bargain it is wholly idle for the British Government to consider it.

Up to this point the Government seems to have confined itself to attempting to induce the Dairy Control Board to take the responsibility for formulating practical proposals which might justify a suggestion of the conference that a joint delegation should go to London.

On April 12, when the Dairy Board again met the Cabinet, the position had changed somewhat, since, to quote Mr. Forbes, "the British Government had indicated that it had made other arrangements apart from the quota. The cables received stated definitely that the British Government was not troubled about the quota. Because of this announcement the quota question need not be considered."* The Cabinet considered the position during the next few days, and on April 19 Mr. Forbes made an official statement in which he said :—

The New Zealand Government have decided to assume full responsibility for the problem and all necessary steps will be taken in accordance with this decision. In the face of the crisis it is not possible to act effectively with divided and uncertain control.

Continuing, Mr. Forbes said it had become apparent that the refusal of the dairy industry to negotiate along the lines of regulation of supplies had given rise to a straining of the hitherto friendly relations between New Zealand and a large section of the British public, and to a definite loss of goodwill toward New Zealand and its export produce.

* Press Association, April 15.

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Mr. Forbes announced at the same time the Government's intention to set up a Royal Commission to ascertain the position and the needs of the industry. Though New Zealand has had a surfeit of Royal Commissions, this announcement was received with remarkable unanimity of approval. It was quite clear that the Dairy Board saw no way out of the impasse at an important crisis for the industry. Moreover, the country as a whole is interested out of all proportion to the two government members on a board of twelve.

This change in the situation was hailed with relief by the country at large, and not least by those engaged in the dairy industry. Discussing the position in a district of small farms (Papakura) on April 30, Mr. Coates said :—

On all occasions when Great Britain makes a special request New Zealand should take it seriously and discuss it. This has not been done. The Dairy Board has been divided in its opinions. A fifty-fifty division of opinion would lead to ruin. To-day we are facing a crisis and there is no alternative but for the Government to make a decision. It is essential to have the co-operation of the industry. First of all the matter requires leadership.

Mr. Coates warned his audience against bringing about a breach between British and New Zealand agriculturists. The quotas were there and they could not fight them. By far the best plan for New Zealand was to endeavour to work with Great Britain on quota regulation.

On the other hand it is fair to quote the one member of the Dairy Control Board (Mr. W. Grounds) who has made a public defence of that body :—

For more than a year we have been urging that a national crisis was upon us ; that any restriction of imports to Great Britain cut right across the whole fabric of our economic life and would necessitate a complete review of New Zealand's settled national policy of the last fifty years. Simultaneously we have urged that it would seriously imperil our national solvency, and consequently should only be contemplated as a last resource.*

* *Dominion*, April 23.

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The New Zealand Government forthwith apprised the British Government that "it would be the channel through which future negotiations would be conducted," and invited suggestions from Great Britain as to the course of proceedings. Meanwhile no sooner was a Royal Commission mooted than from all over the country vigorous representations were made on behalf of embarrassed dairy farmers that the question of farm mortgages should be fully enquired into at the same time. Subsidies and bounties having been whispered and frowned upon by a public now coldly hostile to further concessions, and the British market being no longer capable of absorbing unlimited supplies, it was clearly necessary to turn elsewhere to find relief from an overhead burden that was accepted more or less gaily when prices of produce were good and "values" high.

The order of reference of the Royal Commission to investigate the dairying industry (gazetted on May 3) empowers the Commission to enquire into the condition of the industry in New Zealand and "all such matters incidental or relevant thereto as it may think proper," to promote the interests of persons engaged in the industry and the general economic welfare of New Zealand. Specifically the Commission is to enquire into :—

- (1) The relationship between production in New Zealand and demand in New Zealand or in existing overseas markets ;
- (2) The extension of markets or the establishment of new ones ;
- (3) "The desirability or otherwise of varying the proportions existing between the different classes of manufactured dairy produce produced for local or overseas markets" ;
- (4) The utilisation of raw dairy products for purposes other than the manufacture of butter and cheese ;
- (5) The desirability of reducing the output of dairy produce by diverting to other purposes lands now used or intended to be used for dairy farming ;
- (6) Improvements in methods of production and manufacture ;
- (7) "The sufficiency or otherwise of the monetary returns for the use of capital or labour received by persons directly or indirectly engaged in the industry" ;

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(8) The reduction of charges, in the interest of all concerned in the industry ;

(9) The desirability or otherwise of affording further assistance for the maintenance and reasonable development of the industry, and the means by which any such assistance can best be afforded ;

(10) The best method of securing " proper co-operation between persons engaged in New Zealand " in the industry " and persons similarly engaged elsewhere " ;

(11) The promotion of increased consumption in New Zealand or elsewhere of raw or manufactured dairy produce ;

(12) The adequacy of the Dairy Industry Act, 1908, and the Dairy Produce Export Control Act, 1903.

II. A COMMONWEALTH PROBLEM

MEANWHILE the question of trade with Great Britain was given an interesting turn by the arrival in New Zealand (*en route* for England) of the Rt. Hon. S. M. Bruce, High Commissioner for Australia. He was met at Auckland on May 4 by the Prime Minister, the Minister of Finance, and the Minister of Trade and Customs (Hon. R. Masters), and spent most of the few hours at his disposal in conference with them. In a speech Mr. Bruce said :—

Co-operation with Great Britain is the logical solution of our difficulties. We need not fear the consequences. In some quarters in Australia, I know, there is an impression that Great Britain is out to squeeze the primary producers of the Dominions. That is a fallacy. It must be remembered that the expansion of British agriculture cannot go beyond certain well-defined limits. The country cannot be turned into one large intensely cultivated farm. We must approach the problem on the basis that the British farmer will first be assured of his interest in the home market, and then the Dominions will receive preferential treatment over foreign countries.

After Mr. Bruce's departure an official statement was issued in which it was remarked :—

Mr. Bruce gave the New Zealand Minister a first-hand account of recent developments. . . . It bore out and amplified the conclusions

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they themselves had formed as a result of personal discussion and contacts with the British Government. . . . The onrush into the markets of the United Kingdom of the world's surplus products has led her to adopt new and experimental courses which were a direct concern to and called for some co-operation by Empire supplying countries. . . . It was agreed by all the Ministers that any policy that looked to an improvement of market conditions must be based on full co-operation between overseas producers and farmers in the United Kingdom. The removing of any misunderstanding of their common interests was regarded as the most important part of the task ahead.

The High Commissioners for Australia and New Zealand will jointly place the facts before the British Government and carry on the discussion there, in close touch with the Dominion Governments.

So far so good. The unanimity with which the dairy farmers approved the Royal Commission is an indication, at any rate, of more practical views on the economic depression. Until quite recently landowners have cherished the hope that the markets would recover their old level. That the dairy farmers as a whole have definitely abandoned that hope is evident from the shower of representations that fell upon the Prime Minister urging that the Royal Commission should investigate the farm mortgage problem in all its ramifications. Mr. Forbes explicitly assured a deputation of four hundred dairy farmers at Eltham that the matter was fully provided for ; but he warned the farmers that there were other mortgages besides those on farms, and that it might not be possible to deal with them separately—a very timely warning.

The most interesting feature of this whole discussion is the frank, though tardy, recognition on the part of the producers of New Zealand that the British farmer has the first claim on the home market in Great Britain. Mr. Coates, speaking at Papakura on April 30, warned New Zealanders that economic conditions were changing in Great Britain, and that a phase of trading by agreements simply had to be gone through. As for himself, he admitted

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that he was in favour of planning : " I have been accused of planning. I definitely am a planner. For the life of me I cannot see how in the present economic conditions we will get anywhere unless we have a plan."

The economic discussion has received more than one very thoughtful and useful contribution from His Excellency the Governor-General. Lord Bledisloe has not hesitated to step nearer to debatable ground than is usual in one holding his high office. His undoubted authority on agricultural matters in Great Britain, and the keen and sympathetic interest that he has taken in every phase of New Zealand agriculture, have been sufficient to excuse any suggestion of political activity and to give his opinions a cordial welcome. Besides frequent utterances on scientific research in agriculture, His Excellency at Christchurch last year sounded a wholesome warning against the revival of land speculation. He has also taken New Zealand stockbreeders to task on several occasions for their refusal, from a traditional fear of foot-and-mouth disease, to have the quarantine regulations relaxed so as to facilitate the importation of much-needed pedigree cattle to improve our herds. In a speech at Auckland on May 31 His Excellency threw out an interesting suggestion of an Empire *Zollverein*. He said :—

Agrarian protection has not always, or indeed mainly, been designed to promote local production, but rather to improve national balances of trade or of international payments, and to maintain the peasant population as a bulwark against communism and a reservoir of man-power in the event of war. The rise in commodity prices inevitably raises the internal costs of industrial production or lowers the standards of living by dint of reduced consumption. Thus, while the low price of butter in Great Britain has increased its per capita consumption by 40 per cent. over the 1927 level, there has been a corresponding decrease of consumption over the greater part of industrial Europe. The effect upon health and physical efficiency of inadequate supplies of essential human foods is a problem deserving close scientific investigation and indeed monetary calculation, especially in those countries where there is an expensive public system of health insurance and hospital service,

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the scope of which may be greatly amplified by malnutrition, or of education, the efficacy of which may be marred by the same cause.

His Excellency stressed the danger of a policy of national self-sufficiency, which was unattainable in New Zealand and Great Britain. An important factor which would strengthen the trend towards the adoption of some group system was the necessity for all civilised nations to maintain a due standard of living by providing adequate remuneration for efficient work, together with such social amenities and cultural agencies as civilisation insistently and justifiably demands.

As long as the products of low paid labour in any part of the world (and many of its products are of indisputably high quality) are brought into unrestricted competition with those of workpeople of our own and kindred races, so long will our standard of living and social progress be threatened. An economic *Zollverein* of the group description will without doubt come to be favoured by many statesmen and social reformers, as calculated to arrest this downward trend of the standard of life at least within their own environment.

III. THE YEAR'S ACCOUNTS

IN a statement at Auckland Mr. Coates said that the budget deficit had been reduced to about one-third of what had been anticipated when the budget was brought down.

The deficiency has been defined as approximately £709,000, a result which must be regarded as very satisfactory, and as a further indication that the economic position of the Dominion is improving. The shortage contemplated in the budget was £2,094,000, but arising out of the facts that the revenue exceeded expectations to the extent of £1,200,000, and that sustained economy in all avenues of expenditure had resulted in savings totalling approximately £250,000, the deficiency has been reduced to £709,000.

Taxation brought in £17,059,829, interest £2,863,856, and other receipts £3,569,063, making a total of

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£23,492,748. The improvement in interest receipts was almost entirely due to the increased net railway revenue.*

Full details of the accounts for the year ended March 31 show the following changes in the receipts between the last two years :—

	1932-3	1933-4
	£	£
Customs	6,131,414	6,485,013
Income Tax	3,556,774	2,961,243
Stamp and Death Duties ..	2,999,278	2,712,855
Sales Tax	38,253	1,847,333
Highways	1,680,604	1,703,527
Railways	850,544	1,085,000
Beer Duty	654,227	655,464
Land Tax	498,916	498,977
Public Debt Redemption ..	620,088	629,496
Post and Telegraph	546,000	553,000
Post and Telegraph (profits) ..	456,000	154,387
From Reserves	2,500,000	2,000,000

The debt services called for £13,446,400, of which £11,657,915 was interest, and £1,392,261 repayments of debt. There is £100,000 as our contribution to the Singapore naval base. The unemployment levy amounted to £428,549 (as against £429,003 in the previous year). The emergency unemployment charge of 1s. in the pound, which is the main source of the Unemployment Board's revenue, yielded £3,998,317.

A pleasing feature of the present position, which does not show directly in the finance accounts, is the increased revenue accruing to the country from the sale of the season's wool clip. The gross return from this source to the end of April was £10,241,041, which is the best result since 1928-9, and is almost equal to the aggregate returns from wool for the previous three seasons together. That the wool market has returned to its old healthy condition is apparent from the fact that out of 676,550 bales offered during the season 633,553 were sold.

Both imports and exports show a healthy expansion. The recorded values for the past five years (to the

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end of the production year, June 30, in each case) are as follows :—

	Exports	Imports
	£	£
1929-30	39,325,637	42,025,086
1930-31	30,062,610	30,035,253
1931-32	29,825,188	19,507,625
1932-33*	31,620,832	18,877,581
1933-34* (ten months)	41,136,000	22,631,000

* Values for these years expressed in New Zealand currency.

The financial operations of local bodies in New Zealand have caused considerable uneasiness since the depression drew attention to these matters. In 1921 the gross debt of all local authorities was £32,000,000. Thereafter it grew steadily at the rate of about £5,000,000 a year until in 1927 it aggregated £64,000,000. In that year there was established a long overdue Local Government Loans Board, which, helped no doubt by the depression, at once put a curb upon borrowing. At April 1, 1933, the total amount was £73,912,122 (of which £51,179,123 was held in New Zealand). Under the restrictions exercised by the Local Government Loans Board the amount of borrowing for new works has gradually been reduced from £3,866,551 in 1928-9 to £917,560 in 1933-4. Last year, for the first time, a reduction was shown in the gross amount of local body indebtedness.

Under the Local Authorities Interest Reduction and Loans Conversion Act, 1932-3, which has only been in operation for a year, existing loans to the amount of £28,303,304 have been dealt with. A very desirable feature of the new conversion scheme is the fact that moneys are no longer allowed to accumulate in the sinking fund until the maturity of the loan. Debentures are now redeemed each year from the sinking fund to an amount at least equivalent to the payments into the fund. This eliminates the danger of loss from investment of the sinking

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fund, and ensures an even flow of money into the hands of bondholders for re-investment. The maximum rate at which major local bodies may now raise loans is fixed at $3\frac{3}{4}$ per cent. and for smaller bodies at 4 per cent. The maximum has been recently reduced to those levels in order to accord with the high price of gilt-edged securities.

IV. TARIFFS AND EXCHANGE

THE report of the Tariff Commission is still under consideration by the Government, but so far there is no hint of the direction that their proposals will take. The varying points of view of primary producers, of local manufacturers and of importers of British manufactures were very capably and exhaustively presented before the Commission. In his most recent utterance (at Dunedin on May 26) the Minister of Customs (Mr. Coates) said that the Commission had been set up under the terms of the agreement entered into at Ottawa. A definite undertaking had been given to investigate tariff matters, but New Zealand was not otherwise committed. If there had been any delay in setting up the Commission it was due to reasons over which the Government had no control. The agents of United Kingdom manufacturers had been responsible. Mr. Coates denied vigorously that the high exchange had caused a diversion of trade from Great Britain to Australia. The fact was that the depreciation of Australian currency had been responsible. It was natural that New Zealand should purchase there if Australia could quote cheaper prices, but such diversion as there had been had occurred before the increase in the exchange rate.

The agitation against the continuance of the high exchange has not, however, abated. The agitators seem to rest certain hopes upon the opening of the Reserve Bank on August 1, but the Government has made it clear that even if the present premium of £24 17s. 6d. per £100

Tariffs and Exchange

sterling is revised, a reduction will only be gradual.* The disposal of the accumulated exchange surplus in London has been a matter of considerable discussion. When the financial figures for the year appeared on June 1, Mr. Coates said that the amount of £1,797,000 charged against the budget for the year represented the net cost to the Consolidated Fund of purchasing £8,500,000 for normal requirements in London and Australia. The total amount of sterling purchased under the Banks Indemnity (Exchange) Act, during the financial year, amounted to £26,684,000, including £8,500,000 for the normal requirements just referred to. The surplus of sterling taken over thus amounted to £18,184,000. Adding in £1,910,000 of surplus sterling taken over during the previous financial year, the total amount of surplus sterling held at March 31 last was £20,094,000.

Mr. L. Lefeaux, the first Governor of the Reserve Bank, arrived in New Zealand in May, and during that month the directorate of the Bank was appointed. Of the seven directors, three represent the State and four the shareholders of the Bank. Of these four, two are chosen from representatives of the primary industries, and two from manufacturing and commercial interests. The Secretary of the Treasury is a member of the board, but has no vote. Mr. Lefeaux has been at pains since his arrival to make it clear that he has quite severed his connection with the Bank of England, adding that of course the Bank of England would be the agent in London of the Reserve Bank, an arrangement that would be of very great value. The relations between the Reserve Bank and the trading banks are not yet clear. It is said that the Reserve Bank will

* In a statement issued on July 18, the Reserve Bank declared that it would aim at retaining the present exchange rate for a long period unless a marked alteration occurred in existing conditions. In order to assist in achieving this stability, the Bank would be prepared to enter into forward exchange contracts with trading banks, but did not wish to compete for exchange business in the ordinary course, provided adequate facilities were available elsewhere.—Editor.

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take over government accounts, and it will also, of course, control the note issue, the trading banks obtaining their requirements of notes from the central bank. The Chairman of the Bank of New Zealand (Sir Harold Beauchamp) stated at the annual meeting on June 15 that his bank will have to find about £7,000,000 to transfer by way of deposit to the Reserve Bank, this being made up of 7 per cent. on the bank's free deposits, and 3 per cent. on fixed deposits. Of this sum, £1,750,000 will be transferred in gold from the vaults of the Bank of New Zealand to the Reserve Bank, and the balance by the repayment of treasury bills out of funds to be remitted from London to the Reserve Bank. The trading banks expressed strong opposition to the decision that the gold held by them should be handed over to the Reserve Bank in exchange for notes of an equivalent nominal amount, *i.e.*, at half its market value.

The function of the Reserve Bank in regard to exchange was outlined in a statement presented to the Parliamentary Monetary Commission on April 17 by the Secretary of the Treasury and the second assistant Secretary. According to them, the surplus sterling accumulated in the hands of the Government will be handed over to the Reserve Bank, which must give notes for it in New Zealand. These New Zealand resources can then be applied to paying off the treasury bills issued to the trading banks in payment for sterling. These operations will lighten the burden on the Government, and will so increase the sterling reserve of the Reserve Bank that if necessary or desirable it will be in a position to promote, or itself bring about, a considerable increase in the volume of credit in New Zealand. The large amount of London funds, the statement added, will in no way be a burden to the Reserve Bank, however long it may hold them, for it will simply have to give its own notes in payment, and these will not bear interest. In fact, the Bank will derive some revenue from the investment of the funds in London. This, however, is only incidental to the use of the funds as a basis for the control of currency and

Government by Commission

credit in New Zealand. The Bank has little interest in the making of profits, the great bulk of which will go to the Government.

V. GOVERNMENT BY COMMISSION

THE tendency to govern by boards and commissions, or to evade the solution of difficult problems by this means, is as active as ever. At the moment of writing there are four Royal Commissions in existence in New Zealand, and two parliamentary committees on the point of finishing their work. One committee, composed entirely of members of Parliament, but not a select committee since it was appointed during the recess, considered the film and picture-showing industry in New Zealand, and has presented a report recommending certain changes in the system of hiring and royalties. This is mainly interesting for its vindication of that much-abused official, the film censor. The other parliamentary committee has been considering monetary and currency questions. When it was appointed there was an uneasy feeling that the Government, having already decided the question of establishing the Reserve Bank, had exercised a playful perversity in nominating to the committee members who had taken no particular interest in the various panaceas offered for escaping our debts without paying them.

Of the Royal Commissions, great interest centres in the one that is considering (under the presidency of Mr. Justice Smith) certain alleged irregularities in the administration of native funds on land settlement schemes under the authority of a recent Act of Parliament. A good deal of racial feeling appears to have been engendered among the Maori by several critical debates in Parliament. The report of this Commission is awaited in the expectation that it will be a document of first importance in connection with the future of the Maori race. A Royal Commission on company law has been the subject of some litigation.

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Acting on representations, the Government, on January 17, set up this Commission to enquire into financial and other matters affecting the control of companies with a view to the modification of the law. It had no sooner commenced its investigations than two companies, Timberlands Woodpulp, Limited, and Tung Oil Securities, Limited, initiated proceedings in the form of an application for a writ prohibiting the Commission from acting, on the grounds of bias and financial interest. They also incidentally challenged the right of the Governor-General to set up a Commission at all on the grounds that there was no proposed legislation on the subject before Parliament, and that therefore the investigation was a mere "fishing expedition." The application was dismissed by the Full Court on May 1, on the ground that the Commission exercised no judicial function, and was not a judicial tribunal in any legal sense.

The other two Commissions, the Tariff Commission and the Dairy Industry Commission, have already been referred to.

VI. DEFENCE

AS the outcome, it is understood, of communications with the British Government, New Zealand is taking the first step towards restoring the strength and efficiency of the defence forces. It will be remembered that shortly after the accession to office of the Liberal party in 1929, the compulsory training provisions of the New Zealand Defence Act were repealed. This step, which was dictated by political reasons, but justified by the demands of economy, was very strongly opposed by the Reform party, which held that the compulsory training clauses should be suspended rather than repealed. For the last few years our defences have been manned on the old voluntary basis. The strength of the establishment has naturally been reduced, but not lower than the financial conditions of the Dominion demanded. The Minister of Defence (Hon. J. G. Cobbe) disclosed to the Officers' Club at Auckland

Defence

on April 30 the measures that the Government propose to take to restore the efficiency of the force. These include the addition of a platoon to each rifle battalion, a troop to each mounted rifle squadron, and a mortar to each machine-gun company; the development of the air force by the purchase of a number of new machines of advanced trainer type; the strengthening of the coast and anti-aircraft defences; the grant of pay for home training; and the issue of boots to all ranks. Commenting on the proposals, Mr. Cobbe said that it must not be forgotten that New Zealand to-day was practically defenceless. All that was being done was to provide the Dominion with protection in the event of any emergency. It was wrong for anyone to view the Government's plans in the light of stimulating war. After all, a man locked the door of his house or business premises, not expecting a robbery, but in order to provide a measure of protection against robbery. That was what New Zealand was doing in strengthening her defence forces. New Zealand was more than ever dependent upon the sense of patriotic duty of the country at large to ensure that the strength of the force was equal to the establishment.

That even Liberal opinion is not disturbed at the rearmament proposals is evident from the comment of the *Christchurch Times*:

We have fallen far short of perfection in this matter, and some recent discussions have brought it home to us that war is just as likely to occur in the Pacific as in other parts of the world. Unless the prospects of a continuance of peace improve, we may again have to resort to the system of universal military training, with or without the proviso that men ordered into training in New Zealand shall not be compelled to serve overseas. After the World War, it was supposed that there would be no further necessity for trained forces for many years to come, and the Dominion seized the opportunity for economy in her system of defence. But it has to be realised that the possibility of war exists now, just as it did prior to 1914.

New Zealand.
June, 1934.

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Volume XXIV

(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.



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