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HOW STRONG IS  
BRITAIN ?



# HOW STRONG IS BRITAIN?

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## CONTENTS

	PAGE
AUTHOR'S INTRODUCTION : GREAT BRITAIN AND THE NEW WORLD . . . . .	I
CHAPTER ONE : GREAT BRITAIN'S ECONOMIC SYSTEM .	8
CHAPTER TWO : BRITISH INDUSTRY . . . . .	15
CHAPTER THREE : BRITISH AGRICULTURE . . . . .	55
CHAPTER FOUR : BRITISH SHIPPING . . . . .	72
CHAPTER FIVE : GREAT BRITAIN, THE WORLD'S BANKER.	89
CHAPTER SIX : THE UNSEEN EMPIRE . . . . .	101
CHAPTER SEVEN : IS GREAT BRITAIN BECOMING POORER ?	130
CHAPTER EIGHT : BRITISH MILITARY STRENGTH . . .	150
CHAPTER NINE : THE EMPIRE AS BURDEN AND SUPPORT.	207
CHAPTER TEN : POPULATION DIFFICULTIES IN THE EMPIRE	235
CHAPTER ELEVEN : STORM CLOUDS ON THE HORIZON .	250



## PUBLISHER'S NOTE

THIS English version of a book recently published in Berlin is issued without editorial modification or correction in the belief that an exact English translation, including any errors of fact contained in the original German book, is alone of value to the British public. The author, at one time London Correspondent of the *Deutsche Allgemeine Zeitung*, has made a careful study of the British economic, financial, military and imperial position and analyses both the weakness and strength of Britain's situation in the face of the latest world-problems. Such a considered German answer to the question "How Strong is Britain?" must surely be of as great interest to British as to German readers, though for different reasons. It must be left to the British reader to form his own conclusions as to the reasons for the publication of such a book in Germany to-day.

## TRANSLATOR'S NOTE

IN the short time available for this translation it was not possible to obtain the original text of any but the most important quotations from English sources. The remainder have had to stand as re-translations from the German. Unsatisfactory as this is on principle it will not affect in any way the author's purpose because the original sense has been preserved, if not the letter of the original text.



# HOW STRONG IS BRITAIN?

## AUTHOR'S INTRODUCTION

### GREAT BRITAIN AND THE NEW WORLD

THERE are very few more interesting political problems in the world to-day than that of Great Britain's real strength. Great Britain, whose empire covers a quarter of the earth's surface, is directly or indirectly concerned with almost everything which happens in the world, and conversely, whenever anything happens, whenever political or economic developments or tendencies threaten the *status quo*, the attitude taken up by Great Britain to them is of importance. World politics represent the sum of all efforts either to maintain or change the *status quo* in the relations between the nations of the world, and when any such efforts are made Great Britain's weight is usually in the scale, generally in order to maintain the *status quo*.

During the past twenty-five years the *status quo* has been constantly threatened, and a new world has developed. In one instance Great Britain threw her whole weight into the scales : she fought in the World War under most favourable circumstances, namely,

## HOW STRONG IS BRITAIN ?

against a country which was peculiarly susceptible at the time to her two chief weapons, blockade and financial power. Although Great Britain flung all her weight into the scales she did not succeed in preventing what she would very gladly have prevented: the resurgence of a strong and united Germany. After the Munich Conference it was no longer possible for the world to close its eyes to the fact that in five years Adolf Hitler had rebuilt the German Reich and made it greater and more united than before.

That is one of the great changes which have taken place in the world. To-day Germany is the "*grande nation*", just as France once was when she had the largest population of all the European powers.

Other changes have taken place without Great Britain having made any serious attempt to prevent them, for instance the development from free trade in world economic affairs to controlled national economic systems. Owing to the World War and the iniquities of Versailles Germany was forced into the ranks of the poorer nations. For over a decade efforts were made to keep her poor and make her pay tribute, until the economic policy of National Socialism provided an unexpected solution. Free trade on the commodity market and free movement on the money market made Great Britain into the richest country in the world. To-day very little is left of this economic freedom thanks to the fact that Germany and other countries following her example have determined to rebuild their prosperity from their own resources.

## GREAT BRITAIN AND THE NEW WORLD

Such changes, directly affecting British interests, make an investigation into the real strength of Great Britain seem desirable. The idea that world politics are settled in London has suffered considerably under the effect of happenings such as the restoration of German military sovereignty throughout Germany and in particular in the Rhineland, the *Anschluss* of Austria and the Sudeten districts to the Reich, Italy's Abyssinian campaign, the decline of the League of Nations, and many other things. Was Great Britain too weak to prevent these happenings? And now that these changes have taken place, will Great Britain be able to adapt herself to the new situation without her strength declining still further?

It is a matter of importance for all politically-interested and politically-active people that they should correctly estimate such a great factor in world affairs as the real strength of Great Britain, particularly as this factor is not easy to judge. In the semi-obscurity which surrounds the problem it is not difficult for unfounded opinions and baseless judgments to masquerade as authentic; and two circumstances increase this danger.

The interests of Great Britain are many and varied, and they are so spread over the world that she cannot possibly exert her full power every time one of her minor interests is attacked. In order to avoid frittering away or prematurely expending the strength of the country the British government must decide carefully in each individual case exactly how much strength it

## HOW STRONG IS BRITAIN ?

is worth while exerting, and in the given circumstances it will very often have to content itself with throwing a weight into the oscillating scale which proves insufficient to counterbalance the weight of its opponent. Thus it is not true that a country which injures Great Britain's interests must necessarily reckon with the full force of Britain's might. It is quite possible to pull a hair or two out of the British Lion's tail without any very serious consequences resulting, and the problem of how many hairs must be pulled out in a bunch, or how often individual hairs can be pulled out, before the Lion turns is almost a problem for a sophist, something like the problem of how many stones make a heap.

However, a lion which allows its hairs to be pulled out without offering any very serious objection can very easily become an object of contempt. Its prestige begins to decline, and perhaps the world even tends to forget that it is a lion after all. Now British prestige is almost constantly being subjected to attacks of one kind and another in various parts of the world, and very often the only answer is a protest by the Foreign Office and a certain amount of growling in the press. In this way the idea has arisen that British prestige is on the wane, and the conclusion is facile that Great Britain is too weak to prevent it. This conclusion is sometimes correct—but not always.

The second important circumstance which facilitates the rise of erroneous ideas concerning British strength is the traditional disinclination of any British government to commit itself beforehand to any particular

## GREAT BRITAIN AND THE NEW WORLD

course of action. During the past two years, however, the British government has gone farther than most of its predecessors in defining the vital interests of Great Britain, and certainly farther than the Liberal government of the pre-war period, some of whose Ministers were informed of the irrevocability of the arrangements with France only shortly before the actual outbreak of war. In November 1936 Mr. Anthony Eden announced that the defence of Great Britain herself and of the British Empire, and of France and Belgium against unprovoked attacks, were cases in which Great Britain would take up arms, and a little later he added that free passage through the Mediterranean and the exclusion of all other big powers from the Eastern shores of the Red Sea were important British interests. This might have been sufficient in 1914, but the world situation has changed since then and the definition leaves much in doubt.

The ambiguity of British foreign policy is due to the circumstance we have just mentioned. Because British interests are so widespread and because the British government must reckon with the possibility that they may be attacked or threatened at several points simultaneously, making it inevitable under certain circumstances that one interest should be neglected in favour of another, it carefully avoids committing itself in advance. And in addition it finds this ambiguity valuable in itself because it is calculated to make an enemy uncertain by leaving him in the dark as to Great Britain's real intentions. In order

## HOW STRONG IS BRITAIN ?

to use Britain's influence to the full in peace time the British government deliberately encourages the fear that Great Britain's full power might be exerted in any particular case. However, the result is that when her full power is not exerted after all at a moment when the rest of the world confidently expects it unfavourable conclusions are likely to be drawn concerning its real extent. Thus the second circumstance we have mentioned, namely the unwillingness of the British government to define its policy clearly in advance, has the natural result that from time to time an impression of British weakness is created ; in fact, this is likely to go on until Great Britain's power is really used to the full, i.e. up to the crisis which the world is anxious to avoid. A correct estimation of Great Britain's strength is important if this crisis is to be avoided successfully.

It is therefore dangerously facile to point to all those cases in recent years when Great Britain has protested in vain and finally had to accept changes detrimental to her interests, and to conclude that her star is waning and her power declining. Such summary conclusions require a rather firmer basis. In any case it is not enough to draw indirect conclusions concerning Great Britain's power ; it must be directly examined and assessed.

The real strength of any country is demonstrated incontrovertibly only when it is subjected to the hard test of crisis. Both before and afterwards we are largely dependent on conjecture. National strength cannot

## GREAT BRITAIN AND THE NEW WORLD

be represented by a clear-cut and absolutely accurate formula exactly comparable with the national strengths of other countries. We should seek in vain for some index figure for British national strength which would permit us to call it 100 and then compare it with the strength of other countries, putting perhaps French strength at 70, German strength at 150, Japanese strength at 60, etc.

However, national strength is substance, not shadow, and it is composed of many factors which are tangible and concrete. The power of the British Empire is therefore nothing vague and incomprehensible; it is neither a wild hope, nor a fantastic fear. On the contrary, it is based on certain quite definite economic, political and military facts which can be studied and defined. Like its basis, that power is changeable, vulnerable, capable of development, and, above all, limited. The mystic idea that Britain's might is something supernatural is just as baseless as the idea that it is in a chronic state of collapse.

## CHAPTER ONE

### GREAT BRITAIN'S ECONOMIC SYSTEM

ECONOMIC strength is the most important of the many factors which go to make up the might of Great Britain, and it is rendered still more interesting because it is a complicated mosaic. Fairly accurate information is available concerning British naval, military and air strength. We can count the warships and note the calibre of their guns. We can estimate the strategic value of Great Britain's naval bases. We know the number and the kind of aeroplanes which make up her first-line strength. We know the equipment of her infantry battalions and the arrangements she has made for anti-aircraft defence. However, the economic strength of a country cannot be adequately represented in a few columns of figures ; it represents the sum of a great number of figures, most of which must be interpreted before they are likely to give us any practical measure of strength.

When dealing with economic questions it is easy to wade into a morass which seems to have no bottom. That is the main reason why economics have for a long time been the favourite playground of experts of

## GREAT BRITAIN'S ECONOMIC SYSTEM

all sorts ; experts who are all right and all wrong, and who, caught out in error, seek an avenue of escape like the Oracle of Delphi in the ambiguity of their pronouncements.

Despite this, however, the enormous importance of the economic factor in Great Britain's strength makes it absolutely necessary that we should venture into this world of confusing figures and magnitudes, and try to piece together a picture of a living nation out of these dead figures in order to find out how it works, saves, consumes and produces.

A few indications will suffice to give some idea of how important this factor is. In a recent speech Mr. Chamberlain declared :

In reality wars are won not only with weapons and men ; they are also won with material reserves and credit. That is what we mean when we talk of the staying-power of a nation. Staying-power depends on the maintenance of industry and of the economic system generally. If we look at our history we shall see that our staying-power has contributed very materially to our victories.

What Mr. Chamberlain is referring to here is a truism for all those who have interested themselves in British politics and British history. Great Britain habitually wins her wars thanks to her sounder economic wind. Once upon a time this happy island was able to pay other countries to shed their blood and defeat her enemies : " Happy Britain—all you had to do was to pay ! " In recent years, however, Great Britain has had to enter the lists personally, but even so, superior

## HOW STRONG IS BRITAIN ?

material reserves and credit still decide the upshot of wars.

In future wars they will play a still greater rôle. Thanks to her naval superiority Great Britain has command of the seas, and she can close them for other nations and keep them open for herself. Her credit in the world permits her to obtain more readily than any other nation whatever is to be had on credit, and her capital investments abroad permit her to buy on credit longer than any other nation those goods which in time of war have usually to be paid for in gold. And finally, the raw material and other reserves of her own empire are so enormous that they are not exceeded by any other economic unit in the world (with the possible exception of the Soviet Union) and they are not equalled even by the United States.

It is quite clear that this great economic strength makes Great Britain a very desirable ally and a much feared enemy, but quite apart from that, her economic system is an important part of her political armament in times of peace too. To-day the City of London is still rich—how rich we shall see presently.

Everyone in Great Britain is well aware of the importance of the capital of the City of London as a political weapon. Whenever a political decision in the world goes against British interests the British people console themselves with the idea that British influence will win in the end via the capital requirements of the victor. For instance, opinion was general that although Mussolini undoubtedly succeeded in conquer-

## GREAT BRITAIN'S ECONOMIC SYSTEM

ing Abyssinia against the will of the British government, he would be able to consolidate his capture only with the assistance of British loan-capital. In the same way there was widespread conviction that General Franco would come to hand in the end even if he won his battles without Great Britain's blessing, because, so it was argued, his first pilgrimage after the civil war would be to the City of London to obtain the necessary finance to rebuild devastated Spain. And there is a certain consolation for the damage done to valuable British interests in the Far East in the idea that Japan has not sufficient capital to develop China's resources and will therefore require British assistance.

This idea crops up again and again, and the British people feel constantly that the riches of their country represent a sort of second line of defence in world politics. Up to now history has confirmed the correctness of this viewpoint again and again, and it is thus important to decide whether it is likely to do so in the future too.

It is quite clear, therefore, that Great Britain's riches represent one of the chief pillars of her world position. Her riches have indirect effects too ; she can, to use a drastic expression, not only directly bribe other countries—(It was an Englishman, Sir Robert Walpole, the famous Whig Prime Minister at the beginning of the eighteenth century, who coined the phrase, "Every man has his price") but her riches have innumerable indirect effects. As the possessor of important industrial raw materials Great Britain is in a

## HOW STRONG IS BRITAIN ?

much better position to use the weapon of economic sanctions than most other countries.

Above all, however, because she is rich she is the best and most valued customer of a great number of other countries in all parts of the world. Peasants and farmers in the Argentine, Canada and Denmark, mining workers and mine-owners in South Africa, Sweden, Spain and Morocco, Japanese silkworm breeders, American manufacturers of industrial machinery, and French dressmakers and perfume manufacturers all sell their goods in Great Britain. In addition, many exporters throughout the world who do not sell their goods to her nevertheless take advantage of the services of the City of London to finance their transactions. If this is true then it is quite clear that all these industrialists, manufacturers, farmers, peasants, gauchos, coolies and merchants must be united in the wish that Great Britain should continue to be rich and powerful. In an age when the market problem is a bigger one than the problem of production, seeing that men do not always produce goods for their own sake, but in order to sell them at a profit, the wealthy customer must be cultivated and cherished.

The most obvious visible expression of British wealth, and a war chest immediately available, is the enormous amount of British capital invested abroad. Great Britain is the richest creditor country in the world, and the capital which has been invested for long periods overseas brings in dividends and interest which

## GREAT BRITAIN'S ECONOMIC SYSTEM

in favourable years amount to huge sums. The money invested in long-term loans, plus the interest on short-term loans earned by London banking houses, together with other sources of income, place Great Britain in the agreeable position of being able to import more than she exports, of being able to consume more than her own people produce.

However, in order to obtain a real conception of the wealth of Great Britain, it is not sufficient to investigate these foreign investments and their development, because they are subject to change and their volume depends on a series of factors. They represent the accumulated surplus of former periods, and although they continue to bear fruit, they can become larger or smaller according to whether or not the rest of the British economic system is healthy and vigorous.

The basis of economic strength in Great Britain as in all other countries is the domestic production of industry and agriculture. The greater this production is and the more fully it satisfies the needs of the population, or earns the monetary equivalent for that purpose, the less is the need for imports from abroad and thus the greater again is the possibility of investing savings abroad profitably. In addition there are the services of the shipping companies and the banks whose revenues play a very important role in Great Britain's balance of payments.

All these factors, the value of industrial and agricultural production, the revenue of British shipping, interest and commission earned by British banking

## HOW STRONG IS BRITAIN ?

houses for their services in financing commodity transactions, and the revenue from long-term investments abroad, together with the already accumulated surplus of former days now invested abroad, combine to make Great Britain's wealth and economic strength, and therefore they must all be examined separately if we are to obtain a true picture of Britain's strength. What is their present condition? Are they in process of change, and is the change, if any, for better or for worse?

## CHAPTER TWO

### BRITISH INDUSTRY

GREAT BRITAIN is the oldest industrial country in the world. Earlier than in any other country the manufacturer began to displace the independent handicraftsman in Great Britain, and to produce commodities for sale on a general market, those commodities which had formerly been produced by the independent handicraftsman for his neighbours according to their requirements. Earlier than in any other country a start was made in Great Britain with the division of labour, with the division of the process of production into innumerable individual parts each of which was now carried out by particularly trained workers. And earlier than any other country Great Britain introduced the machine into the process of industrial production.

The beginnings of this development lie far back, even in the eighteenth century, but it came into full swing only after the Napoleonic Wars. We can take 1815 as the year in which that development began which was destined to make Great Britain what she was at the end of the nineteenth century, the richest industrial

## HOW STRONG IS BRITAIN ?

country in the world. Between 1815 and 1871 she was far ahead of all other countries in the matter of industrial capacity, and, as a low standard of living prevailed at home, she was able to earn such vast sums that she could invest enormous wealth abroad, investments whose value steadily increased parallel with the industrialization of the rest of the world and with increasing world trade and growing raw-material needs. Those were the fat years of British industrial development, and although the following years up to the outbreak of the World War were not exactly lean ones, they were not fatter than those being enjoyed by other countries.

After the Franco-Prussian War other countries began to appear on a scene which up to then had been Great Britain's almost undisputed domain, and a circumstance began to make itself felt which was destined to play an increasingly important role in the economic strength of the country. In the reckless exhilaration of the first years of industrial development when there were no powerful and dangerous rivals to compel British capitalists to give thought and care to their doings and to their relative advantages, they concentrated their chief activities on developing industries whose production promised the best sales on the world market, giving little or no thought to whether such industries were suitable for Great Britain herself or not.

The best example of this is still the enormous cotton industry of Lancashire. A whole industrial area in Great Britain specialized in this branch of production, and by the use of more modern methods it destroyed

## BRITISH INDUSTRY

the old domestic industries of other countries, including India and Japan, and gained a complete and undisputed predominance, but only because other countries had not yet got the idea of developing modern industrial methods in a similar fashion ; as soon as they did, the decline set in for Great Britain, which had no advantage over her competitors beyond that of a good start.

Towards the end of the nineteenth century Great Britain dominated the world market with a few big industries which had grown up at the expense of her agriculture. British agriculture was greatly neglected with the result that large quantities of foodstuffs had to be imported for the needs of the population in exchange for industrial commodities, and Great Britain became dependent on foreign buyers and sellers. Rich and spoiled by the absence of serious rivals, she then had to enter the struggle for world markets which began in the seventies.

Her monopolist position was not based on the possession of raw materials which other countries did not possess ; for instance, Germany's coal-mines proved to be highly productive. It was also not based on any superior skill on the part of her workers, for German and French workers soon proved to be at least as good. And it was also not based on the superior organization of her industries or on the greater initiative of her economic leaders. On the contrary, the industries of the Continent and of the United States, which developed at a later date, worked more ration-

## HOW STRONG IS BRITAIN ?

ally, whilst precisely the conservative spirit of British industrialists and their unwillingness to adapt themselves to changed conditions proved a considerable hindrance.

Great Britain's monopolist position on the world market was based simply and solely on the time-element advantage she enjoyed in the matter of industrial development. In the last years of the nineteenth century, and to a still greater extent in the present century, other countries neutralized that advantage and it has even turned into a disadvantage. When other countries, and in particular Germany and the United States, appeared on the industrial scene, Great Britain's industrial equipment and organization were already obsolete ; since then their modernization has taken place only very slowly, and, in fact, it is not fully completed even to-day.

These are briefly the tendencies of British industrial development. British industry forms the backbone of the British economic system, and these tendencies are to be found in the history of all those industries which have played such a great part in the building up of British wealth and influence.

First place is taken by the coal-mining industry both in time and importance. An early start was made in Great Britain with the production of coal on a big scale, and coal-mining is the father of British industries ; it is the basis of all the others. Coal fed the steam engines which moved the wheels of industry. Coal

## BRITISH INDUSTRY

made possible the working of iron-ore. Coal was burnt by British vessels carrying British goods for sale abroad or bringing home raw materials or agricultural produce. The export of coal was made still more important by the fact that it gave many vessels cargoes which would otherwise have had to leave British ports with ballast only, and in this way freightage rates were lowered for the homeward journey.

The most important British industries sprang up around the coal-mining areas and therefore they could produce more cheaply. Coal production in Great Britain rose steadily and to a tremendous extent. At the beginning of last century 10 million tons of coal were produced annually, whilst in 1913, the last year before the outbreak of the World War, no less than 287 million tons of coal were produced. About the year 1870 when Great Britain's industrial predominance, i.e. her relative advantage over all other industrial countries, had reached its highest point, the exports of British coal amounted to about 10 million tons annually, and they rose to 98 million tons in 1913. Thus approximately one-third of the coal produced in Great Britain in 1913 was exported, and it contributed very considerably to making Great Britain's balance of trade active. Great Britain's coal-mining industry was greatly assisted by the happy circumstance that the coal-fields are generally speaking near the coast, lying in some cases even under the sea. The great advantage of this can be seen from the fact that it was cheaper to freight British coal to Germany's Baltic

## HOW STRONG IS BRITAIN ?

ports than to carry German coal by rail from Western Germany or Upper Silesia.

Two-thirds of all coal which was exported in the world before the World War came from British mines. After the World War the British coal-mining industry lost this dominant position, and it has never since reached the levels of 1913 production and export. The 287 million tons of coal which were produced in Great Britain in 1913 and the 98 million tons of British coal which were exported in that year have remained as a record. It is true that 1913 was a peak year in economic history and that the results of that year were therefore particularly favourable, but apart from 1913 the average annual production and the average annual export of the four years which preceded the World War have also never been achieved again. The peak year 1929 saw a production of only 258 million tons of coal in Great Britain, and the peak year 1937 produced even less, only 241 million tons.

When we search for the reasons which have caused this decline of the British coal-mining industry since the World War we find all those factors especially evident which have played a similar role in the history of all other great branches of British industry, and their sum total weakens the industrial position of Great Britain. The early development of coal-mining in Great Britain gave her a big preliminary advantage over other countries, but it also resulted in many of the mines being uneconomically planned. The lack of serious competition in the world permitted British

## BRITISH INDUSTRY

coal-owners to sell their products without having recourse to rational methods of production, and the result was that a great number of small and even very small pits remained in existence. This decentralization of industry, which was encouraged by natural conditions, fell in with the equally natural tendency of the Englishman to individualistic management.

As long as the world economic system and world trade were still experiencing their halcyon days prior to the World War these infantile sicknesses of the British economic system were not felt either in the coal-mining or in any other industry. Good profits were made and there was no difficulty in marketing production. However, after the World War these defects made themselves felt with redoubled force owing to the fact that many countries were impoverished and no longer appeared on the world market as purchasers, but instead strove to encourage their own industries and replace their previous imports by their own production.

In the first post-war years the world experienced a rush of feverish economic activity which seemed to be a continuation and an intensification of the pre-war period of prosperity, but soon the reaction set in inexorably. For a time, however, even then, the British coal-mining industry was in luck. A big coal strike in the United States and then the French occupation of the Ruhr created an abnormal demand for British coal and relieved the industry of the necessity to rationalize its production. And when these temporary advantages disappeared the government sprang

## HOW STRONG IS BRITAIN ?

into the breach in 1925-6 and subsidized the industry with the result that once again the coal-owners thought they could afford to do without rationalization.

However, after that came a succession of blows and the setback could no longer be prevented. The competition of foreign mines increased and at the same time the consumption of coal at home decreased owing to improved utilization as the result of more modern methods. Lignite, hydraulic power and, above all, oil began increasingly to take the place of coal as a motive force. Steam engines were replaced by Diesel motors, the British railways, great consumers of coal, were hard hit by road-traffic competition, the Royal Navy adopted oil fuelling instead of coal, and even in the mercantile marine the number of ships running on coal began to decline and is still declining. To-day only 46.5 per cent. of all ocean-going vessels burn coal.

Modern and well organized continental coal-mining industries, and in particular the coal-mining industry of Germany, succeeded in surviving all these difficulties fairly well, but all the disadvantages attaching to the old-fashioned and spoiled British coal-mining industry made themselves more evident than ever. Even then, instead of adapting itself to modern conditions the British coal-mining industry remained as backward as ever. Before the World War the British miner produced an average of 257 tons annually, but by 1924-5 his production had sunk to 221 tons. On top of this there was the over-valuation of sterling currency after Great Britain's return to the Gold Standard.

## BRITISH INDUSTRY

British industrialists had been used to good times for so long that they reacted only very slowly to the deterioration of economic conditions. However, they did not remain altogether inactive and since then rationalization—constantly opposed and disputed, and hampered again and again by temporary improvements in economic conditions—has made gradual progress. The coal-mining industry is of very great importance for Great Britain, and as soon as the government had determined to prepare the country for the possibility of war it had to pay particular attention to this branch of the economic system. Organizational plans which had suffered shipwreck in former years were now carried through under government pressure. In order to put an end to cut-throat competition between the innumerable individual pits the industry was organized into district sales groups, which fixed prices and allotted production amongst the mines of the district.

However, British traditions were maintained as far as possible, and within the framework of this organization as much as possible was left to the voluntary agreement of the mine-owners. The result is that rationalization and improved organization are making slow progress only. Innumerable committees hamper the development of any uniform policy and at the same time they take up the attention of the coal-owner to an unnecessary and disproportionate degree. In recent years another fortunate factor has played into the hands of the individualistic industrialist, who gives way to

## HOW STRONG IS BRITAIN ?

newer methods unwillingly. Economic progress, intensified by enormous armament expenditure, increased the demand for coal to such an extent that the district sales organizations no longer needed to limit production, and the fixed minimum prices were exceeded everywhere. Whether the district sales organization is a success and whether it really works satisfactorily will be revealed only when the curve of economic activity again declines.

In the meantime the government has gone a step further. Parliament has passed a law depriving the innumerable private owners of their property rights in the buried coal, and establishing a central body to administer the rights for the whole of the coal-mining industry. This body has also received the task of gradually amalgamating the many small pits into bigger economic units. However, only slow progress is to be expected because it will have to be made in almost every instance against the will of the mine-owners.

The objections of the owners are not always narrow minded and unjustifiable. For instance, it is true that Great Britain's coal deposits are of varying qualities and sorts so that very often neighbouring pits produce quite different kinds of coal, and are therefore not suited for amalgamation with a view to more rational management, but in general it can be said that the measures now being introduced will tap considerable reserves of power for the British coal-mining industry.

However, it is very doubtful whether the British

## BRITISH INDUSTRY

coal-mining industry will ever succeed in overcoming all the disadvantages of its old-fashioned structure, because it does not lend itself to the introduction of modern methods, and it is doubtful whether, for instance, those close relations between the pits and the iron and steel industries which would permit a more economic utilization of the enormous quantities of coal required for working iron-ores can ever be established satisfactorily.

Heavy industry must be dealt with immediately after, and, in fact, in connection with the coal-mining industry, because these industries together represent the oasis on which all other industries are built. They are the fundamental basis of Great Britain's economic system both in war and peace.

The history of the British coal-mining industry to date ends with a question mark, but the present-day picture presented by the British iron and steel industry is very different. Like the coal-mining industry it has gone through very bad, and even worse periods, and survived. Only a few years ago we should have been able to observe nothing but decline and decay. To-day, however, Great Britain's iron and steel industry is again strong and healthy. It is true that in its new form the industry has as yet proved itself efficient only in an economically good period and in peace time, but for war purposes it is certainly better prepared to meet an emergency than ever before.

The iron and steel industry had to struggle through a very deep and dark valley before it finally clambered

## HOW STRONG IS BRITAIN ?

out into the light again, and when we see other British industries, including the coal-mining industry, still in the slough of despond, it will be good to remember that one of Great Britain's key industries has already shown the way from these depths to the free heights of prosperity. For this reason it is very interesting to follow the development of Great Britain's heavy industry since last century.

As long as steel was made exclusively from non-phosphoric ores, of which Great Britain possessed large deposits, the continental countries were completely dependent on Great Britain's exports. But when in about 1880 a way of making steel from the phosphoric ore deposits of Lorraine was discovered Germany began to draw up rapidly as a producer of steel, until in 1913 she produced twice as much steel as Great Britain. Great Britain was then compelled to concentrate her activities on the production of special quality acid Bessemer steel, for which her own ore deposits were particularly well suited. Very soon after 1890 she was overtaken by the United States in the production of pig-iron, and in 1905 by Germany also.

In time the special British products, forged and cast iron on the one hand and acid Bessemer steel on the other became less popular and were replaced by basic Bessemer. This development has continued down to the present day, but British industry adapted itself only very slowly to the changed conditions. Even in 1913 Great Britain produced considerably more acid

## BRITISH INDUSTRY

than basic steel. By 1918 she produced more or less the same quantities of each, and to-day at last she produces about four times as much basic steel as acid steel.

In addition, the British iron and steel industry, like the coal-mining industry, did very little to adapt its plant to the latest developments of modern technique, and to reorganize its sales and administrative side to meet the pressure of increasing competition, which began to be evident even before the war. After the war its effects were felt still more strongly, particularly because Germany's heavy industry took advantage of the inflation period to modernize its plant throughout. During the World War Great Britain's heavy industry was extended and production increased, but this took place in the form of emergency measures and without regard to cost, so that after the war and the preliminary period of good trade which immediately followed it the industry found itself heavily burdened financially and still not on a sufficiently high technical level to compete successfully with its rivals. Great Britain's return to the Gold Standard, i.e. the over-valuation of the pound sterling, still further diminished the industry's ability to compete successfully on the world market. For all these reasons therefore it had no share in the process of recovery which began in 1925 for the iron and steel industries of other countries. When the great economic crisis of 1929 broke over the world Great Britain's heavy industry began to drift direct to bankruptcy, and in 1930 and 1931 the production of pig-iron and steel fell to about half 1929 levels.

## HOW STRONG IS BRITAIN ?

The development of the heavy industry export trade has been an analogous one. From 1880 to 1900 it declined under the pressure of continental developments, but then in the general period of prosperity which set in with the twentieth century it succeeded in maintaining its absolute if not its relative position, and to some extent it even improved it. In 1912-13 Germany's exports of iron and steel exceeded those of Great Britain. After the World War the export of British iron and steel declined and the imports of iron and steel goods increased considerably.

This slow and steady process of decline was then suddenly followed by a brilliant recovery during the past few years which led to production volumes in 1937 more than twice as great as those of the low-level year 1932, and even considerably more than the record volumes of 1913—a matter of still greater importance for our investigation.

How was that possible? What were the causes of this sudden reversal, within three years, of a process of decay which had been going on for decades?

Two factors worked together: the British government intervened deliberately to develop and encourage heavy industry; and secondly in addition to the recovery in the building trades and in economic activity as a whole there came rearmament, which considerably increased the demand for steel. However, the first factor, the intervention of the government and its consequences for the organization of the iron and steel industry, was the decisive one. This

## BRITISH INDUSTRY

fact must be kept in mind later when we consider the fate of Great Britain's other big industries. The record production attained by the iron and steel industry in recent years may have been largely due to good business in general, but it was government intervention which first put the industry in a position to take full advantage of it.

Discussion on the possibility of reorganizing heavy industry had gone on for a long time without coming to any practical conclusion, but in the spring of 1932 the government finally decided that something had to be done, and in March of that year it introduced an import duty of  $33\frac{1}{3}$  per cent. on all iron and steel products, thus giving Britain's own heavy industry a breathing space in which to put its house in order.

Previous experience with the obstinacy of British industrialists persuaded the government not to place its trust entirely in their good will, and so they were expressly informed that the relief must be considered as a breathing space and not a permanency. The import duty on iron and steel goods was imposed upon condition that the British iron and steel industry should modernize itself under pain of the rescinding of the duty. In order to show that its threat was meant seriously the government appointed an Import Duties Advisory Committee consisting of three independent people whose task it was to supervise modernization measures, and, in the event of neglect on the part of the iron and steel industrialists, to exert pressure by lowering the import duty.

## HOW STRONG IS BRITAIN ?

The threat combined with the appointment of this supervisory body worked wonders, and what had appeared to be surrounded with insurmountable difficulties for years was now achieved rapidly. The industrialists felt themselves morally bound to sink their own differences in dealing with the Advisory Committee, and they founded the British Iron and Steel Federation and agreed amongst themselves not to alter their prices, and not to increase their productive capacity by the building of new plant except after consultation with the Federation, and, in general, to consult with the Federation in all matters of joint interest.

The most important and most interesting feature of this system is its combination of voluntariness and government pressure. Membership of the Federation is voluntary, though it is rendered advantageous by preferential rebates, and whether a member takes the advice of the association's experts is left to his own discretion. However, behind all this show of voluntariness the universal governing principle that common interests must come before individual interests lies hidden. For instance, should a member of the Federation, or a non-member even, refuse to take the advice proffered to him in the interests of the industry as a whole, the Federation would approach the Advisory Committee. This committee is a government body and acts in the interests of the country as a whole, and it would pass judgment on the point at issue either for the recalcitrant industrialist or for the Federation according to the general interests of the

## BRITISH INDUSTRY

country. In the event of the verdict going against the industrialist and he still refusing to give way, the government as the country's executive would then consider intervention. Parliament would be very unlikely to place any obstacles in the way of action the authorities might deem fit to take against an industrialist who had been convicted in this way of acting against the general interests of the country.

Up to the present this system has justified itself brilliantly, and brought about the reconstruction of the iron and steel industry. During the past five years the enormous sum of 30 million pounds has been expended for modernization and for the extension of plant. In 1935, the British iron and steel industry finally subscribed to the International Steel Agreement, which guarantees it a share of the world market without interfering with the development of the Empire market.

As we have already pointed out, so far the system has had no chance of proving its success in bad times, but there is no reason to believe that with such an elastic organization, with price regulation, cartel agreements, a centralized control of production, and import duties, the British iron and steel industry will not be able to survive bad times. Further, a permanently rearmed Britain will always require a greater current supply of steel than a disarmed Britain, and it is therefore very unlikely that her heavy industry will again have to face the unfortunate situation which existed between 1927 and 1933, when British iron

## HOW STRONG IS BRITAIN ?

and steel firms were unable to earn the statutory dividends on their preference shares. The brilliant and rapid recovery of this key industry may therefore be regarded as a proof of what great reserves of strength for British industry as a whole lie in the fact that until recently it was without coherent organization and worked with old-fashioned processes and excessively high costs of production.

We must not leave the British iron and steel industry without a word or two about its raw-material resources, because the finest heavy industry would not be much use in the event of war or in times of general raw-material shortage unless it was well supplied with ores.

First of all there are a number of British iron-ore deposits, and in recent years iron-ore deposits of a lower ferrous content, which had previously been neglected, have been opened up. The big ore deposits and workings in Corby in Lincoln which were opened up and constructed by the engineer Brassert with the assistance of the German Gute Hoffnungshütte resemble the Reichs works of the Hermann Göring A.G. in Brunswick. Further, a beginning has been made with the systematic collection of scrap with the result that to-day scrap is even more important than ore in British steel production.

During the past ten years one-third on an average of all ores worked in Great Britain were imported from abroad, i.e. a percentage which is too large to be dispensed with, but the very considerably greater iron and steel production of 1937 was achieved with

## BRITISH INDUSTRY

iron-ore imports which were smaller than those of 1913. To that extent, therefore, Great Britain has become more independent.

On the other hand, the situation with regard to foreign iron-ore supplies is perhaps less favourable to-day from a strategic viewpoint than it was before the World War, when more than half Great Britain's iron-ore imports came from Spain. To-day the biggest single imports, one-third of the whole, come from Sweden via Norwegian harbours. Since the outbreak of the civil war in Spain only about one-seventh of Great Britain's iron-ore imports come from Spanish deposits. The importance of the North Swedish deposits, which are shipped from Narvik, has so increased in the eyes of the British government that it has made considerable efforts to exclude Germany from the field, but the greater part of this ore production still goes to her by the direct route across the Baltic.

In 1937 North Africa (Algiers and Tunis) still occupied second place in importance as an exporter of iron-ores to Great Britain, whilst Spain had sunk to third place. It is important to note that the British Empire has also increased in importance as an exporter. By 1937 empire countries provided one-tenth of all Great Britain's import requirements of iron-ores, whereas in 1913 they provided only a seventieth part of her requirements. Sierra Leone heads the list, having sprung into prominence as an exporter of iron-ores during the last four years. British Empire

## HOW STRONG IS BRITAIN ?

deposits are capable of development. Since 1933, for instance, Newfoundland's production has been doubled, although most of it goes to Canada.

Perhaps it might be said that the strategic disadvantages of the fact that the chief sources of iron-ore are on the other side of the North Sea are being neutralized by the new resources of the Empire, and, in addition, we shall have to wait and see how much of Spain's exports of iron-ore Great Britain will be able to secure when normality has been attained.

When we examine the industrial edifice which is based on the coal-mining and iron and steel industries, whose position we have just been discussing, certain structural features immediately become obvious. British industry is not to be compared with a delicately executed rococo building with its profusion of ornamentation, or with a Gothic building in which each façade artistically unites with the rest. It can rather be compared with a massive pile dominated by a limited number of horizontal and vertical lines. The engineering and textile industries must come in for special attention as important wings of the edifice.

Great Britain's engineering industry is also older than the corresponding industries of other countries. The first steam engines were invented and constructed in Great Britain, and machinery was first introduced into the enormous textile industry of Great Britain. There are no figures available from which we could draw definite conclusions concerning the development

## BRITISH INDUSTRY

of the British engineering industry since its inception, but we may assume that it has developed more or less like the other industries. In the beginning Great Britain was able to utilize her advantage in time to the full, and as she met with no serious competition she concentrated on the most profitable branches of the engineering industry, building steam engines, locomotives and steam turbines, and all forms of textile and agricultural machinery.

In time the two great industrial countries which have rivalled Great Britain in all branches of industry, the United States and Germany, appeared on the engineering field also. And here too, Great Britain, which had specialized in certain products, failed to keep abreast of modern technical developments. World demand began to turn increasingly to newer products, and the steam engine was largely replaced by internal-combustion engines and electric motors. As a result Great Britain lost a considerable section of her market for the older types of machinery, and her own production of the newer machines did not succeed in winning a corresponding share of the market for itself. Between 1907 and 1924, two years for which exact production figures are available, the production of the industry showed no increase worth mentioning. To-day, we may assume, the engineering industry in Great Britain is rather larger than it was before the World War both in the number of workers employed and in the value of production. The most important difference, however, and the one which is

## HOW STRONG IS BRITAIN ?

least favourable from the standpoint of Great Britain's wealth and strength as a whole, is that to-day the industry produces more for the home market and less for export.

The development of the export trade (weight for weight) has therefore been particularly unfavourable ; in 1924 it was about one-third less than in 1913. Later it rose a little again, but even in the best of the post-war years it still remained below the level of the years immediately preceding the World War. On the other hand, Germany's engineering industry exported twice as much as Great Britain's in 1930, although in 1913 the respective exports of the two countries were more or less equal, and Great Britain was partly overhauled by Germany even in her own special products.

One of the most important special fields of the engineering industry for Great Britain has always been shipbuilding. Shipbuilding plays a bigger role in Great Britain than it does in any other country, and it is quite natural that an island people should have specially developed the art of shipbuilding. Towards the end of last century, at a time when all other British industries were beginning to suffer from foreign competition, the British shipbuilding industry won a position of undisputed dominance in the world. In the nineties four-fifths of all ships built in the world were laid down in British shipyards, and even just before the World War Great Britain's share was still 61 per cent. That individualistic management which is so in accordance with the British character, and

## BRITISH INDUSTRY

which has proved itself so disadvantageous and hampering in other industries, did not matter in an industry accustomed to build specially to the particular orders of its customers.

After the World War, however, the importance of the British shipbuilding industry began to decline both absolutely and relatively compared with that of foreign shipbuilding yards. The number of vessels built varied considerably from year to year : the enormous demand for tonnage which arose after the end of the war was followed by a sharp set-back which in its turn was replaced by a period of recovery between 1927 and 1930. At that time the tonnage launched in the world was greater than the pre-war total, but British shipbuilding yards never recovered their pre-war production figures.

Great Britain's shipbuilding industry depends in two ways on the state of world trade : first of all on the number of vessels ordered from abroad in British shipbuilding yards, and secondly the demand for ships is always determined by the given volume of foreign trade as a whole. When world foreign trade declined sharply as a result of the great crisis of 1929, British shipbuilding firms were compelled to close down many yards which could no longer maintain themselves. In February 1930 they formed an association for this purpose, and about 160 shipbuilding yards were closed down and helped to form those hopeless scrap-heaps which still disfigure the scene from Newcastle down the Tyne. This action represented a reduction of

## HOW STRONG IS BRITAIN ?

Great Britain's shipbuilding capacity by no less than 700,000 tons annually.

The demand for shipping will not reach pre-war figures in any reasonably near future. Modern vessels are speedier, their loading equipment is better, and a given quantity of goods can be freighted with fewer ships. In 1937, there was 1.1 million tons of shipping on the stocks in British shipbuilding yards as compared with approximately 2 million tons in 1913, and at that 1937 was a peak year. For instance, in 1932 there were only 225,000 tons on the stocks. However, these figures do not include tonnage for the Royal Navy, and at the beginning of the rearmament programme this increased enormously and even after rearmament has been achieved it will remain high.

Even more disagreeable for Great Britain than the absolute decline in the tonnage built in British shipyards is the deterioration in the relative position of the British shipbuilding industry in the world. Only one-third of the tonnage launched in the world in 1937 was built in British shipyards as against almost two-thirds before the war.

Here is the most vulnerable point in Great Britain's armour in the event of war. As long as she was shipbuilder to the world in times of peace she found it comparatively easy to replace the tonnage sunk in war. Sufficient tonnage is the absolutely necessary condition for the staying-power of an island people in war time, and to-day the rapid advance of the air arm has increased the dangers run by merchant

## BRITISH INDUSTRY

shipping on the high seas. There is little hope of any considerable recovery in the shipbuilding industry in the reasonably near future, as the result of naturally operating factors, so the British government will probably be compelled to maintain a great shipbuilding industry in times of peace by artificial measures so that its capacity may prove adequate to meet all requirements in the event of war.

Great Britain has always boasted that she built the best ships, and she is proud of her engineers and shipyard workers. No one will deny that British shipyards can build good ships, but they no longer have a monopoly of the art. Even before the World War the big German liners on the Atlantic service were the biggest and most modern ships on the seas, and in recent years the *Bremen*, the *Europa* and others have proved themselves their worthy successors. When the giant *Queen Mary* was launched in 1934 under the plaudits of the entire nation the world was told with pride that only British shipyards could achieve such a triumph of engineering, but for all that the French liner *Normandie* has proved the better vessel. •

Another important branch of the engineering industry is the motor-building industry. The development of this industry in Great Britain is particularly interesting because compared with the industries we have already examined it has had no advantage in time over its foreign competitors, and later on it did not suffer the disadvantages of obsolete technical and organizational equipment. All industrial countries

## HOW STRONG IS BRITAIN ?

began the development of their motor-building industries more or less level. To-day it is a well-known fact that the United States has outstripped all her competitors in this branch of production, which worked from the beginning with modern methods of manufacture, and, thanks to the existence of an enormous domestic market, was able to introduce mass production at an early date.

The development of the British motor-building and motor-car industry has been similar in many respects to the development of the German industry. Here, too, old-fashioned methods of manufacture were in operation. Instead of building a limited number of types and standardizing the production of spare parts, thereby securing all the advantages of mass production, as Henry Ford did as early as 1908, a great number of independent works built their own individual types according to their own individual taste, and the industry as a whole made no attempt to influence the development of public demand in any particular direction. The result was that in 1913 British motor-cars were still very expensive, in fact they were still luxury articles.

The World War interrupted the natural development of this new industry both in Great Britain and Germany so that United States manufacturers were given the chance of greatly increasing their lead and of obtaining a relatively large share of the world export of motor-cars. The British government recognized the danger of this development at an early date

## BRITISH INDUSTRY

and in 1915 it introduced an *ad valorem* import duty of one-third on all motor-cars. Between August 1924 and July 1925 this duty was repealed, but then imposed again, and with that short interim it has been in force since 1915, and has since been extended to apply to spare parts as well. The important point to be noted here is that Great Britain's motor-car industry, which began under the same conditions as the corresponding continental industries, was unable to develop except under a protective tariff.

After the war certain manufacturers, and in particular the Morris works, began to introduce U.S. mass-production methods. They concentrated on a few cheap models so that in 1928 no less than three-quarters of the total British production of motor-cars came from three works whilst the remaining quarter was distributed amongst 30 or 40 other works. The dividing line between mass production and individual quality production had thus been very clearly drawn.

The conditions under which the British motor-car industry worked were very favourable indeed. It was able to buy its raw materials on a free world market and import them without the payment of import duties, whilst it sold its finished product behind a high protective tariff in a rich market. Small wonder therefore that British motor-car production increased from year to year : from 71,000 cars in 1923 to 182,000 in 1929. With the outbreak of the world economic crisis in 1929 there was a slight set-back, but the interesting thing about it was that it was so small. In 1931 production

## HOW STRONG IS BRITAIN ?

dropped to 159,000, the lowest crisis level, and then rose rapidly to 390,000 in 1937. One of the main reasons for this maintenance of production even in the lean years was the depreciation of the pound sterling which, added to the effect of import duties, led to a sharp drop in the imports of foreign cars.

How did the export trade in British motor-cars and motors develop in this period? As we have already seen, the triumphant career of the internal-combustion engine squeezed a number of British special products out of the world market, for instance, steam engines, and it would therefore have been highly desirable from the standpoint of the British economic system if the new British motor-building industry had succeeded in capturing a proportionate share of the new market. This was not the case, and the total balance of the development of the motor has meant an export loss for Great Britain. In 1913 almost a quarter of total British production was exported, but during the World War export business came to a standstill altogether, and after the war British cars had all they could do to penetrate into Empire markets where they found the U.S. car in a dominating position. The situation in the motor-cycle industry was much better, and in 1929 almost 39 per cent. of British production was being exported.

In the years 1926 to 1929 the total value of British motor-car exports amounted to very little more than the total value of foreign motor-car imports into Great Britain. If motor-lorries are included then the relation

## BRITISH INDUSTRY

between British exports and imports is 10 : 7, or a certain export surplus. Since then, however, the exports of British motor-cars have risen steadily and to a much greater extent than the imports of foreign cars so that in 1937 the relation between exports and imports was about 5 : 1.

Technically speaking the British motor-car industry reaches a very high level of performance indeed. The products of the Rolls-Royce works are amongst the best in the world. On the other hand, the ordinary mass-produced British car is hardly up to the corresponding standard of the U.S., German, and French motor-car industries. The British mass-produced car looks a bit old-fashioned and it is built primarily for the comparatively good and level roads of Great Britain.

In our examination of Great Britain's chief industries we now come to the saddest chapter of all, the textile industry, and in particular its once brilliantly successful and now sorely tried cotton branch. Four-fifths of all Great Britain's textile workers are employed in the cotton industry.

There was a time when British cotton-goods exports amounted to almost half her total exports. But that was a hundred years ago. There was a time when the cotton-goods industry with its enormous exports earned the greater part of those revenues which formed the basis of Great Britain's capital investments abroad, and Chinese, Japanese and Indian coolies wore loin-cloths manufactured in Lancashire, Liverpool and Manchester. There was a time when a British business

## HOW STRONG IS BRITAIN ?

man could say with some justice that a fellow who couldn't earn money out of cotton was a fool. And that was immediately before the outbreak of the World War.

The rise of the British cotton-goods industry was phenomenal. In 1800 British mills consumed 56 million pounds of raw cotton. Twenty years later the figure was 152 million pounds. In the middle of last century it had grown to over 700 million pounds, by the end of the century it was already 1,580 million pounds, and in the last few years before the outbreak of the World War it was 2,000 million pounds. The British cotton-goods industry could look back with pride and satisfaction on an uninterrupted history of tremendous progress throughout a full century.

In 1913 three-quarters of this enormous production went abroad. At first almost all the exports went to European countries, but around 1880 the enormous markets of the Near and Far East, began to be opened up, and the native industries of India and Japan, were rapidly destroyed.

The greatest start over other industrial countries was enjoyed by Great Britain in the cotton-goods industry. She was the first to introduce mechanization. The first textile machinery was set up in Great Britain and served by the cheap labour of women and children. She was the first to specialize the individual labour processes. The British textile industry became the historic predecessor of all modern mass-production industries.

## BRITISH INDUSTRY

The set-back, which necessarily came sooner or later, began even before the World War when the relative position of Great Britain as cotton-goods manufacturer to the world began to decline. What remains of her past textile glories? The export of cotton goods from Great Britain to-day is only one-third of the volume of pre-war exports, though the export of yarns is still three-quarters of the pre-war volume. Before the war Great Britain's share of the world exports of cotton goods was 65 per cent., in 1935 it was only a little over 30 per cent.

The set-back had to come for all those reasons which we have already seen operating in the other industries we have examined. Great Britain had no natural advantages in the matter of cotton-goods production. The technical process of spinning is simple; anyone can set up spinning machines, buy raw cotton and work it up into cotton-piece. That specialization which makes any organizational amalgamation of the industry so difficult, has been particularly highly developed in Lancashire, Cheshire and Derbyshire. Innumerable individual factories worked against each other in cut-throat competition and there was no central organization to limit their individualism.

Even before the war cotton-goods industries were growing up in other countries. The roles in the process changed over and the factories of the Far East, whose domestic production had once been destroyed by Lancashire, began to take a dramatic revenge. In the East alone Japan captured about

## HOW STRONG IS BRITAIN ?

one half of Great Britain's cotton-goods markets and compelled British manufacturers to seek their salvation in higher-quality production if they wanted to keep some sort of position in a world market which had in any case seriously shrunk. To-day Germany, Holland, South Africa, West Africa and Australia are the best customers of Lancashire, and in 1935 Germany purchased three times as much British cotton goods as the whole of India put together.

Another factor operated which tended to make the consequences of the set-back still more devastating. The British cotton-goods manufacturers failed to understand the real significance of their plight, and the idea that only a fool could become bankrupt in the cotton trades was still deeply embedded in their minds even after the war. To their misfortune the first post-war years with their feverish economic activity seemed to support this erroneous view. Prices shot up to fantastic levels and a spinner earned thirty-six times as much from a given quantity of cotton as he had been able to earn before the war.

\* As early as 1920 this artificial boom collapsed, but the psychological influence of the previous two years of exhilarating prosperity was so great that general belief in the indestructible prosperity of the cotton trades persisted on into the years of crisis which followed, and it was widely believed that any set-back could be of a temporary nature only. The banks, dazzled by the illusion of returning prosperity, supported their insolvent debtors instead of bankrupting

## BRITISH INDUSTRY

them and forcing them out of the industry, whilst the textile industrialists, far from limiting production, deliberately increased their productive capacity at great cost, in the naïve belief that prosperity was just round the corner once again.

To-day it is quite clear to everyone that Lancashire can never hope to win back its once absolutely dominating position in the world. To-day Lancashire is faced with the task of keeping the little it still has, of entrenching itself and holding on grimly against the attacks of its competitors.

Even that is not easy or enough. The neglected weapons in Lancashire's armoury are not good enough for the struggle. The plant is obsolete in many cases. In a period when foreign textile industries are reported to have invested no less than 95 million pounds in new machinery (though the actual figure has been disputed), Lancashire spent only 5 million pounds for a similar purpose. There is little trace of any organization to be observed. After much vacillation the Lancashire manufacturers finally assented in 1937 to a government request and put forward a plan for the reorganization of the industry, including a proposal to maintain price levels by eliminating cut-throat competition amongst themselves. The idea of rationalizing industry in order to lower the cost of production seemed to have occurred to no one, and the government therefore rejected the plan.

What prospects does the future hold out? If the British cotton-goods industry modernizes its armoury,

## HOW STRONG IS BRITAIN ?

i.e. rationalizes its production and gets rid of all obsolete factors, then it may reasonably hope to maintain itself in its entrenched position. With luck it might even be in a position one day to launch a counter-offensive. It has all the reserve forces we have seen in other British industries, reserves which up to the present have been tapped by the iron and steel industry only. However, it is quite certain that the halcyon days will never return when money streamed into Lancashire from abroad to be re-exported for investment in British property, railways, electricity works, mines, and industries.

The development of the elder brother of the cotton-goods industry, the woollen-goods industry has been fundamentally different. Originally it was based on the domestic production of wool, but from 1830 onwards this was largely replaced by Australian wool. Up to the outbreak of the World War the British woollen-goods industry developed steadily, and British cloths were famous all the world over. After the war woollen-goods manufacturers did not make the mistake of their colleagues in the cotton-goods industry of capitalizing future profits for the extension of productive capacity in the hope of permanent prosperity. Further, the countries which had been the chief customers of Great Britain for cloth before the World War had not been able to develop their own industries during the war, as was the case with many of the customers of the cotton-goods industry, because for the most part they were themselves belligerent countries.

## BRITISH INDUSTRY

However, on the other hand, after the war the woollen-goods industry was hard hit by changing fashions when very many of its customers turned to artificial silk. In 1924 total production was smaller than in the last few years before the war, a phenomenon which we have observed in connection with the other industries which we have examined, but with the woollen-goods industry the cause was not the decline in the export trade, as was the case with the other industries, but the decline in sales on the home market owing to the change in fashion already referred to. Exports to Europe did decline, it is true, but on the whole the British woollen-goods industry succeeded in making up for the decline by opening up new markets in the Far East.

However, the new markets gained in this fashion were not retained for very long, and after 1924 exports again declined and during the crisis they sank to about half the volume of pre-war exports. Since then the woollen-goods export trade has gradually recovered and by 1937 it had reached approximately three-quarters of the pre-war volume again. It is now very doubtful whether it will ever go beyond this point, because in the meantime the competition of artificial silk has been supplemented by increasing competition from numerous new kinds of artificial cloths.

So much for Great Britain's chief industries : the coal-mining and cotton-goods industries are not doing so well, the engineering industry is not doing so very

## HOW STRONG IS BRITAIN ?

badly, the shipbuilding industry has had cause to complain, and only the iron and steel industry is doing well.

New industries have since developed and the number of workers employed in them is beginning to rival the number of those employed in the older industries. The following industries have experienced the greatest increase in the number of workers employed since the end of the World War : artificial silk, electricity, motors, building materials, furniture, the food and drink trades. If the number of workers employed is taken as a measure of relative importance Great Britain's industries would be then listed as follows : coal-mining, engineering, cotton, printing and publishing, motors, wool.

The old key industries have seen their absolute and relative importance decline. New industries are growing up. We have already pointed out that this development is of particular importance for Great Britain because the old key industries were chiefly export industries whilst the new industries are not, so that as a result the export trade of the country has suffered. However, this development does not mean that absolutely less is being produced in Great Britain to-day as compared with the pre-war period. It would be a great mistake to believe this. On the whole British industry to-day is capable of greater productive performances than before, and in the event of war its total productive capacity would be greater than it was

## BRITISH INDUSTRY

before the World War.' This can be seen on the basis of a few figures.

Is the total product of British industry as a whole, of both the old key industries and the new industries which have since grown up, more valuable, just as valuable as, or less valuable to-day than it was before the World War? We are taking the World War as the dividing line because it is particularly interesting to compare British economic strength in 1913 with British economic strength to-day, and not because the World War represents any natural dividing line in economic development. The World War hampered Great Britain's development in some respects and accelerated it in others, but most of the germs of British post-war economic development were present in the situation which existed previously.

Before the World War, and within the framework of general prosperity, British industry was making important advances, but the rate of that advance was gradually slowing down, though the process was cloaked a little by economic vacillations; for instance, 1913 happened to be a peak year for production and prosperity. Since 1900 a certain stagnation had been visible in British industry. In the meantime, however, this stagnation seems to have been overcome.

Perhaps the best measure of this is given by the figures worked out by Dr. Walter Hoffmann in the *Weltwirtschaftliches Archiv*, September 1934, for the increase in British industrial production. According to Dr. Hoffmann's calculations British industrial pro-

## HOW STRONG IS BRITAIN ?

duction rose by 0.6 per cent. annually between 1713 and 1776, by 2.3 per cent. annually between 1772 and 1817, by 3.4 per cent. annually between 1813 and 1875, the halcyon days of British industrial development, and by 1.7 per cent. annually between 1875 and 1913.

Dr. Hoffmann was the first to work out an index of production for Great Britain up to 1931, on the basis of 1913 equalling 100. However, as 1913 was a peak year of unusually high productive levels it will be better for our purpose to take the average level of the years 1910 to 1913 as a basis to work on. We shall then see that after the war this level was temporarily reached again in 1920 to be followed by a deep drop and then a steady recovery until in 1927 it was considerably exceeded for the first time. In 1929 the index figure for British industrial production was 103.5, or even higher than the peak year 1913. Subsequently it fell below the pre-war level again, but there can be no doubt that at the moment it is once again higher than it was in the last few years immediately preceding the war.

The loss which Great Britain has suffered, and the weakening of her economic position in the world, is thus not due to any diminution of the total product of her industry as a whole. The cause for the weakening must be sought in the fact that industries working for the home markets are advancing into the foreground of British economic activity whilst the old export industries are declining. Great Britain's export trade has shrunk.

## BRITISH INDUSTRY

Two reasons were primarily responsible for this change. After the World War it proved less profitable to work to meet foreign needs than before, whilst working to satisfy the needs of the home markets became more profitable after the war than it had been before. Exports were no longer so profitable because the competition of other countries, as we have seen, depressed prices, and British industry with its obsolete equipment and methods was not able to keep up in the race for markets. In recent times still further factors have developed such as widespread tendencies to economic self-sufficiency, the introduction of quotas, barter transactions, the invention of substitute materials, the artificial production of oil from coal (which has damaged the British coal-mining industry), artificial silk, which has deleteriously affected the woollen-goods industry, artificial fibres which have similarly affected the cotton-goods industry, etc.

Working for the home markets became more profitable because the national income was more widely spread than formerly and the standards of living of the population as a whole were therefore higher, so that a supplementary demand grew up for consumption goods and luxury articles, and in order to satisfy it workers were employed who before the war would have been amongst the 44·5 per cent. of all British workers who were working for the export industries.

To sum up the situation briefly therefore we may say that a comparison of present-day British industry with pre-war industry shows us that to-day a slightly

## HOW STRONG IS BRITAIN ?

larger total production is so distributed that less is sold abroad and more consumed at home than was previously the case. However, the specific economic strength of Great Britain is based on her revenues from abroad, and thus in conclusion we observe that as far as industrial production is concerned this economic strength has been unfavourably affected by post-war developments.

## CHAPTER THREE

### BRITISH AGRICULTURE

A PERSON who had never been in England might imagine that the population of that small island had not much room. England, Wales, Scotland and Northern Ireland, which now make up the United Kingdom, are, in fact, much more densely populated than Germany. In Great Britain about 50 inhabitants live in an area which is inhabited by only 34 people in Germany. The stranger is therefore all the more surprised when he drives through England and Scotland in his car and perhaps leaves it standing on the narrow and fairly busy main roads to wander for a while over the fields.

He finds a deserted countryside, apparently almost uninhabited and consisting largely of what seem to be neglected grassy wastes. He can wander through the meadows, which are a rich green in the spring and yellow in midsummer, without meeting a soul. The fields are surrounded by irregular thorny hedges and there are very few regular footpaths. He must climb over hedges, fences and barred gates in order to get from one field to the next, and if he is wise he will

## HOW STRONG IS BRITAIN ?

take a compass in order not to wander too far out of his way.

He will meet no one of whom he could ask the way, and no one to forbid him to squeeze himself between the rusty barbed-wire fences. Sheep and cows will regard him with tranquil eyes, rising clumsily to their feet only if he goes too close. From time to time he will come across a thickly wooded copse, and if he is wise he will go round it rather than risk entangling himself in its thorny undergrowth. From lonely farms or small villages wisps of smoke will curl up into the sky, and a child's toy in a garden may betray that human beings live there, but he will hardly ever meet one face to face. That is true of broad stretches of the English countryside, and in Scotland the countryside is still more deserted.

Instead of distributing themselves more or less evenly over the rather confined area of their Motherland, the population of Great Britain is concentrated in a few big towns and their densely populated suburbs, and above all in London. Agriculture in Great Britain has been squeezed out by industry, and it now plays a comparatively small role in national life. Agriculture, it is true, still employs rather more people than the coal-mining industry, the next biggest branch of British economic activity, but it is still only one amongst many other branches. It does not stand side by side with industry as an equal, but is mentioned only with other individual branches of industry and commerce. Agriculture has very little place in the consciousness

## BRITISH AGRICULTURE

of the masses of the people. The urban population goes into the country for the week-end, some may go shooting, others hunting, the business man may own a little place in the country which looks from the outside like a farm, but which in reality is equipped with baths and all the amenities of modern housing comfort. What was formerly the stables now serves as a garage. Not far away there is a golf course, and if the country-house owner still has some feeling for rural pursuits he grows flowers in his garden, and perhaps has a small orchard and a kitchen garden.

A visitor from abroad motoring through the surroundings of London is said to have observed that the British Minister for Agriculture should really be called the Minister for Golf Courses and Flower Gardens. However, that was due to a false impression of British agriculture ; it is not in quite such a parlous condition as that.

The reasons for the decline of British agriculture are quite well known. The industrialization of the country began at the beginning of last century. The farmer became an industrialist, and the small farmer and the farm labourer became industrial workers. A large part of Great Britain's industrial production was exported abroad in return for raw materials and foodstuffs. That was, and still is, very good business indeed. Foodstuffs were produced cheaply overseas and at the same time high prices were paid for British industrial goods, so that when the British industrialist sold his products abroad he received more raw materials

## HOW STRONG IS BRITAIN ?

and foodstuffs in return than he would have received had he sold them at home to the British farmer in exchange for home-grown agricultural produce.

From the standpoint of the British economic system as a whole it was an advantageous thing to put British labour-power to work in industry rather than in agriculture, where it would have been employed under less favourable conditions than those enjoyed by farmers in the great overseas agricultural countries. Great Britain therefore became the pioneer of Free Trade, meaning just that Great Britain obtained foreign raw materials and foodstuffs cheap whilst selling her industrial products abroad unhindered by customs barriers. At first British farmers enjoyed some natural protection owing to the difficulties and expense of transporting foodstuffs from far-off countries to Great Britain, including the technical difficulties of transporting easily perishable foodstuffs over long distances. In the beginning therefore it was not possible to dispense with home-grown agricultural produce. Later on, however, ships became speedier, freightage costs declined, and a method of freezing meat for transport was discovered, which was later improved so that only chilling was necessary. The result of the chilling process is that meat can be loaded in Australia, New Zealand and other far-off countries, and arrive in Great Britain in very good condition. Thus the natural protective wall which British agriculture enjoyed at first was dismantled stone by stone. British farming began to decline, landowners and tenant farmers grew

## BRITISH AGRICULTURE

poorer, land went out of use altogether, tenant farmers could no longer pay rents and their sons migrated into the towns, where better prospects seemed to offer themselves, instead of taking over their fathers' farms. There was a time when British agriculture led the world, when British methods of tillage and cattle breeding were studied everywhere in the world as exemplary. But all that gradually ceased.

More and more land was tilled extensively instead of intensively, more and more ploughed land was turned into permanent pasturage, and in the mild and damp climate of the British Isles it could be left to itself after seven years' attention. British agriculture experienced its severest crisis between 1887 and 1896, and it was in this period that the Board of Agriculture was established. It has since developed into the Ministry of Agriculture, and become an important department of governmental activity. At the beginning of the present century a certain recovery set in, and between 1900 and 1914 attempts were made to adapt British agriculture to the new and less favourable situation. As a result of these efforts British agricultural income was raised by 20 per cent. During the war, of course, agricultural prices were high, and even in 1920, two years after the war, British farmers were receiving three times as much for their produce as before the war. However, that was a temporary recovery only, and since then it has been followed by a relapse and further decline.

How much is actually left to-day of British agriculture

## HOW STRONG IS BRITAIN ?

after all these vicissitudes? Actually more than one might expect. The most important fact is the relative decline of agriculture, i.e. its stagnation in face of the rapid increase in the population and the enormous increase of productive capacity on all other fields of economic activity. Regarded absolutely British agricultural production has declined very little. For instance, the taxable income of Great Britain's farmers in 1914 was exactly the same as that of 1815. However, since the battle of Waterloo the population of the country has increased fourfold.

Statistics concerning the development of agricultural production in Great Britain are sparse, and the figures which are available do not go back very far. The best picture can be obtained from the calculations of a German economist, Dr. Drescher, who published an index of nutritive values for British agriculture from 1866 to 1931 in the *Weltwirtschaftliches Archiv* in March 1935. According to this index there has been a reduction in vegetable production and an increase in animal production, which reflects the transition we have previously referred to from tillage to cattle breeding.

The index also shows us that the actual economic value of vegetable production in the years 1866, 1896, on an average in the four pre-war years 1909-13, and in the first post-war year 1919, was the same. In the years which lie between it was, generally speaking, rather lower, though in 1918 when the British government was doing everything possible to increase agricul-

## BRITISH AGRICULTURE

tural production in order to neutralize the losses suffered from Germany's submarine warfare, the value increased by almost a quarter. Since 1919, however, the value of vegetable production has dropped sharply, and in 1931 it was only three-quarters of the peak-year levels, i.e. only three-quarters of the pre-war level also.

On the other hand the nutritive value of the total animal products of British agriculture has increased almost uninterruptedly since 1866. Between 1866 and 1911 it almost doubled. Since the end of the war the increase has slowed down, but by 1931 the nutritive value had increased by a further 10 per cent., as compared with the pre-war level.

As we have already pointed out, a stranger visiting the British countryside would get the impression that great stretches of land were being left idle. The reason for this is that British pasturage creates an impression of being neglected. Economically, however, these stretches of land are not lying idle at all, and if we examine the available statistics we shall find that the area of land in regular agricultural use has hardly declined during the past fifty years. No very great stretches of countryside have been left lying idle, but, just as many hundreds of years ago the wooded areas of the country were cleared, so during the past fifty years a considerable part of the country which was under the plough has been turned into pasturage, a development which came to a stop temporarily in 1935 only to recommence later. However, the extent of this development must not be overestimated. In

## HOW STRONG IS BRITAIN ?

1884 the area of land under the plough amounted to a little over the half of all land used for farming, and in 1936 it still amounted to 41.6 per cent.

Oats play the biggest role in Great Britain's harvest as far as volume is concerned, but wheat, as the only cereal grown in the country, occupies public attention far more. The production of rye is almost unknown. Since the beginning of the century, when recovery set in for British agriculture, the wheat harvest has increased almost without interruption. The biggest harvest was in 1918 when it was twice as big as in 1914. A violent set-back then took place, but since 1929 the wheat harvest has again been on the up-grade, and in 1936 it had reached almost exactly the level of the average harvest during the last ten pre-war years. The oats harvest in 1904 was bigger than it usually is to-day, but not very much bigger. It has remained fairly stable, and in 1936 it was only one-fifth under the average harvest level of the last ten pre-war years. In weight it was almost twice as big as the wheat harvest in 1936. Between 1904 and 1920 the harvest of barley remained fairly stable, but in 1926 a decline began, and by 1937 it was only about 65 per cent. of the average volume of pre-war barley harvests.

Root crops, etc., have enjoyed greater protection from high transport costs than any other branch of agricultural production because being not only heavy but also bulky it has never been worth while to import them. The result has been, for instance, that since 1900 the potato crop has steadily increased. It

## BRITISH AGRICULTURE

reached its culminating point in 1918 when it was almost three times as big as the 1904 crop. Subsequently the crop diminished, but in recent years it was still about 20 per cent. over the average level of the last pre-war years. It must also be remembered that the increased standards of living enjoyed by the population of Great Britain since the war have led to a considerable decline in the demand for potatoes. Potatoes in Great Britain do not represent a staple article of diet to the same extent as they do in Germany, for instance. The turnip crop has greatly diminished in recent years, and in 1936 it was only half of the average crop during the last ten pre-war years.

As against this fairly general decline in the production of agriculture proper we find that livestock inventories have increased, though as in most other countries the number of horses has decreased as the result of mechanization : about one-fifth since 1913. The most valuable branch of horse-breeding is represented by the thoroughbred stud farms, which are still on a very high level, and in addition there are numerous private amateurs who breed blood stock on a smaller scale. The number of cattle in Great Britain is slowly and steadily on the increase in accordance with the tendency we have already seen of turning plough land into pasturage, and to-day it is about one quarter greater than in 1884. In 1913 there were almost 7 million head of cattle in the country, and by 1936 the number had increased to 7.9 million. Dairy farming is in fact the most important single branch of

## HOW STRONG IS BRITAIN ?

British farming, and although the consumption of milk is not very high it is something that British agriculture can satisfy it almost entirely. The structure of the British economic system as a whole makes dairy farming the most suitable form of occupation for broad sections of the British agricultural community, and this was confirmed only recently by the government.

Between 1884 and 1920 the number of sheep in Great Britain slowly decreased by about one quarter. Its lowest level was reached with 19·7 million. Since then it has increased again to almost 26 million, but in 1936 it was again a little over 24 million only and therefore very little above pre-war levels. Pig breeding has developed rather more satisfactorily. There are considerably more pigs in Great Britain to-day than there were in 1884, and almost twice as many as there were in 1913. As a curiosity it may be mentioned that in 1936 there were as many dogs in Great Britain as pigs.

Agriculture represents a factor in the total strength of a country in two respects : first of all as the foodstuff basis for the population, and secondly as a source of biological strength.

The migration from the rural areas into the towns has almost completely put a stop to the latter function of British agriculture. For a long time now the British people have received no very large supplies of fresh and healthy blood from the rural areas. Between 1911 and 1934 the number of people engaged in agricultural pursuits in Great Britain declined by more than half,

## BRITISH AGRICULTURE

and even in 1911 2·3 million souls engaged in agricultural pursuits out of a total population of over 40 millions was not much. In 1934 there were only 964,000 people engaged in agriculture.

As early as the last century it began to be recognized in Great Britain that there was a danger of the agricultural population completely disappearing, and from 1888 onwards the government made it an important plank in its platform to encourage the rise of small farming and the development of the agricultural labourer into an independent small farmer. The government even went so far as to introduce a law in that direction, but it failed completely as a result of passive resistance on the part of the local authorities. After a lapse of fourteen years it was discovered that only about 800 acres had been purchased under the act by the local authorities, and of those only about 250 acres were actually in the hands of the new yeomen. In 1907 the Ministry of Agriculture intervened and gave the local authorities the right to compel the sale of suitable land. The results were then a little better and by 1914 about 14,000 new small farms had been founded with an average of about 15 acres apiece. At the time there were about 292,000 small farms of approximately this size in existence in England and Wales.

After the war and up to 1932 a further 17,000 such farms were founded, but what was being created on the one hand was being lost on the other. In 1931 the number of farms having up to 5 acres was 87,452,

## HOW STRONG IS BRITAIN ?

between 5 and 50 acres 212,385 and between 50 and 300 acres 152,041, and above 300 acres 14,441.

Agriculture has never been, and is not to-day, regarded in Great Britain as a very desirable occupation, and it is not the most intelligent youths who stay on the land to follow in their fathers' footsteps. Agriculture in Great Britain is regarded purely from the standpoint of its profitability as a source of income, just as it was in Germany up to 1933, and it evokes no feelings of idealism or of love for the land for its own sake. Thus the productive capacity of the diminished number of farmers has also considerably decreased. Productive capacity has not been maintained, and to-day obsolete and uneconomic methods of working can still be widely met with in the rural areas, and the reason is often neglect and lack of interest. As early as 1911 the well-known author Rider Haggard complained about the "alarming thick-headedness" of the British farmer.

Before the war only about 12 per cent. of Great Britain's farmers owned the farms they worked; the remainder were tenants on the property of rich landowners. Under existing conditions that was an advantage for British agriculture, and the fact that after the war, when for a short time the situation of British agriculture was favourable, many ex-soldiers sought a living on the land and many small farms became the property of those who worked them proved to be a disadvantage. It meant, namely, that in future they were directly hit by every deterioration

## BRITISH AGRICULTURE

in economic conditions. There was no longer a rich landowner there to help them over bad times with his greater resources.

What is the position to-day with regard to British agriculture's role as the foodstuff basis of the British people? The answer results automatically from what has been said above. Great Britain is not in a position to feed herself from the produce of her own agriculture, in fact, she cannot even approximately do so. Although the production of wheat is artificially encouraged by the government with price and sales guarantees, the harvest yield would not last for three months. Supplies of home-produced butter would last about six weeks, though with a little economy in the use of milk and cream the period could be extended a little. Home-grown meat would last just about six months. Other grains would last perhaps four months, though oats would probably last longer. Fruit would last perhaps three months. The situation is rather more favourable with regard to vegetables proper, potatoes and, above all, milk. The sugar-beet yield at the moment would be able to meet demands for about three months in the year.

It has already been said that Great Britain will never again be in a position to meet her food requirements from her own agricultural production. We should hesitate to support such a summary and categorical statement. Whether it is true or not obviously depends on the movement of population figures and on the possibility of obtaining bigger harvest yields.

## HOW STRONG IS BRITAIN ?

However, speculation on this point is rendered barren by the fact that Great Britain has no intention of feeding herself exclusively with her own agricultural produce even if she could.

The question is therefore interesting only from the standpoint of a possible war, and in this connection let us examine developments during the World War. During the first years of the war the British government did nothing whatever to increase agricultural production, and in 1914 British farmers were told to continue as usual sowing whatever they considered most suitable to their own areas. In the first period of the war the total area utilized by British agriculture even decreased.

During the war Great Britain imported approximately half of her foodstuff requirements from abroad, and it was 1916 before the government began to take any action to increase British agricultural production. Its first measure was the establishment of a guaranteed price for oats, but only for oats grown on land newly taken under the plough, land which had previously been used for pasturage. By 1917 shipping tonnage had been considerably reduced, prices on the American market were rising rapidly, and the threatening exhaustion of British gold reserves made it seem advisable to limit purchases in America, and so in January wheat prices were guaranteed and fixed minimum prices for potatoes introduced. It was not until 1918 that any vigorous measures were undertaken to extend the tilled area, but, as we have already seen,

## BRITISH AGRICULTURE

these were successful in considerably increasing agricultural yields.

In the event of another war the British government would probably act similarly, except that she would probably act more systematically and perhaps be better prepared beforehand. There are circles in Great Britain which demand the introduction of a system of protection for British agriculture which would exclude to some extent the agricultural and farming produce of the Dominions, the Argentine and Denmark from the British market, but although rearmament on a big scale has compelled the government to reconsider its agricultural policy very carefully, it has determined, for the moment at least, not to abandon its old policy.

The Ex-Minister for Agriculture, Morrison, defined the government's policy during his period of office and declared that the Cabinet would always be prepared to do the minimum necessary to maintain agriculture and keep the soil fertile. To this end it would guarantee minimum prices for the most important articles, organize distribution with the assistance of government bodies, and grant assistance for the purchase of manures to prevent the exhaustion of the soil. Instead of reorganizing agriculture for war needs in peace time, the government prefers to maintain the most efficient methods of working whilst taking care that the reorganization of agriculture for changed war-time conditions requiring increased production can be carried out rapidly. At the same time supplies of certain foodstuffs are being laid down to help the

## HOW STRONG IS BRITAIN ?

country carry on through the first months of a war when imports will be suddenly reduced and home production will not yet have reached any considerably higher levels.

Thus Great Britain is still quite prepared to accept the fact that she is not in a position to feed herself from her own agricultural production ; in fact, the British economic system as a whole still remains based on the exchange of coal and industrial goods with foreign foodstuffs and raw materials. The significance of this is tremendous. It is the basic fact of Great Britain's position in the world and it is the standpoint from which her economic system and her economic strength must be judged. This fact is the basic law of British policy both in war and in peace.

The direct consequences of this are simple and cogent. The first consideration for Great Britain is that she should keep open her sea-going communications with the rest of the world at all costs. All her communications with the rest of the world are sea-borne, and she must therefore maintain her command of the seas by means of a powerful navy, and in recent years by a powerful air arm as well. This applies to the seas which lap her shore, and above all to the English Channel, but it also applies to those more remote seas through which her communications with the outside world must pass. Great Britain has a common frontier with all the seabords of the world. Navy and air fleet guard this frontier. If the British Navy is ever defeated, if the British Air Force is ever

## BRITISH AGRICULTURE

driven out of the air, Great Britain herself is brought to her knees. That is the first direct consequence of the position we have described.

The second consequence is that Great Britain must be able to dispose of her industrial goods abroad if her population at home is to eat. Other countries could suffer great sections of their industry to be put out of action, and their peasants would still be able to feed the population, but if great sections of British industry were put out of action the British people would suffer a food shortage and perhaps starve. Great Britain must earn money abroad by selling her exports, by hiring her services, and by her investments in order to be able to pay for the foodstuffs she requires to keep her population from starving. Great Britain *must* export her industrial goods, she *must* hire her various services abroad, she *must* earn money abroad—that is the categorical imperative of British foreign policy. Great Britain lives by adapting herself to this necessity, and she could live no other way. If all the other countries of the world were to make themselves economically self-sufficient, Great Britain could no longer feed her population.

## CHAPTER FOUR

### BRITISH SHIPPING

GREAT BRITAIN'S link with the rest of the world, on which she depends so absolutely that she could not live if she were cut off from it, is the sea. Everything which Great Britain obtains from abroad, and everything which she sells to other countries must first of all be transported in ships. All these commodities have to be brought into some harbour for shipment ; they must all be swung out by cranes and lowered into the great holds of ships. The foreign raw materials used in British factories, the foreign wheat ground in British mills, every commodity from abroad used in Great Britain has travelled across the sea.

It is necessary to stress this point if we are to arrive at a real conception of what shipping means to the island empire. Great Britain could be defeated and ruined in a number of ways. If the rest of the world were to adopt sanctions against Great Britain and refuse to sell her goods or buy goods from her she would collapse. If she were to become insolvent and be unable to meet the obligations arising out of her

## BRITISH SHIPPING

import trade she would collapse. And if she had the resources of the rest of the world at her disposal, and was willing and able to pay for them any sum demanded, she would still collapse unless she was in a position to transport them to her own shores. For Great Britain ships are vital organs ; through them she breathes and feeds herself.

It is a truism that Great Britain needs a strong navy for her defence, and we shall discuss this question in another place. At the same time, the watchdog is not much use if there is nothing for him to watch. Thus, Great Britain's mercantile marine is even more important than her navy. In times of peace, of course, she could have her requirements transported in the vessels of other nations, but in war time she would then be dependent on those other nations for her very existence. She therefore needs not only a strong navy to defend herself, but a strong mercantile marine to supply herself. In fact, a strong mercantile marine is one of the most important and indispensable factors in her general strength.

This is also true for another and indirect reason. The mercantile marine represents a big source of revenue to the country. It carries the commerce of other countries as well as its own, and the freightage paid by these other countries to British shipowners flows into Great Britain as a tributary to that broad stream of revenues from abroad which go to pay for her imports and to supplement her capital holdings abroad. Great Britain's wealth is the most important

## HOW STRONG IS BRITAIN ?

pillar of her position in the world, and everything connected with this wealth is important.

British shipping thus plays a double role. First of all it is, as we have already pointed out, the preliminary condition for Great Britain's very existence as an independent nation, and secondly it helps to maintain and supplement her wealth.

There is no doubt that up to the end of the World War the British mercantile marine fulfilled both roles very successfully. In 1914 when world commerce was at its most prosperous and London was the undisputed centre of world trade, four out of ten ships on the high seas flew the Red Ensign, and six of them had been built in British shipyards. Every year British shipping earned an average of 90 million pounds sterling abroad, and this represented a very considerable contribution to the regulation of Great Britain's balance of payments.

In this respect Great Britain entered the World War very well prepared indeed. In the beginning the mercantile marine had no difficulty at all in carrying out its duties and providing the country with foodstuffs, etc., and providing the military authorities with means of transport. About one-third of the mercantile marine was engaged in this auxiliary military task. The shipping losses suffered in the first two years of the war as a result of hostile action were comparatively small, but in 1916 the losses suffered as the result of hostile submarine action began to increase, and in 1917 these losses reached the alarming total of 3·7 million tons, which was their highest point during the war.

## BRITISH SHIPPING

The immediate result was a shortage of shipping, and this shortage led to the 1917 crisis. Unrestricted submarine warfare created a terrible danger for Great Britain. Up to 1916 the British government had done surprisingly little to regulate sea-borne commerce and to rationalize existing shipping facilities. In 1917 it found itself faced with a state of extreme emergency, and existing shipping facilities were then placed under a central authority, import permits were issued in order of importance, the imports of non-essential goods were very considerably cut down, and special products, like timber, which take up a lot of shipping room, were cut out altogether. In addition, defensive measures against submarine action were improved, and in particular the convoy system was introduced whereby a string of merchant vessels would proceed together under the protection of warships. As all these things proved insufficient the British government began to search for sources of supply for important raw materials nearer home. Goods and materials which had always been purchased in far-off countries were now purchased if possible in nearer countries in order to utilize available shipping facilities to the utmost. Up to the end of the war Great Britain had to exert all her forces in order to safeguard the minimum supplies of food-stuffs and war materials she required for the prosecution of the war.

When the United States entered the war on the side of the Allies in 1917 the number of merchant vessels available was increased by the U.S. mercantile marine,

## HOW STRONG IS BRITAIN ?

which had in the meantime grown considerably. In this way it was possible in the end to ward off the danger of collapse as a result of insufficient shipping facilities. However, success was obtained only very narrowly and there are many experts in Great Britain who believe that had Germany begun her unrestricted submarine campaign at an earlier date it would have proved fatal for Great Britain, and even Lloyd George himself has expressed this opinion.

During the course of the World War Great Britain lost a total of 7.76 million tons of merchant shipping as the result of hostile naval and military action. That is over one-third of the total tonnage she possessed at the outbreak of the war. However, by increased shipbuilding activity it proved possible to make good the greater part of these losses during the course of the war itself so that at the conclusion of hostilities the British mercantile marine was only about 3 million tons smaller than it had been in 1914. Up to 1932, with certain vacillations, the British mercantile marine remained more or less as big as it was before the war. However, in the autumn of 1934 a decline in total tonnage set in and to-day Great Britain has only 17.6 million tons of merchant shipping as compared with 19 million tons in 1914, though this reduction has been partly deliberate, because with a view to assisting the shipbuilding industry and modernizing the mercantile marine the British government has placed a premium on the scrapping of old ships.

This is sufficient to indicate that tonnage figures

## BRITISH SHIPPING

alone are not sufficient to permit the formation of a sound judgment on the state of merchant shipping. Tonnage is decisive only in war time. Of course, it is important in war time too that shipping should be as modern and speedy as possible, but the great thing is that there should be ships at all, and an old and slow vessel is better than no vessel at all, and the rather higher running costs of such a vessel would play no role at all.

If war were to break out to-day Great Britain and her Dominions and colonies would have a mercantile marine of 20·7 million tons at their disposal (on the basis of 1938 figures) as compared with 21 million tons on the outbreak of the World War. The difference in tonnage is thus not very great, and if we take into consideration the fact that on an average these ships are faster than those of pre-war days we may reasonably assume that this reduced tonnage will be able to carry just as great a burden as the rather bigger tonnage available at the beginning of the war, and probably a still greater burden.

However, a number of other factors must be taken into consideration if we are to form a sound judgment on the probable position of British merchant shipping in the event of a new war. On the one hand Great Britain's position in this respect would be more favourable because she now has the very valuable experience of the last war on which to base her plans with regard to the better organization of her available tonnage and to the protective measures to be adopted against enemy

## HOW STRONG IS BRITAIN ?

action. In general, Great Britain is much better prepared to face a war to-day from this point of view than she was in 1914, and in the event of war the government would immediately establish control over the total available merchant shipping tonnage, carefully allot its tasks, and in general utilize it as rationally as possible. Further, as a result of the establishment of large reserve stores of certain commodities, for instance wheat, merchant shipping will be relieved of a considerable burden in the event of war.

Systematic protective measures for merchant shipping on the high seas would be immediately adopted, including the convoy system, which is reported to have been greatly improved and which forms a part of the normal training of the Royal Navy to-day. Very considerable progress is reported to have been made with regard to defensive measures against submarine attack, but a new factor has since arisen whose significance is difficult to estimate, though we know that it will certainly play a great role in any future war. During the World War 6.6 million tons of merchant shipping were sunk by hostile submarine action, and only 8,000 tons by hostile air action. In any future war, however, the aeroplane as a weapon against merchant shipping will undoubtedly play a much greater role. Long-strung-out convoys would be difficult to conceal from a hostile air force, and it was not for nothing that the Home Fleet carried out manœuvres off the Irish coast in the spring of last year whose theme was defensive measures

## BRITISH SHIPPING

against a hostile air attack on a convoy of merchant vessels.

In a future war there is another factor which would definitely increase Great Britain's shipping difficulties. Since 1914 the population of the British Isles has increased quite considerably, and this, taken together with higher standards of living, has led to a considerable increase in import requirements.

In considering the amount of tonnage required for imports we must consider not their value alone, but their weight and their bulk. Unfortunately there are no reliable statistics available on the point, but the Liverpool Association of Shippers publishes an annual estimate from which we can see the general trend of development. According to these figures the total weight of British imports in 1913 was 56 million tons, but by 1937 it had increased to no less than 75.3 million tons. If we assume, just for the purposes of comparison for the moment, that each ton of weight demands an equal quantity of hold-room, then that would mean that the hold-room necessary for British imports to-day must be more than one-third greater than it need have been in 1913.

The question, of course, immediately arises, how far present-day British imports consist of luxury goods which might be dispensed with at need? During the World War the weight of imports was decreased from 56 million tons in 1913 to 34 million tons in 1917. The decrease was not made voluntarily, but at least it was made without Great Britain suffering collapse in

## HOW STRONG IS BRITAIN ?

consequence.' If we examine the individual items which have caused the increase in the weight of British imports since 1913 we find that in general they were not luxury goods proper, i.e. finished goods, which in any case take up a relatively small hold-room. The biggest increase was in the import of raw materials, and the next biggest increase was foodstuffs. The higher standards of living enjoyed by the British working class is probably one of the reasons for the increase in import weight, and therefore we should probably not go far wrong if we assumed that in the event of a new war the weight of British imports could be reduced to an even greater extent relatively than it was during the World War, though it would be extremely difficult to decrease it to the same absolute low level of 1917.

It must further be taken into consideration that in 1913 the British shipbuilding industry was flourishing, and that on the outbreak of war the number of efficient modern shipbuilding yards at work was considerably greater than it is to-day. It was therefore easier then than it would be to-day to replace a considerable part of the tonnage lost as the result of enemy action by laying down new vessels. During the course of the war Great Britain laid down 4·8 million tons of new shipping. That was a yearly average in excess of the tonnage on the stocks in 1937, a year which beat all previous post-war records.

If we sum up the effect of all the factors we have discussed, as well as it is possible to sum up factors

## BRITISH SHIPPING

which are so difficult to estimate accurately, we must come to the conclusion that from the shipping standpoint Great Britain would, on the whole, enter a new war on the lines of the last in a rather less favourable position. In this connection we can duly appreciate the very great importance of maritime routes which save time, such as the Mediterranean routes. If Great Britain's merchant shipping had to negotiate the Cape of Good Hope instead of steaming through the Suez this circumstance would greatly increase the amount of hold-room needed for her imports. A sudden closing of the Mediterranean to British shipping would mean more than a temporary delay in steamship arrivals owing to the fact that all vessels would have to take the longer Cape route ; it would mean a permanent shortage of hold-room because at any one period more ships would be on the high seas.

The final factor to be mentioned is the transition from coal to oil fuelling in the mercantile marine. The fact that oil is now the chief fuel used will make Great Britain's shipping situation more difficult in the event of war. The imports of oil into Great Britain in 1913 were only one-fifth of the amount imported in 1937. This means that a part of her merchant shipping tonnage to-day consists of tankers, i.e. of specially built vessels which are unsuited to take any cargo but the one for which they were built. If hostile action succeeded in cutting off Great Britain's oil supplies, or even in reducing them to any considerable degree, the result would be a major catastrophe for the country.

## HOW STRONG IS BRITAIN ?

The amount of natural oil produced in Great Britain is negligible, the artificial production of oil from coal is hardly out of the large-scale experimental stage, and existing oil supplies are not inexhaustible.

Great Britain's merchant shipping position in the event of a new war will therefore be rather less favourable than it was in 1913, and it will not fundamentally improve because merchant shipping and its problems must always remain one of the most vulnerable points in Great Britain's armour. Her dependence on foreign countries has increased both with regard to the volume of imports as a whole and with regard to that most important item oil. It is difficult to judge how far these disadvantages have been neutralized by better preparations to meet possible emergencies on the basis of Great Britain's experience during the last war, and we shall discuss this question again in our chapter on Great Britain's military strength.

One thing is quite certain, a healthy and flourishing mercantile marine in peace time will greatly facilitate the taking of whatever steps the British government considers indispensable in the event of war, as well as making them far less expensive. To this extent a healthy and flourishing mercantile marine in peace time is a natural condition for war preparedness. What is the position in this respect? Before the World War 41·6 per cent. of world shipping tonnage sailed under the Red Ensign. By 1938 Great Britain's share had sunk to 26·4 per cent. However, as we have already pointed out, it would be wrong to draw any direct

## BRITISH SHIPPING

conclusion from these figures concerning the decline of British shipping. British merchant shipping is still first on the list and it holds a commanding position at the head of all other countries. The fact that Great Britain's share of the world's shipping tonnage is less to-day than before is due more to the increase of non-British rather than to the decrease of British tonnage. The United States, Japan and Norway, who are next in the list of merchant shipping tonnage, have all greatly increased the strength of their merchant fleets since the World War.

If we exclude all vessels over 25 years old or of less than 4,000 tons, and consider only big modern merchant vessels we shall find that Great Britain's position is considerably more favourable, and statistics show that she still possesses 36 per cent. of this modern tonnage. Modern tonnage under the British flag in 1936 totalled almost 11 million tons, whilst the United States was second with approximately 5 million tons, and Germany was third with 2.2 million tons. Despite the decline in world trade since 1929 parallel with an increase in world tonnage, the British mercantile marine has held its position well.

Up to and including 1930 British shipping lines, of which one quarter are owned by the five great companies, Peninsula & Orient, Royal Mail, Ellermanns, Cunard and Furness Withy, earned more, and occasionally very considerably more, than they did before the war. Reckoned per ton of hold-room double the rates were earned in some years compared with 1913, and

## HOW STRONG IS BRITAIN ?

1913 was by far the best of the pre-war years. Tramp shipping, which earned record sums during the war and in the years immediately after it, did not do so well later, but up to 1928 it had no very great reason to complain.

However, even in these years of prosperity there was one important difference, and afterwards it made itself felt to an increasing extent. Shipbuilding costs and wage rates had considerably increased, and the financial situation of the big shipping companies was greatly affected because a much larger capital sum was necessary for the running of the same tonnage. The capital of 28 typical British shipping lines in 1930 was five times as great as in the period between 1909 and 1913. Since then it has been considerably reduced, but it is still three times as big as it was before the war. This increase of capital means that the shipping companies must earn considerably more than they did before the war if they are to meet all their obligations.

In 1931 the great set-back arrived, and the tramp trade was even worse hit than the ordinary shipping lines. The world economic crisis greatly decreased world trade whilst at the same time world shipping tonnage increased, and many countries were compelled to subsidize their shipping lines in order to keep their flags flying on the high seas at all. The tendencies to economic self-sufficiency which had already hit Great Britain so hard took the form of government subsidies in the shipping world, and a certain discrimination was also practised, i.e. demands were made, and are being

## BRITISH SHIPPING

increasingly made, that import goods should be carried in the ships of the country purchasing them. It is clear that Great Britain, as the merchant shipper of the world, must be particularly hard hit by such developments. In November 1934 the British government finally decided to grant British tramp shipping some assistance.

It is no wonder that British tramp shipping gradually began to feel the pinch. It must be remembered that before the war its chief occupation was carrying export coal. It is not generally known that the weight of British exports before the World War was very considerably greater than the weight of British imports. This was due entirely to the big British exports of coal, which amounted to 76 million tons in 1913 and weighed more than the total bulk of British imports in that year. In 1937 British coal exports totalled only 43·5 million tons. Many small colliers which before the war found a lucrative trade in carrying coal to other countries and casting around for some cargo to take home with them, can find no occupation to-day. This is a direct result of the decline in coal exports, which has been the most serious of all post-war developments for Great Britain.

The only advantage that this development has brought with it is that British exports and imports are better balanced to-day than they used to be. British exports still weigh more than British imports, but they no longer weigh so very much more, and in many cases this means that British vessels which leave for

## HOW STRONG IS BRITAIN ?

foreign ports with cargoes of British goods can more easily find return cargoes of goods for Great Britain than was the case formerly, with the result that they can be run more profitably.

We could form a really accurate and complete picture of the present position of British merchant shipping only if we were able to discover how much of the total trade of the world is still carried in British ships. However, there are no such statistics available. The backbone of British shipping is Great Britain's own foreign trade, and the fact that in recent years, when economically things have been difficult, British shipping companies have nevertheless been able to get along comparatively well without any direct government subsidies is largely due to Great Britain's permanently large volume of imports, the lion's share of which is still carried in British ships.

In 1936 the carrying of goods between the various countries of the British Empire was carried out almost exclusively by British ships. Only about 7 per cent. of the goods purchased by Great Britain in the Empire were brought back on foreign vessels, and the corresponding percentage of goods exported by Great Britain to the Empire in foreign vessels was negligible. Thus British shipping would not have much more to expect from trade between Great Britain and the Empire even if a law were introduced to compel the carrying of British goods between the Empire in British ships.

The situation with regard to British trade with

## BRITISH SHIPPING

foreign countries is very different. Only about half the goods imported by Great Britain from foreign countries is carried in British ships. About two-thirds of the goods exported by Great Britain to other countries are carried in British ships, and about half the goods which represent a re-export of previously imported goods. It is not within the power of the British government to increase the share of British shipping in the carrying of Great Britain's export goods. If every country in the world discriminated in favour of its national flag where imports were concerned, then that would mean that the half of Great Britain's exports which are now carried in British ships would then be carried in the ships of their countries of destination. An improvement in the position of British shipping would come about only if there were discrimination in favour of British shipping with regard to the carrying of Great Britain's imports, 50 per cent. of which are now carried by foreign ships.

If we make our calculations on the basis of 1936 figures with regard to the exact advantage likely to accrue to British shipping from any discrimination in favour of British ships in the transport of British imports, we find that the advantage would consist in the carrying of supplementary cargoes to a total value of 100 million pounds. In 1936 that was about a thirteenth part of the total value of British foreign trade, i.e. not very much.

On the other hand, Great Britain would lose the whole of that shipping business which she now enjoys

## HOW STRONG IS BRITAIN ?

between foreign countries all<sup>6</sup> over the world. If we remember that in 1936 British revenues from this source were estimated at 80 million pounds (of which a certain amount came from the passenger trade, however) we can see that Great Britain stands to lose heavily from any general system of discrimination in the shipping world. Self-sufficiency in shipping, like self-sufficiency in any other field, would tend to reduce her wealth, and it is small wonder therefore that shipping circles in Great Britain observe the self-sufficiency tendencies of the rest of the world with considerable anxiety.

The shipping business is a complicated one and it demands ripe experience. Business connections and the co-operation of the shipping companies with the banks and other great organizations play a great role, and for the moment British shipping is still living to a certain extent on the goodwill which it built up in many, many years of shipping experience. However, British shipowners observe glumly that Japan and Italy are beginning to take the bulk of shipping business in the Far East, whilst the United States is gradually squeezing British ships out of the Pacific trade. For these reasons the opinion is widespread in responsible circles that sooner or later the government will have to grant subsidies to British shipping lines.

## CHAPTER FIVE

### GREAT BRITAIN, THE WORLD'S BANKER

WHEN people refer to Great Britain, and to London in particular, as the world's banker they mean that the enormous sums earned by British industry and British shipping in the nineteenth century, and the sums still being earned, are collected in London together with foreign money, and then loaned out by British banks to those undertakings throughout the world which need them to finance their economic operations. For a while after the World War it looked as though London's role was going to be taken over by New York, where enormous sums had accumulated as the result of war-time profits, but in the end the experience of London's bankers, their calm common sense and the solid business spirit of the City of London proved stronger. To-day London is once again the world's banker, as far as the world needs a banker at all under the changed conditions in which it lives.

Outwardly the City of London cannot compare with the Wall Street district of New York. London has nothing to show which could rival the skyscrapers towering in serried ranks above the island of Man-

## HOW STRONG IS BRITAIN ?

hattan, separated from each other only by deep ravines of streets, and informing the respectful stranger that here lies the heart of America's financial world. In the small area around the Bank of England with its closed frontage and around the Stock Exchange with its classical columns, one can lose oneself in a confusing network of narrow streets of ugly, smoke-blackened buildings. Hardly one of these buildings would earn a second glance from a critical architect, but their portals are those of the most famous financial houses in history whose influence extends to the farthest corners of the world. In New York the silhouette of a magnificent skyscraper is the outward expression of a big business ; in London the name has to be painted in big letters on the façade in order that the passer may recognize the house.

The City of London plays a tremendous role in British life. In other countries banks are generally the servants and instruments of industry and commerce, but in Great Britain they are rather more, and they have another and more independent task. Great Britain does not live from the sweat of her own brow alone. In return for lending the rest of the world a part of her own great riches she receives interest and commission which means pocketing a part of the fruits of other countries' labour. The earnings of British industry, agriculture and shipping are supplemented by a rich harvest of interest on capital invested abroad, and the banking houses of the City of London reap and store this harvest. The enormous sums earned by

## GREAT BRITAIN, THE WORLD'S BANKER

Great Britain in the days when she was the undisputed industrial mistress of the world were entrusted to these banking houses, and to-day they are still being entrusted with the savings of the nation, and, because such a financial accumulation acts as a centre of attraction, with the savings of a considerable part of the rest of the world as well.

This money is lent out for long-term and short-term periods. We shall deal with long-term investments in our next chapter, and in this chapter we propose to examine the revenues of the City of London from short-term foreign business and from commissions. Such revenues play an important part in Great Britain's balance of payments and they are therefore a factor in her wealth as a whole, which is the most important pillar of her strength.

The figure which is entered every year in Great Britain's balance of payments under the heading "short-term interest and commissions" is made up of all sorts of individual items : revenues from financing world trade, insurance premiums, commission payments on long-term loans, arbitrage operations, interest revenue on cash deposits with foreign banks, and many other similar items. Unfortunately the figures are not exact, and the sum total finally entered into the balance of payments by the Board of Trade is only a general estimate.

Before the World War when statistics were even more unreliable than they are to-day these revenues were estimated at about 25 million pounds per annum, but

## HOW STRONG IS BRITAIN ?

in all probability the real total was considerably higher, perhaps between 30 and 35 million pounds. That is a sum with which one-fifth of Germany's total imports in 1936 could have been paid. This comparison gives us some idea of how important this source of revenue is to Great Britain.

After the war in the prosperous years up to 1929 the sum total from this source increased quite considerably. For 1928-9 the Board of Trade gave the figure of 65 million pounds, and although the purchasing value of the pound was lower then than before the war, still this figure represented a considerably higher total of international purchasing power than the corresponding totals of pre-war days. However, it must be noted that banking circles believe this official estimate to be considerably too high, and put British revenue from that source at not higher than about 45 million pounds even in the peak years.

In any case it is quite certain that since then the total revenue from this source has considerably decreased. The figures put forward by the Board of Trade to-day are probably much more accurate, and the estimate of 30 million pounds per annum in short-term revenue from abroad in recent years is probably about right.

One of the most important individual items which come under this heading is revenue from the financing of world trading operations. A number of well-known City houses, the so-called commercial banks, have made a speciality of this business. From time immemorial they have made it their chief business to

## GREAT BRITAIN, THE WORLD'S BANKER

find suitable sources of investment for Great Britain's surplus capital, and in this way they have done much to make London the central money market for the world. It is therefore well worth our while to take a closer look at their operations.

Originally most of these banking houses were commercial undertakings engaged in the export and import trade, and as they specialized in certain markets from the beginning their information was invariably reliable and they were well able to judge the economic prospects offered by foreign countries. Their advice was therefore sought after, and those people in foreign countries who were in need of capital for their business transactions applied to these houses to assist them, just as those people in Great Britain who had surplus capital to invest applied to them for their advice as to the best place in which to invest it.

In the course of time they developed more and more into banks pure and simple, and their chief business became the floating of international loans. In this way they financed foreign plantations, industrial undertakings, railways, towns and even governments. Financing foreign governments is a business we are accustomed to associate chiefly with the great New York houses of Morgan and Dillon, Read & Co., etc., but in fact it originated in the City of London. It was a London banking house, C. J. Hambro, now trading as Hambro's Bank Ltd., which financed the Danish government in 1863 and 1866, and later on the Greek government too.

## HOW STRONG IS BRITAIN ?

This foreign loan business was a very profitable one, and what with commissions and other revenues, it amounted to about 4 per cent. However, since the great financial crisis of 1931 it has been at an almost complete standstill. Before the World War between 120 and 150 million pounds were lent by London to foreign countries annually, and even in the good years after the war, and despite United States banking competition, loan business on this scale was nothing unusual, but by 1935 the total sum lent in this way had fallen to 15 million pounds. However, this extraordinarily low level was due largely to the fact that the British government had imposed restrictions on the export of capital, and no such loans could be transferred without government permission.

In recent years loan operations have recovered a little. In 1937 the sum of 27 million pounds was loaned, though the greater part of it went to the overseas empire. It is quite certain that much more loan business would be done if the government were to withdraw its restrictions, but at the same time it would be wrong to regard those restrictions as the chief cause of bad business, because the restrictions themselves were imposed only because the government felt that the world economic situation made such loan operations too risky, that frozen credits abroad were a political burden, and, finally, that Great Britain herself had no longer sufficient spare capital to justify such operations.

The annual revenues of London's banking houses from this quarter have therefore been reduced by

## GREAT BRITAIN, THE WORLD'S BANKER

about 4 million pounds compared with the pre-war average.

Another important field of operations for London's banking houses is the short-term financing of world trading transactions. Whoever wishes to purchase goods abroad but is unable, or unwilling, for one or more of the many usual reasons, which need not be discussed in detail here, to pay for them at once, can approach one of these commercial banking houses with the request that it should endorse his guarantee.

The process and the technique adopted can be understood best from a simple example. A Swedish importer proposes to buy silk from a Japanese firm. The importer wishes to pay on delivery, whilst the exporter wants payment on shipment. All the Swedish importer has to do now is to make a written promise to pay within three months and to ask one of the London commercial banks to endorse it. If the bank agrees to do so this has the effect of turning the Swedish importer's written promise to pay into the equivalent of cash, and as such it could be sold at once on the London market.

The technical operation was as follows : The Swedish importer made out a three-months bill of exchange for the Japanese exporter. This bill was accepted by one of the London commercial banks, i.e. by endorsement it rendered itself liable for the amount of the bill, and through its own bank the Japanese firm was then able to sell the bill on the London market.

In this way export business is still being financed

## HOW STRONG IS BRITAIN ?

on the London market between Great Britain and other countries, or, as suggested in the example we have chosen, between foreign countries. It is a very simple business and it rests on two pillars. The one is the good name of these great London houses which specialize in this line of business. Names like Schröder, Baring, Hambro, Lazard and Morgan Grenfell are known to all merchants throughout the world. All these houses were originally, as we have already pointed out, themselves merchants. Many of the founders of these London houses came originally from the Continent, Schröder and Baring came from Germany, Hambro from Denmark, and Lazard from France. Thanks to the great volume of their commercial business and to their long tradition of sound business dealings these houses gradually gained such a reputation in the world that they were able to use their own credit in the manner we have described in order to assist other merchants whose names were not so well known. And in the end they developed into banks altogether.

The other pillar of the business we have described is the London money market itself, that unique organization which makes it possible to sell any good bill at sight for cash in London. In the City of London there are a whole series of big and small discount banks which do nothing else but collect on the one hand from banks and insurance companies all money which happens to be lying idle at the moment, i.e. all surpluses which may be unoccupied for one day only perhaps, or for several days, and lend it out

## GREAT BRITAIN, THE WORLD'S BANKER

on the other. Long experience tells them that every day they will collect a certain average sum in this way, a sum with which they can reckon with a fair amount of certainty, and with it they purchase such bills as the one we have described in our example.

They are particularly anxious to buy up such absolutely reliable bills because they can be deposited as security for further credits. Thus in London these bills are very seldom discounted by the central banks, as in other countries, and instead they circulate in bundles of 5,000 pounds and more as security from bank to bank as such banks happen to have a certain amount of surplus capital available for a few days.

As long as world trade flourished this discount business flourished too, and considerable sums were obtained from abroad in this way, and as the basis of such bill credits is always a commodity transaction the risk of loss was not great and, in fact, the banks were very seldom called on to honour their bonds. It has been calculated that in flourishing years the big commercial banks accept up to 15 million pounds annually. The highest total of current bills accepted by London houses before the crisis has been given as between 170 and 180 million pounds, and the annual income of the banks from this sum was placed at between 7 and 8 million pounds.

Both pillars of this business, the commercial banks and the discount houses, were shaken by the great finance crisis of 1931. Those countries which had chiefly availed themselves of the system, Germany,

## HOW STRONG IS BRITAIN ?

Austria and Hungary, were compelled as a result of their gold losses to suspend the transfer of their obligations. The result was that about 50 million pounds' worth of bills from all countries which had declared a moratorium for foreign indebtedness accumulated in London and could not be encashed from the original signatories when they matured. Thus the guarantees given by the London banks became operative over night, and their reserves were insufficient to meet these unexpected liabilities.

A number of London's biggest banks would have gone into liquidation had not the solidarity of the City asserted itself. The Bank of England, which watches over the well-being and behaviour of the City of London like a devoted but often stern mother, sprang into the breach and advanced the banks the necessary sums to meet their liabilities. The transaction was justified before the bar of public opinion by pointing out that for innumerable years the big commercial banks had brought in big revenues and many business opportunities to the city, and were therefore entitled to assistance when they found themselves in a tight corner.

In the meantime brokerage business with all those countries which have established foreign currency control has practically ceased, particularly with Germany, which was formerly London's chief client in this respect. It still exists with the Scandinavian countries and Finland, with the United States for certain branches of the commodity trades, and with a few other countries.

## GREAT BRITAIN, THE WORLD'S BANKER

The 180 million pounds which we quoted previously as the total sum of such bills accepted in London in 1929, has probably shrunk to about 80 million pounds to-day. If we take the previously quoted sum of between 7 and 8 million pounds as the earnings of the City of London on the total of 180 millions, then we may assume that its earnings to-day on the smaller sum have diminished by between 3 and 4 million pounds annually.

That is a somewhat smaller sum than the reduction of the City's income from foreign loan transactions, but an important point to note here is that the loss on this business is probably a permanent one, whereas many interested parties hope and feel that one day foreign loan business may begin to look up again. In any case, both things depend—like so many other factors of importance for the future of Great Britain's economic system and therefore for her future strength in the world—on the future development of world trade.

There are no detailed figures available concerning the other sums which are contained in the total revenue obtained by Great Britain from abroad from short-term interest and commissions. In particular, no investigations have ever been made with a view to discovering how much of the revenues of British insurance companies comes from abroad. The total revenues of these companies are very large, and London is still the insurance centre for the world, and, in fact, much of the insurance business negotiated abroad is covered in London. The predominating position of

## HOW STRONG IS BRITAIN ?

Lloyd's of London in everything connected with maritime insurance is known all over the world.

To sum up the result of our inquiries we may say that the reduction in revenues suffered by the City of London from the foreign business we have been discussing is not so great as would appear from the estimates of the Board of Trade in the balance of payments. It is very improbable that between 30 and 35 million pounds less is being earned annually by the City to-day as compared with the peak years 1928 and 1929. However, on the other hand there is no doubt that the revenues of the City from foreign business have decreased, and it is very probable that they are less to-day than they were before the war. In this respect also, therefore, we must record a decline in Great Britain's wealth.

## CHAPTER SIX

### THE UNSEEN EMPIRE

THERE are other countries besides Great Britain which have industries working not only for the needs of their own inhabitants, but also for export. Other countries even have agricultural systems which feed their populations, and feed them more efficiently than British agriculture feeds the British people. There are also other big countries whose shipping earns money all over the world, and in little Norway the shipping industry is the most important branch of national economic activities. There are also a number of other countries whose banks earn money on short-term loans placed abroad, though not to the same extent as the City of London does. Just as a building rests on its four corner pillars, so the economic systems of most countries rest on these branches of economic and financial activities.

However, the British economic system has a fifth pillar ; one which was built up later than the other four, but which now supports the whole building in its very centre and is capable of bearing enormous burdens so that the building still stands firmly although the other four pillars are corroded by the wear and

## HOW STRONG IS BRITAIN ?

tear of centuries and badly need repair and overhaul. This fifth pillar is formed by Great Britain's great wealth invested abroad. No other country in the world has so much money invested outside its own frontiers. Great Britain has money invested in all corners of the world, and although the total annual revenue from these investments may appear small when it is compared with the revenue from industrial production, it must not be forgotten that the revenue from British investments abroad is supplementary. In fact it is unique of its kind and it represents the characteristic structural feature of the British economic system as a whole.

So long as Great Britain continues to possess this great wealth invested abroad, as long as interest and profits continue to flow back into the Motherland from abroad, and as long as the capital sum itself does not seriously decline, Great Britain has not much to fear economically.

What was the origin of this British wealth? A hundred years ago the answer would have been : India. A tremendous stream of wealth poured into Great Britain from India, where the wealth of centuries had accumulated. The founders and agents of the East India Company, which was formed in 1600, earned millions in India, and laid the basis of great fortunes which still prosper to-day. However, the times in which India was plundered, and in which India and all other colonies were looked at purely and simply from the standpoint of how much could be squeezed

## THE UNSEEN EMPIRE

out of them, lie before the period with which we are now dealing. The basis for the industrial rise of Great Britain was laid in those predatory days, but when the rise actually began they were practically at an end. When the United States made the Declaration of Independence and forcibly cut itself off from the Motherland, the rulers of Great Britain were compelled to realize that the only possible basis for a permanent relationship was one of give as well as take.

Great Britain's great foreign-invested resources to-day cannot be described as merely the result of a successful robber crusade throughout the world. On the contrary, they are rather the tangible result of Great Britain's industrial predominance in the nineteenth century. The factories of Great Britain were built before the factories of the Continent, and their machinery began to turn at a time when both Europe and the United States were still sunk pleasantly in the agreeable and contemplative tenor of handicraft production. The industrial products of Great Britain poured into this idyll like a mighty river overflowing its banks and breaking down all barriers. The world was only too ready to accept what was offered and all countries greedily seized on these cheap products, for they gave the poorer strata such clothes as only the well-to-do had possessed previously, and they gave the master-artisan machinery which permitted him to increase the number of his apprentices and journeymen rapidly without greatly increasing the cost of their maintenance. In those long years of prosperity the

## HOW STRONG IS BRITAIN ?

British industrialist and the British merchant took money from abroad with both hands ; it flowed in a great and apparently never-ending stream into the counting houses of the big factories and into the vaults of the banks, so that despite the development of luxurious extravagance to an extent we can hardly imagine to-day, the wealthy hardly knew what to do with their money. On the other hand, the British people were poor and the factory hand suffered extreme poverty, or as we should say to-day, his standard of living was low. The innumerable fine-meshed channels through which money flows to-day into hundreds of thousands of pay-envelopes all over the country did not exist then and the result was that the vast amount of available wealth began to collect sluggishly in great individual accumulations.

The City of London took this wealth and began to invest it profitably abroad, where there were innumerable opportunities for investment because other countries were now beginning to awaken industrially and they had need of large sums for their development. Some British capitalists, observing how Germany and the United States were learning from Great Britain, and beginning to industrialize themselves on their own account, may have told themselves that the industrial predominance of their country could not last for ever, and that the German, American and French, and one day the Russian, Chinese and Indian workers would be just as capable of minding a spinning machine or manipulating a lathe.

## THE UNSEEN EMPIRE

It became clear therefore that the fruits of Great Britain's preliminary start on the industrial race must be accumulated and not wasted, that they should be turned into capital whose interest would provide a permanent income in times when Great Britain's industrial start would have been long neutralized by other countries. Machinery was beginning to be built in many other countries and the British manufacturer could not reckon with an indefinite continuation of the idyllic conditions of the opening years of industrialism when Great Britain was without a rival anywhere. As some compensation for the approaching loss of his privileged position he proposed to see to it that at least some of that foreign-built machinery should belong to him and that therefore a part at least of the earnings of future competitors should flow into his pocket.

Thus, with the money they received from abroad British capitalists built railways all over the world, and every branch of the economic system of the countries they traversed had to pay good tribute to them. They also built factories, dams, mines, harbours and bridges, and the countries in question were only too happy to see a part at least of the money they had spent on British industrial goods coming back to them in the form of loan-capital. Great Britain was instrumental in destroying the handicraft system in innumerable countries, and now she built up modern industrial systems in those same countries.

Up to the outbreak of the World War almost 4,000 million pounds sterling had been invested abroad

## HOW STRONG IS BRITAIN ?

in this fashion. The first half of this enormous sum was invested last century, and the second half in the vigorous boom period which marked the first thirteen years of the present century. Formerly Great Britain had enjoyed the advantage of her island situation over all other big powers, but now she enjoyed the added advantage of greater wealth. Four thousand million pounds sterling of British private capital invested abroad—that was the measure of British power and influence.

During the World War the investments abroad of the belligerent powers became a war chest, but Great Britain's share was not materially reduced by the conflict. What was lost was afterwards recovered in great part, though the recovery proved more difficult than the original accumulation. In 1936, the last year for which we have reliable statistics, Great Britain's investments abroad were estimated at between 3,360 and 3,760 million pounds sterling. If we assume that the real figure lies somewhere between these two estimates, then we still have a figure of approximately 3,500 million pounds sterling. That was not much less than the total national income in Great Britain in 1933, i.e. the total of wages, salaries, State revenues, fees, profits and business revenues throughout the course of the entire year—a very imposing figure indeed. That is the soft pillow on which Britannia's head is bedded ; that is the extent of her unseen Empire.

According to the particular form in which British money originally made its way abroad, this huge total

## THE UNSEEN EMPIRE

of British wealth invested abroad to-day consists of indebtedness by foreign powers, etc., the assets of British undertakings abroad, and shares in the profits of foreign undertakings working in part with British capital. This is sufficient to indicate that not every pound of British money invested abroad is worth as much as its fellow pound invested in some other way. British creditors or shareholders have no control over foreign undertakings. Foreign governments which have taken loans from British sources may at some time or other find themselves unable to meet their obligations and unable to transfer the required sums. From the standpoint of Great Britain her most secure investments are probably those which are in British-owned companies abroad, and particularly British-owned companies within the Empire, as most of these are controlled from London.

In order to understand something of the relative importance of these various groups of investments abroad, it is sufficient to note that public loans amounting to 1,500 million pounds sterling head the list, followed by capital sums invested in British undertakings abroad amounting to 1,200 million pounds, and finally investments in foreign undertakings in the form of stocks and shares amounting to between 700 and 1,100 million pounds sterling.

If we compare the annual incomes from these three groups we shall discover the proper order of precedence at once. In recent years public loans have proved the most profitable source of revenue from abroad, British

## HOW STRONG IS BRITAIN ?

undertakings operating abroad come second with rather less, and at the bottom of the list is the income from stocks and shares in foreign undertakings. The total revenue from all these sources varies from year to year according to the given economic situation, but it has been estimated that on an average over a protracted period the revenue represents between 5 and 7 per cent. of the nominal total of the capital sum invested. In 1936 the total revenue from all these sources amounted to 184 million pounds. That sum was almost a quarter of the total value of British imports in that year, in other words, Great Britain received about one-quarter of her imports in 1936 for nothing and without raising a finger apart from cashing the requisite drafts.

This enormous sum of 3,500 million pounds invested abroad and the enormous revenue of between 180 and 200 million pounds annually derived from it, represent the magnificent estate left to the present generation of Britishers by their fathers and grandfathers. However, there is hardly any doubt about the fact that it is a heritage not likely to be repeated. It would be very difficult to imagine any international development which would once again place Great Britain in the position of being able to earn sums at all commensurate with those she earned during the period of her undisputed industrial predominance. Great Britain's capital invested abroad to-day has been earned once ; if it is ever lost there will be no means of replacing it.

The primary task of the fortunate heirs is therefore

## THE UNSEEN EMPIRE

to preserve their foreign property intact, and that is no easy task. Something more is required than just to leave the money where it is, very much in the way an ordinary bank depositor can do if he feels inclined, taking a look at his accounts annually to see how much interest has accrued in the meantime. In order to maintain Great Britain's foreign-invested wealth at its present level it is necessary to invest a further sum abroad each year ranging between 50 and 60 million pounds. Current loans become mature and are paid back by debtors, some loans are not paid back at all and have to be written off, and private undertakings fall on bad times, suffer losses and have to write off a part of their capital, or in extreme cases even go into liquidation.

The heirs of this estate cannot rest on the laurels their forbears earned therefore. Their property is daily running some risk and it has to be watched over, tended, re-invested, supplemented and safeguarded.

Two things are necessary for the preservation of Great Britain's foreign-invested property. First of all Great Britain must have enough spare cash at her disposal to invest abroad, and secondly there must be the opportunity of investing this spare cash, i.e. foreign countries must be in need of it. It would be of no use for Great Britain to be rolling in money if the world did not need money, or if for reasons of national panic foreign governments were to place a bar on such investments. Similarly, it would be of no use whatever if the world were crying out for British capital if Great

## HOW STRONG IS BRITAIN ?

Britain herself had not sufficient spare cash to lend or invest abroad because she needed her entire income for her own purposes.

Before the war these were quite academic considerations and there was no necessity for anyone to bother his head seriously about them. Economic prosperity was general and Great Britain earned so much, and the capital needs of a world rapidly developing under a system of free trading and financial activities were so great, that British investments abroad increased from year to year. However, after the World War the situation changed very considerably. The sum of British foreign investments continued to increase, but the rate of increase was slower, and after the world economic crisis of 1929, which was followed by the great international finance crisis of 1931, the increase ceased altogether. In fact, in recent years there has been a positive decrease in the sum of British foreign investments.

It is a matter of really fundamental importance for any sound estimate of Great Britain's future position in the world to discover whether this is a temporary phenomenon or whether some fundamental change has come about which will put a final stop to the investment of large sums of British capital abroad in the future. Are the years of progress past for Great Britain, and has the period dawned in which she must fight hard to preserve what she has built up against the dangers of gradual decline ?

What are the facts ? The World War represented

## THE UNSEEN EMPIRE

the great dividing line. In order to meet her war expenditure Great Britain was compelled to put a very considerable part of her foreign investments under the hammer. About a thousand million pounds was raised from British foreign investments in this way and blown to atoms over the battlefields. About 600 million pounds of this sum was raised on British investments in the United States, the largest investments Great Britain possessed. If the United States had not entered the World War on the side of the Allied powers the 880 million pounds which the United States Treasury lent to the British government in 1917 and 1918 would have had to be paid back by the sale of further British investments. Even if Great Britain had been in a position to do this, which is very doubtful, it would have torn a huge gap in the edifice of British foreign investments, and that gap would in all probability never have been filled up again.

It proved difficult enough for Great Britain to make up the loss of the 1,000 million pounds, which remained a loss despite the entry of the United States into the war. However, difficult or not, she was successful so that by 1930 she possessed just as much capital invested abroad as she had before the outbreak of the World War. Thus it required eleven years to make up the missing 1,000 million pounds. In this period the sum of British capital invested abroad rose by an average of 90 million pounds annually. In the ten years which immediately preceded the World War the average yearly increment was 170 million pounds, so that the

## HOW STRONG IS BRITAIN ?

rate of post-war accumulation was considerably slower than the pre-war rate.

However, the rate did not only slow down, but the direction and therefore the quality of the new investments changed. The United States, once the most profitable and promising sphere for the investment of British money, had become a creditor country and had no need for any further British capital so that Great Britain had to turn her attentions to the raw-material countries. Further, considerable readjustment of British capital investment has taken place so that capital invested in foreign countries is now invested in Empire countries. Before the World War the United States assimilated 20 per cent. of all current British foreign capital investments, but by 1929 the percentage had fallen to 3. In 1880 the share assimilated by the Empire was only 20 per cent., and by 1914 it had grown to 47 per cent. only. However, in the meantime it has grown to over 60 per cent. In other words, the visible Empire and the unseen Empire are becoming more nearly identical than they were before.

If we compare the various countries with a view to discovering where most British capital is at work we get the following list : Australia leads all other countries with a total of 500 million pounds, then come Canada and Newfoundland together with a total of 443 million pounds, then India and Ceylon together with a total of 438 million pounds, and then the first foreign country proper in the list, the Argentine with 372 million pounds, South Africa and Rhodesia together

## THE UNSEEN EMPIRE

with 248 million pounds, the whole of continental Europe, including Turkey, with 236 million pounds, Brazil with 160 million pounds, and then New Zealand with 146 million pounds. This list exhausts the chief countries in which British capital is at work.

Whoever wishes to study British foreign policy would do well to learn the above list off by heart as a preliminary.

When we then examine the geographical distribution and the nature of the capital invested we find that Australian public loans take first place, followed by South American railways, then, at some distance, Indian loans, Canadian railways, South American loans and New Zealand government loans. Mines take third place on the total list behind public loans and railways and before public utilities.

Now the situation has grown considerably less favourable since 1930. From 1930 on Great Britain began to lose money. The development of her foreign capital investments slowed down steadily and finally came to a halt altogether. In fact, in 1935 and 1936, the two last years for which reliable statistics are available, retrogression set in. In these two years 76 million pounds more was paid back by debtors than was lent out afresh or re-invested.

Which of the two reasons we have mentioned was decisive for a trend of development which is causing great anxiety in Great Britain to-day? Had Great Britain insufficient spare cash to invest in foreign countries? Or did foreign countries no

## HOW STRONG IS BRITAIN ?

longer require, or no longer desire to accept British money ?

Both factors have played a role in conjunction with each other, but chiefly Great Britain's own lack of finance was responsible. We have already seen that after the war British industry met with considerable export difficulties, and that it was hard hit by foreign competition precisely in those branches of the export trade which were most vital to it. The result was that less money came in from this most important of all sources.

The ability of British industry to compete on the world market was still further reduced in April 1925 by the fact that by her return to the Gold Standard Great Britain brought about an over-valuation of the pound sterling which was most disadvantageous for the export trades. The result was that special attention had to be paid to currency problems, and foreign investments had to be rationed. In the beginning the Bank of England supervised capital movements abroad. After stabilization this control, which was in any case unofficial, was abandoned, but in 1930 it had to be reintroduced owing to the weakness of the pound sterling. It was as though the stream of wealth which left Great Britain in five years had taken blood with it and weakened the country to some extent.

With the outbreak of the world economic crisis the position of the British export trades naturally deteriorated still further, and although the abandonment of the Gold Standard and the depreciation of the pound

## THE UNSEEN EMPIRE

sterling brought a certain strengthening of British currency a careful control of all long-term credits granted abroad became even more necessary than before because the automatic adjustment exercised by the Gold Standard was no longer in operation. The British government then imposed restrictions on the granting of long-term foreign credits.

Great Britain was receiving less on the one hand, but she was expending more on the other because her imports had increased. The standards of living of the British people have risen and their demands on life have increased. The effect of this has been an increased demand for foreign products whether for foodstuffs which go direct to the consumer, or for raw materials which are purchased by British industry for the manufacture of consumption goods for the home market. Put quite simply all this means that Great Britain has not been saving as much as she did before the World War and that she has therefore not so much money over to invest abroad as she had.

The combination of these two circumstances, reduced exports as a result of the decline in world trade, increased competition of other countries and the greater demands on British industries for the home market on the one hand, and increased standards of living and increased import requirements on the other, explains satisfactorily how it came about that after the war Great Britain had not sufficient surplus money to extend her total of foreign investments to the same extent as in pre-war years.

## HOW STRONG IS BRITAIN ?

But even these circumstances are perhaps not quite enough to explain why in recent years Great Britain has not even succeeded in maintaining her total sum of foreign investments intact. The additional circumstance necessary to provide us with the explanation is that foreign countries no longer desire British capital to the same extent as formerly.

In recent years it seemed as though the moment had come for a replenishment of capital investments abroad. Great Britain's economic system had recovered brilliantly from its bad times, world-market prices were rising and world trade was on the mend. British revenues from shipping increased considerably. However, this same favourable development was favourable to Great Britain's chief debtors, the raw-material countries, who earned considerable sums of money and took advantage of the favourable opportunity thus created to rid themselves of a part of the onerous burden of debt they had been compelled to shoulder in bad times. The juncture for the reduction of interest rates on British loans by conversion was so favourable that the interested parties did not fail to avail themselves of it. Australia in particular successfully converted her loans, and the result was that Great Britain's revenue from her most favourable loans was reduced. South Africa, which earned unprecedented sums from her gold-mining industry, and India also, both paid back considerable sums which had been loaned to them.

In passing it may be mentioned that London is, of

## THE UNSEEN EMPIRE

course, inundated with requests for loans<sup>s</sup> from countries whose credit is not secure, and these requests are not granted because the risks attendant on so doing appear too great.

It is perhaps improbable that the opportunity for such repayments will be so favourable for a long time to come, and the artificially maintained low rate of interest in London was the essential condition for successful conversion. Authoritative circles in London therefore consoled themselves with the idea that the reduction of British capital investments abroad as the result of unusually big repayments by debtor countries was a circumstance of a temporary nature and unlikely to be repeated.

In view of the very many individual factors which have to be taken into account in any estimation of the trend of development, we must hesitate to form any generalized judgment or put forward any all-embracing theory. However, at the risk that unforeseen future developments may confound our prophecy, we venture to describe the possibility that foreign countries may never again desire British capital to the same extent as in former years as a danger for the maintenance of Great Britain's capital investments abroad.

If we consider the geographical distribution of her foreign capital investments, which we have previously mentioned, over a long period we observe the interesting feature that British capital is gradually being squeezed out of all highly developed industrial countries. In the beginning surplus British capital turned

## HOW STRONG IS BRITAIN ?

to Europe for a field of operations, but the richer continental countries became the less they needed British capital, and immediately prior to the World War the amount of British capital operating in European countries amounted to only 6 per cent. of the total sum of British capital invested abroad. To-day despite political debts it is still only just over 7 per cent. of the total. The total sum of British capital operating in the United States has fallen from 20 per cent. before the war to 3 per cent. to-day. The main reason for this was, it is true, the World War, but if the World War had not turned the United States from a debtor to a creditor country, she would in all probability have experienced the same development in the natural course of things, though spread over a longer period.

From all this we are justified in drawing the conclusion that loan capital is moving from the industrialized countries into the raw-material countries. However, the number of raw-material countries proper is declining, and unless all signs deceive there will be fewer and fewer in the future until none at all remain. New industries are growing up all over the world, even in the British Dominions, which are now Great Britain's chief debtors.

A much more direct danger to the maintenance of Great Britain's foreign capital investments, and one which operates in the same direction, is represented by the growing tendency for the development of nationally self-sufficient economic systems. The example of present-day Germany demonstrates that by the organ-

## THE UNSEEN EMPIRE

ized use of their own productive forces countries can largely finance themselves. The rest of the world is not blind to this development, and it will undoubtedly draw its own conclusions. Such tendencies can already be observed to-day in other parts of the world. One British-owned railway has already been nationalized in the Argentine, and negotiations are proceeding for the nationalization of two others. There is in fact a Bill now before the Argentine parliament for the nationalization of all Argentinian railways on payment of compensation amounting to 77 million pounds in government stock, though as a matter of fact it is unlikely that it will be adopted for the moment because the government would find it too difficult to raise the necessary sums, but the point is that the proposal has actually been tabled. A recent example of this same development was the expropriation of British-owned oil wells in Mexico.

And finally, the future of Great Britain's foreign investments is closely connected with the future of world trade. We have seen that at least three other main features of the British economic system depend on the prosperity of world trade : industry, shipping and short-term credit business, and this is particularly true of Great Britain's foreign investments. If world trade suddenly ceased to-day and the nations of the world limited their economic activities to their own home markets Great Britain's foreign investments would lose their value. Amortization payments can be made when they mature, and dividends and interest

## HOW STRONG IS BRITAIN ?

paid regularly, only so long as commodity exchange and commodity relations exist between the countries of the world. Otherwise British creditors would have to go to the countries in question to obtain their due and they would have to consume it on the spot. This, for instance, is much the position which exists to-day with regard to Registered Marks in Germany.

It is not merely a question of the transfer problem. British capital invested abroad operates chiefly in raw-material countries which depend on the world for the sale of their products. The foreign railways and other public utilities now in British hands make no profits when the raw-material producers, sheep farmers or mine-owners of the countries in question are experiencing bad times. Any deterioration of the raw-material market in the world hits the public finances of the raw-material countries to such an extent that they are unable to pay the interest on their British loans. This has quite recently happened in Brazil, for instance, where transfer payments have been suspended.

To sum up the result of our investigations we may say that the triumphal crusade of British capital throughout the world has come to an end. The estate inherited from the nineteenth century and the beginning of the twentieth must now be defended against dangers which are very serious indeed, and the dangers are intensified by the fact that during the past few years Great Britain has been living on her capital for the first time for a very long period.

## THE UNSEEN EMPIRE

The central pillar of the British economic edifice, Great Britain's capital investments abroad, will become a war-chest in the event of a new war. For a long time it has been axiomatic that British power in the world is based on her naval superiority and on her great wealth. In the event of war both these factors will come into operation. When gold reserves are exhausted investments abroad, shares and other securities, must be mobilized in order to pay for Great Britain's commodity needs. The task of the fleet is to see that these commodities arrive home safely. No other country in the world has such a powerful war-chest at its disposal, but at the same time there is no other country in the world which is so dependent on foreign imports.

First of all let us consider Great Britain's tremendous reserves of gold, though they do not form part of her foreign investments. On the contrary, in large part they represent the property of foreign countries in Great Britain. At the end of September 1938 the gold reserves of the Bank of England and the reserves of the Exchange Equalization Fund amounted to 917 million pounds. In June 1914, on the other hand, the gold reserves of the Bank of England and the amount of gold currency in circulation amounted to 175 million pounds only. Thus, as far as gold is concerned, Great Britain's war-chest is incomparably bigger to-day than it was before the World War.

However, two things must be taken into consideration. First of all, as we have already pointed out,

## HOW STRONG IS BRITAIN ?

this gold is only partly British property. The enormous reserve dates from 1932 only, i.e. in years in which Great Britain's balance of payments showed no corresponding profits. This accumulation of gold represents partly foreign capital which has fled its own country for this reason or that, and partly the reserves of countries of the sterling block, and in particular India, the Dominions and the Scandinavian countries. Thus it can at any time be repatriated by the countries which sent it to London.

However, despite this it must nevertheless be counted as part of Great Britain's war-chest, because, having left the Gold Standard, i.e. abolished her obligation to exchange sterling accounts against gold, she would in the event of war undoubtedly impose an embargo on the export of gold. In other words, she would immediately establish control over all the gold in the country which was not withdrawn in the critical days leading up to the outbreak of war.

Secondly it must be noted that to-day commodities can no longer be bought without limit with gold. Those countries which have left the Gold Standard are no longer obliged to accept gold in unlimited quantities. To that extent therefore gold is no longer an absolutely reliable means of foreign payment in war time. In particular, it is doubtful whether the United States, which is already overwhelmed with gold, would be prepared to accept further huge gold shipments in payment for commodities in the event of war, because

## THE UNSEEN EMPIRE

she would be able to do very little with the gold when she got it.

It would be completely false, by the way, to suppose that Great Britain's war-chest, apart from gold, was equal to the nominal value of British investments abroad, for instance, to say: the World War cost Great Britain approximately 7,500 million pounds, and therefore fifty per cent. of the cost of a similar war could be paid for by her capital investments abroad.

The nominal value of these capital investments abroad is not the only thing which counts in the event of war. On the contrary, two questions of more or less equal importance arise at once: first of all how much capital is invested abroad, and secondly whether suitable purchasers can be found for it. Superficial observers often overlook this second part of the problem altogether, particularly when, as is often the case, they have only a vague idea that British capital investments abroad are inexhaustible. During the World War it was this second part of the problem which proved the more important. If the United States had not entered the war on the side of the Allied powers in the spring of 1917, and if she had not granted them unlimited credit, Great Britain would have collapsed financially a few months later.

Between June and December 1917 the moment would have arrived, according to the evidence of men who ought to know, when she would no longer have been in a position to meet her financial obligations—not because her capital investments abroad had been

## HOW STRONG IS BRITAIN ?

exhausted (on the contrary, there were still large sums available and, in fact, the British Treasury handed back almost a third of all the foreign shares and securities placed at its disposal by the original owners without having used them at all), but because the American market, which was the only possible purchaser on a big scale, was no longer in a position to absorb foreign securities, etc. The market was at saturation point and the demand had dropped to nil.

In the event of war therefore the mere fact that Great Britain is a rich country means nothing unless she is in a position to exchange her wealth, which consists of government loans to other countries, stocks and shares in industrial undertakings, railways, etc., into gold or other means of foreign payment. And, as we have already pointed out, even gold cannot be used to purchase commodities to an unlimited extent to-day in a country like the United States, because no one can live on gold alone, and the value of the metal depends on the extent to which it can be exchanged for commodities.

What is the sum of foreign capital investments which would serve Great Britain as a war-chest in the event of hostilities? We have seen that the nominal value of her foreign investments is 3,700 million pounds. The market value of these investments was estimated on the international stock exchanges in the spring of 1938 to be 3,200 million pounds, but that was the market value in a time which was comparatively normal, when supply and demand on the world market

## THE UNSEEN EMPIRE

were more or less balanced. However, in the event of a new world war the supply would rocket immediately, and the world would know that Great Britain was compelled to sell her properties or deposit them as security.

First of all capital in a belligerent Europe would have to be written off as unrealizable to the tune of approximately 240 million pounds. At the utmost it might be used as security for inter-allied debts. Another 100 million pounds in the Far East, which is already regarded as problematical, would be very difficult to realize even if the Far East were not drawn into the war. 700 million pounds are invested in South and Central America. 70 million pounds of this can be written off at once because they are in Brazilian loans and as the Brazilian government has suspended payments no one would dream of purchasing them. British investments in Mexican oil-fields were estimated at 40 million pounds, but they have now been expropriated. The remainder of the South American governments would at least exploit the opportunity to buy up British undertakings, and in particular railways, and to pay for them not with gold but with State securities, whose market value would certainly be lower than the market value of the shares in the British undertakings in question.

However, such South American obligations could at least be used to pay for any commodities purchased from the South American States in question, thus it cannot be said that they would be worthless. Great

## HOW STRONG IS BRITAIN ?

Britain obtains a considerable part of her foodstuff imports from the Argentine, for instance.

Only two sorts of property would remain : American securities in British hands and capital investments within the Empire. The value of securities held by Great Britain and Canada in the United States is estimated at about 550 million pounds. That would be the core of Great Britain's war-chest, because these shares and securities, etc., would be readily saleable in the United States. In all probability they would not be thrown on to the market at all, and instead an attempt would be made to mortgage them, as was done during the World War when three British loans were floated in the United States on the basis of deposited securities in British hands. However, as such war loans are short-termed they would in any case exert pressure on the market.

The securities held by Great Britain within the Empire have a nominal value of approximately 2,000 million pounds. Amongst them are very valuable holdings, including shares in the gold-mines of South Africa, in the nickel-mines of Canada and in the copper-mines of Rhodesia.

Who are the prospective purchasers of these holdings ? Generally speaking the only possible customers are the Empire countries themselves and the United States. The Dominions would be in a position to buy up a part of the British undertakings in their territory if they earned enough money on war contracts. However, that would be only financial transactions amongst

## THE UNSEEN EMPIRE

allies who would in any case pool all their available resources in the interests of their common cause. The possibility of one of the Dominions refusing to take any part in a war in which Great Britain was involved is too remote to be worthy of consideration here. We may therefore assume that even without a market on which British holdings could be realized in the Dominions, the Motherland could nevertheless count on the necessary supplies from these countries.

Apart from supplies from South American countries in exchange for British-owned holdings in South America or their equivalent in South American State bonds, the United States would thus play the chief role in the purchase of British foreign capital investments in the event of war. However, if British holdings were thrown on to the United States share market then, as we have already pointed out, the law of supply and demand would operate to bring about a catastrophic fall in prices. For the moment therefore British capital investments abroad could be effectively realized only if they were offered for sale gradually. This would mean that British holdings would have to be deposited as security for American loans.

On the other hand, it must be remembered that Great Britain and France are the only two countries which possess any holdings worth mentioning in the United States.

It is not possible to say with certainty whether or not there would be any political opposition to the floating of such secured loans, and the matter need

## HOW STRONG IS BRITAIN ?

not be discussed here. It is sufficient to point out that at the beginning of the World War U.S. banks were urgently advised by the government not to grant any further loans. However, when during the course of the war trade with the Western powers proved very profitable this policy was abandoned. It was automatically liquidated by the dynamic force of economic development and by the power of international high finance.

Even if there were no political objections to the raising of loans by Great Britain in the United States in this fashion, the realization of British holdings in this form would depend on quite normal business considerations. Making loans to a belligerent country is a risky matter, and the only hope of ever getting the money back again is if the debtor country proves victorious. The military course of the war would therefore have a decisive influence on the attitude of the United States market for British holdings. The development of the technique of wireless communication makes it improbable that in a future war the real facts of the position in the war area could be concealed from the United States public to such an extent as they were during the World War.

In any case, from all that has been said it results that in the event of war the United States would not only be a war contractor of very great importance for Great Britain, but also Great Britain's banker, and the only market for the conversion of holdings into gold or commodities. In all other countries only British

## THE UNSEEN EMPIRE

holdings in undertakings in the particular country concerned could be used to purchase commodities.

Finally we are forced to the conclusion that the value of Great Britain's capital investments abroad to-day is problematical.

## CHAPTER SEVEN

### IS GREAT BRITAIN BECOMING POORER ?

WE have now examined the most important factors on which Great Britain's economic strength is based : (1) industry and agriculture, by means of which she produces partly for her own use and partly for export ; (2) shipping ; (3) banking and capital investments abroad, from which she meets the cost of her supplementary needs over and above her own produce, and from which she accumulates her surplus capital.

Our investigations should now permit us to answer the question of whether Great Britain is economically stronger or weaker to-day than she was in former days, and in particular in 1914.

We have seen that the production of British industry is greater to-day than it was before the World War, whilst in agriculture the production of animal products has increased and vegetable products declined. As British industry plays a much more important role in the economic system than agriculture we may say on the whole that production in Great Britain is larger to-day than it was before the war.

That is one side of the British economic system :

## IS GREAT BRITAIN BECOMING POORER ?

Great Britain regarded alone. The expression of this domestic economic activity is the national income, and we can take the figures for Great Britain's national income as a measure with which to test our conclusions, and we shall find them confirmed. The national income in Great Britain to-day is greater than it was before the World War. In the last years before the war it seemed almost impossible that it could increase still further, as though it were about to reach its culminating point beyond which it would be impossible to go, but in the years after the war this level was even exceeded.

The further advance upwards was, it is true, no longer so regular, and the path traversed to the greater heights of our own day was no longer so smooth. From 1830 until 1913 the path led steadily upwards, although the advance along it grew gradually slower, but after the World War the British economic system experienced violent oscillations and the first really severe set-back for almost 100 years. However, after each recession the national income went forward again to new and greater heights. This happened both in 1930 and in 1937.

For a country like Great Britain which must import great quantities of various commodities from abroad under all circumstances because she cannot possibly exist on her own production, that part of her economic system which is working to satisfy domestic consumption is not the decisive one. Production for the domestic market is chiefly important as war potential. To this

## HOW STRONG IS BRITAIN ?

extent it is certainly a matter of considerable importance for Great Britain that her industries should be strong and healthy and that her agricultural production should not have declined materially. In a time of national emergency this would make the country stronger and less dependent, and it also permits the country to increase its armaments very considerably without being compelled to reduce its standards of living to any great extent in consequence. For the rest, a high level of national income deriving from domestic production is immaterial to the economic strength of the country.

The decisive feature of British economic strength is the other sector of the economic system, that sector which has to do with foreign countries : the export trades, the volume of import requirements, the revenues from shipping, the banks and capital investments abroad. It depends on these factors whether the country is to become richer or poorer, whether its power in the world as a creditor or purchaser is to become greater or less.

Our investigations have shown us that since the World War Great Britain's export trades have suffered, whilst British banking houses no longer earn what they did, and that although British capital investments abroad have returned very good revenues in favourable years, their capital value and their quality are no longer up to 1913 levels, whilst in recent years their nominal value has decreased, and will probably continue to decrease in the future. From all these facts

## IS GREAT BRITAIN BECOMING POORER ?

we concluded that this sector of the British economic system was on the whole less favourably placed than before.

The activity of this sector of the economic system is reflected in the balance of payments, which closes actively when more comes in from abroad than is paid out, and passively when more is paid out than comes in from abroad. The development of Great Britain's balance of payments since the war fully confirms the results of our investigations.

Before the World War Great Britain's balance of payments closed every year with a profit ; every year she became richer and more powerful ; every year she was in a position to increase her capital investments abroad and thus take care of the future when those investments would return good interest and dividends. Thus every year her power in the world as a creditor and customer increased. In 1907 the active balance of payments amounted to 138 million pounds ; in 1910 it had grown to 153 million pounds, and in the last year before the outbreak of war, 1913, it had reached the enormous figure of 181 million pounds.

This total was not reached in any of the post-war years, except nominally perhaps in 1920 when the value of money was much lower than in 1913 on account of the high level of prices. In the post-war years up to 1926 profits were still being made, but they sank from year to year until a mere nine million pounds was all that remained. Then came a period of good business in which they rose rapidly once again

## HOW STRONG IS BRITAIN ?

until in 1929 they reached almost 150 million pounds. However, it was the last leap of the flame before extinction, and the year 1931 ended with a loss of 110 million pounds, the greatest loss ever suffered. In 1936 18 million pounds was lost, and in 1937 52 million pounds.

The loss in 1931 might have been accepted with a certain amount of philosophy because at that time the whole world was in the trough of depression, but that Great Britain should have become poorer in the two other years, which were years of general good business, must be taken as a very serious warning. Nothing is more characteristic of the deterioration in Great Britain's economic position than the contrast between the active balance of foreign payments to the tune of 181 million pounds in 1913 and the passive balance of 52 million pounds in 1937.

If we are to venture any estimate for the future we must first examine in detail the reasons which have led to this deterioration.

If we examine the detailed figures of the balance of payments published by the Board of Trade, figures which even allowing for a margin of inaccuracy do give us a more or less reliable picture, we shall see at once that the transition from a big active balance before the war to a big passive balance in the prosperous post-war year 1937 cannot be ascribed to the decline in British revenues from shipping, banking activity and capital investments abroad. These have, of course, played a certain role in so far as they were lower in

## IS GREAT BRITAIN BECOMING POORER ?

the years 1931 to 1935 than before the war, but in other years they were higher than ever, and sometimes very considerably higher, and in 1937 they were, with the exception of banking revenues, once again higher than in 1913.

The trouble must be sought in the fourth section of the balance of payments, British foreign trade returns. The surplus of imports over exports must have been greater than before the World War, and foreign trade returns confirm this conclusion. In no single post-war year, either in the years of depression or the years of prosperity, was the import surplus ever again so low as it was in 1913. In fact, the extent of the increase was astonishing in some years. In 1913 Great Britain paid 132 million pounds for her import surplus, but in 1924 she had to pay 338 million pounds, and in 1926 even the record sum of 475 million pounds. In 1931 the figure was 411 million pounds, and in 1937 443 million pounds.

It is small wonder that under such circumstances Great Britain's balance of payments closed less favourably than in the pre-war period. The import surplus was the cause, and to that extent the situation is quite clear: the decisive reason for the deterioration of Great Britain's balance of payments since 1913 must be sought in foreign trade developments.

If we now analyse this import surplus we shall see that it increased partly because exports decreased after the war and partly because imports increased. A good year for the purposes of comparison is 1936.

## HOW STRONG IS BRITAIN ?

Like 1913 it was a year of good trade and chance has it that price levels were almost the same in the two years so that values as expressed in money terms are capable of valid comparison.

Imports in 1913 amounted to 769 million pounds, whilst in 1936 they were 848 million pounds. Exports in 1913 amounted to 635 million pounds, whilst in 1936 they were only 501 million pounds. Thus we see that British imports in the last year before the outbreak of the war were smaller than in 1936 whilst exports on the other hand were considerably bigger. The balance of British foreign trade in 1936 was therefore less favourable than in 1913, to the tune of 213 million pounds.

These figures can be analysed still further in order to provide us with information concerning the inner causes of the deterioration. We shall see, for instance, that the import of foodstuffs was greater in 1936 than it was in 1913. We have already seen that the cause of this cannot have been smaller harvests at home. The rather smaller harvest of grain in Great Britain in 1936 as compared with 1913 was neutralized by higher figures for animal products. If more foodstuffs were imported therefore this must have been due to greater consumption on the part of the population. The higher standards of living of the British people and the higher national income are important factors here, and they are permanent influences which must be reckoned with in the future.

However, the greater part of the deterioration in the

## IS GREAT BRITAIN BECOMING POORER ?

balance of trade in 1936 as compared with 1913 was due to the decrease of exports. This is, as we have already seen, the decisive point. Great Britain's export trades have not shared to the same extent in the present period of good business as other branches of economic activity. They have remained backward, and they represent a source of anxiety to the British government.

At the same time Great Britain has been lucky with the development of prices, and the situation would be much more threatening than it is if she had not been able to obtain her imports cheaply and sell her exports at good prices. Price developments on the world market after the war are responsible largely for the fact that her balance of payments did not become passive much earlier and to a much greater extent than it actually did in the end. Only up to 1924 were the prices of important British import commodities, for instance foodstuffs and cotton, relatively higher than those of important British export commodities, for instance iron and steel products and coal, and from that point onwards price developments were extremely favourable to Great Britain's trade balance. The prices for import goods sank, whilst the prices for export goods maintained themselves well, so that Great Britain was able to exchange the same quantity of export goods for a greater quantity of import goods.

If price developments after 1924 had not been favourable to Great Britain and her balance of trade, if, that is to say, the prices of both import and export goods

## HOW STRONG IS BRITAIN ?

had remained stable, Great Britain would have had to pay considerably more for her import surplus than she in fact did pay, and in the years 1926 to 1929 this increased payment would have amounted to 178 million pounds. From 1930 onwards price developments were even more favourable to Great Britain ; for raw materials, her chief imports, they sank sharply, whilst for finished goods they did not sink to anything like the same extent.

It is very interesting to obtain some idea of the amount Great Britain saved as the result of this favourable development up to 1936. Let us suppose that prices did not change from their levels in 1930, and that Great Britain imported and exported the same quantities of goods, then the import surplus in these seven years, 1930-36 inclusive, would have amounted to no less than a thousand million pounds more than it actually did.

Thus, favourable price developments saved Great Britain from suffering much greater losses. Price developments went strongly in favour of countries with big import requirements with regard to foodstuffs and raw materials.

How grave is this deterioration in the economic position of Great Britain ? Will it ruin the richest country in the world within a few years ? Will it turn a rich creditor country into a poor debtor country ? Or has Great Britain still time enough to cast around for ways and means to overcome her difficulties ?

We must certainly not overestimate the importance

## IS GREAT BRITAIN BECOMING POORER ?

of the losses Great Britain has already suffered. She owns such enormous resources abroad that she is well able to stand a losing run for a while without it ruining her or even causing her any very great trouble. There is no reason for Great Britain to fall into a panic. There is plenty of time left to consider calmly how to find a solution to a problem which will become threatening only if it remains too long unsolved. However, the task of finding such a solution is not an easy one, and the aim Great Britain can set herself with some hope of achieving it will not be very high.

Above all, she can never hope to achieve such tremendous and regular active balances again as she enjoyed before the war. It is possible that at some far-off time in the future big markets will again be opened up overseas and permit her to earn big sums, but it is not very likely. For the moment her aim must be to arrange matters in such a fashion that she is able to defend safely what she still holds. The triumphant advance has changed into trench warfare.

The first question which arises is to what extent the balance of trade, which is such an important factor, can be improved by a reduction of imports? We have seen that to-day British industry produces more than it did before the World War, and that in addition it works to a greater extent for the home market than before. Perhaps it would be possible for industry to take over a rather larger share in the satisfaction of domestic needs. However, whether this might be

## HOW STRONG IS BRITAIN ?

arranged or not, no decisive relief for the balance of trade can be expected from this quarter.

The production of British agriculture could, of course, easily be increased by affording it tariff protection, but the limits here are narrow because for political reasons Great Britain must take the agricultural produce of her overseas empire. Any very radical reduction of agricultural imports from the Dominions would soon threaten the harmony of the British commonwealth of peoples, and at the same time adversely affect the solvency of Great Britain's chief debtors. Further, British shipping, an important source of British wealth, would also suffer. It is immediately hard hit by any reduction in the volume of foreign trade, and it would suffer at once from any decline in agricultural imports.

However, despite all this, it would be possible to secure a certain reduction in the import surplus by increased production both in British industry and agriculture. Perhaps it would also prove possible to increase British revenues from shipping and banking if the world at large were to revert to normal again politically. However, all these things together would not prove sufficient to bring about the necessary improvement in Great Britain's balance of trade.

To this end one or both of two further factors must operate : there must be a reduction in the standards of living at present enjoyed by the British people or there must be a considerable increase in British exports, and the most desirable thing would be a

## IS GREAT BRITAIN BECOMING POORER

combination of both. However, no British government to-day would be likely to lower the standards of living of the population—even of its richer strata—deliberately. On the contrary, the slogan of all parties is to raise living standards still further.

Thus the only practical solution remains the increase of exports, or at least the hope of doing so. In the opinion of those who have made it their aim to maintain or even raise the standards of living of the British people it must depend primarily on this hoped-for increase of exports whether Great Britain is to continue losing money in the future and therefore to be impoverished gradually until the great inheritance of her forefathers in the form of capital investments abroad has all been squandered, or whether she can hope to take her wealth with her into the future. What are the prospects of any increase in British exports?

It must be realized from the beginning that Great Britain herself is not in a position to control all the factors which determine the development of her own export trade. And amongst the uncontrollable factors we need not even reckon those trade hindrances which have played such a great role in recent years : foreign-currency control instituted by other countries, the suspension of international payments, the establishment of the clearing system, the introduction of import quotas, etc. Great Britain could undoubtedly contribute to the withdrawal of such hindrances if, for instance, she were to give such countries as Germany colonies and markets.

## HOW STRONG IS BRITAIN ?

However, apart from all this there are two important new factors which are largely outside the orbit of British influence. One of these is the invention of artificial raw materials. Great Britain has not yet forgotten the utter ruin of the Chilean saltpetre mines, and the consequent loss of millions of pounds of British capital which were invested in them, by the discovery of a process to obtain nitrogen from the air. Then there is the production of artificial silk, the artificial production of oil from coal and lignite, the discovery of artificial rubber and of new raw materials for the textile industry, and the development of new raw materials from wood and other things. All these processes and discoveries threaten the raw-material countries with the replacement of their most important export commodities.

The British economic system is closely connected with the fate of the raw-material exporting countries. It is true that Great Britain herself could easily produce these artificial raw materials, particularly those whose basis lies in coal, but the result would be to increase the difficulties of the raw-material exporting countries still further and adversely to affect the yield and the capital value of British investments in these countries. The profits of last century which have been developed into capital in this fashion would then be lost.

However, over and above this the production of artificial raw materials threatens to destroy the basis of world trade as it has been conducted up to the present altogether. World trade is based primarily on the

## IS GREAT BRITAIN BECOMING POORER?

exchange of raw materials from the agricultural countries with the finished goods of the industrial countries. In the future, however, every country will do its best to follow Germany's example and produce as much of its raw materials as possible at home, and it will even be prepared to let the process cost it a certain amount. The effects of the war-time blockade and of the sanctions imposed by the League of Nations are now turning against their originators. Their aim was to dominate the economically weaker powers, but to-day they compel precisely the countries which are at an economic disadvantage to turn to self-sufficiency for their salvation, and self-sufficiency blocks up the channels through which the rich countries have become rich.

That is the biggest cloud on the horizon for Great Britain : the threat of economic self-sufficiency. The creation of artificial raw materials and the tendency to self-sufficiency are inseparable. The two clouds unite into a formidable threat of storm. The saltpetre mines in Chile could still compete in the world market as far as economic factors are concerned, but they cannot compete against the subsidizing of the production of nitrogen in the big industrial countries and its protection by tariffs.

Artificial raw materials permit a high degree of self-sufficiency, and that is, on the whole, perhaps the greatest danger for Great Britain. If she succeeds in surviving war and conquest she would still be in danger of going under owing to the emancipation of

## HOW STRONG IS BRITAIN ?

economically self-sufficient national States or groups of States. Self-sufficiency on the economic field would cut the ground from under the feet of Great Britain, and her world position would collapse.

It is, however, very unlikely that economic self-sufficiency will destroy world trade. First of all something will always remain, and secondly we may assume that some sort of commodity exchange would develop even between economically self-sufficient countries. But apart from the fact that this new world trading system of the future would not know the institution of debtor and creditor to the same extent as at present, and that the purchaser would not have the same power as he at present enjoys over the seller, a long period of change lies between the present and the development of this new system of world trade, and in this protracted period Great Britain will find it difficult to maintain her present capital investments abroad without some considerable increase in her exports to bring her in fresh revenues.

What can she do to increase her exports? We have seen that one of the chief reasons for the decline of British exports was the neglect of those industries which were formerly great and prosperous export industries. Here is the natural and most valuable point at which a start could be made to improve Great Britain's export prospects. The export industries should be made more efficient, and the fact that this has not yet been done represents one of the hidden reserves of power Great Britain can still call upon. To this extent

## IS GREAT BRITAIN BECOMING POORER

these industries have a step before them which other industries have already taken, and at the same time they have the advantage of the experience of these other industries to go on.

We have seen that the modernization of Great Britain's chief industries has not yet been carried out. Only in the iron and steel industry has real work been done, parallel with the rearmament programme, not only to modernize plant and extend it, but also to reorganize and co-ordinate individual undertakings in an economically rational fashion. The success already achieved in this respect is impressive. At the moment the coal-mining industry is in the throes of reorganization and it is not impossible that one day it will be nationalized, a proceeding which is likely to give the industry a much better chance of competing on the world market than it possesses at present owing to its decentralization and atomization. Perhaps the problem of modernizing the textile industry will be solved one day too. In the subsidizing of shipping the British government has not yet proceeded even approximately as far as less wealthy countries have been compelled to go.

There can hardly be any doubt that if British industry were rationally organized, fairly certain of the stability of its price levels, and not exposed to cut-throat competition amongst its individual undertakings, it could obtain a bigger share of the world export trade than it at present enjoys.

There is still a factor on the positive side of the

## HOW STRONG IS 'BRITAIN ?

balance sheet which must be mentioned : the possibility of extending the tariff policy introduced by the Ottawa conference, i.e. increased economic self-sufficiency within the Empire. The great project of Joseph Chamberlain, the introduction of preference duties within the Empire, has now been put into operation by his son Neville. In recent years and as a result of the Ottawa Agreement a great part of British foreign trade has been guided into Empire channels.

In 1936 half of all British exports went to countries within the Empire, and 40 per cent. of all British imports came from such countries. However, since the conclusion of the Ottawa Agreement, i.e. since the introduction of preferences for Empire goods, British imports from Empire countries have increased to a greater extent than British exports to such countries. In other words, up to the present it is chiefly the Dominions which have gained by the Ottawa Agreement and not the Motherland, and it is not surprising therefore that at the last Empire Conference in 1937 the British government informed the Dominions that it could not make them any further concessions. Great Britain buys considerably more from the colonies and Dominions than she sells to them. In 1937 she purchased 405 million pounds' worth of goods from Empire countries and sold goods to those countries to the value of 252 million pounds only, so that her adverse balance of trade with the Empire alone amounted to no less than 153 million pounds. In 1936 this adverse balance of Empire trade amounted to 116

## IS GREAT BRITAIN BECOMING POORER

million pounds only, so there has been a considerable increase.

However, despite this there is a reserve of export possibilities here for Great Britain. It would hardly be possible to mobilize it to the full extent of the deficit because the Empire countries need a surplus of exports over imports in their trade with the Motherland if they are to pay interest and dividends on their financial commitments to her. However, if we take it that the total amount of these debt payments is rather less than 100 million pounds annually, then we observe that the export reserve at Great Britain's disposal in the Empire in 1937 was only a little over 50 million pounds, or almost the amount which Great Britain lost on balance in that year. The British government has already proposed to its Empire partners that these sums should be expended in Great Britain in the future and not in foreign countries.

As we have already pointed out, a combination of increased exports and reduced standards of living at home would offer a further possibility of ordering Great Britain's balance of payments satisfactorily. The simplest form of achieving this would be to grant a subsidy to the export trades to be collected from industry by an impost or taken from general tax revenues. Some such scheme is already being considered. In this respect too, the British government has bigger reserves than other countries. Apart from the limited subsidies for certain agricultural products and for artificial fertilizers, there is only the subsidy

## HOW STRONG IS BRITAIN ?

to tramp shipping. The next candidates for subsidies at present under consideration are British shipping lines and the coal export trade. Such measures would certainly meet with a fair amount of success. The only thing which stands in the way is the fear of political opposition at home.

Thus our investigations give us the following picture : British industry is capable of producing more, and does produce more, than before the World War ; the production of British agriculture has not materially decreased ; shipping, banking and capital investments abroad brought in a higher total of revenues in 1937 than in the last year before the war.

Nevertheless, in the two last excellent business years 1936 and 1937 Great Britain lived on her capital. She became poorer instead of richer because her foreign trade balance developed unfavourably. To-day she is compelled by the high standards of living of her people and by the resulting import needs on the one hand, and the hindrances to her foreign trade on the other, to import so much that the surplus of imports over exports cannot be paid for out of current income and has to be met by resource to capital. The most important reserves of power which might be tapped are the modernization of the export industries, a further extension of Empire economic self-sufficiency, and a reduction in the living standards of the people.

Is, therefore, Great Britain's economic strength greater to-day than it was in 1914 or not? At the present time it is almost equally great, but the im-

## IS GREAT BRITAIN BECOMING POORER ?

portant difference is that whereas before the war Great Britain was growing richer she is now growing poorer, and it is of fundamental importance that this gradual impoverishment has its roots in a trend of world development which is in all probability not a temporary but a permanent one.

## CHAPTER EIGHT

### BRITISH MILITARY STRENGTH

THE problem of defending Great Britain and the British Empire has become more difficult since the World War. This is due to both political and strategic reasons, and therefore the military strength of Great Britain and the volume of her preparations to meet the danger of war must be greater than they were in 1914 if the same degree of safety is to be obtained.

The strategic problem still has two sides, namely the fact that Great Britain is an island, and the fact that she is dependent on imports of raw materials and commodities if she is to exist at all.

In the past Great Britain's island situation has very considerably facilitated her defence, and any military threat was possible only in conjunction with naval power superior to her own. Without such superior naval power no enemy could think of blockading and conquering the country. As long as Great Britain retained command of the seas her own territory could never become the arena of war. Protected by that narrow strip of water between herself and France, Great Britain was in a position to wait patiently and

## BRITISH MILITARY STRENGTH

to strengthen herself even after a declaration of war. Great Britain was a remote base no enemy could attack and at this base all preparations could be made without interruption for a decisive counter-attack. British armies might lose battles on continental soil, and have to remain on the defensive, but behind them at home preparations were going forward to win the final and decisive battle of the war. In the course of time it has become almost an axiom that Great Britain loses every battle but the last.

On the other hand, her dependence on imports always represented a strategic weak point. Although the country itself was unassailable, British shipping routes were not, and in recent times they have become more and more subject to attack and interruption by hostile action. However, this assailability of Great Britain's seaways never became a matter of vital concern because sea communications could be defended with the same weapons which defended the country itself. Naval superiority was the means of defending both the country itself and its shipping on the high seas. The powerful fleet which prevented an enemy blockading the country or landing troops on its soil was also able, with a little supplementary effort, to defend British shipping too.

Command of the sea, i.e. the possession of a fleet superior to any hostile fleet or likely combination of fleets, was the means of solving the two chief strategic problems of Great Britain during the World War.

## HOW STRONG IS BRITAIN ?

However, since then the very favourable strategic situation enjoyed by Great Britain has changed to her detriment. The development of the modern air arm has created a new and supplementary threat. The narrow arm of water which separates her from France is no barrier to an air fleet, whilst the wide stretch of sea surrounding her other coasts is on the whole more favourable to the raiders than to the defenders because it protects the raiders against premature discovery. Formerly Great Britain's security was based on superior staying-power, the staying-power of a country whose island position was practically unassailable. Formerly she could confidently reckon that when she had made all her preparations and when her enemy had exhausted himself she could launch the final and victorious battle of the war. To-day the danger has arisen that the first battle, the battle in the air, will be the last battle, and that by a direct attack on what was formerly her unassailable base Great Britain will be deprived of the ability to prepare herself for the final battle.

To use the terminology of the prize-ring, formerly Great Britain could rely on a points victory after her enemy had exhausted himself, but to-day Great Britain is threatened with an adverse decision by a K.O., or, in the event of a protracted war, with an adverse decision on points for her enemy owing to the interruption of her vital sea-borne supplies.

Recently we have heard it said more and more frequently that owing to the development of the modern

## BRITISH MILITARY STRENGTH

air arm Great Britain has practically ceased to be an island. That is not true. Great Britain is still an island, and she still enjoys all the strategic advantages of an island position. All that has happened is that a new weapon has been developed whose operations are not hampered by such a position. However, enemy landing operations against Great Britain are still impossible—at least, as long as the British Navy retains command of the seas.

Great Britain's fundamental base of operations therefore still represents a very difficult problem for conquest and occupation. However, this base of operations can be greatly disorganized or even destroyed. Towns, harbours, warehouses, industrial works, railway lines and railway bridges, etc., are threatened with destruction to-day and they must be adequately protected, whereas formerly they were quite safe and could be left practically unguarded. To-day Great Britain must be defended at home as well as abroad, whereas formerly it was quite sufficient for her to man a few coastal batteries and have a few warships on patrol, whilst the main body of the Grand Fleet would be lying under steam in some secure harbour. And above all, the citizen at home saw and heard nothing of all these things. Perhaps he had to perform some unaccustomed task, and his standards of living were lowered a little, but for the rest the war was nothing but news from abroad. But in a future war he would be subjected to heavy bombing, and see his home and place of work collapse, perhaps on top of him. The

## HOW STRONG IS BRITAIN ?

first battle of the next war will be fought over his head, and he will be the immediate object of it.

As far as modern air warfare is concerned the fact that Great Britain is an island is in many respects a disadvantage. The density of population is high, and industrialization and urban concentration have still further underlined this circumstance. There are approximately 119 inhabitants to the square mile in Great Britain as compared with approximately 90 inhabitants to the square mile in Germany, and the concentration of the population into a few big towns makes the actual density in those areas which would be singled out for air attack much greater. No less than 80 per cent. of the population of Great Britain lives in towns, and no less than one quarter of the entire population of the country lives and works in London and its suburbs.

This intense concentration of the population was an advantage in many respects as long as the danger of air attack did not exist. To-day that concentration is a considerable strategic disadvantage, just as masses of troops in one spot may be a disadvantage at the front. Once upon a time troops in battle were drawn up opposite each other in serried ranks ; to-day both attacking and defending troops are more dispersed and distributed over a larger area so that nowhere do they offer any massed target. London's position towards modern air attack might be compared with that of an old-time regiment facing modern weapons. The greater part of the consumption goods industries lie in

## BRITISH MILITARY STRENGTH

and around London. The government has its centre in London, and the City of London is the heart of British economic activity.

The greater part of those industries which would keep the fighting forces supplied in the event of war lie in the southern section of Great Britain, or, to describe it more accurately, in a broad belt stretching from the south-west to the north-east of the country. At no point is it more than between 260 and 290 miles away from the shores of Europe proper, i.e., it could be reached by hostile bombing planes with the greatest of ease.

There is another reason why Great Britain's island position is particularly disadvantageous to her as far as air attack is concerned. Hostile bombing planes would approach her vital centres over the sea and their approach would therefore be more difficult to detect. Hostile bombing squadrons would always be over their objectives within a very short time after crossing the coast.

Thus the advantages enjoyed by Great Britain from her island situation are reduced by the existence of the modern air arm, whilst on the other hand the strategic disadvantages of dependence upon imports from abroad are increased for the same reason. Formerly that naval superiority which protected Great Britain from invasion was sufficient to guard and keep open her seaways, but to-day more is necessary. Enemy action by means of submarines and mines has received a powerful ally in the modern air arm.

## HOW STRONG IS BRITAIN ?

Hostile bombing planes cannot operate widely on the high seas without possessing bases either on near-by coasts or islands, but all ships which bring supplies to Great Britain must negotiate comparatively narrow seaways before arriving in port : up the Channel, up the Bristol Channel, across the Irish Sea or through the North Sea. In these comparatively narrow roads British shipping cannot avoid crowding together, and it then represents an easy mark for hostile bombers. And finally they must be piloted into a limited number of harbours. The harbours in which overseas products are unloaded represent practically the same thing for Great Britain as the big industrial centres of other countries do for them, namely a vital source of supplies. Still further, as the unloading centres for more than half of the necessary foodstuffs of the country they centralize those sources of food supply which in other countries are spread far and wide in the shape of various agricultural undertakings.

Harbours are also more difficult to defend against air attack because they lie on or near the coast. Surprise raids are possible, and most harbours cannot be protected by deep belts of territory defended by anti-aircraft batteries.

All these factors represent the most important changes which have taken place since the World War in the strategic position of Great Britain. They are of particular importance because in modern warfare, which involves the expenditure of vast quantities of war material, the home front (the industrial front

## BRITISH MILITARY STRENGTH

which provides this material and the shipping which supplies it with its raw materials, etc.) will play an even more important role than they played in the World War. In a war of machinery Great Britain's chief strength will lie more than ever before in her powerful industries and in her ability to purchase raw materials and war materials abroad, and to pay for them. Thus, she is not only threatened to a greater extent than before, but the chief objects threatened are more important than ever before for the prosecution of a war.

Great Britain's defence is also made more difficult owing to certain political changes which have taken place since the World War.

An investigation of the political situation will bring us a step nearer to the concrete strategic problems which face her to-day. The theoretical deterioration of her strategic situation which we have discussed above must remain unimportant so long as there is no potential enemy in sight who could take advantage of it.

Where have the decisive changes taken place? Italy, which was firmly neutral in 1914 and which later even became Great Britain's ally, has developed in recent years from a friend into a rival. The value of the Anglo-Italian Treaty of Friendship signed in 1938 still remains problematical. It might prove to be the beginning of a new era of Anglo-Italian friendship, but it might prove to be no more than a postponement of a settlement of accounts. In any case, one

## HOW STRONG IS BRITAIN ?

thing is quite certain, the development of Italy into a powerful land and sea force in the Mediterranean, and Italian Fascism's claim to the Mediterranean as a vital area of Italian interests, represent a strategic problem of first-rate magnitude for Great Britain.

Further, Japan, the ally of 1914 in the Pacific, has now become a rival too, and one which possesses a powerful fleet not subject to treaty limitations. Japan also maintains close and friendly relations with powers which Great Britain has come to regard as her potential enemies. Before the World War the Pacific Ocean was regarded as a thoroughly safe area in which the Pax Britannica was not likely to be threatened.

The deterioration of Great Britain's relations with Italy and Japan enormously increases the difficulties of her position. In 1914 her potential enemies were closely grouped together in Central Europe, and throughout the whole World War her command of the seas was never challenged except in European waters, including a section of the Mediterranean. Let us take a theoretical contingency—one which will not arise through any fault of Germany or her leader Adolf Hitler, but one which will best serve us here to measure Great Britain's present strength—that Great Britain were to fight against Germany, Italy and Japan. As a result she would immediately be threatened in two hemispheres and at their link, the Mediterranean. Instead of having to deal with one enemy fleet, she would have to deal with three different fleets situated at three widely separated parts of the world.

## BRITISH MILITARY STRENGTH

However, even in this unfavourable situation, there are two factors to be set down on Great Britain's side of the account. As things are to-day, she could rely on the French fleet for co-operation in the Mediterranean, whilst in the Pacific Ocean she could also rely on the powerful United States Navy as an ally in a war against Japan, though, of course, the active intervention of the United States would presuppose some clear threat to her own interests.

Another unfavourable change which has come about in the European situation is that Russia, the strong and reliable ally of 1914, has since developed into a thoroughly unreliable country of highly problematical military value as an ally, and one which for ideological reasons alone is not an acceptable ally for Great Britain.

As against these big unfavourable changes in the situation a number of minor, but favourable changes must be enumerated in order of importance: the disappearance of the big, though crumbling Ottoman Empire and the rise of modern Turkey, limited in strength, but, still, a friend and not an enemy. This fact has had the incidental result that Palestine has become a strong point for the command of the Eastern Mediterranean and of the Suez Canal zone, and in Mesopotamia an allied State, Iraq, has been established so that these two circumstances together give Great Britain a land way in and out of the Mediterranean to the Persian Gulf. The seizure of Germany's colonies in Africa means that British shipping to-day has nothing

## HOW STRONG IS BRITAIN ?

to fear there and that the enormous Indian Ocean is once again safely in British hands.

And finally, a change worthy of mention is the strained relations which exist between Great Britain and the Arabs in Palestine. The British plan to divide Palestine into a British, a Jewish and an Arab section, was intended to abolish the points of friction with the Arab world without causing any loss of Great Britain's influence or the abandonment of her military strong point in Palestine. Her difficulties with the Arabs may be confined to Palestine, but the fact remains that the existence of good relationships with the Mohammedan world is such an urgent necessity for British strategy that the existing friction must be taken very seriously, because a hostile Saud-Arabia in alliance with a naval power might mean the cutting off of communications through the Red Sea.

The effect of the conquest of Abyssinia by Italy on the strategic situation of the British Empire will remain small so long as this part of Italy's Empire is not sufficiently developed politically, economically and militarily to be able to defend itself without assistance from the Motherland. At the moment Great Britain's command of the Eastern Mediterranean makes it possible for her to cut off Italy from Abyssinia.

Is Great Britain in a position to master the greater strategic difficulties of the present situation as compared with 1914? What has she done or what is she doing to neutralize all these disadvantages? The whole

## BRITISH MILITARY STRENGTH

world is ringing with reports of British rearmament. For a number of years now the chief attention of the British government has been directed to its rearmament programme, which is occupying the full time of the Defence Minister, and most of the time of almost all the other ministers as well. The fact is that Great Britain is preparing herself for totalitarian warfare, and with the assistance of her great financial resources she is preparing herself in a fashion never before paralleled in times of peace.

After the World War she disarmed very considerably, and in doing so she was undoubtedly swayed to a certain extent by the hope that the other heavily armed States would finally follow her example, but her chief reason was a desire to save money, and in this she was successful. British governments were guided by the firm belief that the world would enjoy at least 15 years of peace after the World War. When Great Britain began to rearm in 1934 therefore, she had to rebuild much she had dismantled after the World War and many things had to be created which had never existed before.

When we consider the practical tasks of a British government determined to prepare the country for its part in a new world war, one tremendous advantage enjoyed by Great Britain over all other countries is immediately obvious. The other countries of Europe must pay primary attention to the establishment of a powerful army with modern equipment and with sufficient trained reserves. For Great Britain, however,

## HOW STRONG IS BRITAIN ?

that is still a task of secondary importance. A powerful army is not necessary to defend her against enemy attack. She needs infantry forces, etc., to man her strong points overseas and to form the garrisons of India and the colonies, but even for this purpose an army is sufficient which represents a negligible force in comparison with the great land forces of the continental States. For the rest a big land force could serve Great Britain only for the indirect defence of her shores by operations on continental territory. The fact that the British authorities have handed the air defence of the country over to the army, which is establishing the necessary batteries of anti-aircraft guns, is an organizational question which need be mentioned here only in passing. The tremendous advantage to Great Britain of the fact that she need not bother herself very greatly about her land forces within the framework of her rearmament programme can be realized by anyone who cares to envisage Germany's possibilities if she had no big army to think of.

For the moment, therefore, Great Britain can concentrate almost all her strength on developing the two remaining branches of the fighting forces, the navy and the air arm, the anti-aircraft defences, and on preparing the home front to play its part. As far as the air arm is concerned, it enjoys a further important advantage from the fact that Great Britain has no large army. A considerable part of the air forces of all the continental powers is tied down to army co-operation for the purpose of reconnaissance, etc. The British Air Force,

## BRITISH MILITARY STRENGTH

on the other hand, can concentrate its efforts on bombing planes and fighters. To this extent the total number of British aeroplanes represents a more powerful weapon of attack than the same number of aeroplanes in any continental air force. The fact that the aeroplane is, as a matter of fact, not being neglected in Great Britain for army co-operation is due to close co-operation with France, and it represents a part of the preparations which are now going forward in Great Britain to take part in continental land warfare. It has thus nothing to do with the direct defence of the country against enemy attack, with which we are now dealing.

The island situation of Great Britain, which makes a strong standing army unnecessary as a means of national defence, has another important advantage for her concrete planning. Her military strength is not hampered by the necessity of defending a certain length of frontier against certain hostile military forces on the other side. As far as her strength is not required to repulse enemy attacks on the sea or in the air, it can be used in any part of the world which seems desirable without the necessity of any definite strategic plans being made in advance. Great Britain's strength can be flung into the field anywhere at the critical moment in order to secure the strategic superiority for herself and her allies.

From this we can see that apart from direct national defence the chief aim of any effective British military policy must be to build up the greatest possible degree of

## HOW STRONG IS BRITAIN ?

war potential. The important thing for Great Britain is not that at any particular moment she should have a greater number of aeroplanes, tanks, guns, machine-guns, munitions stores and trained reserves than her potential enemies, but only that she should have them in sufficient numbers to safeguard her defences and to prevent herself from being defeated in the first round of air warfare.

The decisive thing for Great Britain is that she should have sources of raw materials, adequate facilities for obtaining them, and an industry able to replenish the exhausted war materials of her own forces and those of her allies no matter how long war might last, and that she should be able to replenish and extend whatever supplies are available at the outbreak of war.

Her main strength lies in the great raw material resources of the British Empire, in the great financial reserves which will permit her to purchase raw materials and war materials abroad, and in her own powerful industries. The guiding principle of her rearmament programme is to prepare all these factors for war purposes, and to maintain and extend them.

It will be interesting to observe what the responsible authorities in Great Britain think about their tasks. For one thing they believe that the preliminary air battles of modern large-scale warfare will involve great losses, and that therefore it will not be long before reserves and the current production of industry for replacements begin to play the decisive role. Current industrial production will, of course, depend on the

## BRITISH MILITARY STRENGTH

possibility of keeping industry supplied with the necessary quantities of raw materials. The longer the war lasted therefore the more important Great Britain's air arm would become because it would be backed by an industry liberally supplied with all the necessary raw materials. If necessary replacement planes would be built far away from the scene of conflict in Canada, and flown over to Great Britain for service.

At the same time land warfare would develop into a vast and increasing expenditure of war materials, and therefore the decisive point would not be how many soldiers Great Britain could put into the field, but how many arms and ammunition factories she could keep going at full blast, and how many skilled workers she could keep at home on the job.

We can readily imagine that on the basis of these guiding principles the British government has probably drawn up some definite table of preferences in its armament programme, perhaps something like the following : first of all, air defence at home by an air force capable of repulsing foreign air attack and launching a counter-attack, so that Great Britain shall not be decisively defeated in the first air onslaught ; secondly, measures to safeguard the import of supplies from abroad ; thirdly, the building up of a powerful armament industry and the preparation of industry in general for the switch-over to war production ; and, fourthly and finally, the preparation of an expeditionary force to take its part in the armed struggle on continental soil.

## HOW STRONG IS BRITAIN ?

In this list we have omitted the safeguarding of Great Britain from naval attack, because that is a matter of course and, as matters stand, one which can be performed without any very great increase of naval armaments.

The defence of the country against air attack is primarily the task of the anti-aircraft batteries. According to information given by the Minister for War the anti-aircraft battalions of the Territorial Army which would bear the full responsibility for such defence, were no more than 2,000 strong in 1935. However, by the beginning of 1936 their strength had risen to 5,200. By June 1938 the figures were given as 43,000, and it was announced that as quickly as possible the figure would be increased to 90,000. Thus if these figures are correct there has been an enormous increase in the strength of Great Britain's anti-aircraft forces within the general framework of rearmament. 90,000 men on anti-aircraft service represents a very strong force for a country the size of Great Britain because they would be almost entirely used for home defence, the regular Army having its own anti-aircraft battalions.

The men of the British Territorial Army are actually civilians who receive between two and three consecutive weeks' military training a year in camp, and for the rest put on their uniforms one or two evenings a week for training after working hours. This system is not considered to be a disadvantage in Great Britain, and it is thought that with the necessary specializa-

## BRITISH MILITARY STRENGTH

tion efficient anti-aircraft units can be trained very rapidly.

However, it is probable that when giving the figures we have just quoted the War Minister was speaking of the proposed strength of the Territorial Army anti-aircraft battalions and not their actual strength at the time. Their actual strength is probably much less, and for the moment it is still not clear how the necessary number of new recruits is to be obtained within the reasonably near future in order to man the proposed number of new batteries. Further, it would appear from a number of indications that the equipment of Britain's anti-aircraft batteries is very unsatisfactory. Many of the batteries are still equipped with guns which were in use during the World War, and the men are being trained with this obsolete material instead of with modern equipment. The truth is that anti-aircraft defence represents one of the most serious weaknesses in Great Britain's armour. If the suggested order of preference was actually adopted by the British government it is clear that up to the present at least it has not been maintained.

Apart from anti-aircraft batteries Great Britain is developing a system of balloon barrages against attack from the air. Captive balloons are to be sent up to great heights in rows. Each balloon is attached to a lorry so that the barrage is mobile. It is hoped that it will be gradually possible to let these balloons rise to a height of approximately 25,000 feet, and it has been estimated that about 600 such balloons would

## HOW STRONG IS BRITAIN ?

prove sufficient to defend London. An aeroplane which touched one of the cables on which the balloons are suspended would crash. Bombing planes would have to fly through the barrage to attain their objectives and back again to make good their escape, and it has been calculated that in all probability every second plane would foul the cables. Such barrages have never been tested in practice, and it is not even known what the influence of a high wind would be on their behaviour, but at least they have the advantage of being comparatively cheap.

Finally, it is the task of Great Britain's air arm to beat off all enemy attacks from the air and to attack the enemy in his own country by bombing his aerodromes and if possible destroying his machines before they can take off. As, further, the air arm is to be the most important direct contribution of Great Britain to future belligerent operations it is obviously intended to occupy almost as important a place in the defence of the country as the navy. To-day Great Britain is about to create one of the most powerful air forces in the world, and one with a great industrial potential for replacement behind it.

By 1922 there was not much left of the British Air Force of 1914-18. When Sir Samuel Hoare became Air Minister, Britain's total first-line air strength was 14 machines, and when rearmament began on a large scale in 1934 the British Air Ministry had no plans for modern war planes at its disposal. Technically aero-engine production was on a high level, but the aero-

## BRITISH MILITARY STRENGTH

industry as a whole was small, and insufficient numbers of skilled workers were available. In the space of four years up to the middle of 1938, the first-line strength of the British Air Force increased to 1,700. However, the popular expression "first-line plane" does not mean very much and the British authorities have now abandoned it as a measure of strength. From what has become known it would appear that in order to stop up the most threatening gaps the British government ordered large numbers of types which were not the very latest, but which had at least proved their value. However, delivery dates seem to have been miscalculated, and the manufacture of the machines took much longer than was originally expected with the result that when new and modern types had been through their tests and were ready for manufacture, the aero-industry still had its hands full producing the older types. For this reason progress in air armaments has not been as quick as had been hoped.

However, in accordance with its guiding principle that the primary thing was to build up a high degree of war potential, the British government was chiefly interested in securing a high level of productive capacity for the event of war, and this it regarded as more important than quick results in the shape of machines ready to take the air. New plant, modern equipment and, above all, trained workers are necessary for the carrying out of the government's plans.

To this end the so-called "shadow factories" scheme was adopted, whereby the government builds aero-

## HOW STRONG IS BRITAIN ?

plane factories at its own cost in connection with already existing industrial undertakings. The undertakings in question then build aeroplanes in these new factories at the orders of the government. The government pays for everything, and in addition it pays commission and certain delivery premiums. The most important thing about these so-called shadow factories is that the employees of the particular industrial undertakings to which they are attached are passed through them in order that all of them, both workers and engineers, receive training in the technique of aeroplane building. Just as soldiers receive two years' military training in countries with compulsory general military service so these British workers are receiving special industrial training for war purposes. It is clear that these shadow factories will hardly reach the same levels of production as ordinary aircraft works because they are not only factories but also training schools. Their purpose is to create war potential.

There are no official figures available concerning the present productive capacity of the British aero-industry, but a little while ago it was estimated in the House of Commons to be about 230 machines a month. As according to official statements productive capacity is to be increased threefold by the beginning of 1940, the British aero-industry will then be in a position to turn out about 700 machines monthly, or in other words every month it would be in a position to replace one-third of an air force consisting of 2,000 planes. In the event of need, however, not only the actual

## BRITISH MILITARY STRENGTH

aero-industry as it exists in normal times would begin to work at full blast, but the war potential of skilled workers would be drawn upon. Aircraft factories would be working three shifts a day, and other industrial undertakings would switch over to the production of planes. In this way production could be increased many times over. During the last year of the World War Great Britain built over 20,000 aeroplanes. Modern aeroplanes are much more complicated to build, but when the reserves of trained workers from the shadow factories have gradually been strengthened it may be possible for Great Britain to reach this total once again.

In a country whose chief strength lies in its industry, passive defence must play a very important part in the general system of anti-aircraft defence. Some progress has been made since May 1938 in the organization of Air Raid Precautions in Great Britain, but the preparations have by no means been concluded yet. The government believes that it will need about a million Air Raid Wardens for its plans, and up to the moment not half of that number has been recruited. Up to the present, too, there are practically no air-raid shelters in existence. However, industrial and business undertakings are granted special tax rebates if they spend money on air-raid shelters for their employees, plans have been drawn up for the partial evacuation of big towns by women and children, preparations have been made to transfer government offices to a safe and, up to the present, secret place where they can

## HOW STRONG IS BRITAIN ?

carry on without fear of disorganization from air raids, and the government proposes to take measures to ensure that all new buildings, and in particular new factories, will be built in the future with a view to withstanding bombs. In the event of war a section of the army is to be attached to the police force in order to maintain order during air raids and to repair all damage. In this respect the plans of the British government probably go farther than those of other governments, but the authorities are very slow in performance.

The next point in our list relates to the safeguarding of supplies, etc., from abroad, and with this we come to the fleet and its strategic problems. When the warships which were on the stocks in Great Britain and in all other countries at the beginning of 1938 have all been launched the British Navy will be the most powerful in the world in all categories, in battleships, cruisers, and destroyers. Only in submarines will Britain take third place after Italy and France. The comparatively small naval forces of the Dominions have been included in this calculation.

Great Britain's command of the sea is vested primarily in her battleships and battle-cruisers, those monsters of fire-power and armour which can overwhelm everything smaller than themselves whilst running little or no risks. The two post-war battleships H.M.S. *Rodney* and H.M.S. *Nelson* are still the most powerfully armed ships afloat. They have no rivals to fear anywhere. Their speed is great enough to force battle upon most of the vessels in their own class. The building of such

## BRITISH MILITARY STRENGTH

enormous vessels is a very costly matter and it follows therefore that the country with the biggest financial resources can permit itself the greatest number of them. For this reason the British government believes that, for the present at least, it can maintain a sufficiently great lead over all its possible rivals.

The two battleships mentioned and the fastest battle-cruiser, H.M.S. *Hood*, which is the biggest warship afloat, were put into commission after the World War. The twelve other big ships of the line were built either during or before the war, and at the moment they are being modernized at a cost in excess of their original building costs. After their modernization they will, it is believed, be equal to new vessels in all respects.

The number of warships in commission in the British Navy before the war was very considerably greater than it is to-day. In 1914 Great Britain had 58 battleships; to-day she has only 12. In 1914 there were 14 battleships on the stocks; to-day there are only 7. In 1914 she had 9 armoured cruisers in commission and one on the stocks; to-day she has only 3 armoured cruisers. In 1914 she had 111 cruisers (including 5 cruisers in the Dominion forces, however) in commission and 21 on the stocks; to-day she has only 40 cruisers and 17 on the stocks. In 1914 she had 166 torpedo-boats and torpedo-boat destroyers in commission and 36 on the stocks; in the spring of 1938 she had only 89 in commission, though she had 40 on the stocks.

Further, the fighting value of warships has consider-

## HOW STRONG IS BRITAIN ?

ably changed. The modern monster battleship was unknown in 1914, but on the other hand some of the pre-war cruisers were considerably stronger than their present-day successors which may not, by agreement, exceed 10,000 tons. To-day, however, modern destroyers are bigger and more heavily armoured than the torpedo boats and the smaller torpedo-boat destroyers of 1914.

As against this decrease in the strength of the British Navy, we must remember that the strength of other important navies has declined even more. Thirty-five battleships made the German High Seas Fleet a very worthy opponent for 58 British battleships in 1914, but to-day the German Navy has accepted a relation of 100 : 35 in favour of the British Navy. The numerical superiority of the British Navy over the German Navy is therefore very great.

In 1914 Great Britain had to reckon with 14 Austrian battleships in the Mediterranean, whilst to-day there are, at the utmost, not more than 4 Italian battleships. The Pacific is the only place in which a serious deterioration in her naval strategic position has taken place. In 1914 she was allied with Japan with her 17 battleships, whereas to-day the 9 battleships of the Japanese Navy cannot be counted as a friendly force.

A factor on the British side of the balance is that to-day the French fleet with its 6 battleships is relatively stronger within the framework of generally reduced world fleets, than it was in 1914 with its 21 battleships. And finally, a war between Great Britain and the

## BRITISH MILITARY STRENGTH

United States is considered to be impossible so that the 15 battleships of the U.S. Navy are practically regarded, though probably erroneously, as Great Britain's second line of defence.

In a new war along the lines of the World War Great Britain's battle fleet would be so superior to its enemies that it would have much greater freedom of movement than it had during the last war when it was compelled to hold itself in readiness for a naval battle in the North Sea at a moment's notice. In a new war the chief task of the fleet as a whole could be the defence of British sea-borne commerce. However, for this purpose a large number of smaller vessels, which are more suited to dealing with aeroplanes and submarines, is necessary, and Great Britain would be better off to-day if she still had the 277 cruisers and torpedo boats of 1914 instead of having to make do with between 129 and 180 cruisers and destroyers. However, even these figures are fairly high, and they can be strengthened by special auxiliary vessels.

• In its task of protecting British shipping on the high seas the British Navy will have the support of a powerful naval air arm. At the moment there are no less than six aircraft carriers in commission and a further five on the stocks. When these new aircraft carriers have been launched Great Britain will have almost twice as many such vessels as either Japan or the United States, which have six aircraft carriers each, and share second place on the world list. In addition there is a hydroplane carrier which is already

## HOW STRONG IS BRITAIN ?

in commission. And finally, all battleships and all the bigger cruisers will have their own planes which will be launched by catapult apparatus.

What are the sea routes which the British Navy must defend in the event of war? With the exception of iron-ore from Sweden and foodstuffs from Denmark and Holland, all Great Britain's most important sea-borne supplies come from the West. Apart from North Atlantic traffic to Canada and the United States, which puts direct to sea from Great Britain and is therefore relatively safe, the majority of merchant shipping from Great Britain crowds together along the northern coasts of France and across the Bay of Biscay up to the north-west corner of Spain. Abreast of Cape Finisterre merchant shipping on its way to the West Indies and to Panama strikes out to the open sea. The rest skirts the coast of Portugal until it reaches the south-west corner of the Iberian peninsula at Cape St. Vincent where Mediterranean traffic turns eastward towards Gibraltar. The very considerable rest, namely all vessels bound for South and West Africa and South America, and many bound for Australia and New Zealand, steam on towards the Canary Islands and then along the coast of Africa as far as the Cape Verde Islands. At these Portuguese islands African traffic turns in eastward, whilst South American traffic goes straight on over the Atlantic to its destination.

France, Spain and Portugal are the three countries which could, in the event of war, directly endanger this main stream of British merchant shipping. Great

## BRITISH MILITARY STRENGTH

Britain is allied with France and Portugal, and these two countries depend on her assistance in the defence of their colonial possessions. Great Britain's relationship with Spain is still a matter for speculation. In the worst case, however, Spain is surrounded by countries which are allied with Great Britain and she could therefore be blockaded by the British fleet if occasion arose. The Canary Islands, which are Spanish possessions, would be of great strategic importance if they were in the hands of a hostile power, and the same is true of the Portuguese Cape Verde Islands, the Azores and Madeira.

Thus, the main stream of British sea-borne commerce flows through comparatively safe waters and only when it comes near the Channel does it enter a zone of any real danger. From this it follows that in the event of war the task of the fleet in protecting British merchant shipping would be performed chiefly in home waters, and this circumstance would make it considerably easier.

The Mediterranean plays a specially important role for merchant shipping, and it is therefore both politically and strategically important for Great Britain. However, it does not represent an absolutely indispensable sea route, and that is the most important fact about it. Its value to Great Britain consists in the fact that it represents a shortening of her sea route and therefore a saving in shipping and money. Sea communications with the Far East can be diverted round the Cape, where they will be fairly safe until

## HOW STRONG IS BRITAIN ?

they reach the Bay of Biscay. When Mussolini declares that the Mediterranean represents the life blood of Italy and only a matter of convenience for Great Britain, and when British Ministers reply that, on the contrary, the Mediterranean is a vital channel of British Empire communications, they are talking about different things. As far as British merchant shipping is concerned the Mediterranean is only a matter of saving time, a matter of convenience, but strategically considered it is perhaps not an exaggeration to say that the Mediterranean is a vital channel of Empire communications.

During the World War British merchant shipping was almost driven out of the Mediterranean by about half a dozen German submarines, submarines which had to operate at long distances from their base. In drawing up its plans for the event of war therefore the British government must take into consideration the possibility of a Mediterranean power being on the side of its enemies, and in that case British Mediterranean shipping would have to be diverted round the Cape. This diversion would not only affect transit traffic, and it is likely that British trade with the eastern Mediterranean would have to be taken through the Suez Canal, down the Red Sea and round the Cape. If Great Britain succeeded in keeping open the Mediterranean for her merchant shipping, so much the better for her, but we are now assuming the worst case.

The British Navy will therefore hardly be faced with the task of protecting British shipping in the Mediter-

## BRITISH MILITARY STRENGTH

anean in the event of war, but it will have to maintain military communications between the western and eastern parts of the British Empire, and, of course, to conduct operations for the destruction of any hostile fleet in the Mediterranean.

This purely strategic problem has been rendered very much more difficult by the change in Italy's political attitude and by the construction of a powerful Italian Navy with the strongest submarine arm in the world, and supported by an enormous air fleet. In the event of war Great Britain cannot afford to abandon the Mediterranean strategically as she could afford to abandon it as a trade route. First of all, her most important ally, France, is dependent on sea communications with her North African colonies, and secondly, the British Admiralty is anxious that the British battle fleet should be able to maintain itself in the Mediterranean in order that it could be used quickly either in the West or in the East as required. As it is not possible to increase the strength of the British Navy at short notice, the indirect route around the Cape with its great loss of time would mean a very considerable strategic weakening of the Navy. Great Britain's cables to the East run through the Mediterranean and over Egypt. Further, Great Britain is allied with Egypt and under an obligation to defend her. And finally, it is quite obvious that she can exercise any direct influence on south-east Europe only by way of the Mediterranean.

This last point is worthy of particular notice. The

## HOW STRONG IS BRITAIN ?

Mediterranean is a favourable scene of operations for a great sea power. No matter against what European power Great Britain might engage in war, the Mediterranean with its many adjoining powers would offer the British Navy, and with the Navy as a protection and support, the British Army and Air Force many strategic possibilities. In this connection it is sufficient to recall what a tremendous difference it would have made to the position during the last World War if Great Britain had succeeded in forcing the Dardanelles. To-day a powerful air arm would be available to support any similar attempt—though, of course, the situation to-day is different and Great Britain is extremely anxious to keep on terms of friendship with Turkey.

What is Great Britain's strategic situation in the Mediterranean? First of all she controls the entrance to it by her possession of the fortress of Gibraltar with its military garrison and naval harbour. However, the extent of British territory at Gibraltar is so limited, and the terrain so broken and rocky, that there is no room for an air field, and in these days of air warfare this represents a very considerable diminution of Gibraltar's value. Further, if Spain were to be found amongst the enemies of Great Britain in the event of war Gibraltar could be bombarded from batteries on Spanish European and African territory, and for this reason it is reported that all arrangements have been made for the occupation of Spanish Morocco by French troops in the event of war. The nearest Italian territory is the island of Sardinia, which is about 750 miles

## BRITISH MILITARY STRENGTH

away, so that bombing attacks from Italian territory are not likely. Such attacks would be quite feasible, however, from the Balearic Islands. In any case, for the moment the entrance to the Mediterranean is in British hands.

Further, Great Britain also commands the entrance into the Mediterranean from the other end. She holds the Suez Canal and defends it from Egyptian territory. Since 1922 Egypt has been an independent sovereign State, and since 1936 she has been an ally of Great Britain. This 1936 agreement provides that after the lapse of eight years all British military forces are to be withdrawn from the interior and concentrated around the Suez Canal. The chief garrisons of the British Army and the chief bases of the British Air Force in the Suez Canal zone will be at Ismailia, situated at about the middle of the Canal, and at Geneffa at the southern end. The strength of the British forces in this zone is to be limited to 10,000 men and 400 pilots. After the passage of twenty years the British and Egyptian governments will go into conference to decide whether the safety of the Canal still requires the presence of British troops on Egyptian territory. By the same agreement all Egyptian harbours are at all times at the service of the British fleet.

Great Britain's strong position at the Suez Canal is protected against attacks from the north by British territory in Palestine. Any attack from Libya would be a very difficult operation owing to the natural barrier represented by the great Libyan Desert. Aero-

## HOW STRONG IS BRITAIN ?

planes starting from the eastern edge of Libya would have to fly about 450 miles to reach Port Said. Further, between Alexandria and the Libyan frontier lies the fortified base of Mersa Matruh with a strong garrison and a powerful air arm.

However, in the long run it would be difficult to maintain control of the Suez Canal, and of very little practical importance too, unless the narrow stretch of the Red Sea was also controlled. The British government has openly proclaimed it a vital British interest that no other great power should establish itself anywhere along the eastern bank of the Red Sea. In the meantime, Great Britain has made a silent exception in favour of herself by placing the lower end of Arabia, the Hadramaut, under her protection. The only foreign power with a foothold on the western bank of the Red Sea is Italy with her colony Eritrea, and behind it Abyssinia. Cut off from the Italian Motherland by Great Britain's hold on the Eastern Mediterranean and on the Suez Canal, Eritrea and Abyssinia, as long as they are undeveloped, represent no very serious threat to the free passage of British shipping through the Red Sea, whose southern exit is guarded by the fortified British port of Aden with its strong garrison and air squadrons.

Approximately in the middle of the Mediterranean between Port Said and Gibraltar lies Malta, the headquarters of the greater part of the British battle fleet, from which it can reach any part of the Mediterranean within three days. Malta is strongly fortified, possesses

## BRITISH MILITARY STRENGTH

a good air field and is so strongly garrisoned that any attack from the sea with a view to effecting a landing would be a very difficult operation. Coastal artillery is considerably superior to floating artillery, because it has a stationary base and its fire-zone is calculated to a nicety in every direction.

It is quite another question whether in the event of war with a first-class Mediterranean power like Italy it would be possible for the British battle fleet to continue using Malta as a base. Aeroplanes taking off from Sicily could reach Malta in twenty minutes, whilst aeroplanes from Libya would need only a little over an hour. Thus, even with the earliest possible warning of an impending raid the fleet would have no time to leave the harbour and get out into the open sea before the raiders arrived. Further, with co-operation between hostile aeroplanes and submarines the leaving of the harbour could be made into a hazardous undertaking. It is likely therefore that in the event of such a war Malta could no longer serve as a base for the British battle fleet, though it could certainly continue to serve as a fuelling and munitions station.

Mussolini has now fortified the little island of Pantellaria, which lies between Sicily and Tunis. Like a bristling watchdog it now controls the passage into the Western Mediterranean from Malta, and represents a very considerable limitation of the freedom of movement of the British Mediterranean Fleet. Has Great Britain the upper hand strategically in the Mediterranean despite this? For one thing, she is

## HOW STRONG IS BRITAIN ?

in a position to close the Mediterranean from both ends. In the event of war with France this would mean the separation of the French Mediterranean Fleet from the French Atlantic Fleet. In the event of war with Italy it would mean the cutting off of Italy from all countries normally reached through the Mediterranean. For herself Great Britain would probably be in a position to keep both entrances open. France would still have land communication with the Atlantic, but Italy would not, except through the territory of some foreign power. If some enemy were to succeed in closing the two entrances to the Mediterranean—perhaps by mines, or by sinking ships in the Suez—Great Britain would still have a back door at her disposal : the landway over Palestine and Iraq, with which country she is allied, to the Persian Gulf. Thus if the Suez Canal were blocked and the Red Sea impassable, the British fleet in the Eastern Mediterranean and the British garrisons in Palestine and Egypt would not be completely cut off, and the necessary supplies of oil fuel for the fleet and for the army and air force could be obtained from the Haifa pipe-line.

Secondly, the British fleet and the British air arm could do much more damage to enemy merchant shipping in the Mediterranean than their enemy's navy and air force could do to British shipping. If necessary Great Britain can divert all her Mediterranean shipping round the Cape, and as she has no economically very important possessions in the Mediterranean her economic strength would not suffer much

## BRITISH MILITARY STRENGTH

in consequence. Palmerston probably had this advantage in mind when, referring to a proposal for the division of the Ottoman Empire with regard to Egypt, he observed: "I shouldn't mind making a well-run hotel into my country seat, but I shouldn't want to buy the hotel."

On the other hand, shipping communications with North Africa are very important for France, and with Libya, Eritrea and Somaliland for Italy. Even in the event of a strategic balance of power in the Mediterranean Great Britain would have the advantage over any of her possible Mediterranean enemies because her sea-borne commerce cannot be fatally hit there. She would be able to establish a blockade without herself risking a blockade.

Another important question is to what extent the freedom of movement of the British Mediterranean Fleet could be hampered by a superior force of hostile submarines and by a superior force of battle planes operating from more favourable bases than those at the disposal of the British. The British Admiralty fears neither submarines nor aeroplanes as far as its fighting ships are concerned, but whether this confidence is justified will be proved only in war. British naval and military authorities regard both submarine and aeroplane as effective weapons against merchant shipping only and not against warships. They believe that the armour of modern warships would make it extremely difficult for bombs to sink them, and they also believe that no bomber would willingly risk getting

## HOW STRONG IS BRITAIN ?

within range of the multiple pom-poms of these floating fortresses. Expert British opinion also believes that modern detection apparatus makes it easily possible to discover the presence of submarines in good time, and that, once discovered, the submarines with their comparatively low mobility would find it very difficult to escape from the high-speed destroyers which would race after them. At the same time, however, it is recognized that there is a danger from attacking bombers and lurking submarines acting in concert when many warships are concentrated in harbour.

The probable necessity of diverting ordinary non-military and naval shipping coming from the East round the Cape raises another and most important question with regard to the safeguarding of British overseas supplies : does Great Britain possess sufficient merchant shipping to carry such an extra burden ? The diversion of British merchant shipping round the Cape in the event of war would mean a great increase in the amount of tonnage required. In order to carry the same quantity of cargo from India to Great Britain twice as many ships would be needed if the circuitous Cape route had to be adopted ; cargoes from Australia would require eight ships instead of seven ; cargoes from Singapore and Hongkong would require four ships instead of three, etc.

We have already dealt in considerable detail in another chapter with Great Britain's position with regard to merchant shipping in the event of war. We have seen that during the World War, when the danger

## BRITISH MILITARY STRENGTH

from hostile air action was practically non-existent, Great Britain lost 7.76 million tons of merchant shipping, or about one-third of the total mercantile tonnage of 1914. We have also seen that British mercantile tonnage is smaller to-day than it was in 1914 by over 3 million tons, if we except special tonnage such as tankers. Further, there are almost 2,000 fewer vessels to-day than in 1914. At the same time, as we have seen, Great Britain's import needs have increased, as also has her population, whilst the total weight of British imports is greater to-day than it was in 1914.

From all this it would seem that Great Britain's position with regard to merchant shipping is less favourable to-day than it was in 1914. Despite this Sir Thomas Inskip declared in February 1938 that Great Britain was ton for ton and ship for ship in just as favourable a situation with regard to hold-room to-day as she was in 1914. This declaration has since been criticized and its accuracy called into question in various quarters, but government circles have defended it by arguing that it was based on a great number of considerations not all of which could be discussed in public.

What are these considerations? First of all Great Britain's shortage of tonnage during the World War arose to a very great extent from the fact that 48 per cent. of it had to be placed at the disposal of her allies, whilst towards the end of the war a very considerable section was being used for the transport of

## HOW STRONG IS BRITAIN ?

United States troops to Europe. Only 38 per cent. of all British merchant-shipping tonnage was working to satisfy Great Britain's home requirements. It seems clear that the British government does not reckon with having to lend out so much of its merchant shipping in a new war.

It is, in fact, true that the mercantile marines of many countries to which Great Britain lent shipping during the World War have since grown very considerably. The merchant fleet of the United States has, for instance, grown by approximately 4 million tons, that of France by 710,000 tons, and that of Italy by 1.5 million tons. Thus in a war conducted on the same lines and with the same allies as the last the British merchant fleet would be relieved to the extent of this total tonnage.

Further, the British government seems to believe that in the event of war neutral shipping could be used. During the World War the shipping of neutral countries, and in particular that of the Scandinavian States, was pressed into British service with the threat that a refusal would mean an embargo on British coal, and as the countries in question had no alternative coaling possibilities they had to agree. To-day the situation is different. To-day many of their ships use oil fuel. However, since the World War the merchant fleets of Sweden, Norway, Denmark and Holland have increased by a joint total of 2.3 million tons. If these great fleets had to remain inactive during a war they would represent a great burden on their owners, and

## BRITISH MILITARY STRENGTH

it is therefore possible that their owners would feel inclined to charter their vessels to Great Britain.

No matter how we may estimate the importance of all these factors, and whether we agree with Sir Thomas Inskip or not, the fact remains that the effect of air attack on merchant shipping in the event of war is likely to prove a very important factor, though up to the present we are not in a position to say anything very definite about it. One way or the other though, in the event of war the question of merchant-shipping tonnage will always be one of the vulnerable points in Great Britain's defence.

Before we leave the problem of overseas supplies and their defence in the event of war, a word is necessary concerning a particular kind of safeguard which has finally been adopted to a limited extent by the British government under vigorous pressure: the storing of reserve supplies of raw materials and food-stuffs for use in war time. At the end of April 1938 it was announced that the government had purchased big supplies of wheat, whale-oil and sugar for storage as emergency rations in the first days of a war until war-time shipping arrangements began to function smoothly. The British government has also drawn up a plan for the rationing and distribution of food-stuffs in war time and a skeleton organization for carrying out this plan has already been formed. The most important officials who will have to carry out these tasks have already been appointed and are familiarizing themselves with them. In June 1938 a

## HOW STRONG IS BRITAIN ?

Bill was passed giving the government powers to purchase and store special supplies of other commodities at its own discretion.

One of the chief defects in Great Britain's supply system is the low production of oil on British territory. Even including the production of the Anglo-Iranian fields, the British Empire produces only 5 per cent. of the world's oil. Thanks to the Haifa pipe-line, the British Mediterranean Fleet is independent of other oil supplies—as long as the line can be kept in operation. The China Fleet with its base at Singapore can be kept supplied with oil from supplies in Burma and the refinery in Rangoon. For the rest, however, Great Britain has to purchase her oil supplies from other countries. No oil has been found either in Australia or New Zealand, and the effective deposits in Canada are not very large. With the exception of potash, quicksilver, silk, flax and hemp, oil is the only important raw material the British Empire lacks, and its great strength lies precisely in the fact that it is the only Empire in the world which is almost completely economically self-sufficient.

This shortage of oil has caused the British government to store large supplies at home and at all important overseas bases and Empire harbours. No information has ever been published concerning the size of these supplies, but from time to time government spokesmen announce that they are steadily growing. By far the largest single part of Britain's oil is supplied by Venezuela (almost 40 per cent.) then follows Iran

## BRITISH MILITARY STRENGTH

with 20 per cent., and then the United States with 10 per cent., though up to 1931 the United States occupied first place.

Large-scale experiments are now being conducted in Great Britain for the artificial production of oil from coal by the Bergius process. Her enormous supplies of coal might prove the basis of her independence with regard to oil by this process. For the moment, however, the government is making only tentative progress in this direction. A second big works is now being built to operate the Fischer process.

In our examination of the general strategic tasks of Great Britain we pointed out that apart from the direct defence of the country against enemy attack, which is a relatively simple task, the chief aim of any British government must be to build up the greatest possible industrial war potential, and it is a fact that in recent years the chief efforts of the government in its armament programme have been concentrated on this aim.

What has been done in this respect is being kept secret, and public discussions take place only when members of parliament believe they have discovered defects in the government's preparations. Anyone who is familiar with the psychology of the British people will conclude from the fact that very little is being said about industrial preparations for war that there is not much to complain about in this respect. The difficulty is to obtain any adequate conception on the basis of the few known facts concerning the measures adopted by the British government on the

## HOW STRONG IS BRITAIN ?

field of economic preparations for "totalitarian warfare".

First of all we must remember that in 1914 absolutely nothing had been done in this respect to prepare the country for war, and everything had to be improvised during the course of the war itself. In fact the war lasted years before the British gradually began to realize that though their unsystematic methods of industrial management might pass muster in the piping times of peace, they were not suited to the urgent stresses of war. Under the pressure of urgent necessity they then introduced a system of rationalization and control. Before this was done there was a tremendous amount of wastage in Great Britain in material, time and man-power.

Thus everything which has been done on this field in preparation for war represents a positive and absolute increase in strength, including every single factory which is built in advance for war purposes and every single plan which is drawn up. However, Great Britain's preparations have not been limited to a few factories and plans. It would seem that the British government is preparing something for war purposes which might be termed, by analogy with the shadow factories, an authoritarian shadow Britain. If war were to break out to-day along the lines of the last World War, then it is highly probable that tomorrow the British economic system would lose its present freedom and be transformed immediately into an authoritarian planned economy, and the great

## BRITISH MILITARY STRENGTH

industrial capacity of the country (which is never fully utilized owing to the various unfavourable circumstances we have described in earlier chapters), its wealth and its raw-material resources would be taken over by the government and concentrated in an organized fashion on the one aim of winning the war.

The first thing the British government did to build up this authoritarian shadow Britain was to draw up an exact inventory of British industry and its capacity. Such a thing had never been done before. It was the first time that an accurate and authoritative investigation had been made concerning the productive capacity of British industry. Naturally, the results of this investigation have not been made public, but they are in the hands of the government for use at a moment's notice. The investigation was made under the direction of Mr. Chamberlain himself who was at that time Chancellor of the Exchequer and entrusted with the special task. The census embraced productive capacity, man-power and financial strength.

From all that is known it appears that the census is a very detailed one and divides existing factories, etc., into various categories, differentiating between existing armament works such as those at present working to supply the various branches of the fighting services, firms like Vickers, etc., and firms whose peacetime production is of such a nature that it could be adapted to war-time purposes without difficulty, such as firms producing motors, chemicals, machinery and tools. Then there are the heavy and metallurgical

## HOW STRONG IS BRITAIN ?

industriés which provide the necessary half-finished products. And finally all those factories whose peacetime production is not considered vital to the State, and which could therefore be taken over with their plant and workers for war production.

The inventory is reported to be a very thorough one and to give the British government a very fair idea of what quantities of shells, machine-guns, motors, aeroplanes, munitions, etc., it could hope to obtain within a given period after the outbreak of war. Special attention has also been paid to the question of the numbers of skilled workers available, the number required, the number of processes which have been or could speedily be mechanized so that they could be performed by unskilled workers or by skilled workers from other branches of industry.

It was on the basis of this inventory that the plan for the erection of shadow factories was drawn up, i.e. the government plan for the erection of supplementary plant to make up for all shortages the inventory had revealed. We have previously dealt with the shadow-factory system in the aero-industry, but the plan is not confined to air supplies. The reason why most has been heard of these works is due to the fact that Great Britain's air armaments have come more under the fire of public criticism, and secondly, to the fact that the peacetime requirements of any country in the matter of aeroplanes are incomparably less than its war-time requirements so that the enlargement of productive capacity is a particularly urgent matter.

## BRITISH MILITARY STRENGTH

The plan for the erection of shadow factories has not been carried out so thoroughly in other branches of industry, and the government has not followed the same plan in all branches of the war industries of causing supplementary works to be erected in conjunction with the main works with a view to having the employees of the firms in question gradually trained in war-time production in those supplementary works. In many branches of the war industries such methods were in any case unnecessary because their war-time production would not differ very materially from peace-time production, or because the process of production in such branches is highly mechanized and can therefore be carried out by unskilled workers. This refers, for instance, to heavy industry and to the chemical industry, which produces explosives even in peace time.

Other methods have been adopted here, and works considered particularly important have been given government contracts to permit them to extend their plant where necessary. In some cases there have been direct subsidies.

As a result of all this planning and of all these measures (which have not yet been concluded) an authoritarian shadow Britain ready to develop in a very short space of time from a scheme into a living reality will soon stand behind the old familiar Britain of peace time with its liberalistic methods of industrial and commercial management. There was no trace of any such shadow Britain in 1914, but it is being

## HOW STRONG IS BRITAIN ?

created to-day because the increased difficulties of national defence demand increasingly effective and powerful measures.

The last item in our list of tasks to be performed within the framework of British strategic planning was the preparation of an expeditionary force to take part in continental warfare. With this we now come to the proper tasks of the British Army.

Apart from anti-aircraft operations, with which we have previously dealt, the British Army has two tasks : first of all the maintenance of British rule in India and in all other British overseas possessions, and secondly the maintenance of a so-called "strategic reserve", i.e. an expeditionary corps which can be sent into action at any danger point or at any strategically favourable point, of course, not necessarily on the continental mainland.

This dual task of the British Army was first formulated by Lord Haldane, the famous British War Minister of the pre-war era. When he took over the War Office he found the system introduced by Lord Cardwell in 1869 still in vogue, and, in fact, it has been largely retained down to the present day. The Cardwell system is based on the principle that the primary task of the British Army is service in Great Britain's overseas possessions, chiefly in India, and that principle has not been fundamentally shaken even now. Under the Cardwell system every regiment in the British Army has one battalion overseas and one battalion at home. It is the task of the battalion at

## BRITISH MILITARY STRENGTH

home to train new recruits, to keep the battalions overseas supplied with all necessary reinforcements, and to form a reserve available at all times. Recruits are signed on for a period of 12 years' service, but they actually serve only a part of this period with the colours and are then transferred to the reserve where they can be mobilized immediately.

During his period of office Lord Haldane decided to extend the tasks of the home-service battalions and to increase their training. He formed them into a small but very efficient force of six Infantry Divisions and one Cavalry Division, as his "strategic reserve", and it was this army which went to France in 1914 as the British Expeditionary Force. Down to the present day the disposition and organization of the British Regular Army is based on this combination of the Cardwell System and the Haldane Reforms. Thus, fundamentally the requirements of Indian and other colonial service are decisive for British Army training, equipment and numerical strength. As long as the overseas service requirements, usually of a semi-police nature, were not greatly different from the tasks of the strategic reserve at home, this combination served well.

However, army equipment and tactical organization have fundamentally changed since the World War, thanks to the great increase of mechanization and the great development of wireless transmission, whereas the requirements of colonial garrison service have remained more or less the same. It is therefore

## HOW STRONG IS BRITAIN ?

becoming increasingly difficult for the British military authorities to combine the tasks of the home-service battalions as reserves for colonial service and their tasks as an expeditious force to take part in modern warfare on the continent. • Actually under present-day conditions the two tasks are mutually exclusive. An artilleryman trained for European warfare with a motorized battery is not suited to serve a horse-drawn battery overseas. A member of the Tank Corps is a valuable man for modern warfare, but there is not much scope for him in India. A cavalry regiment used to overseas colonial service is not a suitable reserve for a motorized cavalry regiment at home. An infantry battalion intended for semi-police duties overseas cannot be recruited from a machine-gun regiment at home.

Further, an army equipped with modern weapons costs very much more than the old-style army, and thus even if some workable compromise were possible in the matter of training and equipment, the British government could hardly ask the Indian government to pay its share (50 per cent.) of the increased costs incurred by a modernization in which it is not interested, and in fact, the Indian government has already lodged its objections.

For all these reasons work is now going on in Great Britain on an Army Reform, and we shall have to wait before we can judge its nature. A complete separation of home and overseas service battalions would still further increase recruiting difficulties, and for a

## BRITISH MILITARY STRENGTH .

long time now the British Army has had to cope with a chronic shortage of recruits. It would be necessary to increase the total strength of the army very considerably, and, in addition, it would be very difficult to find men prepared to spend the greater part of their active service life overseas far away from their homes.

However, if the British government should decide to make some differentiation, even if a modified one, between the strategic reserve at home and the overseas service battalions it would represent a very important departure for Great Britain's military strength, and the order of precedence established for the tasks of the British Army would be reversed, at least for the home-service battalions. The defence of Great Britain's overseas possessions and the maintenance of British rule in them would no longer be the primary task, but instead preparations for participation in modern warfare on continental soil. Even to-day it has become a principle that all overseas possessions must be in a position to defend themselves against attack without reckoning on reinforcements from home.

Without waiting for the solution of the problem we have described, the British military authorities have already begun to reorganize and re-equip the home-service battalions. The aim they are following is to obtain the greatest possible degree of mechanization and the greatest possible volume of fire-power per unit. At the moment the forces at home consist of five Infantry Divisions and one Armoured Division. Once the new reform has been carried through there will

## HOW STRONG IS BRITAIN ?

be only two types of Division in the British Army : Armoured Divisions, composed chiefly of tanks, and Machine-Gun Divisions, which at war strength will consist of nine battalions of infantry with a total of 450 Bren machine-guns. In addition, partly as Divisional troops and partly as Corps troops, there will be artillery detachments and heavy-machine-gun companies.

The tactical guiding principle of the British military authorities in the equipment of these modern units is to increase defensive strength, and in their opinion the consequence of mechanization and the lesson of all local wars since the World War has been the decline of offensive as against defensive power. Thus the future British Expeditionary Force is not being built up as an offensive army proper, but as a highly-mechanized defensive army with a very high volume of fire-power in relation to its numerical strength, and one which thanks to motorization will be extremely mobile so that it can be used rapidly to fill any breach or strengthen any dangerous spot in the line. This tactical principle is still the subject of dispute, but at the moment it is the opinion which prevails at the British War Office. The value of a British Expeditionary Force is to lie in its great defensive strength and in its subsequent capacity to launch a counter-offensive after the exhaustion of the attacking enemy.

‘ How many men could Great Britain put into the field at the present time ? According to the latest information she has a force of 500,000 trained men.

## BRITISH MILITARY STRENGTH

This figure is arrived at as follows : 133,418 men of the Regular Army in Great Britain and in various colonial garrisons, 54,963 men of the Regular Army in India, and 124,948 men in the Regular Army Reserve. These men are all long-service men. Together they total 313,329 well-trained soldiers.

Then come the short-service men, and, judged by German military standards, they cannot be regarded as fully-trained soldiers. They do not serve overseas and they do not belong to the strategic reserve at home. First of all there is the so-called Supplementary Reserve, which was formed in 1936. This reserve consists of 23,776 men who are on the whole fairly well trained. These men serve six consecutive months with the colours and then two weeks every year with the Regular Army. In the event of war the British Expeditionary Force is to be brought up to full war strength out of this reserve.

Then comes the Territorial Army, which has a strength of 160,844 men organized in 12 Infantry Divisions, 2 Anti-Aircraft Divisions (now to be increased to five), and 12 Yeomanry Regiments. The Territorial Army is a short-service civilian militia on a voluntary basis, whose chief task is to instruct a certain number of able-bodied men in the elementary principles of military discipline and the use of arms. These men undertake to accept military service, and in war time they would form the core of the Regular Army reinforcements, out of which, for instance, during the World War the mass army was created.

## HOW STRONG IS BRITAIN ?

We have previously dealt in detail with the fact that the Territorial Army has been entrusted with anti-aircraft defence at home. The five Anti-Aircraft Divisions of the Territorial Army which are now to be formed are to be 90,000 strong. Up to the present, however, Territorial Army recruiting has not proved sufficient even to bring the existing divisions up to full strength. The Territorial Army should be 203,000 strong at full strength, but it is 39,000 men under strength at the moment. Unless recruiting improves very much the 90,000 men required for the Anti-Aircraft Divisions will have to be taken from the 161,000 men of the Territorial Army, so that only 71,000 men would remain for the Territorial Field Army.

The total strength of the Regular Army and its Reserves and of the Territorial Army in 1914 was greater than it is to-day, namely approximately 700,000 men, and at that time it was not necessary to spare any men for the establishment of Anti-Aircraft Divisions.

In the British Empire there are then, according to recent information, about 16,000 men in the regular forces of the Dominions, and about 185,000 men in the Territorial Armies of the Dominions, though a special law would have to be passed before they could be sent overseas. The British Army in India could be strengthened by 159,000 men of the Regular Indian Army, 44,000 men of the forces of the independent Indian States, 28,000 men of the police force, and

## BRITISH MILITARY STRENGTH

finally 92,000 men of various Indian reserve formations, etc.

The grand total would not mean very much in a continental war on the same scale as the World War. In 1914 Great Britain demonstrated to the world that although her standing army was small it could be enormously extended very rapidly. During the World War no less than 8.5 million men were called up for service in all parts of the British Empire. Despite the greater effect of the air arm, Great Britain and her colonies and Dominions will nevertheless have time in a new war to develop the existing peace-time army into a war-time army of millions. It is true that responsible quarters have denied again and again that Great Britain has any such intention, and it is said that the losses sustained during the World War were so terrible that British man-power is not likely to be used in the same way again, but the reason for this sort of talk is merely that at the moment British public opinion is disinclined to countenance any such sacrifice.

Recruiting difficulties have always represented a problem for the armed forces of Great Britain, and at the moment they accurately reflect British public opinion. The highly-trained and semi-trained forces we have enumerated above should total 600,000 men according to the official Estimates, but in fact they total only 500,000. Of course, the World War proved that such recruiting difficulties can be overcome should a state of emergency develop. The World War was the only serious test of the preparedness of Great

## HOW STRONG IS BRITAIN ?

Britain's manhood to come forward for military service. It would be advisable therefore not to doubt their present preparedness in case of need until some new and similar emergency proves the contrary.

Further, recruiting difficulties in Great Britain to-day are confined to the Army. Neither the Navy nor the Air Force has any cause to complain. In any case all that has been said previously shows how unimportant these difficulties really are within the framework of Great Britain's general strategic plans for her defence.

When we arrange all our details into a total picture we must come to the conclusion that although Great Britain is faced with more difficult strategic problems to-day than she was in 1914, yet she is militarily better prepared to cope with them. During the next three years she will continue to increase her military strength, and up to the present everything has been done without any material interference with the normal course of economic and business life.

In addition to this there is the increased value of the Empire as a raw-material and industrial basis in the event of war, a point we propose to deal with in greater detail in our next chapter.

Before we conclude our present chapter a word or two seems necessary concerning a trend of development which, although it has not diminished the capacity of British people to defend themselves against enemy attack, has nevertheless considerably affected the military value of Great Britain in a continental war, namely, the increasing economic self-sufficiency of

## BRITISH MILITARY STRENGTH

Central Europe. We have already pointed to this tendency as the most serious danger threatening Great Britain's economic position, but over and above this the problem has a military angle because increasing economic self-sufficiency threatens to blunt what has always been Great Britain's strongest weapon, namely her ability to blockade her enemies. Despite all its superiority on the high seas a British fleet can do very little against a Central Europe which is largely self-sufficing and which is able to compensate its deficiencies partly by accumulating stores and partly by imports from Eastern and South-Eastern Europe. Under such circumstances the threat of a blockade loses its force.

Great Britain is no longer in a position to blockade Central Europe, thereby compelling an offensive after which she could launch a successful counter-offensive when Central Europe fell back exhausted on the defensive. To-day Great Britain could then force her political will on an economically self-sufficient Germany independent of sea-borne imports only by a successful military offensive. However, the prospects of success for such an undertaking are not very great in view of the defences which have been built up on the Franco-German frontier, quite apart from the fact that British soldiers have always proved better on the defensive than in the offensive.

In addition, a military attack would be much more difficult to justify in the eyes of the world than a war which could be presented as a war of defence. In our final chapter we shall see that it is a matter of decisive

## HOW STRONG IS BRITAIN ?

importance for a country like Great Britain, which depends on the assistance of friends and allies, that she should be able to put forward an acceptable justification for her policy ; in other words, the war guilt question is of decisive importance.

## CHAPTER NINE

### THE EMPIRE AS BURDEN AND SUPPORT

THE constitutional form of the British Empire has changed since and as a result of the World War. The former British colonial empire has developed into a league of freely affiliated independent States, a league *sui generis*, a league unique in world history. It represents an original contribution by the British people to the political history of the world. The British Empire can perhaps best be described as a confederacy of States without any central executive power.

The British Empire consists of six independent States, namely Great Britain herself, Eire, Canada, South Africa, Australia and New Zealand, and in addition those possessions which do not yet enjoy independence. Amongst these India takes an intermediate place because she is about to obtain her independence. All these independent States have the same King who resides permanently in Great Britain. The constitutions of these six States are similar, but they have no joint constitution, and they certainly are not subject to any joint central executive power whose final word is law.

## HOW STRONG IS BRITAIN ?

On the contrary, as far as Empire statutes, constitutional principles jointly agreed upon, exist at all, they were not drawn up with a view to binding the Empire more closely together, but with a view to differentiating between its various parts and guaranteeing their independence. It is quite impossible to conceive of an institution like the British Empire being created afresh, because any parties to such an attempt would have to agree on what they proposed to do and have in common. Whereas, as far as the British Empire, the product of historical and political development, is concerned, all that has been laid down definitely is precisely what the parties propose not to do and have in common.

In examining the question of how firmly cemented the British Empire is we must above all take the general tendency of its evolution into consideration, namely its development from a centrally governed and united body to a loosely-knit association of member States. We shall then understand how it came about that the constitutional arrangements of the Empire define only what it does not wish to have in common. When the British Empire consisted of Great Britain and her colonial possessions, everything was joint, and development consisted in the granting from time to time of certain reserved rights to the individual parts of the Empire, rights which they did not share with other parts.

There is one fundamental guiding principle for understanding the workings of the Empire : in case of

## THE EMPIRE AS BURDEN AND SUPPORT

doubt everything is common to the member States as a whole which is not expressly reserved to such States individually. In all other Confederacies of States the exact opposite is true: in case of doubt everything is reserved to the individual member States which is not expressly laid down as the province of the central authority. Once this principle is grasped it permits us to understand much better the real nature of the British Empire and its cohesion. Political matters are not joint matters in the British Empire, whilst on the other hand all unpolitical matters, such as history, language, ethics and a general attitude to life, are held in common.

What perhaps was doubtful before the World War is no longer doubtful to-day, namely that the individual States of the British Empire enjoy membership on equal terms with each other. The overseas Dominions to-day are free from all forms of supervision by the "Dominion" Great Britain. During the war the Dominion governments demanded the recognition of this principle. Their spokesman was Sir Robert Borden, the Prime Minister of Canada at the time, though it is possible that he was not the originator of the idea of Dominion status; the originator may have been his companion John Daffoe, the editor of the *Winnipeg Free Press*. In any case, Lloyd George agreed, though he probably did not realize all the implications of the proposal, and it was decided in 1917 that immediately after the end of the war the idea should be worked out in practice.

## HOW STRONG IS BRITAIN ?

However, it was 1926 before a committee under Lord Balfour was appointed, and it was this committee which drew up the present valid definition of Dominion status, which reads as follows :

They (the Dominions) are autonomous communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations.

In the Report of the Balfour Committee there is also a passage which enumerates in a classical formulation often since quoted the things which hold the British Empire together :

The British Empire is not founded on negations. It depends fundamentally, if not formally, on the acceptance of positive ideals. Free institutions are its lifeblood. Free association is its instrument. Peace, security and progress are amongst its aims.

On the basis of this report and of further deliberations a Bill was passed in 1930 entitled "The Statute of Westminster", and this has become the Constitution of the British Empire. Its most important paragraph defines the nature of the independence enjoyed by the Dominions, and reads as follows :

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

## THE EMPIRE AS BURDEN AND SUPPORT

The text of this clause in the Statute of Westminster left it in doubt as to whether after all it was not within the province of the Houses of Parliament of the United Kingdom to pass legislation affecting the Dominions, but that doubt has since been laid at rest by amendments making it absolutely clear that Great Britain cannot pass laws which are binding on the Dominions. The Dominions are, in fact, completely independent.

However, the Statute of Westminster remains a law of the Houses of Parliament of the United Kingdom. Canada and Eire have expressly accepted it. Australia and New Zealand have not considered it necessary to do so. South Africa has adopted a law of her own incorporating the Statute of Westminster in her own constitution.

Despite this, however, there is still room enough for doubt, and if we were to attempt to define the legal position of the Dominions and their organs on the basis of this negative Statute we should soon come up against extremely difficult problems. Existing legislation is unsystematic and it has deliberately avoided absolute clarity, and, in fact, the delegates to a number of Imperial Conferences were in agreement that it was not desirable to codify Empire law, or to define every possible contingency in advance.

The main point as far as we are concerned is to recognize what stage of development the British Empire is in to-day. Superficial observers might think that the bonds of Empire had loosened only since the World War. The Statute of Westminster and all the negoti-

## HOW STRONG IS BRITAIN ?

ations and discussions which preceded and followed it date from the post-war period. However, it is very important for us if we are to estimate the binding strength of the Empire correctly to realize that this idea is wrong. The Statute of Westminster and the decisions of post-war Imperial Conferences were in reality only the expression of ideas which existed even before the World War.

Before the World War it was pointed out in Canada that a colony—and Canada was a colony at the time, at least in name—need not fight on the side of Great Britain in a war unless its own parliament decided to do so. And the same thing was hinted in South Africa, where latent tension between Britons and Boers led to a breach when General Hertzog, the leader of the Dutch element in the colony, seceded from General Botha, the Prime Minister of the day, so that there was good reason to doubt whether the Union of South Africa would stay within the Empire for long, and certainly every reason to doubt whether a war would find the Union backing Great Britain.

The situation was aggravated by the fact that before the war all the Dominions were annoyed by the refusal of the Liberal British Cabinet to meet their wishes in the matter of Empire preferences. Canada and Australia had refused to contribute anything to the maintenance of the British Navy, and had begun to build fleets of their own. Long before the World War therefore conviction was widespread for these and various other reasons that the British Empire was about to break

## THE EMPIRE AS BURDEN AND SUPPORT

up, and that it would never be able to withstand a really severe test.

Between that pre-war period of doubt and to-day there lies the extreme test of war, and the British Empire passed it with flying colours. Thus it would be historically quite false to believe that up to the World War the British Empire represented a firmly cemented whole which during and after the war, as a result of the war and its effects, gradually began to break up. On the contrary, the Empire in its present looser form existed in the consciousness of its peoples before the war, and the war itself must be regarded as the great test of this looser form of Empire association.

In any case, to-day the question of a possible dissolution of the Empire as the result of individual Dominions seceding from it is much less acute than it was in those pre-war days prior to the vigorous policy of Joseph Chamberlain. The looser form of Empire association in which each member voluntarily co-operates, and in its own interests and of its own accord contributes its forces to the common cause, stood its great test and was consolidated in 1914-18.

After the war the idea of a League of Nations arose as a new binding element amongst the members of the British Empire. To-day we know that the idea of the League of Nations was not originated by President Wilson, but was born within the British Empire. Apart from other considerations, the idea of the League of Nations originated from the desire to apply to the

## HOW STRONG IS BRITAIN ?

common relations of all countries with each other ideas which developed in the domestic life of Great Britain and were transferred before the World War to the relations of the member states of the British Empire to each other.

To-day the members of the British Empire believe that their joint historic mission is to extend their particular form of co-operation until if possible it embraces the greater part of the world. This was what Earl Baldwin meant when he opened the Imperial Conference in 1937 with the words :

“ We are partners in a great undertaking, jointly responsible for a new experiment, whose success or failure must deeply affect the whole future of humanity.”

The main subject of this conference was empire foreign policy, and its most important result was probably that it gave expression to the idea of this historic mission of the British Empire. It was most clearly formulated by the Canadian Prime Minister, Mr. Mackenzie King, when he declared :

The political democracy and the individual freedom attained by Great Britain within her own frontiers during the past three centuries represent an example and an incentive to the world. It should be the aim of the members of the greater British Commonwealth of Nations which is built on this basis to order their relations and their policy in such a way that by the success of this great experiment in the twentieth century they can make a contribution to the peaceable regulation of international relationships which would be of equal value for the common good of all mankind.

## THE EMPIRE AS BURDEN AND SUPPORT

The League of Nations founded in Geneva did not, in the view of British public opinion, put the idea into practice satisfactorily, and there is now a desire to salvage it within the narrower confines of the British Empire until such time as the Empire itself can become the crystallization point for a new and wider league of nations.

If we look at the development of the British Empire from this angle we are compelled to realize that despite all existing political controversies there can be no real question of decay and decline ; on the contrary, a great political game is being played. The Imperial Conference of 1937 laid down the general march route of the Empire with imagination and statesmanlike wisdom, and by progress in this direction the peoples of the British Empire hope for a great future. The world is to be restored to health at a British spring—that is the fundamental idea. As an outsider one may think what one likes of the idea of the world achieving its unity under British aegis, but at least one cannot deny the conception its breadth and magnitude. The prospects of success along these lines need not be discussed, or the difficulties attending any attempt to bring back the United States, lost to the British Empire almost a century and a half ago, into the circle of independent member States. In any case it is quite certain that this idea of a joint historic mission establishes a new and powerful bond of union in addition to the bonds of a common racial origin, a common language, and a common history. The cohesion of the British Empire

## HOW STRONG IS BRITAIN ?

on the basis of joint economic interests and mutual strategic aid against foreign enemies, is now strengthened by a new and powerful factor.

The World War waged in concert by the member States of the British Empire, and the acceptance of this new historic mission have both strengthened the inner structure of the Empire, and since the end of the war a third factor has arisen whose effect is similar, namely, the Ottawa Agreement. A Liberal government was in power in Great Britain before the war, and its economic faith was pinned to free trade. The proposals of the colonies that a system of Empire preferences should be introduced to grant their products a privileged position on the British market were therefore rejected by Liberal leaders such as Asquith, Churchill and Lloyd George. Joseph Chamberlain made himself the spokesman for the colonies in this matter of Empire trading. He resigned from the government and died a disappointed and embittered man. In 1932 his ideas were realized in the Ottawa Agreement with the active participation of his second son Neville.

Since then the British Empire has, up to a point, become an economic unit, a thing which, strictly speaking, it had not been previously. The provisions of the Ottawa Agreement are very complicated in their details. Despite the fact that she has abandoned free trade in favour of protection for her own market, Great Britain, as the biggest available Empire market, undertakes to permit the import of Empire products

## THE EMPIRE AS BURDEN AND SUPPORT

practically without import duties, whilst the Dominions undertake to permit the import of British products to their markets at lower tariff rates than those applied to the products of other countries.

Between 1930 and 1936 British imports from countries outside the Empire declined by about 30 per cent. whilst her imports from Empire countries rose by about 10 per cent. Although it would be wrong to say that everything which has happened since the signing of the Ottawa Agreement was due to that agreement, it is quite certain that the development can in part at least be ascribed to the agreement. In 1932 45·4 per cent. of Great Britain's exports went to Empire countries, and in 1936 the percentage was 49·2 or almost the half. The role of countries outside the Empire as a market for British goods correspondingly decreased. Despite the Ottawa Agreement, the British Empire is still far from being a full customs union. That close economic dependence which would create such a customs union does not, in fact, exist, and the Dominions conclude trading agreements with other countries at their own discretion.

Trade within the Empire is based on the exchange of overseas raw materials and agricultural produce from the great territories of the Dominions with British money and British industrial products. Every change in the economic conditions of any section of the Empire, which affects this exchange must necessarily involve a revision of the Ottawa arrangements. It is very probable that in course of time the Dominions will

## HOW STRONG IS BRITAIN ?

become increasingly industrialized, and their role as a market for British industrial products will correspondingly decrease. Such a development would compel Great Britain to cut down her imports of agricultural produce and encourage the production of her own agriculture, if necessary by the introduction of agricultural protection. Under such circumstances it is then quite conceivable that in view of the great distances which separate Great Britain from most other Empire countries Empire trade would decrease.

Such considerations suggest that we should not overestimate the role of economic dependence in the cementing of the bonds of Empire. For the moment, however, this economic dependence is still very great. In 1936, as we have already mentioned, Empire countries purchased almost the half of all British exports. In the same year Canada sold almost 40 per cent. of her total exports to Great Britain. In 1935 Australia sold approximately 53 per cent. of her total exports to Great Britain, i.e. more than half, whilst the corresponding figures for New Zealand and South Africa were as high as 84 and 77 per cent. respectively.

British exports to Empire countries were distributed amongst all the Dominions and colonies so that Great Britain is, in fact, not so dependent on any one member country as each member country is dependent on her. To that extent she can exert powerful pressure on the Dominions, though this pressure is alleviated by the fact that the Dominions are her chief debtors so that any arbitrary closing down or limitation of the British

## THE EMPIRE AS BURDEN AND SUPPORT

market for their exports could be answered by the suspension of their interest and amortization services for British loans, and the suspension of the transfer of dividends on British capital invested in the Empire.

As long as the economic dependence of the Dominions on Great Britain continues to exist it will be an important political factor, and the result of this dependence is that the Dominions are intimately concerned with the fate of Great Britain, and her defeat in war would indirectly hit the Dominions heavily. Thus, in addition to common bonds of moral and intellectual sympathy there is the material interest of the Dominions in the prosperity of Great Britain to be taken into account, and it contributes towards making the defence of Great Britain the common task of the whole Empire.

The other side of the medallion is that the Dominions as fellow sufferers in any loss demand the right to a say in the determination of British foreign policy.

With this we have now arrived at the most important factor which might threaten the internal cohesion of the British Empire. Great Britain's relations to her Dominions have now been satisfactorily settled and the struggle of the Dominions for their independence is a thing of the past. The former British Empire has developed into a unique institution whose inner cohesion is greater than would appear on the surface, and it faces the world as a united whole. The problem is now how to regulate the relations of this institution to the rest of the world. What is to be the foreign policy of the Empire?

## HOW STRONG IS BRITAIN ?

These are questions which are of decisive importance for the Empire in its present stage of development. It was not by accident that the Imperial Conference of 1937 chose this problem of foreign policy and the related problem of Empire defence as the chief subjects of its deliberations. Very cautious progress was made at the conference, and there was no attempt to formulate any general foreign policy for the Empire as such. On the contrary, if anything the conference came to the conclusion that, apart from the general lines of policy, it would not be possible to formulate a foreign policy for the Empire as a whole at all.

We have already indicated the most important of these general lines of policy. The Empire is to develop into a new League of Nations, and its foreign policy must therefore be guided by the principles laid down severally by the Statutes of the Geneva League of Nations, the Kellogg Pact and similar post-war diplomatic instruments: the maintenance of peace, the renunciation of all aggressive intentions, the peaceable settlement of all international disputes by negotiation, regional treaties instead of universal collective security, disarmament, and a policy of agreement with all other States, including also those whose form of government is not democratic.

This aim of setting up a new league of nations implies at once that the mistakes which ruined the Geneva league must be avoided if possible within the British Commonwealth of Nations. On the one hand it may in the long run prove necessary to create a joint

## THE EMPIRE AS BURDEN AND SUPPORT

organ for the prosecution of the Empire's foreign policy, but on the other hand care must be taken to avoid indiscriminately drawing in all the member States and burdening them all with the same weight of responsibility in each particular case which may arise, because there is no doubt whatever that, quite apart from their loyalty to the Empire as a whole, the interests of the individual Dominions are not always identical. Canada is much less interested in the problem of colonies than the Union of South Africa, for instance, whilst South Africa is not so much disturbed by the rise of Japan in the Pacific as certain other of the Dominions are. Again, Canada and South Africa are not so deeply interested in the Mediterranean as the scene of operations of Great Britain's battle fleet as Great Britain herself and her Pacific Dominions.

Now if it is impossible to draw up a common foreign policy for the Empire as a whole, and one which takes into consideration the various interests of the member countries in every concrete case which may arise, it can hardly be expected that in the event of a serious crisis breaking out each member country will take the final consequence of a declaration of war with the same alacrity. The Dominions reserve the right to decide for themselves what they will do in the event of Great Britain declaring war on a foreign power. Under such circumstances the Dominion parliaments can decide to associate themselves with the declaration of war, or they can decide on neutrality. In the event of a

## HOW STRONG IS BRITAIN ?

Dominion taking up an attitude of complete neutrality in a war of consequence, the result would in all probability be the severing of relationships with the Empire altogether. Neutrality under such circumstances would be regarded as a breach of loyalty to the Empire.

It may be taken as absolutely certain that neither Australia nor New Zealand would think of neutrality. They are the most loyal amongst the Dominions and in their own well-understood interests they would come to the aid of Great Britain in an emergency, because they must always reckon with the possibility that one day they will require her assistance if Japanese expansion in the Pacific continues at the same rate in the future.

The Union of South Africa would first want to know who were the enemies of Great Britain. If amongst those enemies was a power which in the event of victory would perhaps demand colonies in the South of the African continent there would be little doubt about the decision of the Union : it would assist Great Britain with all the forces at her command. But quite apart from that, in the present stage of development the Union of South Africa could hardly stand by and see Great Britain defeated without assisting her. She is too dependent on Great Britain and on the British market for that.

The two most doubtful cases are those of Ireland and Canada. The task of defending the Irish coasts, which was formerly performed by the British Navy,

## THE EMPIRE AS BURDEN AND SUPPORT

devolves on Eire herself since the end of 1938. The British government abandoned its former attitude to this matter in the belief that the goodwill and the friendship of Ireland as expressed in the Anglo-Irish Agreement signed in the spring of 1938 are worth more than formal safeguards. Upon the signing of the agreement the government of Eire laid particular stress on the promise that no foreign power would ever be permitted to use Irish territory as a war basis against Great Britain.

The most difficult case is perhaps Canada. In the years when the League of Nations was tested in practice the government of Canada steadfastly refused to take any part in economic sanctions, and over and above this it has always consistently opposed any collective policy which involved duties and burdens. Thus it is likely that Canada will prove a difficult partner in the new British league of nations too. Canada is territorially far removed from Europe ; she has all the raw materials she needs, and much more, and she has no hostile neighbours whose presence would compel the population to think politically. The influence of her great neighbour, the United States, makes Canada inclined to pursue a Monroe Doctrine of her own.

In consequence public opinion in Canada is sharply divided. One section of the population is loyal to Great Britain and to the British Empire, and it feels convinced that on the outbreak of a new war Canadians would flock to the colours to assist Great Britain as they did in 1914, or that at the very least the damage

## HOW STRONG IS BRITAIN ?

done to Canada economically during the course of a war would finally bring her in on Great Britain's side just as the United States was brought in during the last war. On the other hand there is the French-Canadian element which represents about 30 per cent. of the population and is in favour of strict neutrality in any war so long as Canada herself is not directly threatened. Between these two big groups there is another group which looks to the United States for a solution of all Canada's problems, and a further group which, although it sympathizes with Great Britain, would limit Canadian assistance in the event of war to economic support, and oppose the sending of Canadian troops to Europe.

When the opinions of all these groups are taken into consideration together with the experience of the last war it seems likely that in a future war the attitude of the last-named group would get the upper hand, and that although Canada would not remain neutral she would limit her assistance, at least in the beginning, to economic support. However, should Great Britain obviously be in a position of great jeopardy at any time during the course of the war, the economic interests of Canada would then very probably lead to her throwing her full military weight into the scales on Great Britain's side.

Now that we have gone into these fundamental matters we can deal with the question of how far the support of the Empire represents a plus for Great Britain from the military point of view. The magni-

## THE EMPIRE AS BURDEN AND SUPPORT

tude of this plus must be arrived at from the volume of military and economic assistance Great Britain as the most important member country of the Empire is likely to receive from the remaining member countries, less the military burden which has to be borne by Great Britain in the defence of the Empire.

The burden of Empire defence which rests on Great Britain in times of peace is small in relation to the extent of the Empire and its riches. The Dominions are responsible for their own defence. The remainder of the Empire is defended by Great Britain with her fleet, approximately 30 squadrons of aeroplanes on overseas service and about 92,000 men. That is the total strength of British troop units overseas.

The fact that an empire with a coloured population of over 400 million souls can be held with such weak military forces is a testimony to the brilliant British administrative talent. Throughout the whole of the British Empire, including all the Dominions, Great Britain herself and all her military garrisons overseas, there is a total standing army of only 444,000 men as against a total population of almost 500 million souls.

Such a thing is possible because the British Empire is not like the old Roman Empire, and has not to be constantly defended against the insurrections of oppressed peoples. The existence of the British Empire is not being daily called into question from within. With the exception of chronic skirmishing on the North-West Frontier, the occasional religious and racial troubles in India proper, and the present disturbances

## HOW STRONG IS BRITAIN ?

in Palestine, peace reigns throughout the whole vast British Empire.

The defensive task of the British Navy within the British Empire is performed chiefly by the so-called Defence Squadrons, which are allotted to four naval stations, given here in their order of importance : the China Station in Hongkong, the America and West Indies Station in Bermuda, the East Indies Station in Singapore, and finally the Africa Station in Simonstown in the Cape.

The importance of the Singapore Station is likely to increase in the future, and perhaps before long it will become the station of a part of the British battle fleet. In recent years the Singapore base has been so strengthened that it is now one of the strongest fortified posts in the Empire. With its great dock, its big workshops and shipyards, its fuel supplies and stores of munition, its air fields, and its garrison of infantry, artillery, engineers and air squadrons, Singapore, which would be very difficult to attack from the land side, could offer resistance to any attack without further assistance. Both Australia and New Zealand have contributed to the cost of its fortification in order to create a strong bastion of Empire in the East should it ever come to war with Japan.

The British battle fleet with its huge battleships and battlecruisers is not normally used in the Empire, but is kept together in three parts : the Home Fleet, the Mediterranean Fleet, and the Reserve Fleet.

The British overseas air arm is stationed in Egypt,

## THE EMPIRE AS BURDEN AND SUPPORT

the Sudan, Palestine, Iraq, India, Aden, Malta, Singapore and Hongkong.

This comparatively light burden of Empire defence is more than compensated for by the enormous military and economic strength the Empire could place at the disposal of Great Britain in the event of war. As long as the overseas Empire is not threatened either from without or from within, the joint interest of all parts of the Empire in its maintenance, and everything which has been agreed upon between them for military and economic co-operation to this end, accrues to the benefit of the one part of the Empire which might be threatened, namely Great Britain herself, and it represents a tremendous accession of strength.

We have seen above that the active participation of Australia and New Zealand in any war in which Great Britain is involved is certain from the beginning, whilst the active participation of the Union of South Africa and of Canada is probable at least during the course of the war itself. What can the Dominions contribute in the way of fighting forces?

Up to the present Australia has made the relatively greatest armament effort. Between 1934 and 1937 she spent a total of 30 million pounds on her armed forces, etc., and her estimates of expenditure for this purpose during the next three years amount to 43 million pounds. She also heads the naval forces of the Dominions with four cruisers, an aircraft carrier, a flotilla leader and four destroyers. Her air arm is also being steadily strengthened and a special aircraft works

## HOW STRONG IS BRITAIN ?

has been built near Melbourne. Her army, which consists chiefly of short-service Territorials, is 35,000 strong, though recruitment is meeting with the same difficulties as in Great Britain.

Compared with Australia Canada has done very little up to the present which might be regarded as preparation to defend the non-Canadian parts of the Empire. Her Defence Budget in 1937-8 amounted to only 7 million pounds. In addition, her fleet with its four destroyers is much smaller than the Australian fleet. The Canadian Air Force has 284 machines, it is true, but many of them are of obsolete types. The strength of the Canadian Territorial Army is to be increased to 134,000, but at the moment it is considerably less than that.

Since 1933 the expenditure of the Union of South Africa on armaments has increased threefold. By 1942 the South African government wants to have ten batteries of artillery and six regiments of infantry with a total peacetime strength of 15,000 men, which could be extended on mobilization to 137,000 men, and in the event of the introduction of compulsory military service even to 287,000 men. The South African Air Force is still small, but it is to be enlarged. The government is buying British machines of an older type for the training of about 1,000 pilots, but in the event of war they are to be replaced by modern machines.

Arrangements have been made for the British military authorities to remain in close contact with the corresponding Dominions authorities. The armed

## THE EMPIRE AS BURDEN AND SUPPORT

forces of Great Britain and the Dominions are being trained according to a uniform system, the same weapons are in use, an exchange of officers takes place for training purposes, and defence plans are drawn up by the Committee of Imperial Defence in collaboration with representatives of the Empire.

Even more important than military assistance in a modern war involving a vast expenditure of materials will be the contribution of the Dominions industries to the defence of Great Britain. Irrespective of whether they assist actively or not in a military sense, the Dominions give Great Britain the unique possibility of providing herself with all the most important raw materials she requires and in addition the possibility of producing war materials, guns, machine-guns, aeroplanes, warships and munitions far away from the scene of operations and too far to be threatened by air attack. All Great Britain need then do is ship these arms, etc., to Europe. Taking all factors into consideration, the industrial progress made by the Dominions since the World War probably represents the biggest advantage enjoyed by Great Britain in the event of an armed conflict to-day as compared with the position in 1914.

In this connection it is not important for us to know how far the Dominions have industrialized themselves in a period of natural and peaceable development, but how far they could be deliberately used by Great Britain as industrial supply centres in the event of war. There is a big difference in these two things. The

## HOW STRONG IS BRITAIN ?

Dominions have sufficient raw materials to build up industries of their own, but they lack populations big enough and centralized enough to support such industries by their purchasing power. It is possible to build up industries in the Dominions to work for export purposes, but industries based on home consumption can be built up to a limited extent only at the moment.

This is particularly true of the Union of South Africa, where just about two million white people live in a country very rich in natural resources. The seven million coloured inhabitants represent only a very low volume of purchasing power. Despite this South Africa has experienced remarkable industrial development in recent years. Above all, the basic industry on which all war industries depend has been built up, the steel industry. Since the great works of the Iron and Steel Industrial Corporation opened up at the beginning of 1934 steel production has increased rapidly. In 1933 South Africa's production of steel amounted to 40,000 tons only, but by the beginning of 1938 it was 400,000 tons. Further, this production is no longer based on imported scrap, as was customary in the early days, but largely on South African ores, which are very valuable. In the meantime industries producing half-finished goods have developed in connection with the steel industry, such as the production of piping, wire, screws, etc.

Chromium, manganese ore, copper and tin are other important metals which are mined in the Union. In addition South African industry has sufficient supplies

## THE EMPIRE AS BURDEN AND SUPPORT

of coal, and, if necessary, ample facilities for hydraulic power. Another fact of importance for the Empire's war-chest is that about half the world's gold supplies are mined in South Africa.

The highly developed chemicals industry of South Africa would also be of direct importance in the event of war. Even in 1933 there were 157 chemicals factories in the Union, and five of them, with a total staff of 3,386, produced chiefly explosives for the mining industry. The great chemical works in Modderfontein, which, like other works, is a subsidiary company of the big British chemicals concern, I.C.I., is well on the way to becoming the biggest single works for explosives in the world.

Apart from the development of these basic industries, armament factories proper are being built, and by arrangement between the governments of Great Britain and the South African Union they will produce all arms up to field guns. The models and plans are to be delivered by the British military authorities. Up to the present the South African Air Force is backed only by a factory for the assembly of imported parts, but plans for the building of aircraft works have already been made, though, until further notice, aero-engines are still to be imported.

And finally it is worthy of note that the South African government is about to build plant for the extraction of oil from coal. This is very important because in this way the Cape can be made into an independent fuelling station for British shipping, and it will be still more important in time of war if, as is

## HOW STRONG IS BRITAIN ?

very probable, any considerable section of British shipping has to go round the Cape.

However, the most important basis of supply for the British armed forces in the event of war, apart from Great Britain herself, will be Canada. The natural resources of Canada are enormous. She has the biggest coal deposits in the world, though they lie in the province of Alberta far away from the more thickly populated districts of the country. She produces almost 90 per cent. of the total nickel supplies of the world, and 10 per cent. of the world's gold. In addition she has large deposits of copper, lead, zinc, platinum, cobalt and radium, to mention only the most important. Two-thirds of the world's asbestos supplies come from Canada too, and her enormous forests offer raw material in vast abundance for the cellulose industry. The waterpower resources of the country are exploited only to about one-third of capacity, and much of the electricity produced in this way is exported to the United States by overland cables.

The possibilities of industrial development in Canada are limited only by the lack of population and by the presence of a highly industrialized country like the United States just over the border. However, separated from Great Britain only by the strategically relatively safe Atlantic Ocean, Canada represents the ideal industrial supply basis for Great Britain in these days of air warfare.

In addition to all these natural advantages there is another factor worth noting. The neutrality laws of

## THE EMPIRE AS BURDEN AND SUPPORT

the United States forbid her industries to export war materials to belligerent countries. Even if these laws were not repealed they could easily be circumvented by United States industrialists building subsidiary works in Canada, from which they could then send supplies to Great Britain in the event of war. All that is necessary is that such works should be guaranteed certain current contracts in peace time.

For the moment the chief plan of the British government for the utilization of Canada's resources is to build aeroplanes there. The consent of the Canadian government has also been obtained for the training of British pilots in Canada. It is likely that production will concentrate chiefly on long-range bombers which would then be flown over the Atlantic, arriving in Great Britain within 24 hours and ready for immediate commissioning.

However, Great Britain's efforts will hardly be confined to the building of aeroplanes, and the prospect of a war industry working under completely safe conditions and invulnerable to all attacks from the air is so attractive to the British government that in course of time there is little doubt that an armaments industry will be built up in Canada embracing all branches of arms and ammunition production, and in all probability the British system of erecting shadow factories will be followed in Canada also.

The British Empire in its present-day form is an experiment, and it is recognized as such by Great Britain too. The very fact, however, that experiments are being

## HOW STRONG IS BRITAIN ?

carried out and new forms of relationship between the member countries created is proof that the British Empire is a vital and vigorous association of peoples and not an institution which is rapidly approaching the end of its tether. Held together by common racial and historical ties, by a common ethical attitude to the world, and by the conviction of a joint world mission, the Empire permits its members the greatest possible degree of independence in normal and peaceful times. In a time of crisis the Empire would no doubt draw its parts more closely together to withstand the shock. The fact that it possesses enormous economic resources means in our age of great material expenditure in war that the Empire represents a greater volume of military strength than it did in the days when only numbers counted.

The population problem is the most serious one for the British Empire to-day. If historical development were to proceed normally and without outside interruption the overseas Dominions would gradually industrialize themselves and become individual great powers, but between the present and that possible future there is the obstacle represented by the population problem. Such a development is possible only if the white populations of the overseas Dominions increase their numbers very considerably either independently or by a steady influx of new immigrants from a rapidly increasing population in Great Britain. We therefore propose to deal with this population problem in our next chapter.

## CHAPTER TEN

### POPULATION DIFFICULTIES IN THE EMPIRE

LIKE all other big industrial countries, Great Britain must reckon with a reduction in her population figures unless propaganda and government measures succeed in bringing about a change. The population question is one which does not affect Great Britain's present strength, but it certainly will affect her future strength. As the causes which will affect the future are being created to-day, and as their effects will be inevitable unless something is done now to counteract them, it is worth our while to take a look at the problem, particularly as it will assist us to avoid exaggeration.

What are the facts? The British Empire is ruled, held together and defended by a small minority of white people. It is inhabited by 72·5 millions of white people and about 420 millions of non-Europeans. The white minority has practically ceased to increase in numbers, and in about 25 to 30 years it will very probably begin to diminish, whereas the non-European, coloured population of the Empire still increases in numbers tremendously every year. The numerical relation between white and coloured inhabitants is

## HOW STRONG IS BRITAIN ?

therefore 'changing' increasingly in favour of the coloured population even to-day, and in future generations it will change still more rapidly in that direction.

In Great Britain herself the increase in birth rate has fallen from its peak point in the seventies of last century to less than half to-day. In the seventies there were about 36 children born annually per 1,000 adults in Great Britain, whilst to-day the number is only 15.

If we wish to estimate the consequences of this development in the future we shall certainly not be exaggerating if we assume that the birth rate will remain more or less at its present level and not diminish still further as it has done in the past. Even proceeding from this rather optimistic assumption, two things can be said with a fair amount of certainty : first of all, in the coming 30 years there will be relatively more old people and relatively fewer young people in Great Britain than in former periods. In 1901 there were only two adults for every child under 15 years. To-day there are three adults, and in 1965 there will be almost five adults. By 1947 the process will have developed so far that the number of people in Great Britain over 45 years of age will be approximately as great as the number of people under that age.

And secondly, it is possible to prophesy that the total population of Great Britain will decline from the year 1965 on. By the year 1976 the population of Great Britain will have fallen to 33 millions, as compared with 44 millions to-day. Thus, unless the birth rate rises considerably population figures will decline

## POPULATION DIFFICULTIES IN THE EMPIRE

rapidly. From 1965 onwards the population will decline by about one quarter from generation to generation.

In the British Empire as a whole the picture is not quite so gloomy. Up till about six years ago the white population of the Empire increased by about two per cent. annually. This increase was caused on the one hand by births, i.e. by natural increase, and on the other hand by immigration, i.e. by an artificial increase at the cost of some other country, chiefly Great Britain.

The development of population figures has been most satisfactory in Canada, but even there we can now observe a sharp decline in the increase of population from the birth rate. Between 1901 and 1911 the increase was 1.82 per cent. per annum, but to-day it is only 1.1 per cent. per annum. In Australia the increase in the population as a result of births is only 0.7 per cent. to-day as compared with 1.44 per cent. in 1922. In New Zealand it was 1.36 per cent. in 1922, and to-day it is only 0.8 per cent., thus it has not fallen quite as much as in Australia.

Population developments in India have been very different. In the ten years between 1921 and 1931 alone the population of India increased by no less than 34 millions, i.e. by a considerably greater number than the total white population of all the Dominions to-day. In 1931 there were 353 million Indians in British India, and we may expect that by 1941 the total will have increased to approximately 400 millions.

## HOW STRONG IS BRITAIN ?

These facts raise a number of problems for the British Empire of a political, economic and military nature. The political problems lie in a fairly distant future, but the economic and military problems are partly matters for the present.

During the course of those public discussions which take place from time to time in Great Britain, the opinion is often expressed that the reason for the decline in the birth rate must be sought in the low standards of living of wide sections of the population. That is only conditionally true. Wage increases, at the expense of the more prosperous section of the community would have a favourable influence on the birth rate only if they were accompanied by a legal obligation to expend the supplementary wage sum exclusively for the upbringing of supplementary children, and, on the other hand, if the decline in the income of the more prosperous section of the community did not lead to any decrease in their birth rate. As such a legal obligation is hardly feasible, and would prove very difficult to operate if it were introduced, such a wage increase would probably exercise no influence on the birth rate whatever.

We mention this not because we wish to enumerate the reasons for the decline in the population of Great Britain—we are interested only in its effects—but because such considerations tend to cause the real political danger involved by the decline in population to be overlooked.

As a matter of fact we can observe that standards of

## POPULATION DIFFICULTIES IN THE EMPIRE

living in general have the opposite effect to that believed by these supporters of an increase in income. The number of children in working-class families is still relatively greater than in the families of those who are better off, particularly upper-middle class families. If we examine the reasons more closely we shall see that in Great Britain it is not the absolute standard of living which is decisive for the size of the family, but the wish to increase that standard. In order to be able to live like the rich the less-rich citizen limits the size of his family. As a result of the fact that he now has fewer children and therefore less to spend on their upbringing, he can afford a higher social standard, a motor-car, better clothes, and a house in a better neighbourhood, and at the same time he can move more freely in society, whilst he can afford to send those few children he still has to a better and more expensive school.

All these wishes have their effect on the birth rate in other countries too, and the process influences just those circles from which normally the leaders of the nation are recruited. However, in Great Britain the effect of such wishes is particularly great owing to the specific social structure of the nation, because well-being and everything it opens up are regarded as particularly important. No distinction is made between possession of money and power and reputation ; on the contrary, the three things are most closely connected. The possession of money is of the greatest importance for the position and prospects of the individual.

## HOW STRONG IS BRITAIN ?

The lad who has the good fortune to be sent to such public schools as Eton, Harrow or Winchester, to go on later to Oxford or Cambridge to study at one of the famous colléges there (intellectual effort which will not prevent his spending the greater part of his time rowing or working for proficiency in some other sport calculated to gain him a reputation) has incomparably better chances when he later enters the commercial or industrial world than the lad whose parents cannot afford to send him to a good school. Further, the man who has his house or his flat in a fashionable part of the town is more likely to have success in his social life than one who has not. And whether a man wants success in political or commercial life, in each case social connections play the same decisive role. An enormous amount of business is done on the golf-course in Great Britain, and good jobs are often obtained during a casual chat after a good dinner.

The result is that the families whose size is chiefly diminishing are just those families from which the State obtains its officers and officials, the Empire its governors and administrators, and British commercial life its leaders. Such a circumstance can easily become a great political disadvantage for a nation which rules an Empire covering one-quarter of the earth's surface and inhabited by 420 million people of other races. However, as we have pointed out, this political disadvantage will begin to make itself felt only when the population starts to decline. So long as the nation is merely becoming older on an average the reservoir

## POPULATION DIFFICULTIES IN THE EMPIRE

from which the leaders of Empire can be recruited increases in size. Thus Great Britain has thirty years' time in which to do something about the consequences, though there is no time left at all if she wishes to prevent the consequences altogether, because the leaders of Empire and the pro-consuls of 1965 must be born to-day.

There is not so much time to spare for the solution of the economic problems which arise out of the stagnation of population figures and their future decline for Great Britain herself and for the whole Empire. These problems will make themselves felt during the next few years, because when the average age of the British citizen has increased his average economic wants will gradually change.

To put it bluntly, the transition from satisfying the demands of youth to satisfying the demands of old gentlemen will make considerable changes necessary in British industry. However, the problem is not specifically British, and in addition it should be possible to solve it without weakening Great Britain's economic system providing the necessary measures are taken in advance. And on the other hand it might even prove an advantage owing to the fact that the productive capacity of a population whose average age is higher is likely to be greater, providing the advantage is not neutralized by increased unemployment. During the next thirty years the British economic system will enjoy this advantage, and it will be reduced only by the fact that the working population will have more old people

## HOW STRONG IS BRITAIN ?

to maintain than formerly. However, that is nothing but a social boomerang flying back at those who hurled it : they thought they would be able to enjoy a higher standard of living if they limited the size of their families, and now instead society must maintain more old people than before to make up for it.

The consequences will become more serious from 1965 onwards when absolute population figures begin to decline. But even then so many factors which are difficult for us to estimate will play a role that we should be wise to guard against the danger of exaggeration. In Great Britain herself it is quite possible that despite the decline in absolute population the total production of industry will not decline, thanks to increased productivity on the part of the smaller population brought about by the introduction of more advanced industrial technique. The question is only whether those workers who are likely to become unemployed as the result of the decline of the building industry and of other branches of industry designed to serve the needs of a growing population will be able to find full employment in other branches of industry, etc. Thus to this extent even in thirty years' time it will be only a problem of organization and redistribution, and it should not prove impossible of solution.

However, it has been said that a rapid decline in the population of Great Britain such as is to be expected from 1965 onwards will destroy the basis of the economic system of the Empire, namely the exchange of overseas raw materials and agricultural produce

## POPULATION DIFFICULTIES IN THE EMPIRE

with British industrial goods. This is really the chief danger, but here too it is probably an exaggeration to prophesy the destruction of this basis. Anxiety is caused by the idea that a smaller population of Great Britain would require less raw materials and less food-stuffs from abroad and could therefore exchange only a smaller quantity of finished goods for them.

With regard to this argument it can be pointed out first of all that the imports of Great Britain from overseas empire countries are limited only by her capacity to pay for them. She can import no more than she is able to pay for either by her own exports or by her revenues from capital investments abroad, or from shipping and banking activities. But the British people would gladly consume more produce from the overseas Empire, more wheat, more fruit and more meat ; thus if it were possible for a smaller British population to produce the same volume of goods for export as was previously produced by a larger population, something which technical progress makes quite feasible, it would certainly gladly take a quantity of overseas produce larger in relation to its numbers than it did before and thus raise its own standards of living.

Whether this will be the case or not, there is certainly no reason to assume that Great Britain's standards of living or the wealth of the country in relation to her population would suffer directly under a diminution of Empire trade. Even with diminished exports of industrial goods, Great Britain would still be in a position to import the same quantities of raw materials and

## HOW STRONG IS BRITAIN ?

agricultural produce from overseas per head of her population as she does to-day. In fact, at first she would even be in a position to import more than before because her revenues from her capital investments abroad would remain the same, i.e. reckoned per head of the population they would be greater than before.

The power of Great Britain would suffer only indirectly in so far as the British market—with the reservations made above—might no longer be quite so important for the Dominions as it is to-day, and therefore the possibilities of exercising political influence on the Dominions which result from the importance of her market would be correspondingly less. However, we are not going to be rash enough to attempt any estimate of the exact importance of such a doubtful factor in advance.

On the other hand, the economic consequences of a decline in the population of Great Britain would make themselves much more clearly felt in the Dominions. If the British market for their produce were to shrink to any material extent they would be compelled to look for markets elsewhere in the world, and they would find it very difficult, or to industrialize themselves to an increasing extent in order to obtain the industrial goods they require by producing them at home as they would no longer be able to import them.

However, as we have already seen, the industrialization of the Dominions is itself largely a question of population. They do not lack raw materials, in fact some of them are abundantly supplied with them.

## POPULATION DIFFICULTIES IN THE EMPIRE

They could all maintain a very considerably larger white population than they have at present. If the enormous territory of Canada suitable for habitation were populated to the same degree of density as the territory of the United States (and the United States has wide areas which are only sparsely populated) then 50 million people would live there instead of less than 11 million as at present. Taking the same basis of calculation Australia should have a population of 46 million instead of 6.5 million, whilst New Zealand would have no less than nine times the population she has to-day, namely 13 millions instead of half a million.

Where are the Dominions to obtain the increased population they need? As we have already seen, the increase in their own population rate is declining fairly rapidly, and there is hardly an increase in the rate of population at all to-day. In order to encourage emigration from Great Britain to the colonies and Dominions a law was passed in London in 1922 authorizing the government to spend three million pounds a year for assisted passages and to help meet the costs of the emigrants on their arrival, but emigration declined rapidly after 1929 as a result of the economic crisis, which was acutely felt in the raw-material producing countries and by 1932 it had ceased altogether.

To-day things are improving in the Dominions and it is possible that emigration from Great Britain may begin again. However, Great Britain is herself fighting against a decrease in her population rate and she therefore cannot afford to encourage emigration to the

## HOW STRONG IS BRITAIN ?

extent which would be necessary to set the process of industrialization in the Dominions in full swing. A very considerable increase in the population would be necessary for that. Only if such a very considerable increase takes place could consumption-goods industries be conducted profitably. As long as such industries have to work for a small community, and a community which is spread out over great spaces and concentrated in any numbers only here and there, they must necessarily work with high costs of production with the result that it remains cheaper in the long run to import whatever consumption goods are necessary from abroad. And if that is impossible there is no other alternative but to depress living standards.

Sooner or later therefore the British Empire will have to decide whether it will permit and encourage foreign emigrants to settle within its territory in order to increase its population rapidly and safely. Only one or two races come into question if any value is to be attached to the approximate preservation of the existing racial quality of the white population of the Empire. Throughout the whole British Empire to-day there are less than seven million whites who are not of British origin. French-Canadians in the province of Quebec are the biggest group, whilst the Dutch in South Africa, who are, of course, racially related to the British, come second. Only North European races come into question for such outside immigration, Scandinavians, Dutch and, in particular, Germans.

It may one day prove of political importance that the

## POPULATION DIFFICULTIES IN THE EMPIRE

British Empire will have only these races as a source of immigration.

The population problem is particularly important for Australia and New Zealand. As far as these two Dominions are concerned the problem is not a future one arising from economic reasons, but a present one arising from strategic reasons. For the rest of the Empire the strategic side of the problem is not particularly disturbing. We have seen that the Empire can be defended and held together by a relatively small number of regular troops. There are no threatened land frontiers anywhere throughout its whole extent to-day, and as long as the Empire is rich enough to maintain a stronger fleet than its possible enemies and a powerful air force as well, most of what it need do strategically in its own defence is already done.

However, the enormous continent of Australia is so sparsely populated—two inhabitants per square mile—that in view of the political clouds which have been gathering on the Pacific horizon since the war it is no longer possible to wait patiently until the vast area is more or less adequately filled as the natural result of a rising birth rate amongst the white population. Those parts of Australia where the average rainfall is sufficient to permit settlement represent together a total area roughly the same size as France and they could support a population of about 46 millions. However, it would take about seventy years before this figure would be reached at the present rate of natural increase.

If Japan establishes herself firmly in the Pacific the

## HOW STRONG IS BRITAIN?

Australians fear that her next aim will be the occupation of Australia, which is three times farther from Great Britain than it is from Japan, whilst Singapore, Britain's great naval base is not much nearer than Japan, though to-day Australia still relies completely on the British fleet to defend her sea communications. If Australia is to become strategically independent her population must be increased very considerably.

Up to the present the Australian government has steadfastly maintained its decision not to permit any coloured emigrants to settle in Australia. In order to exclude such emigrants immigration is made subject to the legal condition that any immigrant must be able to write down fifty words in a European language at the dictation of the Immigration Officer. The choice of the European language for the test lies completely in the discretion of the Immigration Officer, so that when a little while ago a number of linguistically talented coloured immigrants presented themselves they found the Immigration Officer prepared for them with a dictation in Gaelic, which effectively barred them. In any case, the immigration of coloured people would be only a partial solution of the population problem, perhaps in the districts whose climate is unsuitable for white settlement. However, in the conviction that one day Asia, Africa and, to a great extent, South America will be inhabited by coloured people, the Australians are determined to preserve their country for the whites.

During negotiations which took place in London in

## POPULATION DIFFICULTIES IN THE EMPIRE

the summer of 1938 it was agreed that population increase and industrialization mutually condition each other, and it was therefore decided to hold a detailed inquiry into the position with a view to drawing up a plan for the industrialization of Australia including not only the development of raw-material production, but also the development of all forms of industrial activity, including the consumption-goods industries. The Australian government was entrusted with the preliminary task of increasing the white population of its territory as rapidly as possible, but unfortunately it was given no advice as to how it should go about it.

What has been said of Australia applies in the same degree to New Zealand, where the immigration of former years has developed since 1929 into emigration, and where the increase of population threatens to come to a standstill in 1943 if the birth rate continues to deteriorate and unless emigration sets in again to fill the gap.

## CHAPTER ELEVEN

### STORM CLOUDS ON THE HORIZON

WE have now described the position of Great Britain and her Empire to-day, and the stage of development in which they find themselves in an epoch when the rest of the world is wondering what their future fate will be ; some with doubt, some with fear, and some with secret hope.

Is Great Britain stronger to-day than she was in 1914 ? Is she just as strong ? Is her star in the descendant, her power in decline ? Is her fall already certain ? Her power rests on two pillars : her military strength and her economic wealth, embodied in her own production and her own economic activity on the one hand and in the accumulated savings of former generations on the other. We have now done our best to examine the most important structural parts of these two pillars, to test their material, their present condition and their likely development in the future.

We have seen that the one pillar, Great Britain's military strength and that of her Empire as a whole, has been strengthened and consolidated in recent years. The degree of preparedness for war has seldom

## STORM CLOUDS ON THE HORIZON

been so great in British history as it is to-day, and it has certainly not been so great at any time since 1914.

The nation which was once accustomed to let others fight its battles and shed their blood for pay is now rapidly girding its own loins. The lion which once roared only from afar is now shaking its locks in the open. The people who once surveyed the deserted battlefields on which others had bled whilst they reaped the fruits of victory, are now arming themselves to defend what they have won. Over-night the comfortable habits and untrammelled economic freedom of this people could change and be transformed into a war-machine guided with a single purpose, and in this connection it must be stressed that Great Britain is preparing herself for a totalitarian war under favourable outward circumstances.

On the other hand, our examination of the other pillar, Great Britain's economic wealth, has shown us that very threatening changes have taken place. For a century British wealth and influence increased steadily. Year after year the British people found themselves in possession of large sums of money which they did not need for their own use. In all political reverses they have always been accustomed to seek consolation in the idea that the victor, no matter who he might be, would have to come to London in the end to borrow the money he needed to consolidate his victory, and that in this way Great Britain would share indirectly in the fruits of his victory. For a century the British people were able to live peacefully, heartened by the agreeable

## HOW STRONG IS BRITAIN ?

conviction that they were envied less for their riches than thanked gratefully for its benevolent effects. As the best customer and employer of millions throughout the world Great Britain was cherished and cultivated.

To-day, however, she has no longer any surplus money to place at the disposal of others. Since the end of the World War her profits have steadily declined. They proved just enough and no more to meet the costs of the war—if the debt to the United States is written off. In recent years there have been no profits at all. Instead of profits there have been losses and they have had to be met by resorting to capital.

The rich customer and generous loan granter of yesterday has to be careful to-day both in promise and performance. To-day his chief task is to keep what he has. He is no longer in a position to take from a vast surplus and distribute to others what he no longer requires himself.

In our chapter on Great Britain's capital investments we came to the conclusion that the triumphal march of British capital throughout the world had come to an end, and that the great estate inherited by the British people from their forefathers must now be defended. Even if Great Britain should be able to advance again in this direction, thanks to the possession of a further surplus obtained perhaps by limiting her imports or increasing her exports in favourable years, or both, it is unlikely that the world will ever again need British financial assistance to the extent it has done in the past.

## STORM CLOUDS ON THE HORIZON

Germany's example has shown the world that even a poor country can largely finance its own economic operations with the necessary planned-economic organization, and other countries whose industrial systems are fairly well developed will no doubt do their best to follow this example.

The fact that the advance of British capital throughout the world has at last come to an end is quite a natural phenomenon. It was quite clear from the beginning that the enrichment of Great Britain in this way could not go on for ever. In fact, if anything, it is astonishing that it went on so long and that there was such an enormous accumulation of wealth. This was a result of the industrial start enjoyed by Great Britain over the rest of the world, but this start had already been lost before the World War broke out.

However, when the advance of British capital throughout the world finally comes to an end it will have very important results for Great Britain's economic position in the world. Once Great Britain has no longer any money to lend to the rest of the world then it is clear that other countries will stop coming to London cap in hand, and in consequence the British government will no longer be able to further its own foreign policy with the weapon of financial pressure. As long as many foreign nations were urgently in need of money, and as long as Great Britain had money to lend them, her position as a creditor was all powerful, but as soon as the creditor has no further money to lend and begins to interest himself solely in keeping what he has and

## HOW STRONG IS BRITAIN ?

collecting his debts, then the advantage he once enjoyed goes over to his debtors.

However, the complete stoppage of all British loan activity is not to be expected, because all the time foreign loans are falling due for repayment and are being repaid, and other sums invested abroad become free from time to time to be re-invested in new loans. Great Britain can thus dispose of such sums, and in the future there will still be nations needing money, and perhaps needing it so badly that they will be prepared to accept political conditions together with it.

In any case, the continuation of this limited loan activity presupposes that the sums of money paid back from abroad are not used as they have been used during the past few years to pay for Great Britain's import surplus. There is, however, no reason to believe that this will happen very often. Great Britain is no more compelled to live above her income than any other nation ; she need not spend more than she earns. The fact that this has happened in the past was due to a miscalculation, and the proper authorities have not failed to take note of it. For a rich creditor country like Great Britain it should always be possible with proper economic management to obtain a balanced budget of payments.

We have now come to the end of our investigations, and we should be in a position to appreciate Great Britain's real strength and the dangers which threaten it. Great Britain is still the richest country in the world

## STORM CLOUDS ON THE HORIZON

and her military potential is very great. She succeeded in accumulating vast wealth at a time when her early developed industries permitted her to dominate the world market without rivals. In the second stage of development when other powerful industrial countries began to come forward, she found it no very difficult matter to preserve her wealth because world markets were extending constantly.

However, after the World War she excluded Germany from this world economic system of abundance, whose outward form is free economic activity, and Germany was compelled to develop an economic system adapted to her economic shortage, a controlled, a socialist economic system. National Socialism drew the logical consequences from this situation, and since then Great Britain has had to wrestle not only with the problem of increasing rivalry for the world market, but also with the problem of preventing the world market from shrinking, and re-establishing the freedom of movement of money and commodities on that market.

Conscious that her strength has not been seriously impaired, Great Britain is still trying to solve one problem at the cost of the other. She still permits the boycotting of German goods, refuses to give Germany back her colonies, and violates the principle of the "Open Door"—all of which represent hostile measures against world trade—in order to secure in this way a greater share of what is left of the world market for her own industries, which in their present form would not be able to compete freely with their rivals. One day

## HOW STRONG IS BRITAIN ?

perhaps Great Britain will realize that both things must be done : on the one hand her export industries must be modernized and put into a position to compete freely with their rivals, even at the cost of her standards of living, and on the other hand she must make an honest attempt to restore free trade for all. But whether this is done or not, the simple truth will retain its validity that in the last resort the bill will be paid by the one who has the money.

It would perhaps prove more advantageous to pay the bill run up by the iniquities of the Versailles Treaty now rather than risk later on that money, from which Great Britain derives the chief advantage, should lose its importance altogether. The fact that Germany's economic policy deprives money of its all-powerful position in the world is the source of its strength and effectiveness. In the long run this will make the economic policy of National Socialism attractive to all countries which are poor in comparison with Great Britain, i.e. the great majority.

Great wealth and military power, joined in a unique combination, represent the real strength of Great Britain, and behind this combination stands her foreign policy, deciding how all its power factors shall be used. We have now examined these factors and knowing fairly accurately how they are made up, we should be able to appreciate more or less what their effect would be if they were used to the full in concrete circumstances.

However, the strength of the nation is not tested

## STORM CLOUDS ON THE HORIZON

and proved in actual struggle only. The strength of a nation is a permanent magnitude in the interplay of world political forces. This peace-time weight of a nation, which must be taken into consideration daily in the political decisions of other nations, is not based on economic, military and moral power alone; it depends further on the question of how far this fighting power can be exerted at any given time, whether it can be exerted to the full, at the moment decided on by the nation and its government.

A lion may be strong and vigorous, and there may be no doubt about the sharpness of his claws, or the strength of his great teeth, but if he is safely behind bars no one will be afraid of him, not even if he roars savagely and crouches for a spring.

Political possibilities define the circumstances in which the British Lion can exert his full strength, and it is very important to note that these possibilities are not unlimited. There are strong bars separating the British Lion from some things he might otherwise go for gladly, and the bars are often unnoticed by many people.

Great Britain's power can be sent into action only for political aims which are ethical in the eyes of the world, aims which can be amply justified on moral grounds.

Up to a certain point the same thing applies to every country in our era. The world, it is said, has become smaller. In reality the world has not become smaller but larger. It hears more, sees more, feels more than

## HOW STRONG IS BRITAIN ?

it ever did before. The press, the films, the wireless and television have brought environment nearer to consciousness. The statesman of to-day acts before the eyes of the whole world. He must be in a position to justify his foreign political decisions, and the extent of the circle before which he must justify them if he wants to win it to his side or at least neutralize it, depends on many factors. The smallest circle which he has to win as a permanent minimum is the majority of his own people. However, a statesman can be satisfied with this minimum only if his aims are not aggressive, i.e. if they are not to be achieved at the expense of other nations, or if his own nation and its allies are so powerful that he can defy whatever other circles may be involved, perhaps the whole world.

In this way we could formulate a general rule for the extent to which nations are dependent on world public opinion in their foreign-political actions. The degree would depend on the absolute power of the nation in question and on the character of its political aims, namely whether they were to be realized at the expense of others, and if so how many others and what others.

If we apply this rule to Great Britain we shall see at once that she is particularly dependent on world public opinion in her actions. Certainly, the British Empire is very strong, but it is at the same time also very vulnerable. It could never envisage the possibility of waging war against a hostile world. It is true that the greater part of Great Britain's vital imports come

## STORM CLOUDS ON THE HORIZON

from Empire countries, but she could not dispense with the remainder from one day to the next. She could not defend her capital investments abroad by military action and she could not compel the rest of the world to carry on that trade with her which is indispensable to her existence. •

Great Britain's political aims may not be actually aggressive to-day because she is rich and satisfied, but the preservation of her empire still means that she must retain one-fourth of the world's surface under her rule, and in this way alone, i.e. without any further concrete foreign-political aims of any very great moment, she makes herself an object of envy to less fortunate nations.

These considerations alone would be sufficient to compel the British government to take world public opinion into consideration to a very great extent, to do everything possible not to provoke it, and, on the contrary, to conciliate it as far as possible by a strictly ethical use of its power. However, there is another and even more important factor to be taken into consideration. To-day the position is already such that British foreign policy requires clear moral justification not only in the eyes of the outside world, but also in the eyes of the member countries of the Empire itself.

We are not thinking here merely that any tyrannical exercise of power over subject peoples must be avoided, because that is something which was recognized long ago by Great Britain and put into practice wherever normal circumstances permitted. We are thinking of

## HOW STRONG IS BRITAIN ?

the recent developments in the relationship between her and her sovereign Dominions, which we have already discussed in a previous chapter. The member countries of the British Empire regard their association as a league of peoples to preserve world peace, to place justice in the stead of tyranny, and to make agreement the instrument for settling international disputes instead of war. That was laid down very clearly at the Empire Conference of 1937, and it means that Great Britain can no longer pursue an unethical and unjust foreign policy without risking losing the support of her closest allies, the Dominions.

British diplomacy has the reputation of being the cleverest in the world. Its cleverness consists in the fact that it always justifies all its acts and omissions with the utmost care, and when its undertakings happen to be of such a nature that it is difficult to justify them on moral grounds then at least it chooses some form which is calculated to make them more acceptable to public opinion. Great Britain is certainly not always moral in her actions, but at least she must always do her best to appear so, and therefore she wins world public opinion over to her side although it would be more natural in the normal course of things for a country which straddled the world to find the world against it. It is this principle, and not any inherent superiority, which has made British diplomacy so successful, and it can be seen most clearly whenever British interests come into conflict with ethical standards. Under such circumstances one can often

## STORM CLOUDS ON THE HORIZON

observe that British interests suffer, or that they are not represented with the same energy as usual in London.

We need not discuss the question of how far the British government acts ethically as a matter of inner conviction. For us the point is that willy-nilly it must act ethically. It is not a free agent. It must do its best to win over world public opinion, and it must therefore be in a position to justify its policy morally. Now there are certainly many cases in which it is possible to put forward a hypocritical moral justification by misrepresenting the facts or saddling the rival with malicious motives, but the longer a government is compelled to justify its acts and omissions the more the nation behind it accustoms itself to taking the necessity for such moral justification very seriously. Under such circumstances the matter is never considered as a burdensome political necessity, but as a moral postulate necessitated by the idealism and pride of the nation. This development has already gone very far in Great Britain, and it is highly doubtful whether the British people would be prepared to take up arms for any purely egoistic national interest at the expense of other peoples. In order to arouse the combativeness of the British people a sort of crusading spirit has to be created, and from year to year it becomes more and more dangerous for a British government to whip up such a spirit by hypocritical propaganda, because from year to year the British people feel more and more strongly that Great Britain's

## HOW STRONG IS BRITAIN ?

mission in the world is to obtain the triumph of justice and morality in international politics.

Only recently the world witnessed a practical example of this fact. The right of the people of the Sudeten districts of Czechoslovakia to self-determination was morally indisputable. Therefore, although the joining of these districts to the German Reich was in opposition to the traditional foreign political interests of Great Britain in the maintenance of the balance of power in Europe, she was nevertheless unable to oppose it. For the same reason she was unable to raise any serious objection to the re-establishment of military sovereignty throughout the German Reich, to the emancipation of the Rhineland, and to the *Anschluss* of Austria to Germany. The government of the Reich morally justified all these actions in the eyes of the world in such an indisputable fashion that the British people would have refused to take up arms to prevent them.

Great Britain's power cannot therefore be used arbitrarily. It cannot be thrown into the scales in support of any undertaking which is condemned as unethical by the British people and by world public opinion. The British government would have the choice of abandoning such unethical undertakings altogether or of seeking to give them a moral cloak by means of propaganda. However, the effect of such propaganda will always be limited by the decency of the overwhelming majority of the British people, by the mistrust and by the special interests of the Dominions, and by the critical judgment of the rest of the world.

## STORM CLOUDS ON THE HORIZON

On the other hand, it follows from this moral check on Great Britain's foreign policy that no country in the world has anything to fear from her, no matter how strong she may be, providing its own foreign policy is as strictly ethical as Great Britain's is compelled by circumstances to be. In fact if the foreign policy of any other country is even more moral than the world will observe the spectacle of Great Britain's famed diplomacy deprived of its most powerful weapon and condemned to impotence.

The British Empire is the greatest empire in the world. Great Britain has command of the seas and she is richer than any other nation. In modern history she has never been defeated by force of arms, and by 1941-2 she will stand before the world powerfully armed indeed. With all its riches and all its power the British Empire has determined on a great undertaking. It wishes to make itself the crystallization point of a new and bigger commonwealth of peoples, and one in which peace and justice will reign. But in advancing to this undertaking it has left one flank uncovered ; it is no longer in a position to resist moral weapons.

Great Britain desires and must pursue a morally justifiable foreign policy. The country whose policy is more moral than hers will therefore defeat her without even crossing swords—unless she has already become its friend.









