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LEAGUE OF NATIONS

SIXTH INTERNATIONAL STUDIES CONFERENCE

A Record
of a Second Study Conference

ON

THE STATE AND ECONOMIC LIFE

HELD IN LONDON

FROM MAY 29 TO JUNE 2

1933

and organised by the

INTERNATIONAL INSTITUTE OF INTELLECTUAL CO-OPERATION

in collaboration with the

BRITISH CO-ORDINATING COMMITTEE FOR INTERNATIONAL STUDIES

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SIXTH SESSION

OF THE

INTERNATIONAL STUDIES CONFERENCE

LONDON, MAY 29 TO JUNE 2, 1933

LIST OF PARTICIPANTS

The following took part in the Conference's discussions on "The State and Economic Life":

Chairman: SIR ARTHUR SALTER, K.C.B.
Vice-Chairman: Professor ETTORE ROSBOCH
General Rapporteur: Dr. ARNOLD WOLFERS
Chairman of the First Committee: Professor HENRI HAUSER
Chairman of the Second Committee: Dr. EDWIN F. GAY
Rapporteur of the First Committee: Professor WILLIAM RAPPARD
Rapporteur of the Second Committee: Professor J. HENRY RICHARDSON

Professor LUIGI AMOROSO
Mr. S. H. BAILEY, M.A.
Professor HERBERT VON BECKERATH
Dr. F. C. C. BENHAM
Professor NORMAN BENTWICH
Professor ARNOLD BERGSTRÄSSER
Mr. GEOFFREY C. BILLING, B.A.
Professor CÉLESTIN BOUGLÉ
Professor CARL BRINKMANN
M. G. B. CECCATO
Professor JOHN M. CLARK
Professor J. COATMAN
Professor D. B. COPLAND
Professor ZYGMUNT CYBICHOWSKI
Dr. HUGH DALTON
Professor GIUSEPPE GALLAVRESI
Mr. FREDERICK GEIDT, M.C.
Mr. W. L. HOLLAND
Professor H. A. INNIS
Professor RICHARD KERSCHAGL
Professor EDWARD LIPINSKI
Mr. G. K. LOGIE
Professor ANTONIO DE LUNA
SIR ANDREW MCFADYEAN
Professor C. A. W. MANNING
Professor GIORGIO MORTARA

Professor GEORGES OPRESCU
Professor JØRGEN PEDERSEN
M. J. H. RICARD
The Hon. GIUSEPPE RIGHETTI
Professor ANTONIO RUBIO Y SACRISTÁN
M. PHILIPPE SCHWOB
Professor G. M. VERRIJN STUART
Professor ARNOLD J. TOYNBEE
M. LUIGI VILLARI
Professor JACOB VINER
Professor GEORGES VLADESCO-RACOASSA
Professor FREDERIK ZEUTHEN
Professor ALFRED ZIMMERN

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PREFACE

The State and Economic Life was the subject of an international Study Conference convened at Milan in May, 1932, by the International Institute of Intellectual Co-operation at the invitation of the Italian National Committee on Intellectual Co-operation.[1] This Conference, which provided a first experiment in a study of international relations on an international co-operative basis, was intended as a preliminary only to a more extensive investigation into the subject by the present Conference, which met in London, May 29 to June 2, 1933. It is to an account of this, the sixth International Studies Conference, that the present volume is devoted.

The volume consists in the main of a symposium of the speeches and discussions of the Conference, in so far as they deal with the problem of the State and Economic Life, and also of the reports presented to the Conference by its three Rapporteurs, namely, Dr. ARNOLD WOLFERS, Professor WILLIAM RAPPARD, and Professor J. H. RICHARDSON. Finally, it contains the abstracts of the memoranda presented by way of preliminary information by most of the members of the Conference (national groups or international institutions).

Before, however, explaining the procedure followed during the preparations for, and the progress of, the Conference, a few preliminary observations on its previous history may assist the reader, who may not be familiar with the nature of this undertaking.

The International Studies Conference [2]

In 1928, following upon a co-ordination within the various countries of the various institutions for the study of international relations, a meeting of experts was held in Berlin, at the Deutsche Hochschule für Politik, under the auspices of the International Institute of Intellectual Co-operation, to enquire into the possibility of bringing about a similar co-ordination on an international scale. Representatives of national institutions in Austria, France, Germany, Great Britain, Italy and the United States and of four international institutions were present at this meeting. They outlined a scheme of practical collaboration between these institutions, to be put into operation with the assistance of the International Institute of Intellectual Co-operation. and decided that another meeting should be called the following year.

[1] For the report of this Conference, see *The State and Economic Life*, published for the Conference of Institutions for the Scientific Study of International Relations by the International Institute of Intellectual Co-operation, Paris, 1932. xxiv and 184 pp.

[2] Known prior to 1933 as the Conference of Institutions for the Scientific Study of International Relations.

The Conference of Institutions for the Scientific Study of International Relations thus came into being.

The membership of this Conference is confined to institutions or groups of institutions which are concerned with the teaching or study of international relations. To be qualified for admission to membership of the Conference an institution must satisfy four principal conditions:

(1) That it must be of a scientific character, that is to say, it must work in a spirit of disinterested research, its intellectual level must be beyond question, and *it must not engage in political propaganda or direct political activities.*

(2) That the subjects which it teaches or studies must fall within the broad field of "international relations."

(3) That its organisation, equipment and resources must be sufficiently developed to enable it to participate effectively in the work of the Conference.

(4) That it must function, if not continuously throughout the year, at least for an appreciable period of time in each year.[1] Neither individuals nor Governments or governmental organs, be it noted, are admitted to membership.

The Conference has met annually since the Berlin meeting: in London in 1929, Paris in 1930, Copenhagen in 1931, and Milan in 1932, with the International Institute of Intellectual Co-operation always acting as its secretariat. The membership of the Conference has been extended to institutions in several other countries, including Canada, Czechoslovakia, Denmark, the Netherlands, New Zealand, Poland, Rumania and Spain, while negotiations are proceeding with institutions in Australia and Japan.

Down to the Copenhagen meeting in 1931, the Conference was occupied mainly with the development of the system of co-ordination which had been initiated at Berlin in 1928, involving on the one hand interchanges of speakers, information, publications, programmes of study, bibliographies, etc., among the various institutions, and, on the other, the preparation in common, with the technical assistance of the International Institute of Intellectual Co-operation, of handbooks of information for students of international affairs, such as the *Handbook of Reference Centres on International Affairs*, published in 1931 by the International Institute of Intellectual Co-operation, and a projected *Lexicon of Political Terms*. Side by side with these practical tasks, the Conference has done much useful work in giving teachers of international relations from a large number of countries an opportunity of meeting once a year and of personally discussing their common problems. Furthermore, the Conference has

[1] Cf. International Studies Conference: Conditions of membership, as adopted by the Conference on June 1, 1933. Document of the International Institute of Intellectual Co-operation C.68. 1933.

brought about, within individual countries, the co-ordination of all the national institutions concerned with the study and teaching of international problems through the creation of National Co-ordinating Committees. Wherever there are several institutions in a given country, it is the National Co-ordinating Committee which is directly represented in the Conference.[1] In this way, the Conference, in addition to its specifically international functions, has been instrumental in bringing about, inside the various countries, a more effective national co-ordination of international studies.

Since 1930, the Conference appears to have effectively organised the greater part of these tasks in such a way that a system of practical co-operation between it and the national groups and other institutions concerned operates almost automatically. The most significant development in this respect has been the extension of the activities of the Conference in regard to the organisation of international studies. By this means, that is to say, by the holding of an International Studies Conference, a regular attempt has been made to make it possible for students, each with his own background of national interests and convictions, to seek solutions of their problems by joint international investigations and discussion. It was at Milan in 1931 that the first of these International Study Conferences was held, and the subject studied was the State and Economic Life, the final investigation into which it is the object of this volume to report.

Procedure and Methods

Let it be said from the outset that the Conference of London, like that of Milan, pursued its enquiries and discussions in a scientific spirit. The advancement of political beliefs was eschewed, and at neither Conference was an attempt made to recommend specific political remedies or to tone down opinions with a view to securing unanimous resolutions. For such resolutions were not demanded, nor were they obtained. Thus the reports submitted on behalf of Committees I and II respectively, giving a conspectus of the debates which took place therein, constitute a purely personal expression of opinion on the part of the rapporteurs, Professor WILLIAM RAPPARD and Professor J. H. RICHARDSON.

The preparatory methods of study leading up to the actual holding of the Conference itself may be said to pass through four more or less marked stages.

[1] A list of institutions indirectly represented by such National Co-ordinating Committees at the Conference, with descriptive notes, is given in the *Handbook of the Institutions for the Scientific Study of International Relations*, 1929, published by the International Institute of Intellectual Co-operation. This list has been brought up to date in a roneographed document No. C.1, 1932, prepared by the Institute.

The first stage concerns the choice by the Programme Committee of the International Studies Conference of the most suitable subject for study from among those suggested by the various national groups and international institutions, the final arrangements being decided upon in the plenary Administrative Session. In this way the general consensus of opinion as to the most appropriate subject for future study by such a Conference is secured. For without that consensus, the very substantial collaboration demanded from the affiliated institutions could not be expected.

The work of the second stage devolves on experts and researchers whom the affiliated institutions of the Conference entrust with the writing up of the preliminary memoranda on the subject chosen. These memoranda, which will ultimately be submitted to the Conference, constitute a background of information and suggestions in which the Conference discussions will eventually be set.

These preparatory memoranda are usually of two kinds: they may be the work of individuals or of groups. In the former case the national group or international institution concerned entrusts a single individual, on his own responsibility, with the preparation of a report, as in the case of the majority of the preliminary memoranda submitted to the London Conference. In the second case a group of experts may prepare a report in common, that is to say, as a result of discussions, amendments, and compromise between themselves. In such reports, as four contributions to the Conference by the American and British groups respectively show, an attempt is made to find the greatest common denominator of agreement among the experts concerned.

The experience gained from these Conferences has, so far, not provided sufficient data for the laying down of any hard and fast rules concerning the best way of preparing the national preparatory memoranda. Each affiliated institution will therefore, for the time being, have to prepare its report on its own responsibility and initiative, making the best use of what material, research assistance, and organisation it can command.

It may, however, not be inappropriate to remark that Dr. WOLFERS, the General Rapporteur, emphasised that the preliminary research work for the Conference would be best furthered by the establishment in every country of an organisation analogous, in its methods of study, to the Royal Institute of International Affairs in Great Britain. The two principal reports submitted by this Institute in connection with the London School of Economics were, it may be added, produced by the group method, by means of which university professors, expert officials and men of business were called upon to express their various points of view on certain subjects on the programme of the conference.

Where the organisation of study groups for the preparation of such reports is not feasible, it seems possible, and even advisable, that in

the future the research work should not be left simply to certain individual experts who, working on their own initiative, prepare reports for the Conference, but that the National Co-ordinating Committee or some other appointed body of experts should influence the preparation of the memoranda, which it will contribute to the Conference, so as to ensure that the various reports presented by a national group stand in a near relation to each other and can, taken as a whole, be regarded as a national contribution.

In the third stage, it is the General Rapporteur of the Conference who undertakes the work of synthesising the various points of view expressed in national memoranda written in preparation for the Conference, it being understood that each affiliated institution will also receive, through the intermediary of the International Institute of Intellectual Co-operation, the documents produced by every other institution. Thus the relevant data for the Conference are examined simultaneously by the General Rapporteur and the various national groups and international organisations concerned. The task of the rapporteur at this stage is to give a conspectus of the documents submitted and to draw up his general preliminary report in such a way as to throw light on different points of procedure and to indicate the principal lines along which the discussions at the Conference should be orientated, with a view to realising most effectively the possibilities which a knowledge of the preparatory memoranda will offer to the delegates concerned. Past experience has shown that this stage will take up, at least, the three months preceding the opening of the Conference.

The final stage is reached with the opening of the Conference itself, and much that concerns this type of Conference is common to most international Conferences. A significant point of difference with regard to the present one is, however, that it is not essentially the aim of the Conference to produce unanimous reports or to pass resolutions; nor is it expected of national delegations to present opinions that fit in with each other as essential parts of a closely co-ordinated system of thought. Nor indeed has the Conference the immediate aim of preparing for concerted action. Its object is rather, as SIR ARTHUR SALTER, the President of the Conference, has said, "to facilitate the basis upon which free and real agreement will tend to form."

The London Conference

Through the generosity of the British National Co-ordinating Committee and the Royal Institute of International Affairs the International Studies Conference was enabled to meet in London in 1933 for the second time. And we are glad to put on record here our appreciation of the kind hospitality rendered to us by the Council and members of the Royal Institute of International Affairs, as well as of the

invaluable services rendered to the Conference by its staff. Indeed, the smoothness with which the proceedings of the Conference were carried out was due in a large measure to the excellence of the Royal Institute's administrative equipment as well as to the co-operation which its staff so willingly offered.

The Chairmanship of this sixth Session of the International Studies Conference was entrusted to SIR ARTHUR SALTER, and the Vice-Chairmanship to Professor ETTORE ROSBACH, member of the Italian Chamber of Deputies. The Inaugural Meeting held at the London School of Economics on Monday, June 29th, was presided over by LORD EUSTACE PERCY, former President of the Board of Education, who, together with Professor CHARLÉTY, Rector of the University of Paris, contributed the opening speeches. Afterwards spoke Dr. WOLFERS, the General Rapporteur, who submitted his report on the preparatory work of the affiliated institutions of the Conference.

Then followed the short Administrative Meeting of the Conference, which later split up into two committees, the one concerned with the discussions of International Trade and Finance, the other with State Intervention in the Private Economic Sphere. Professor HENRI HAUSER, of the University of Paris, was elected Chairman of Committee I, with Professor WILLIAM RAPPARD, of the University of Geneva and Director of the Graduate Institute of International Studies, Geneva, as its rapporteur. Dr. EDWIN GAY, of Harvard University, was similarly elected Chairman of Committee II, with Professor J. H. RICHARDSON, of the University of Leeds, as its rapporteur.

The entire work of the Studies Conference was devolved on these two Committees, which met five times within three days (May 29th–31st). After a Programme Committee Meeting and plenary Administrative Meeting of the Conference on the fourth day, which gave the two rapporteurs time in which to write up their reports on the work of Committees I and II, a general study meeting of the latter was held on the fifth day.

The Conference was finally closed by a second plenary study meeting, which was devoted to a reading of the rapporteurs' reports on the discussions and findings of the two Committees. Professor WILLIAM RAPPARD and Professor J. H. RICHARDSON as rapporteurs were personally responsible for these reports, which were therefore not submitted either to the approval of these Committees or the Conference. The General Rapporteur, Dr. ARNOLD WOLFERS, then made certain observations on the Conference's method of procedure. The Chairman of the Conference, SIR ARTHUR SALTER, having submitted the rapporteurs' reports to the Conference without discussion or motion of approval, finally wound up this Conference

The World Economic Conference

By an entirely fortuitous concourse of events, this International Studies Conference closed only a week before the opening in London of the Monetary and Economic Conference. And in view of the fact that it had been engaged on a scientific study of certain economic and financial problems which were certain to confront those about to assemble for the Monetary and Economic Conference, it was generally felt, and subsequently agreed upon, that a statement of opinion based on the rapporteurs' reports, representing the thoughts of scholars and experts, as well as indicating certain broad lines of policy, on certain aspects of the work of the forthcoming Conference, should be made generally available to all the delegates who would attend it. The International Institute of Intellectual Co-operation therefore brought out within a few days of the close of the International Studies Conference a pamphlet[1] which contained in the main Professor RAPPARD'S report on Committee I and certain extracts from Professor RICHARDSON'S report on Committee II, together with an introductory letter by M. HENRI BONNET, Director of the International Institute of Intellectual Co-operation, addressed to the Secretary-General of the Monetary and Economic Conference, requesting that the document be submitted to that Conference. As a result of this address the pamphlet in question was distributed at the World Economic Conference.

Conclusion

It would be inappropriate here to judge upon the extent to which it may be claimed that the London International Studies Conference, 1933, may be regarded as successful either from the nature of the scientific results obtained or from its contribution to the technique of intellectual co-operation on an international basis. It was certainly as ambitious as it was novel. Thus it is perhaps sufficient to state that the results which have been obtained from it have encouraged the affiliated institutions concerned, both national and international, to embark immediately upon the preparations for the organisation of another Conference on similar lines. One change in the programme of preparation will be introduced, namely, that a two-year, instead of the normal one-year, gap will intervene between the holding of one Conference and the other, for the reason that a single year has been found to be an insufficient period for the preparatory work to be fully carried out. This is a change, dictated by experience, which will allow, in the words of Dr. EDWIN GAY, "for a greater opportunity for a matching of minds, a tentative presentation of results, and a coming back to the more

[1] *The State and Economic Life.* A Statement on Subjects discussed at the Sixth International Studies Conference. Published by the International Institute of Intellectual Co-operation, Paris, June, 1933.

full and careful documentation which the delegates will have time to study before the meeting itself."

The Problem of Collective Security has, it may finally be added, been chosen as the subject of enquiry for the next International Study Conference, which after a small preliminary Conference in 1934 will finally be held in 1935, in accordance with the procedure outlined above.

ADDRESS OF WELCOME AND REPLY

INAUGURAL MEETING

In the Chair: The Right Hon. LORD EUSTACE PERCY, M.P.

The Sixth International Studies Conference, and Second Study Conference on "The State and Economic Life," was opened on Monday morning, May 29, 1933, at the London School of Economics and Political Science (University of London), by the Right Hon. LORD EUSTACE PERCY, *M.P., former President of the Board of Education in His Britannic Majesty's Government.*

Address of Welcome

Addressing the delegates to the Conference, LORD EUSTACE PERCY *(with whom were also* SIR WILLIAM BEVERIDGE, K.C.B., M.A., B.C.L., D.SC. (ECON.), LL.D., *Director of the London School of Economics and Political Science;* M. HENRI BONNET, *Director of the International Institute of Intellectual Co-operation;* Professor S. CHARLÉTY, *Member of the Institut de France, Rector of the Académie de Paris;* Major-General SIR NEILL MALCOLM, K.C.B., D.S.O., *Chairman of the Council of the Royal Institute of International Affairs;* the LORD MESTON, K.C.S.I., LL.D.; Professor GILBERT MURRAY, M.A., LL.D., LITT.D., F.B.A., *Chairman of the International Committee on Intellectual Co-operation;* SIR ARTHUR SALTER, K.C.B., *Chairman of the British Co-ordinating Committee for International Studies; and* Dr. ARNOLD WOLFERS, *General Rapporteur on "The State and Economic Life,") spoke as follows:*

It is an honour for me to welcome to-day the representatives of the Institutions for the Scientific Study of International Relations who have assembled here for the Sixth Conference which these Institutions have held since the Preliminary Meeting convened in Berlin five years ago by the International Institute of Intellectual Co-operation.

This Sixth Conference takes place at a significant moment. We are met to continue in greater detail the discussions begun at the Fifth Session of the Conference at Milan last year on the subject of the State and Economic Life, and we meet on the eve of the sessions of the World Economic Conference which are about to be held in this city. The two Conferences are very different, though they synchronise so nearly. Ours is a conference of students. We do not lightly lay claim to the title of experts, though there are distinguished experts among us. Still less, in this comparatively early stage of the scientific study of international relations, can we venture to call ourselves scientists; but our approach to these problems is that of the scientific student. We have no responsibility for arriving at early conclusions; so far

as any citizen of any country can be regarded as disinterested in face of the pressing problems of the modern world, we are concerned only with the disinterested pursuit of objective truth. The World Economic Conference, on the other hand, will have very different responsibilities: the responsibilities which rest upon statesmen and upon the experts who assist them. Their concern will be—at least let us express the trembling hope that it may be—to take positive action. This contrast suggests some considerations as to the meaning of the word "science" in relation to the study of politics, and especially of world politics.

There is, of course, one obvious difference between physical and political science. For practical purposes, physical science enjoys one great advantage: the physical universe may be inscrutable, but at least it is calmly inscrutable; it will not shift under man's microscope. It is, indeed, we are told, not so unchangeable as our fathers supposed, but, though it may be expanding or decomposing, we know that, for practical purposes, it will present the same face to our grandchildren as to us. We have plenty of time for experiment and speculation. The case is very different when man turns from the study of nature to the study of himself.

Social man, in any form in which we can recognise him as a man and a brother, has had but a short life of a few thousand years. Against the almost inconceivable background of the countless aeons which, we are told, went to the fashioning of the physical universe, he seems to emerge suddenly as on a lighted stage, and, since his appearance, his history has been one of incessant and violent movement, certainly not explainable by reference to any law known, or guessed at, by the biologist. To-day, as at all previous moments in his history, he refuses to abide the questionings of the disinterested investigator. Hardly has the investigator completed his scientific study of the economics of over-population, when he finds himself confronted with a stationary population and with the economics of glut. Meanwhile, the calm assurance with which he had learnt to speak to statesmen gives place to hesitation and doubt; the deference with which the statesman had learnt to accept his conclusions gives place to impatience and clamorous demands for a reformulation of doctrine. For man must govern himself somehow while the student is pursuing his researches, and, for the purposes of government, he must content himself with the nearest approximation to truth available to him at the moment. Thus any scientific study of human relationships, and especially of international relationships, seems to be perpetually behind the times; the expert is he who, however great his erudition, has, like Sir Arthur Salter, hit upon the best line of approximation to truth in the course of hard administrative experience. With what hope, then, and with what assurance of usefulness can we pursue our scientific studies?

There are, I think, two answers to that question. The first is that, while we cannot solve the immediate problems of statesmen, we can, in the long run, largely determine the atmosphere in which these problems are discussed. That, surely, is the chief contribution which has been made in the past by men and women who have approached political studies in the scientific spirit. Take, for instance, the gradual reform of the penal system during the past hundred years. The criminologist, the psychologist and the philanthropist have not yet succeeded in making the punishment fit the crime or in reforming the criminal, but they have set a standard for the dispassionate and sympathetic consideration of crime and punishment which has insensibly changed the mind of the administrator and the legislator and has made impossible many of the old unthinking savageries. Or, again, in our industrial system, researches into industrial fatigue and scientific management, or experiments in vocational guidance, have not yet revealed to the practical man the secret of success in business, or instructed him how to recruit his personnel, but they have at least indicated the possibility of deliberate and humane planning in industry, and they are thus slowly but surely discrediting that easy faith in rule-of-thumb intuitions which used to characterise the old system of competitive *laisser-faire*. It will surely be the same with international economic relations. At present—let us confess it frankly—economic negotiations between Governments are usually less statesmanlike than negotiations between the competing industrialists of different nations. It is easier to form an international cartel in any industry than to secure agreement between Governments in the interests of that industry. In fact, the intervention of the State in international economic life, instead of softening the asperities of self-interested competition, tends usually to add to those asperities the additional irritant of political jealousies and ambitions. Moreover, it is the special weakness of democracy that it insists on the representative character of Governments, and thereby restricts their independence of judgment and their freedom of action. That, as we all know, is the danger which threatens the World Economic Conference. There can be no more useful or more hopeful function for an unofficial conference such as this than quietly but steadily to convey to the mind of the statesman, and to the electorate on which he depends for his authority, a sense of the irrelevance of many of these jealousies and ambitions to the real problems which the nations have to decide, and to prove that there is such a thing as a dispassionate and scientific approach to those problems.

But, important as is this question of atmosphere, there is a second and even more important answer to my question. If we cannot give to statesmen authoritative guidance about the political issues of to-day, we can warn them of the issues that will probably confront them

to-morrow or the day after. If the politician is more up to date than the scientist, in the sense that he is forced to make up his mind on issues which the scientist is still patiently investigating, it is also true that the politician must always be behind the times in the sense that the overwhelming preoccupations of the moment make it impossible for him to speculate very far ahead in the future. If, on the other hand, the scientific approach to the study of international relations has any function to perform, it is emphatically the function of foresight. I sometimes wonder whether the political or economic scientist has sufficiently realised this in the past. May it not be that the comparatively slow growth of political studies has been due to the mistake of assuming the indefinite continuance of existing conditions, or, at best, of the trends observable in the immediate past? If that assumption has been made, it is a profound mistake. A trend in human affairs may be reversed, and may, indeed, be reversed with comparative suddenness. To judge from the past, the course of man's social life is cataclysmic rather than evolutionary. If the scientific student of human affairs cannot learn to predict the unexpected, his occupation will soon be gone.

I put this question because, if I may speak as an ignorant layman among so many economic experts, I am puzzled by what seems to me the neglect, in most of our economic thinking, of certain factors in human life which appear likely profoundly to affect the whole structure of national and international society in the comparatively near future. The older economists, as everyone knows, laid down an iron law of wages. That law was questioned and discredited, and we are only now beginning to realise that there was perhaps something more, even in the cruder statements of the wage fund theory, than we thought thirty years ago. But the older economists laid down also an iron law of capital, in the doctrine of the tendency of profits to a minimum. That doctrine was also questioned and discredited, on the ground that it took no account of the increasing demand for capital caused by the growth of the population. The fact that, even after the birth-rate had begun to fall in Western and Central Europe, the death-rate continued to fall also, led economists, whose main business was not the calculation of vital statistics, to assume that population must continue indefinitely to increase. They admitted, however, as a purely theoretical proposition, that, in a state of stationary or declining population, the tendency of profits to a minimum would operate. We now know that this theoretical proposition must almost inevitably represent the condition, in the very near future, of countries comprising more than three hundred millions of the population of the civilised world, and including all the chief industrial countries. In the absence of a widespread redistribution of population by immigration from more prolific agricultural countries,

are we not, then, confronted by the prospect of a drastic devaluation of the capital of industrial countries, that is to say of the chief capital reservoirs of the world? What will be the probable effect of such a devaluation on the social structure of those countries, and on the means of livelihood of their populations? Statesmen have no time in these days to consider so enormous a question; it will certainly play no part in the proceedings of the World Economic Conference; yet it may well prove to be the determining factor which will, in the long run, decide the success or failure of national economic policies and of all international economic agreements.

This may only be one of the nightmares of ignorance, but at least it offers an illustration of the kind of trained foresight which, it seems to me, the scientific study of international relations must aim at evolving.

But, in conclusion, may I return for a moment to the question of atmosphere? I suppose that there are few citizens of any nation just now who do not feel that modern statesmanship has lost its way. In our blacker moods, at least, it must seem to us that a sort of fog of futility hangs over the activities of all Governments. It may well be that this sense of frustration arises, not so much from failures of scientific diagnosis or foresight, as from our lack of power to make any compelling moral appeal to the peoples of the world. However rigidly objective our approach to the study of human affairs may be, no such approach can be really scientific unless it takes account of those moral factors which so largely determine human action. What, after all, is the Europe and America (to speak for a moment only of those great regions) whose problems are the subject of our consideration? However old-fashioned the phrase may have become, however forgetful we may sometimes be of its meaning, this western world is still "Christendom"; a society with common traditions, a common culture, a common history and, in spite of all lapses, a common faith. Do we sufficiently realise that, in the perspective of history, it is only little more than two hundred years since this society emerged from a long agony of violence and pestilence, as protracted and as intense as any which has afflicted any part of the world in any age? It has been guessed that, after mediaeval civilisation had reached its peak at the close of the thirteenth century, the population of Europe was halved by the Black Death; it has been guessed, too, that, during the three hundred and fifty years following that disaster—let us say, from the Hundred Years' War to the Peace of Utrecht in the west, and from the Battle of Kossovo to the Peace of Carlowitz in the east—the population of Europe was practically stationary, increasing by perhaps about 10 per cent. in the whole three and a half centuries. This age of agony has been succeeded by a short two hundred years of brilliant revival, ending in a four-years' paroxysm of self-destruction.

During the last fourteen years this great society has been given an opportunity to reconstitute and rule itself as one great family of nations. Sadly as we have hitherto misused that opportunity, the opportunity is not yet lost; it will remain open, we may hope, for a short space of time at least; but all signs converge to show that the space must be very short. Never, surely, have moral idealism and political statesmanship been offered a more urgent, or, if they are true to themselves, a more hopeful mission; but, if they fail, never will failure have deserved so final a condemnation.

Reply to the Address of Welcome

Professor S. CHARLÉTY, *Member of the Institut de France, Rector of the Académie de Paris, President of the Council of the University of Paris, Chairman of the Commission Française de Co-ordination des Hautes Études Internationales, then replied on behalf of the delegates to* LORD EUSTACE PERCY's *address of welcome. In the course of his reply* Professor CHARLÉTY *made the following remarks* (translation):

After fourteen years of meritorious effort directed towards the definitive establishment of peace—an effort which, it may be claimed, has not utterly failed—disinterested representatives of our various cultures and of our great schools of teaching and research, are meeting here with a view to providing, out of the full strength of their convictions and with all their hearts and all their minds, an answer to some few of the present uncertainties and to getting some of the elements of a universal doctrine clear. . . .

It is a great satisfaction to the members of the Conference to be meeting in London. In no place perhaps has the study of international relations, of the history that is unfolding before our eyes at the present time, of the facts of to-day seen by the light of historical methods, been further developed than at the London School of Economics, and the Royal Institute of International Affairs. . . .

This attempt at common discussion based on serious, lengthy and deep studies, carried out on national lines but taking foreign circumstances and necessities into account, derives from an initial experiment carried out with success last year at the Conference of Milan. That was the first of these Conferences organised by the International Institute of Intellectual Co-operation. Its hope is, through contacts and exchanges of views, to determine the formation of great currents of thought; there always were such currents in the decisive epochs of history, and we may regret the absence of any in our complex, confused and divided world. That is why we shall not weary of asking men of different and even of opposed outlook to cultivate the domain of the social and economic sciences; not, however great be its attraction, any longer in solitude, but in mutual confidence.

The meeting organised last year with the help of the Italian Committee of Intellectual Co-operation, proposed, as we propose to-day, to study the question of State intervention in economic life. After another year of supplementary work, we are going to get to the very heart of the subject. Free from the immediate preoccupations that paralyse the negotiators of international agreements, our assembly will throw new light on common principles and doctrines. . . .

You will forgive me if, in concluding, I recall the fact that I have the honour to represent the University of Paris and to express my joy to see it here in contact with the representatives of your great British Universities and other intellectual centres of Europe and America. And should I not recall, as has often been done before, the far-off days when, between the Sorbonne and the Universities of Great Britain, Italy and Germany, there existed an identity of thought and almost of personnel, which, by some kind of paradox, the progress of civilisation instead of developing has lessened? If, in our parcelled out and disjointed world, the rôle and the place due to intellectual work are being recognised; if, beside the links which it wishes to forge between national activities in the domain of diverse techniques, the League of Nations should some day achieve its great enterprise of Moral Disarmament and Intellectual Co-operation; if we render possible and if we provoke regular communications between the spiritual centres of action, the Universities will see the programme that is dearest to them realised, and we—we shall not have altogether wasted our time.

The inaugural meeting then terminated, LORD EUSTACE PERCY'S *place in the Chair being taken by* SIR ARTHUR SALTER, K.C.B., *Chairman of the British Co-ordinating Committee for International Studies and President of the Sixth International Studies Conference.*

PRESIDENTIAL ADDRESS
AND
GENERAL INTRODUCTORY REPORT

PLENARY STUDY MEETING

In the Chair:

SIR ARTHUR SALTER, K.C.B.

President of the Sixth International Studies Conference

The President's Opening Address

IN the ensuing sessions of this Conference we are going to discuss the enormous questions that turn upon the relations of the State to Economic Life; in their external aspect as affecting international trade and finance, and in their internal aspect as regards State intervention in private economic enterprise. Our discussions are based on the preliminary Conference held at Milan last year and also upon the long, elaborate and exhaustive work of preparation which has proceeded in the interval.

The Conference represents a new and most valuable and interesting experiment in the attempt to bring into direct and fruitful contact the experience of those engaged in handling the practical work of the world and the contributions of those who have been engaged in study, in research, and teaching from the more scientific and academic point of view. I have only been associated with this Conference at the last moment as it meets, and have no credit for the work which has preceded it. I may therefore comment in a few words from the point of view of a detached observer.

I have been engaged for a quarter of a century in various administrative tasks whose success has required a close co-operation between the official and the man engaged in practical business, while, on the other hand, it has needed the guidance of scientific doctrine and research. One thing has been impressed on me with increasing force throughout that period, i.e. the extent to which bridges are lacking between the scientific work of the world and the work of the business world.

If I understand aright the object of this Conference, or rather series of Conferences, their object is to build bridges between the scientific and academic men on the one hand and those engaged in practical politics and business on the other. Many people, both in institutions and individually, have been studying to some extent in isolation from each other, and to some extent also in isolation from those who have a complementary experience of practical politics or business, some of the problems on which are now concentrated the main interest and attention of the world. I have been very much struck by the way in which on the one hand research itself has often suffered from incorporating to an inadequate extent the practical experience

which is a necessary element in the study of many of the problems we have to meet; and on the other hand the extent to which those who are feeling and fumbling their way to practical action have failed to utilise the assistance which was waiting for them if they made contact with those who had a longer vision owing to their detachment from the business of daily life. I believe that more important than the continuance or increase of pure research is a continuous and increasing effort to build bridges between research on the one hand and practical knowledge on the other.

This, as I understand it, is the object of the Conferences of which the meetings of this week are one example. As I say, I am convinced that this ambitious experiment offers a very valuable contribution towards the solution of the practical problems of the world, both of the present and of the future.

I think it is fortunate that the particular subject which now engages our attention—the relations of the State to Economic Life—has been the one chosen. Indubitably the overwhelming and main problem of our era is the problem of government in the wider sense, which includes not only political government, but any institution which guards the public interests by regulating and controlling the specialised and competitive activities of men. That is more so than at any previous age, because we have now entered indubitably a period of realisable abundance. For the greater part of man's history, indeed almost the whole of it, the basic fact of his life has been an inescapable scarcity of material resources and wealth. That period has ended as a result of a hundred and fifty years of scientific research, of mechanical invention and the application of science to industry and of industrial progress. We now know that we have enough knowledge, material resources and productive capacity to provide the material goods which are needed for the necessities and the reasonable luxuries of the whole of mankind. So far as we do not realise that potential abundance, we fail to do so, not because of any hard limitation set by nature or facts outside our control, but through defects in our own intelligence and our own power to regulate our own activities. There are no other limitations upon our power to realise that abundance.

Let us not be misled or frightened by the nightmares of those who think that increase in our capacity to produce must in some way or other result in our producing less and having less to consume. Let us not be frightened, like people in an earlier generation, at the thought of an illimitable increase in population, nor let us be frightened either by other more recent nightmares, such as that mentioned by Lord Eustace Percy, that the increase in population will cease. We have entered a period of illimitable realisable abundance, but we are far at present from having thought out either the politics, or economics, appropriate to such a period.

The first conclusion that emerges is that through all the ages of scarcity the first necessity was to try to invent more, to produce more, to increase productive capacity. The primary purpose of every economic system was necessarily to give the maximum stimulus to the capacity of industry, to the improvement of skill in the maintenance and increase of industry. That is so no longer; we have passed that period. We are now in a period in which the main need is so to regulate the specialised activities that they do not destroy each other or us in the process; that, in the widest sense, is the problem of government which is immanent in the whole discussion on the relations between the State and economic life. That is why our subject is one which turns round the fundamental problems of the age in which we now live.

Having said that, let me emphasise what LORD EUSTACE PERCY has referred to—the prophetic vision with which those who organised and prepared this Conference have chosen their subject, their date and their place of meeting. It is extraordinary that, at the precise period in which the whole world should be thinking of the relations between the State and economic life, this Conference should have been timed to discuss just that question, should have chosen to discuss it a fortnight before the World Economic Conference meets, and chosen also to meet in London, where that Conference is also to meet. It is an example of uncanny vision, of prophetic vision, for which we cannot assign too much credit to those who first conceived and organised this Conference.

It means for us an extraordinary opportunity. It means that we have an opportunity of saying, now, something about that which all the world, particularly all those who represent the Governments of the world, are waiting to hear. In a fortnight's time there will be such a concentration of world authority as has never yet met to consider the world's economic problems. They will try to find and apply solutions to some of the questions which constitute the first part of our agenda.

As LORD EUSTACE PERCY has said, the point of view from which we discuss our problems is necessarily somewhat different from that of the World Economic Conference, and our discussion does not represent either a duplication of the Conference or a mere anticipation of what they are going to do. I am sure we have in our own specific field a very definite and distinctive contribution to make. We have not, of course, either the power or the official responsibility of the delegates to that greater Conference. But all power and official responsibility necessarily involve certain serious limitations. Those who speak at the World Economic Conference will be restricted necessarily in their outlook and expression of views by the knowledge of the existing policies of the countries they represent. They will be so preoccupied by the immediate emergencies of the moment that it

will be more difficult for them than for others to take a longer view, to see steadily and see as a whole the more permanent and enduring needs of the world. We have the advantages which are the counterpart of our lesser responsibility. We are more concerned to consider the framework in which we may hope that the economic life of the world will develop, than the immediate devices desirable to jerk the world out of its present crisis and depression. But I suggest that it is of extreme importance that those who are meeting to take practical action should, in the pressure of the divergent interests of each country and of the immediate necessities of the moment, be reminded of the broader perspective of the more permanent needs of the world. We have during this week an opportunity of recalling some of those permanent needs and emphasing the longer perspective within which it is desirable that any immediate measures should be envisaged.

The subject of this Conference this week is also directly relevant to the two great issues that confront the world in the period immediately ahead of us. First, it is obvious that the whole of the economic system in which our modern type of civilisation has grown up is now challenged to an extent to which it has never been challenged before. The capitalist, or as I should prefer to call it, the competitive, system is challenged by the emergence of another system. It is clear that if our system is to continue, it must be substantially reformed, and indeed transformed. That is the one great issue which confronts the world in the immediate future.

The other great issue is one more directly relevant to the World Economic Conference. The issue is this. What kind of world system are we proceeding to? Is it to be a system in which world trade will expand and develop, a system in which the economic and financial life of the world will assume more and more the aspect of a world trade and a world development? Or is it to be a system which consists of separate, closed, and possibly hostile units? That is the underlying issue behind the efforts of this year.

Up to the present we have rather assumed the development of world trade—following the natural channels of trade, the natural movement of finance. But we have now realised that this development depends on the existence, the maintenance, the growth and adaptation of a world structure of politics, law, finance and credit and monetary system. We have seen during the last three and a half years a temporary collapse of that structure. We realise, as we have never realised before, some of the conditions, the necessary conditions, for the maintenance and adaptation of that structure. The efforts of this year represent the greatest, perhaps the last, efforts for a long period to come to repair and restore that structure in such a way as to enable the life of the world to develop on a world basis. We now realise the vital

necessity of establishing the essential conditions of world trade, but we have also realised, and are realising, the extreme difficulty of securing those conditions.

This great World Conference represents an unprecedented attempt of world authority to repair and restore this world structure. If it succeeds, well and good; the results will permeate throughout the internal economy of every country and start us on a new era of prosperity. But if it fails there is a serious danger that we shall enter on a new period of a rather different, a more definite and a more deliberate economic nationalism. Hitherto the foundations of world trade have been sapped by economic nationalism in each country incidentally rather than by intention. Economic nationalism has grown up by unconscious individual pressure from this industry or that, or from emergency devices adopted to meet one successive difficulty after another. But now, if the effort of this year fails to restore a world structure in which world trade can develop, I believe there will be an era of more deliberate nationalism.

We fully realise that we cannot have the best of both worlds. If we shut out other people's imports we must lose our own exports. We know also that, if we could have a secure world structure, a freely developing world trade would make all of us more prosperous; it would mean that the life of the world would be on a more secure and more stable basis. But if the present efforts fail, the world may despair of the possibility of such a world structure.

The world will in that case probably turn deliberately to a national organisation of economic life, in some cases to an organisation of groups of nations. That is a very probable development if the efforts of this year to restore the world structure should fail, and it is the underlying issue behind not only the World Conference but the efforts of this year in other spheres.

I want to add one last word as an encouragement, if not for the immediate future, at least for the further future. I am confident that one great factor is making ultimately for a world system based on co-operation in which competition, while still remaining as an element, will take a smaller proportionate place than it has in the past. I have spoken of a period of realisable abundance; let me speak of the economics of such a period. During nearly all the ages of mankind the basic fact of man's life has been the inescapable inadequacy of material resources in relation to his needs. The first necessity has therefore been to increase productive capacity; the second consequence has been an inevitable scramble as between competing individuals or classes or nations for restricted resources. Directly we arrive at a period of potential abundance the situation is completely changed. Let us imagine there are two people on a desert island and take, first of all, the hypothesis that there are resources on that island

which are sufficient to keep one in comfort but not two—resources that cannot be increased whatever they do themselves. In that case it is inevitable that those two men would spend their time each trying to wrest from the other a larger share of those limited resources. But imagine the moment arrives when it is evident that by co-operating, and not working in opposition, they can not only double the resources of that island, but they can multiply them tenfold, so that they can each have more than the successful competitor could have got. There would be an immense incentive to co-operate rather than to compete.

That is a picture of the period at which we have now arrived in the history of the world, All our instincts, our habits and our systems are based on long ages of inevitable scarcity. We have over-developed all the policies and all the instincts that led us to scramble for a limited total wealth rather than to combine on increasing that total. But we have now arrived at a new age. It is immensely more important now to combine in order to increase the cake we have to share than to concentrate efforts on scrambling to increase our share of a cake which we do not increase, but crumble in the process. The success of the World Economic Conference, and of all the others which will succeed it, will depend greatly on working out all the practical consequences of what I should call the first conclusion of the new economics of a period of realisable abundance and potential superfluity. We ought to find the emphasis shifting all the time towards attempting rather to increase the total which we have to share rather than to scramble, each of us, to get a larger share.

Those perhaps who look from the more detached view of persons engaged in research and teaching can do something in the discussion of these questions this week to emphasise this fundamental fact—can do something to place our own discussions and those which follow them in a perspective which is more likely to lead to results which will be of benefit to the whole world.

REPORT BY DR. ARNOLD WOLFERS

General Rapporteur

On the Preliminary Studies submitted to the Conference

Following upon the President's Opening Address, Dr. ARNOLD WOLFERS, *General Rapporteur of the Conference on "The State and Economic Life" analysed and summarised the large number of memoranda which had been communicated to the Conference.*[1] *The following is the text of* Dr. WOLFERS'S *Report to the Conference, upon which his address to the Plenary Study Meeting was based. It has been brought up to date by the author so as to include an analysis of certain memoranda which were only received on the eve of the Conference.*

The purposes which this report is intended to fulfil are twofold:

1. To give a general survey of the very comprehensive material, running to more than one thousand sheets of type-written memoranda, which represents the results of the systematic preliminary work carried out by the experts of the various national co-ordinating committees during the past year. And in this survey will be arranged in order the significant points contained in the memoranda which might serve as a starting-point for a further international comparative study.

2. To bring into relief and co-ordinate those questions arising out of the memoranda which appeared particularly urgent for discussion and solution by the Conference.

The Conference is naturally not obliged to confine itself to the questions which the General Rapporteur has gathered and specially selected from the memoranda. It will, however, facilitate the work of the chairmen of the different committees and of the delegates themselves if a definite set of questions is provided as a general guide to the discussions. In this way, it is intended that the printed material at hand will be fully utilised and so constitute an effective basis for the work of the Conference.

A series of questions affecting the international political aspect of the problem of the "State and Economic Life" were put before the national Committees in the Outline-Programme of last October by the General Rapporteur. The object was to call the attention of both the delegates and the authors of memoranda to the special importance of the political and international aspects of this problem as opposed to its purely economic and national aspects. A number of questions contained in this questionnaire have been embodied in the General Report and are suggested as subjects for discussion by the two committees of the Conference.

[1] For a list of these memoranda, see pp. 321–323, below.

1. THE FIRST COMMITTEE: to discuss,

State Intervention in International Trade and International Finance.

Introduction: State intervention in the spheres of International Trade and International Finance respectively, being Parts I and II of the programme of the Conference, form the subject for investigation by the First Committee. Both in the programme and in the systematic preliminary work, the two Parts have been treated separately. And even at the Conference it will be advisable to deal first with Part I, "Measures Affecting International Trade," and then separately with Part II, "Measures Affecting International Finance," in view of the fact that a considerable number of questions emerge from the memoranda which require individual treatment under these two headings. Nevertheless an important part of the work of the Committees will be to consider the relationship between the two problems.

It will be remembered that a resolution passed by the Executive Committee last January requested that both Parts I and II be handed over to one and the same Committee, for it seemed impossible to isolate in practice questions of international trade from those concerning the international movement of capital. As a result of this decision the Conference logically falls into a First Committee, which will deal with the questions of State intervention in *international* economic relations—trade and finance—and a Second Committee, which will deal with State intervention in the national economic sphere. Both Committees will, however, have to bear equally in mind the effects of the relationship between the State and economic life on the international political situation as a whole.

Part I: MEASURES AFFECTING INTERNATIONAL TRADE.

A. The Most Favoured Nation Clause, and other methods of commercial policy such as quota and contingent systems, preferential tariffs, etc.
   1. Historical survey of commercial policy adopted in own country.
   2. Analysis of the working of selected applications of the Most Favoured Nation Clause and of other important methods of commercial policy such as quota and contingent systems, preferential tariffs, etc.

The various national committees were requested to present an historical review of the commercial policy of their own country, especially during the post-War period, and in addition to prepare memoranda showing the experience of their own country regarding the working of the Most Favoured Nation Clause and other important methods of commercial policy, such as quotas and contingents, which they did in various memoranda that differed greatly from each other both in form and length.

The French Committee in a memorandum by M. NAUDIN,[1] the Italian Committee in a memorandum by Professor MORTARA[2] and the Austrian Committee in a similar memorandum by Professor KERSCHAGL,[3] give in the main an historical sketch which brings out clearly the principles and tendencies prevalent in their own countries. The French memorandum by M. NAUDIN is complementary to that submitted by the French Committee to the Milan Conference last year, in which Professor ROGER PICARD[4] gave an historical review of the protection of the home market in France. At the Milan Conference historical memoranda were also submitted on German and Czechoslovakian methods of commercial policy respectively.[5]

The very extensive memoranda from Great Britain[6] and the United States[7] (the latter prepared by Professor PERCY BIDWELL on behalf of the American Committee) contain in their principal sections a study of the commercial policy of these respective countries, which goes back well into the nineteenth century. Their remaining sections analyse the principles of commercial policy pursued by their respective Governments, such as the Most Favoured Nation Clause in Great Britain and the system of reciprocal commercial treaties in the United States. A number of memoranda from other national committees are mainly concerned with analysing the present situation as it affects their respective countries, and at the same time compare it with previous experience. The Danish memorandum by Mr. JÖRGEN PEDERSEN deals with the Danish Import Restriction Scheme;[8] the German memorandum by Professor CARL BRINKMANN deals with the Most Favoured Nation Clause and the Customs Quota;[9] that by Professor HERBERT VON BECKERATH with the principles of State intervention,[10] both in international commerce and in financial and credit policy. The latter study belongs therefore only in part to this section. This remark applies also to the Polish Memorandum on Measures Affecting International Trade,[11] as it does in a similar way to the British and American memoranda on trade policy to the extent that they deal with the question of the Open Door (*vide* B *infra*).

An Austrian memorandum by Professor KERSCHAGL is concerned with methods and the development of the system of quota agreements in commercial policy.[12] To this section belongs also the Rumanian memorandum on the System of Preferential Tariffs, submitted to the Milan Conference.[13]

[1] See below, p. 353. [2] See below, p. 391. [3] See below, p. 337.
[4] *The State and Economic Life*, 1932, *op. cit.*, p. 137.
[5] Ibid., *op. cit.*, pp. 123 and 148. [6] See below, p. 339.
[7] See below, p. 324. [8] See below, p. 352. [9] See below, p. 369.
[10] See below, p. 373. [11] See below, p. 397.
[12] See below, p. 337. [13] *The State and Economic Life, op. cit.*, p. 166.

1. Historical Survey:

Although the national committees were requested to take the year 1914 as the starting-point for their study of commercial policy, the writers of memoranda naturally felt impelled to retrace their steps to that point, whether before the War or before the present crisis, at which the commercial policy of their respective countries was last given its distinctive form. For instance, the British memorandum[1] shows that the Free Trade era, which triumphed in 1860, continued without interruption, in spite of certain protective measures in the first post-War decade, until the decisive break during the period 1931–32, when Great Britain became a Protectionist country with protective tariffs and Imperial Preferences. For France, 1892 is the decisive year; and for Germany 1879. Both countries were Protectionist both before and after the War, but exaggerated Protectionism first appeared in connection with the present crisis, particularly with the advent of the agrarian depression in the case of Germany.

The end of the War period immediately saw an increase of Protectionism in all the European countries; but with the gradual attainment of stability and normality between 1924 and 1928 there came a tendency to lower tariff walls and to return to the Most Favoured Nation Clause. A conspicuous advance in this direction, and of particular significance in French commercial policy, was the Franco-German trade agreement of 1927. As the crisis proceeded, however, the Most Favoured Nation principle was steadily weakened and new methods of import restriction were applied. Later, with the advent of the financial crisis, exchange manipulation and foreign currency control came into force.

The Italian memorandum lays stress on the liberal policy pursued by Italy without a break right up to the crisis. The import duties levied by the Italian Government, it maintains, were principally levied for fiscal purposes. Therefore it was not until the maintenance of an even balance of trade became increasingly difficult, that Italy followed the example of other countries and resorted to import prohibitions and quotas. France's application of the quota system to more than one thousand one hundred tariff items becomes more important during the crisis; the same being true of similar measures taken by Czechoslovakia and Austria. Denmark adopted too an extensive method of import restriction, to the extent of subjecting more than two-thirds of its imports to a system of official permits. In the case of those countries which submitted reports, the economic depression, accentuated by banking and credit crises, seems to have been responsible for the change to a policy of severe import restrictions, particularly in the agrarian countries. Less immediate causes also play some part, as for instance the rise to power in Great Britain

[1] See below, p. 339.

of those sections of the community which had long been urging the introduction of a comprehensive system of Imperial Preference. The Rumanian memorandum illustrates how political motives are influenced by economic considerations arising out of the crisis and are tending towards the creation of a Danubian preferential system.[1]

The development of the commercial policy of the United States did not follow on the same lines as that of European countries. The United States adhered in the main to the policy of high tariffs combined with an absolute application of the Most Favoured Nation Clause and a dislike of specific reciprocity agreements well into the post-War period. Only very recently did the demand for a lowering of the American tariff and for the negotiation of commercial agreements, on the basis of mutual tariff reductions, begin to gain ground. But while in the United States a change in the direction of lower tariffs is looked to as a possibility of the future, the most important change of principle in Europe has been undoubtedly Great Britain's abandonment of Free Trade. At the same time, however, all the other European countries seem content to persist in their former commercial practices and to impose ever fresh restrictions on imports for the purpose of protecting home industries, for maintaining currency stability and an even balance of trade.

2. Analysis of the working of selected applications:

The questions of principle raised either in the memoranda or in the special studies may be classified as follows: The Most Favoured Nation Clause is the focal point of all discussion. Can it, and should it, especially in its unconditional form, continue to be the basis of commercial policy?

Great Britain remains true to the principle of the unconditional application of the Most Favoured Nation Clause, but at the same time insists on the recognition of a very important exception, that is, the system of Imperial Preference set up under the Ottawa Agreements. In her view the Imperial system is not comparable to a purely regional agreement. It is true that doubts are raised in the British memorandum as to whether the rejection of the preferential agreements on a regional basis is justified, or whether, on the other hand, they may not perhaps ultimately lead to a gradual reduction of tariffs.

Unfortunately no statement was presented to the Conference either by Holland or Belgium on the subject of the regional tariff agreement which they recently concluded with each other. Austria, Poland and Rumania, for their part, demand that their particularly urgent needs shall receive special consideration. In the foreground stands, in this respect, the demand for preferences for the produce of the agrarian States of Europe. The Rumanian memorandum provides the counter-

[1] See below, p. 399.

argument to that usually put forward both by the Overseas producers of agricultural produce and the countries of Europe which import such produce.[1] The question of preferences in favour of Austria's industrial imports was also raised.

For the United States, the question of the unconditional form of the Most Favoured Nation Clause gains fresh significance if new negotiations for trade agreements based on mutual tariff reduction are now to be chosen; the question of reciprocity becomes an urgent one. The application of the unconditional clause will mean that concessions which the United States makes to any country automatically will apply to all other countries without any corresponding concession, in so far as these countries have, under trade agreements, the right to claim the application of the Most Favoured Nation principle. The question then arises as to whether multilateral agreements on the basis of purely reciprocal tariff reductions are not the obvious solution. If they are, then such multilateral agreements would have to be acknowledged as an exception to the Most Favoured Nation principle, as has already been urged in many quarters.

The system of contingents or quotas is touched upon in most of the memoranda and is dealt with fully in some. It is the view of Professor BRINKMANN that the system has been violently attacked because it is generally regarded as a breach of the Most Favoured Nation principle. If the quota system is adhered to, then the question must be examined as to how quotas, whether autonomously decreed or fixed by agreement, can be arranged so as to bring them into harmony with the principle of the Most Favoured Nation Clause. A further question is raised as to whether the quota system is useful as a means of gradually lowering tariff barriers. Grave doubts on the subject of quotas are raised by Professor KERSCHAGL[2] who mentions, however, that they might serve such a purpose. In the opinion of Professor VON BECKERATH such methods as the quota system are plainly irreconcilable with an orderly world economic system. The only exception to the Most Favoured Nation principle with which he would agree would be Tariff Unions, under which he would admit certain Unions restricted to a single category of goods, for instance wheat.[3]

On the basis of these considerations the discussion can profitably concentrate on the following questions:

1. Should the acceptance of the principle of the unconditional application of the Most Favoured Nation Clause, even allowing for carefully

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[1] See below, p. 399. [2] See below, p. 337.

[3] The material for Part I is incomplete without counting in the material already published in connection with the Milan Study Conference, under the title of "State and Economic Life," *op. cit.*, p. 148. For the discussions of that Conference were concerned exclusively with these very questions of commercial policy.

defined exceptions, be regarded as essential for the conduct of world trade in the future?

2. What exceptions should be recognised in the favour of regional agreements, multilateral treaties, preferences in special cases, etc.

   (*a*) In order to facilitate the transition of the United States to lower tariffs?

   (*b*) In order to prepare the way for a gradual reduction of the unduly high tariffs imposed as a result of the crisis?

   (*c*) In order, if necessary, to make it easier for limitrophe States or States closely connected with each other by political ties to take joint steps towards overcoming the crisis?

3. What are the political factors affecting existing international relations which must be considered in determining the ultimate advantages of regional agreements, multilateral treaties and the granting of preferences? Do they suggest, for example, any danger of political dependence, the appearance of hostile combinations, or new antagonisms? Or is there, on the other hand, any possibility that political disagreements may ultimately be overcome as a result of closer economic relations based on specially favourable terms?

B. THE OPEN DOOR POLICY.

1. Historical survey of application (or non-application) of the Open Door Policy by own country.
2. Analysis of the working of the Open Door Policy in selected cases from the point of view of (*a*) the country using the policy, (*b*) the Colonies or mandated territories where the policy is applied, or (*c*) third countries.

In connection with this question, the various national co-ordinating committees were requested to prepare an historical review of the policy of their Governments in regard to the Open Door, and, in addition, to finish off their studies by making an analysis of the administration of this policy from the standpoint of their own country. The hope expressed that the mandated territories and Colonies would also submit statements in this respect was unfulfilled, for Great Britain, France, Poland and the United States are the only countries to submit memoranda on the subject, all of which, however, contain very full statements on the working of the policy *vis-à-vis* the Colonies.

Both the memorandum submitted by Professor ZIMMERN on behalf of the Geneva School of International Studies, entitled "The Open Door and Reciprocity,"[1] and the third chapter of the British memorandum on "The Open Door in the British Empire,"[2] deal fully with the development of the British Government's Colonial policy and also with the commercial policy pursued by the British Colonies themselves. The French memorandum by Professor HOFFHERR on "The

[1] See below, p. 402.

[2] See below, p. 341.

Tariff Regime in the French Colonies and Protectorates"[1] starts off with an account of the Open Door system in the various French Colonial territories, and then confines itself in the main to an account and analysis of the French fiscal policy in Morocco. The American memorandum on "The Tariff Policy of the United States," by Professor BIDWELL, deals in its final chapter with the American Tariff policies,[2] in which the politico-commercial relations with the Philippine Islands naturally occupy a particularly important place. The Polish thesis is highly interesting, coming as it does from a country that possesses no Colonies.[3]

1. Historical Survey:

Memoranda have been submitted on the three great Colonial Empires, each of which show striking differences in their respective methods of development. For Great Britain, the policy of the Open Door was the natural corollary to the policy of Free Trade and the Most Favoured Nation Clause. And although she is, even now, opposed to any mitigation of this principle in favour of a system of regional preferences, it is nevertheless true that prior to going over to Protection she tended more and more to admit breaches in favour of Imperial Preference. In this, as in the case of fiscal policy also, the decisive change took place with the signing of the Ottawa Agreements, whose far-reaching effects in weakening the principle of the Open Door is stressed emphatically in both the memoranda submitted on the subject.

The two Protectionist Mother Countries, France and the United States, have from the outset conducted their Colonial policies on completely different lines from each other. In Morocco the unrestricted application of the system of the Open Door was in force for twenty years prior to the outbreak of the world economic crisis; it was combined with a system of simple tariffs, and a liberal commercial policy which almost amounted to a Free Trade system. Not until the crisis were methods of indirect Protection introduced in the home market and preferential treatment between Morocco and the Mother Country extended.

In contrast to the French system in Morocco the leading principle of the Colonial policy of the United States was that of assimilation. While the United States, for instance, demanded the Open Door in China, there existed at the same time an unrestricted Tariff Union with Hawai, Porto Rico and the Philippine Islands. The intended abolition of the exemption from duty of all imports into America from the Philippine Islands will be spread over ten years. It will not, however, constitute a change of American colonial policy, but will

[1] See below, p. 354. [2] See below, p. 325. [3] See below, p. 397.

merely be the logical result of the declaration of the independence of those islands.

2. Analysis of the working of selected applications:

As a study of principles the four memoranda offer ample material. The two memoranda dealing with the Open Door in the British Empire take different definitions as their starting-point.[1] While Professor ZIMMERN looks upon the Open Door as a principle of fiscal policy in the strict sense, the British memorandum assumes it to mean equality of economic opportunity in its widest sense. The regulations drawn up by the League of Nations in regard to B mandated areas, which refer to economic equality, would, following the second definition, constitute a guarantee of the Open Door. And for this reason the British memorandum regards the supervision of the administration of B mandated areas by the Permanent Mandates Commission as an important influence for the rehabilitation of the doctrine of the Open Door. Great Britain's conversion to a comprehensive system of Imperial Preference, the change-over in Morocco to a preferential system in its relations with the Mother Country, together with the United States' continued enforcement of the Closed Door, all seem to suggest poor prospects for the principle of the Open Door, if no alteration in the present trend of events takes place. In this connection the French memorandum[2] emphasises the very rapid development of Morocco under the regime of the Open Door and low tariffs, favoured, however, by a continuous flow of imported capital.

In the case of Hawaii, Porto Rica and the Philippine Islands, the American memorandum[3] shows how detrimental the policy of assimilation has been to those Colonies, for the reason that it drew them into a system of high Protection which was intended to subserve primarily the needs of the United States. The preferential treatment which the Colonial products enjoyed in the American market led to an over-expansion of certain branches of industry and to one-sided cultivation. The result is that, for the Philippine Islands, the grant of independence is almost inevitably connected with fear of economic ruin. It seems then that the one-sided exchange of goods with the Mother Country is a source of danger to these small Colonial territories.

In the British Empire, on the other hand, it was the Colonies which demanded in pre-War times preferential treatment in certain specific instances. When Great Britain bound herself at the Ottawa Conference to use her influence to secure special treatment for the Dominions in the Colonies in the form of preferential tariffs, the interests of the Canadian and Australian exporters seem to have played an influential part in the agreement. The British memorandum

[1] See below, pp. 341 and 402. [2] See below, p. 355. [3] See below, p. 325.

points out that extremely undesirable results will be visited upon all those nations which possess no Colonies in consequence of the permanent abandonment of the policy of the Open Door, and that these evils cannot fail to intensify if a shortage of raw materials should again occur in the future. The French memorandum, finally,[1] refers to a suggestion for the conclusion, in the future, of a binding undertaking on the part of the Mother Country to take certain fixed quantities of Colonial exports—a suggestion which, it is thought, might be extended to the exchange of goods between Europe and Africa.

The memoranda dealing with the Open Door thus provide the basis for a discussion on the following questions:

1. Can and should the principle of the Open Door, subject to the existing reservations, continue to form the basis of Colonial commercial policies?
2. If the principle of the Open Door cannot be maintained, what other methods of commercial policy should be adopted in Colonial areas?
3. What would be the result of a general abandonment of the principle of the Open Door on the future development of (*a*) the Colonial systems, and (*b*) the mandated territories?

Part II: Measures Affecting International Finance.

A. National measures, whether official or unofficial, which are directed towards the influencing of capital movements:

   1. Historical survey of measures taken in regard to both loans to foreign countries and borrowings from abroad, whether public or private.
   2. Analysis of the working of selected measures, as for example the German "Beratungsstelle" decree, official regulations affecting the purchase of foreign securities, etc.

The action of the State in regard to the movement of capital is to-day certainly not less important than it is in regard to commercial policy. For that reason it is unfortunate that only a very small number of memoranda were submitted as a basis for the discussions on Part II of the Programme of the Conference. A further difficulty arises from the fact that, with the exception of the Italian memorandum,[2] which is essentially an historical review, only the capital-exporting countries have given any information on the subject. The absence of the expected German memorandum on this part of the subject has left a gap in the preparation of the Conference. Professor von Beckerath's study on "State Intervention in International Commercial, Monetary and Credit Policy" deals with the movement of capital, not from the special standpoint of Germany, but in its

[1] See below, p. 355.

[2] See below, p. 392.

general relation to the commercial and monetary problems of the world and the crisis.[1]

The British Committee has submitted a memorandum on "Recent British Measures Affecting International Finance,"[2] which, after reviewing the pre-War policy of the British Government, gives an account of all the more important post-War forms of State intervention in the English capital market.[3] The longest and most complete document of all those submitted to the Conference is that written on behalf of the American Committee by Professor JAMES W. ANGELL, entitled "Financial Foreign Policy of the United States."[4] The book goes beyond the scope of the subject of State intervention in the capital market proper, to the extent of including a first chapter on the general system of control exercised by the United States Government over the financial and economic life of other States, particularly in Central and South America. Two chapters are solely concerned with the encouragement of the export of capital and with its embargo. An Italian memorandum on "Restrictions on the Movement of Currency and Capital immediately before and after the War, and during the Crisis," written by Professor SPAVENTA, gives an historical survey of the whole currency policy of Italy.[5] The movements of capital are specially dealt with in this report under the general heading of the Prevention of the Flight of Capital, that is to say measures restricting the export of capital.

1. Historical Survey:

The British memorandum shows that the pre-War British capital market followed a course of *laisser-faire*.[6] This was not pursued, however, to the exclusion of certain consultations and exchanges of views between the British Government and the financial institutions of the City. In the post-War years the practice, if not the policy, of the British Government changed. The British report quotes authoritative French statements made in 1910, 1912 and 1913 to the effect that even at that time the French Government had a very effective control over the granting of credit by its nationals to foreign countries, and that military-political, commercial and various other considerations entered into the decisions it made in this respect. The American memorandum also illustrates the closeness of connection

[1] See below, p. 373. Since the completion of this report the above-mentioned gap has been largely filled in by the memorandum written by Dr. A. Basch for the Czechoslovakian Committee on "The Exchange System in Central Europe and in Czechoslovakia in particular" (p. 350), which gives an account of the foreign exchange restrictions, and the clearing systems in the other Central European debtor countries as well as in Czechoslovakia itself. It makes a severe criticism on the system of foreign exchange control in general.

[2] See below, p. 342. [3] See below, p. 344. [4] See below, p. 326.

[5] See below, p. 392. [6] See below, p. 342.

between the granting of American credit and the persistent pursuit of political objectives, from which the phrase "dollar-diplomacy," current in pre-War days, is derived.[1] To-day we find in all capital exporting countries measures which both influence the flow of capital and simultaneously hinder the pursuit of certain specific exchange operations by means of embargoes.

2. Analysis of the working of selected applications:

The most important question of *principle*, as far as the policy of capital-exporting countries is concerned, concerns the problem of assisting and encouraging the flow of capital on the one hand, and that of preventing certain loan operations on the other; both of which are fully dealt with in the above mentioned British and American memoranda. At first sight these two objectives appear to be mutually exclusive, and seem therefore to fall within the scope of our study only as alternatives to one another. In practice, however, they are closely related to each other both as complements as well as alternatives. For example, the first question to be decided at the moment is how to start the machinery of the capital market which a lack of confidence has practically brought to a standstill. It is certain that one of the preliminary conditions to a revival of confidence is the discovery of the means by which unsound investments can be eliminated, and the natural fear of an eventual loss of interest and capital can be effectively exorcised.

The recourse to embargoes as a means of preventing unwarranted movements of capital for commercial purposes is treated with scepticism in the American memorandum.[2] For there is apparently a danger of their being evaded, thus giving rise to a leakage of capital for still more doubtful purposes of export. On the other hand, the procedure of instituting a searching preliminary investigation, in conjunction with an association of foreign security holders, has been tentatively discussed. In Great Britain, the Bank of England exercises, although without any constitutional powers for so doing, an effective control over the foreign long-term lending activities of the City; short-term credit operations, however, do not come within the orbit of its control.

The memoranda do not, unfortunately, examine the question whether, through the co-operation of several States and with the assistance of the appropriate institutes of the borrowing States, a more effective method could be discovered of eliminating credit transactions which are economically unsound. Reference may therefore be made at this point to a publication entitled *Recovery*, written by the President of the Conference, SIR ARTHUR SALTER, in which

[1] See below, p. 329.

[2] See below, p. 332.

the opinion is expressed that general regulations affecting the conduct of foreign lending should be generally enforced.

For the purpose of assisting and directing the export of capital the American and British Governments have resorted to a host of measures, of which the most important is the guaranteeing of loans directly by the Government. Special measures have been adopted by the British Government for assisting certain kinds of exports by means of credit facilities, for the encouragement of investment in the Dominions and Colonies, for certain post-War international schemes for European rehabilitation, and for the restoration of financial stability generally.

Due weight in the discussions of this Conference should be given to questions of principle which arise in respect of the management of the capital markets in the capital-importing countries. The question of preventing the import of capital played an important part, for instance, in Germany during the period preceding the crisis. And the regulations imposed by the German Government were intended in part to prevent irresponsible borrowing from abroad, and partly to protect the Reichsmark. That these measures were largely evaded by the conversion of long-term to short-term loans is well known. In the future, measures for assisting and encouraging capital import may equally assume greater importance.

The following questions, then, seem suitable for discussion:

1. Are special State measures necessary for the encouragement and desirable direction of capital exports? If so, what are the most suitable measures for this purpose? (e.g. State or international guarantees, publicity, propaganda, etc.).
2. Are State measures necessary to prevent an excess of capital exports? If so, what are the most suitable methods? (e.g. embargo, corporate control, agreement upon international regulations).
3. What measures, if such are considered necessary, is it advisable for a capital-importing country to adopt in order to encourage or check the import of capital?
4. What are the effects on international political relations of the movement of capital imports and exports, the prohibitive effects of embargoes, the granting of favours to certain selected countries?

B. National measures affecting international debts and claims, such as moratoria, "stand-still" agreements, defaults, conversions, etc.

In none of the memoranda was an attempt made to make either an analysis or an historical survey of this aspect of State Measures Affecting International Finance. Considering the extensive material already at hand for discussion, it will therefore be left to the discretion of the Chairman of the First Committee to decide whether these questions will be dealt with or not. No one will deny the very

decided influence which the existing corpus of international indebtedness has on the future economic situation of the world as a whole.

But the Conference, however, may find it impossible to deal with this and similar important questions. It has, for instance, already been forced by pressure both of time and opportunity to exclude from its discussions the whole range of problems connected with currency.

The American memorandum on this subject deals in its sixth chapter with the post-War financial policy of the United States Government towards Europe. It attempts to show the extent to which the changes in international indebtedness are responsible for the present crisis. Any discussion of this can hardly fail to take into account the fact that, without a stable settlement based on a substantial reduction of the debts and redemption payments, no solution is possible. And here questions of principle are immediately involved which could be usefully discussed. Methods should be examined as to how to bring about an economically sound reduction of this indebtedness, either through currency depreciation and the abolition of the Gold Clause or by direct means. Further questions of equal importance are how to mobilise frozen credits and to consolidate short-term credits for the purpose of overcoming the present foreign exchange controls.

If the First Committee decides to bring such problems as these within the range of its discussions, the following questions should be dealt with:

(*a*) Is a reduction of the existing corpus of international indebtedness a preliminary condition to the overcoming of the crisis, and what are the most suitable methods for effecting that reduction? (Reparations and War Debts are to be expressly ignored.)

(*b*) What is the best way of overcoming the transfer problem and the necessity for foreign exchange control?

3. The relationship between Parts I and II of the Enquiry:

In some of the memoranda it is hinted that the recovery of international trade is impossible without a previous settlement of the outstanding question of international indebtedness. Furthermore, it is suggested that the renewal of the flow of international capital, the removal of foreign exchange restrictions, and the repayment of debts is impossible unless the debtor countries are given opportunities to expand their exports, or, in other words, unless the existing restrictions on the export of goods from these countries are removed. The issues of Parts I and II are therefore intimately and doubly connected with each other. Without drawing up new questions on this point, it might be useful to suggest that Committee I should seriously consider their relationship, either in the course of the discussions or when drawing up their conclusions at the end of the study.

II. THE SECOND COMMITTEE: to discuss,

State Intervention in the Private Economic Enterprise.

Introduction: State Intervention in the Private Economic Sphere, being Part III of the Conference's Programme, constitutes the subject for discussion by the Second Committee. This section of the Programme of the Conference requires a few preliminary remarks in that the form of Part III had to be changed on more than one occasion. Originally *State intervention* was considered under the three forms which such intervention usually takes, namely: State encouragement and assistance, State supervision and control and State ownership.

At the Milan Conference, emphasis was laid on the various general interventionist systems, such as *Étatisme*, Municipalism, State-Socialism, the Corporative System, etc., rather than on certain particularly characteristic spheres of State action. In an Outline-Programme of study circulated among the national committees during the preparations for the Conference I tried to give due weight to both aspects of the problem of State Intervention. Even so, the limits set were thus too widely extended, with the result that the subjects dealt with in the memoranda tended to be too disparate and, in many cases, to offer no suitable basis for comparison. Furthermore, certain parts of this programme could not be touched on at all; that is true, for example, of the section concerning (*a*) the action of the State in regard to economic conditions generally, and (*b*) collective measures taken by private and semi-public bodies.

An attempt should therefore be made in the discussions to treat these two sections together. Although not written specifically in this context, there is much information in the memoranda which can be used for this purpose.

Stress was laid, at the Milan Conference, as in the Outline-Programme, on the necessity of deferring to the last stage of the discussion the examination of the general economic principles of the Corporative system. That is to say, only after its principal manifestations had already been considered.

In view of the above considerations and the nature of the memoranda submitted, the following questions seem to arise for discussion:

1. State intervention in regard to industry, transportation, agriculture and finance:
   (*a*) Public Utilities: electricity, mining, railways and shipping;
   (*b*) Agriculture and Public Works;
   (*c*) Credit and Banking (with special consideration of their effects on the various social groups).
2. State intervention in regard to Capital and Labour.
3. The systems of interventionism (with a special consideration of the Corporative State).

The arrangement of the memoranda according to these subjects is in most cases simple: only the Polish and Rumanian memoranda deal with the question of State intervention as a whole.[1] The memorandum submitted by Professor RICHARDSON on behalf of the Geneva School of International Studies deals with a number of spheres of State intervention which all fall under Section I (above) of Part III, and should be treated under the appropriate headings of that section. And the Italian memorandum on "Some Facts about Italian Industry," by GUISEPPE RIGHETTI, delineates the various aspects of industrial policy in Italy.[2] In addition to this, it is particularly noteworthy that the comprehensive documentation submitted by the Italian Committee, in fulfilling the hopes expressed by the Milan Conference last year, now gives full information on the subject of Fascist economic policy.[3]

1. STATE INTERVENTION IN REGARD TO INDUSTRY, TRANSPORTATION, AGRICULTURE AND FINANCE.

(*a*) Electricity, Mining, Railroads and Shipping.

Questions as to the forms of intervention which are most suitable for the State to undertake, together with the methods of control, ranging from mere assistance to nationalisation, are raised in a particularly clear way in the studies dealing with production and supply of electricity in the different countries. The very informative French memorandum by M. PHILIPPE SCHWOB, entitled "The Public Authorities and the Electrical Industry," examines the meaning of State intervention;[4] it brings out clearly the tendency of private industrial enterprise to avoid unremunerative districts, to encourage haphazard management, and to give rise to an undesirable concentration of economic power. The French system of concessions has proved to be a not altogether effective form of intervention. The study of the English system based on the Electricity (Supply) Act of 1926 contributed by the Geneva School of International Studies,[5] declares that Act to be "a landmark in the evolution of Government participation" in the economic life of Great Britain. From the point of view of production and distribution as well as of transmission it has proved its value as an example of orderly planning.

The mining industry also reveals another facet of State intervention. Two of the Italian memoranda, the one dealing with mining in general and the other with the petroleum industry, give an account of the State's activity in this sphere. Here the Italian State, having altered the system of mining rights, does all it can to help improve the technical methods of mineral production and to further the utilisation of mineral products. For economic, as well as for political

[1] See below, pp. 397 and 399.
[2] See below, p. 381.
[3] See below, pp. 376–393.
[4] See below, p. 362.
[5] See below, p. 405.

and military reasons, the State is interested in developing to their fullest extent the potentialities of the Italian soil. The results already secured in this direction seem to have been very satisfactory, whether the intervention has taken the form of direct State management, as is sometimes the case, or the more usual form of a mixed concern in which the State makes a contribution to the capital fund, etc., and shares in the proceeds. This can be compared with the action of the British Government in regard to the coal industry which has resulted in an official control of the quantities of coal produced and distributed, together with the fixing of prices and the control of the organisation of the mines (see the memorandum of the Geneva School of International Studies).[1] Here, as in the following sections, the Conference should discuss the question of State subsidies and their results on the National Budgets, international competition, etc.

In this particular connection, it is unfortunate that the French memorandum by M. J. H. RICARD on navigation is the only one of its kind.[2] Scarcely any sphere of State intervention can claim to be of greater international significance than this, because it is in shipping that the direct effects of international competition are immediately registered. M. RICARD shows that the subsidy system, which is prevalent in other countries, is resorted to to a comparatively small extent in France. Considering the great importance attached to this question of shipping, it will be worth while having a discussion on this French memorandum.

The situation regarding the State railway transport is described in the case of Italy, France and Great Britain. A comparison can be made here between the Italian State system and the British and French systems of private railway ownership. It is noticeable that in Great Britain the activities of the State regarding the railways, and indeed all other forms of transport, are steadily increasing. Reorganisation plans are being discussed in France, but there is no intention of nationalising the railways, although the amalgamation of the companies into one or two large groups managed autonomously and strictly controlled by the State is generally considered by all the parties concerned to be the best solution. The German experience of a State railway system compared with the privately owned system of the United States offers valuable opportunities for discussion.

(*b*) Agriculture and Public Works.

In agricultural policy the important point is less the actual forms of intervention, which vary from nominal control to complete nationalisation, than the object which they are intended to serve. On this point the Conference has before it a large amount of suggestive

[1] See below, p. 406.

[2] See below, p. 360.

material. In this connection the long informative Italian study by Professor SERPIERI[1] should first be mentioned, together with another Italian memorandum by M. A. DI CROLLALANZA on "The Fascist Policy of Public Works."[2] Then comes the British memorandum on Agricultural Marketing,[3] to which must be added those sections of a memorandum of the Geneva School of International Studies dealing with agricultural marketing, wheat control and the sugar-beet subsidy.[4] The Dutch memorandum deals largely with measures in regard to agriculture. The Rumanian memorandum deals to a great extent with questions of agricultural policy.[5] The memorandum by M. GEORGES GAUSSEL, on "Co-operative Associations, the State and the Consumer," deals with the agrarian side of this movement.[6]

In all probability the most interesting of the Italian experiments in agriculture are those known as the "wheat battle" and the reclamation of land for cultivation (*bonifica integrale*). It is noteworthy that in the already successful attempt to make Italy independent of wheat imports, the maintenance of prices by Protectionist measures was not the main objective, which was, and is, in practice to raise the yield per hectare by technical improvements and agricultural education. The British system of subsidies and Protection is, on the other hand, quite a different matter. Nevertheless, the important question does arise, both in the case of Great Britain and Italy, as to what will be the effect on the world economic system as a whole if, in spite of every evidence of international over-production, each country continues to persist in increasing its wheat-production.

The reclamation of marsh land presents a dual problem, for in addition to increasing agricultural production, it forms part of the greater question of Public Works. The putting of the unemployed to productive work should be discussed in this connection. The methods of financing these Public Works are of importance to us, and information on them exists, so far as Italy is concerned, in the memorandum on the National Institute of Assurance Associations.[7]

The Rumanian memorandum provides important material on the subject of land-reform.[8] For many countries, a discussion of State action in regard to the settling of people on the land would be of paramount interest (particularly in the case of Germany).

The British documents on marketing show the wide possibilities of State assistance in the field of standardisation, the creation of national marks, the improvement of quality, etc.[9] In Great Britain it seems that planning with a view to fixing the amount of production, in conjunction with a system of fixed import quotas, is intended in

[1] See below, p. 379.
[2] See below, p. 383.
[3] See below, p. 345.
[4] See below, p. 408.
[5] See below, p. 399.
[6] See below, p. 367.
[7] See below, p. 387.
[8] See below, p. 399.
[9] See below, pp. 345, and 407.

the future. The protagonists of a planned economy seem to regard the planning of production as the first step; it is therefore interesting to note that the Italian system of economic planning appears to pay little attention to the production side of planning.

A consideration of the sugar-beet industry in Great Britain and the agricultural co-operative movement in France will raise questions as to the merits and demerits of subsidies.

(*c*) Credit and Banking.

On this subject a French memorandum on "State Intervention in Banking" by M. ROGER ALHEINC has been submitted, together with two Italian memoranda, the one by Professors GUISEPPE BOTTAI and GUARNERI on the "Monetary and Credit Policy," the other by Signor GUISEPPE FRIGNANI on the "Bank of Naples."

It is unfortunate that memoranda on the banking situation in Germany, Austria and the United States are not available. If this very interesting and practical subject is to be examined thoroughly, the forthcoming discussions must needs fill in many gaps. In France, in addition to the note-issuing banks, a number of important banking institutions are subject to State control. The method of exercising such control is described in full detail in the above-mentioned document by M. ALHEINC. In France, it will be remembered, the Government intervened to save certain large private banks on two occasions during the crisis. Thus the question arises in France, as well as in Germany and the United States, as to whether the State is justified in rescuing private banks.

In considering the limits of State intervention, contemporary discussions almost everywhere seem to turn on whether the State should exercise a greater control over the great lending banks, or if necessary even to nationalise them. In view of the tremendous repercussions which any interference with banking cannot fail to produce on the economic life of a country, and, more important still, on the international credit situation, this question deserves special consideration.

The Italian memorandum covers a wider field and brings to light an interesting connection between the State control of credit and currency and its policy towards the various social groups. For instance, the stabilisation of the lira at a low dollar rate is shown to have been the result of the demand primarily of possessors of savings, secondarily it corresponded with the wishes of the working classes, while the interests of the industrialists and the agriculturalists were, in this respect, entirely neglected.

Inflation and deflation are bound to affect the various social groups differently. And in view of the public interest, particularly in the United States, that is being concentrated on such questions as the Gold Standard, inflation, devaluation, etc., this aspect of monetary

policy requires special attention by the Conference. The point at issue is how to prevent sectional interests from getting their own way at the expense of the community and the State as a whole.

On the basis of the foregoing observations it will be well to concentrate on certain questions of great interest to all countries:

1. What branches of industry, transport, agriculture, banking, are in need of planned intervention or decisive action on the part of the State? And what forms of intervention have already proved valuable in these branches?
2. What limits to the degree of intervention should be observed by the State in the interest of national economic development, having regard, for example, for the maintenance of private initiative, competition, etc., as far as this is consonant with the progress of the world economic system as a whole?
3. What are the repercussions of the national, political and military demands for self-sufficiency, and the participation by the State in international relations? And what effect, on the other hand, have conditions of international tension on the policy of State intervention in the domestic sphere?

2. State Intervention with regard to Capital and Labour.

A number of memoranda were submitted on the subject of the influence of the State on the relations between Capital and Labour. There is, firstly, a contribution by Professor Richardson, of the Geneva School of International Studies, on "State Intervention in regard to Labour,"[1] then a French memorandum by M. Oualid on "The Juridical Rôle of Trade Unionism." In addition, the Polish and Rumanian memoranda deal with questions of the labour market and labour legislation.[2] The Italian memorandum by M. Alfredo Rocco deals with "The Relations between Capital and Labour."[3] From Germany, there is Dr. Kimmich's study of the German measures and regulations affecting labour, together with an account of their operation up to 1933.[4] This memorandum is still interesting in spite of the introduction of some substantial changes in German social policy, since the advent of the new Government, most of which are dealt with in Professor Arnold Bergsträsser's memorandum on "The State and Economic Life after the German Revolution of 1933."[5]

Some important points of comparison emerge from the experience of many of the countries represented at the Conference in the wide field of wage fixation, wage agreements, mediation and arbitration. It is just in this province that the forthcoming discussions of the Conference should throw light on the working of the Corporative system. On the economic side, the principal criticism of this system

[1] See below, p. 409. [2] See below, pp. 398 and 400 respectively.
[3] See below, p. 377. [4] See below, p. 370. [5] See below, p. 374.

appears to lie in its determination of wages by political considerations, thus giving rise to inelasticity in wage rates. From the social standpoint the question is that of how to secure social harmony by a fair adjustment of social claims. The French memorandum presents a point of view which is particularly interesting in this respect because it foresees in labour legislation the beginnings of a transformation of the entire economic system. The co-operation between the State, the political parties affected by its acts and the various professional groups, is regarded as a new method of legislation. The British Trade Boards treated in two British documents are an interesting attempt to create semi-economic, semi-State organs.[1]

Although a discussion of these questions concerning principles of the economic system will have to be postponed until the end of the programme, it is possible even at this stage to consider the prospects of organising the State on a basis of vocational representation. State intervention in social spheres, and vice versa, the consolidation of the social and economic groups within the State, constitute to-day a particularly important aspect of the relations between the State and economic life.

The following main questions emerge from the preceding considerations:

(*a*) Are relations between Capital and Labour being developed on a new basis, as a result of their increasing co-operation with the State? And is a new type of State being forged as a result of this increasing co-operation with professional and other groups in the process of legislation? What is the expected effect of the development on social harmony and industrial productivity?

(*b*) What political, social and idealistic forces are working in the direction of such a change?

3. The System of State Intervention (with special consideration of the Corporative State):

The problem of State Intervention is dealt with in its entirety by Professor Alberto de Stefani jointly with Professor Luigi Amoroso in the Italian memorandum on "The Principles of the Corporative System."[2]

Other memoranda which mention the transformation of the system in other countries are practically unanimous in stressing the increase of intervention or the swift decrease of *laisser-faire*. (In the memorandum already mentioned on "The Co-operative Associations, the State and the Consumer," by George Gaussel, mention is made of the possibility and the desirability of an economic order based on the Corporative System.)

After a consideration of each of these separate points, a discussion

[1] See below p. 348 and p. 409 respectively.

[2] See below, p. 376.

of the corporative system, particularly of the economic changes it involves, will certainly merit serious attention. That this Conference, called upon to examine outstanding international problems, gives such prominence to the question of State intervention in the private economic sphere tends to throw into relief the important political and economic effects which the constitution of national economic systems have on international relations. Although it is true that at the Milan Conference a wish was expressed for information on the individual measures taken in the Corporative State as well as on the concrete results obtained by such measures, attention should nevertheless be focussed on the question of the practical significance, the meaning and inner logic, of the Fascist economic system in general. In this period of critical transition and crisis in which the world economic system is at present found, every idea and every fragment of experience regarding the new economic order are deserving of careful consideration.

By a demonstration of the classical theory, the Italian memorandum[1] tries to prove that under a system of *laisser-faire* the economic optimum can never be achieved. The static conception, according to the view of the authors, only takes into account natural forces (*forces vives*); it takes no account of the forces of inertia represented by the dead weight of the traditional past, to which the Historical School directs all its attention; it fails to consider the influence of political speculation and political energy (*forces directrices*), which synthesise the hopes and fears of the future. Fascism, which takes all three kinds of forces into account, is opposed to Liberalism, Socialism and Protectionism. It proclaims that the motive of profit, private property and individual initiative must continue to be the basis of the activity in general. This results, it claims, not in a bureaucratic system of a State-owned planned economy, but a planned and systematic intervention of the State in economic policy, which spreads outwardly as the motive force into all other spheres of activity.

The Italian thesis will be attacked by the protagonists both of State Socialism, State planning and national Autarchy, just as much as by the defenders of Liberalism. In view of the general tendency to look upon the Liberal economic order as a thing of the past, the moderation of the Italian attitude, with its stress on the maintenance of the essence of the Liberal economic order and its traditional hypotheses, is particularly worthy of notice. The Italian memoranda bear witness to a planned, energetic and completely comprehensive State economic policy; they define also the limits which the State must itself accept —limits the length and breadth of which are determined both by the economic necessities of the internal situation, and by the best interests of the world economy generally.

[1] See below, p. 376.

A number of interesting questions emerge at this point:

1. What are the peculiar characteristics of the Corporative or Fascist economic system? What distinguishes it from a Socialistic system or State-owned planned economy, and from the Liberal or Interventionist economic systems in other countries?
2. What will be the probable effects, particularly the political, on international relations of an intensification of the relationship between the State and the national economic system?
3. What influence does the development of intensive systems of State intervention in certain countries have on the political and economic development of other countries?
4. How far is the present intensification of State intervention a result of the crisis and thus only intended to continue for the period of the crisis?

Concluding Remarks.

The questions suggested for discussion are numerous and cover a very wide field. This Conference, like that of Milan, is of an experimental character. Neither in the drawing up of the programme of the Conference itself, nor in preparation of the programmes of study for the various national committees, nor indeed in the writing of this report, has it been found possible to draw a clear line of distinction between questions that might be excessively specialised on the one hand and indefinitely general or vague on the other. The Chairmen of both Committees will thus have to use their powers of discretion, to guard the discussions against anything that might lead either to superficial exchanges of views or highly technical and scientific arguments. Our object is to obtain a survey of present-day tendencies towards State intervention, with a view to estimating their effects on international political and economic relations. At the same time, we ought not to lose sight of the practical question which besets all contemporary political speculation on the state of national and international relations, which is, What should we do to put the world economic situation in order, that the misery of unemployment and social decay may be brought to an end, that the better ordering of the State and economic life may ultimately lead to national recovery and international peace? Only in facing up to this problem can the Conference justify itself as being at the same time both practical and scientific.

After deciding to divide into two Committees—a First Committee on International Trade and Finance, *and a* Second Committee on State Intervention in Private Economic Enterprise—*the Conference appointed* Professor ETTORE ROSBOCH, *Member of the Italian Chamber of Deputies, as Vice-President of the Conference,* Professor HENRI HAUSER, *of the*

University of Paris, and Dr. EDWIN F. GAY, *of Harvard University, as* Chairmen, *and* Professor WILLIAM RAPPARD, *of the University of Geneva, Director of the Graduate Institute of International Studies, Geneva, and* Professor J. HENRY RICHARDSON, *of the University of Leeds, as* Rapporteurs, *of the First and Second Committees respectively.*

The Conference also appointed its Bureau *and a* Press Committee.

INTERNATIONAL TRADE AND FINANCE

FIRST COMMITTEE

ON

INTERNATIONAL TRADE AND FINANCE

ADDRESSES AND DISCUSSION

Chairman: Professor HENRI HAUSER, France.

Rapporteur: Professor WILLIAM RAPPARD, Graduate Institute of International Studies, Geneva.

The First Committee met at the Royal Institute of International Affairs, London. In the course of six meetings it considered the following topics:

The Most Favoured Nation Clause.
The Open Door and Colonial Preference.
Imperial Preference.
The Regulation of International Debts and Capital Movements.

One and a half meetings were devoted to the study of the first subject, two to the second and third, two and a half to the fourth. Twenty-two delegates took part in the discussions, one being American, one Austrian, eight British, one Danish, one Dutch, one French, one German, three Italians, one New Zealander, one Polish, one Rumanian, one Spanish and one Swiss.

THE MOST FAVOURED NATION CLAUSE

THE CHAIRMAN (*translation*):

At the beginning of our discussions we have to deal with one of the most important questions on the programme, namely, the Most Favoured Nation Clause. I shall not permit myself, in opening these sessions of work, which already promise to be heavy, to make a long speech. Therefore I shall refrain from recalling how the problem of the Most Favoured Nation Clause has in our own time taken on a new significance; nevertheless it is impossible not to allude to the fact that the Most Favoured Nation Clause was in the greatest favour about the middle of the nineteenth century, a period of seemingly illimitable production and of relations which were based not, shall I say, on Free Trade, but on an increasing Liberalism between the peoples.

As far as France was concerned, the Most Favoured Nation Clause had already given rise to considerable difficulties at the moment when the political regime which had originally introduced it collapsed. In 1868, at the end of the Second Empire, an attack was made on the Most Favoured Nation Clause by statesmen like Thiers and economists

like Pouyer-Quertier; all the same, the Most Favoured Nation Clause survived them. And further, Pouyer-Quertier thought he was reinforcing his own Protectionist tendencies in obtaining from Bismarck the insertion of this clause into the Peace Treaty. In spite of the difficulties which arose during the negotiations between France and Great Britain, the clause still remained the general norm, practically, of intercourse between nations.

For a period up to the reform of the French Customs in 1892, which synchronised with the Protectionist movement in Europe and America, it used to be asked whether the Most Favoured Nation Clause was invariably efficient, and whether it did not, in spite of its theoretically unconditional and general character, permit of dangerous forms of discrimination between countries.

During the periods following that to which I have just referred, it was seen that the Most Favoured Nation Clause was being combined with increasing Protectionism: the Most Favoured Nation Clause frequently became, to use my own personal expression, the *Least* Favoured Nation Clause. Each nation, in its dealings with other States, picked out the competitor in each form of production which seemed to be most dangerous, and, in view of the danger that threatened it, accordingly drew up its lists of Customs duties; which it then applied, *ipso facto*, to these nations which enjoyed, in principle, Most Favoured Nation treatment in their relations with it. At the request of the Protectionists, the clause was inserted into the Treaty of Frankfort, that is to say, in one of those treaties which are perpetual and irrevocable. It thus acquired, in the relations between France and Germany, and as a consequence in the relations between the six other countries enumerated in the treaty, a perpetual character.

In fact, the Most Favoured Nation Clause has continued to change in character, and, subject to modification, it has in the post-War period entered into the American contractual policy, which was previously based on the principle of reciprocity. On the declaration of the third of President Wilson's Fourteen Points, the clause acquired a new value; but under what conditions!

I shall not go into the history of this third of the Fourteen Points, but you may remember that, after having declared that it should lead to a lowering of Customs barriers, in such a way as to establish commercial equality between the peoples, President Wilson, attacked by his Republican adversaries who charged him with letting the American tariffs fall, added this exegesis to his declaration: he had not meant that the third of his Fourteen Points should make the lowering of tariff barriers compulsory, but that they should be left equally high or low for all the countries with whom treaties or arrangements would be concluded.

The result is that the Most Favoured Nation Clause has been

increasingly combined with the rise in tariffs, in so far as it gave rise to no discrimination between States. Thus we have arrived at a third formula: this, since 1918, has not even been the *Least* Favoured Nation Clause; it has been the Most *Disfavoured* Nation Clause.

This is the explanation of certain developments which have since taken place. An attempt has been made to give the Most Favoured Nation Clause a limited application, a conditional application; and instead of adopting a general clause, a search has been made for a clause which could no longer be applied except in special cases, and which would allow for negotiations between countries. Above all, it has appeared that, as the economic condition of the various countries often differed, the application of the Most Favoured Nation Clause, though presenting no difficulty when dealing with certain States, might, on the contrary, prove dangerous when dealing with others.

From all this a disturbing state of affairs has arisen, which has been aggravated by the agricultural crisis in the States of Central and Eastern Europe. These countries were, in effect, the first to ask for exceptions to Most Favoured Nation treatment in their own favour.

Certain exceptions were foreseen in the treaties which were concluded immediately after the War: it was understood, for example, that the Successor States of old Austria-Hungary would be allowed, after a period which they unfortunately let slip by without taking advantage of the liberty, to set up among themselves, not a Customs Union, but a more favourable system of fiscal relations by which they could enter into agreements with each other, without putting the tariffs thus established under the ban of the Most Favoured Nation Clause. This treaty became a dead letter before ever having been applied.

The principle, by which a group of countries might escape in certain cases from the general system as far as their relations with each other were concerned, had not been contested as to whether it could be invoked in other cases; and when the agricultural crisis occurred, the conferences that took place between the interested States, from the Baltic to the Black Sea, accepted the principle that a system of international commercial relations might be established between States for certain goods, without the agreements so concluded coming under the prohibition of the Most Favoured Nation Clause.

Besides, there was already one exception to the Most Favoured Nation Clause: it was Imperial Preference, in force within the British Empire; under this system a group of peoples, representing a considerable part of the population of the globe, put themselves beyond the unconditional and general application of the Most Favoured Nation Clause: in fact, the relations between Great Britain and the Dominions were so conceived that the Dominion Customs duties were lowered by as much as 33 per cent. on some articles in favour of British products. And in the negotiations which took place before the Peace Treaties

of 1919, His Majesty's Government always refused to allow the question of its relations within the Empire to be brought into discussion. It is from this principle, which the Dominions adopted before the War, that the system has arisen which has reached its highest point of development since the Ottawa Conference.

As a result of all this, a somewhat confused situation has come about: we seem to be living under the sign—as we say to-day—of the Most Favoured Nation Clause, but in reality that clause is no longer either general or unconditional. International relations, for the most part, escape from it.

One imagines, therefore, that our Conference will—and it is one of our most important tasks—discuss the question of the Most Favoured Nation Clause. It should seek to determine whether it is possible or desirable to re-establish the universality of this clause; it should endeavour to find what means might be employed to this end.

Professor JACOB VINER, United States of America:

As I see it, the opposition to the unconditional Most Favoured Nation Clause comes mainly from three sources: First, many persons see in it an obstacle to the negotiation of new tariff bargaining involving a general lowering of tariff barriers. Secondly, others see it as an obstacle to special regional arrangements, providing for enduring preferential treatment between particular countries. The third is the fact that the chief, the traditional, the historical purpose of the Most Favoured Nation pledge is to eliminate discriminatory tariff treatment, and there are persons who in general do not want treaty obstacles to tariff discrimination.

I will take up, first, the first source of objection, namely, that the existence of unconditional Most Favoured Nation pledges stands as a barrier to the successful negotiation of multilateral treaties involving tariff reductions. I think that objection is well taken. I think it is unquestionably true that from about 1880 to 1914 the position of the United States, which held pledges from other countries conditional in form but unconditional in effect, because of the fact that these other countries all had unconditional treaties in their system, which had a very high tariff, and which was not prepared to make any reduction from it, but stood insistent upon the receipt from other countries of those concessions which these other countries, for compensation, were giving to each other—this situation tended to make these other countries unwilling to enter into tariff agreements with each other.

However, let me point out that the absence of an unconditional Most Favoured Nation pledge is also an obstacle to the successful negotiation of tariff reduction treaties, as has been proved in many cases in the past. Countries are not enthusiastic about concessions whose significance may at any moment be destroyed by still greater

concessions to third countries. There is no case on record where a conditional Most Favoured Nation pledge has been an instrument of successful tariff bargaining. In fact, there is no important case on record where a conditional pledge has meant anything at all in operation. The conditional pledge in practice proves to be no pledge at all, for reasons which I may find time to indicate later on.

There is a solution for this difficulty, the conflict between unconditional pledges to third countries and new tariff bargains, and that is to have no *old* Most Favoured Nation pledges. That is to say, to have Most Favoured Nation pledges granted, not as a matter of routine, not as a matter of ordinary international comity, but granted by country A to country B only when A regards B's tariff treatment of its own trade as tolerable. In other words, it should be regarded not as a privilege to be given indiscriminately but as a valuable concession to be given only as part of a tariff bargain and to expire when the tariff bargain expires.

In essence that was the system of German commercial treaties before the War. Germany made its tariff pledges and its Most Favoured Nation pledges expired simultaneously, and thus Germany was not faced with an elaborate set of Most Favoured Nation pledges standing as an obstacle to her successful negotiation of tariff treaties with other countries.

It may be objected that it is very difficult to get rid of these old pledges, but let me point out that the advocates of some new system must also get rid of these old pledges and face this obstacle in exactly the same degree.

So that, in so far as the old pledges stand as a barrier to a successful negotiation of general tariff reduction at the forthcoming Economic World Conference, that difficulty can only be met by terminating these old pledges.

There is only one way of doing this for pledges which still have an indefinite number of years to run, and that is to obtain mutual consent for their termination.

SIR ARTHUR SALTER, United Kingdom:

It is a definite number of years in each case practically.

Professor VINER:

It is in effect the longest number of years which any given treaty still has to run.

Now, as far as the regional agreements are concerned, can you discuss regional agreements intelligently without reference to some basic set of doctrines with respect to the nature and the value of international economic intercourse in its relationship to the internal

economy? As I do not care to go now into that somewhat old-fashioned but nevertheless still vital matter of the comparative merits of Free Trade *v.* Protection, let me say only this, that if a regional agreement, preferential as between the countries within that region, is beneficial to both those countries, it must necessarily follow that had it been extended to the entire world no substantial change would have resulted in the effect of the agreement.

The only circumstances in which two countries can mutually benefit themselves by special agreements is if they are naturally fitted to serve each other, so that the special removal of tariff barriers between them would not have effects differing substantially from what would occur if these reductions in tariffs were extended generally to the similar products of all other countries. For instance, between the United States and Canada an extensive reciprocity agreement would not be very much different in effect, almost regardless of its terms, from what would be a general reduction of duties by both countries, applying to imports coming from whatever source. But few other countries are in the same sort of relation to each other.

The serious difficulty in the way, however, of a satisfactory operation of the Most Favoured Nation pledge seems to me to be not so much that it does act as a barrier to the negotiation of new tariff agreements, nor that it is a barrier to regional agreements, but that it is so easy to evade, and perhaps more so that the victims of the evasion so seldom protest against such evasion with the seriousness which it merits. There have been some diplomatic protests, but they have generally been mild in form and in certain existent cases the violation has not led to any protest whatsoever.

To blame the Most Favoured Nation pledge for the international economic evils from which the world is suffering is to blame almost the sole surviving trace of an age of greater reason for the evil results of the departure from other procedures of the past.

SIR ARTHUR SALTER:

Mr. Chairman, I fully realise the reasons which made Professor VINER attach so great importance to the Most Favoured Nation Clause. I fully realise that it represents a remnant of a system of much greater reason than that which we now see prevailing in the world. I fully realise the great dangers against which the Most Favoured Nation Clause has set up an obstacle and a safeguard, the dangers that countries will engage in competitive discrimination in the form of promising each other to impose additional obstacles against other countries rather than in the better form of devoting their attention to reducing tariffs as between themselves, which is always a more difficult process in view of vested interests and so on.

I fully realise that the considerable change which Professor VINER

has proposed as regards the use of that clause would meet certain of the difficulties which that clause encounters.

Nevertheless, very reluctantly, and as a result of many years of rather bitter experience, I have come to the conclusion that it would on balance be desirable, while not abolishing the clause, nor sacrificing the essential principle and purpose for which that clause stands, to give it a greater chance of surviving for its most essential purposes by extending some of the customary exceptions to its application.

I have in mind particularly exceptions which will encourage the formation of the better form of regional agreements, and consequently discourage the worser form of agreements. To explain the reason for which I am going to make my proposal, I must, if you will allow me, attempt to picture something of the setting of the general tariff policy of the world in relation to which I make this proposal.

Everyone agrees, we are all agreed, every expert for many years has agreed, that it is essential that tariffs should be first reduced and then placed on a more stable and regular basis. But time after time the efforts to get that improvement broke down against the infinite difficulties of existing vested interests, against what is more than is suggested by the phrase "vested interest," namely, the fact that the whole economic structure of countries has been developed in accordance with and moulded itself to high tariff systems.

And I have come reluctantly to the conclusion that there is extremely little prospect of substantial improvement in the tariff systems of the world by methods which do not involve some widening of the customary exceptions to the Most Favoured Nation Clause.

What are the methods of reduction?

There is reduction by autonomous action. A particular country may decide to reduce its own tariffs because of the obviously adverse effects on the cost of living of its own people, and consequently of the competitive power of those of its industries which depend on the import of goods from other countries for their raw materials, and because of the effect upon their exports generally of high tariffs.

It is, of course, possible that in certain cases a combination, let us say, of consumers' organisations and of exporters' organisations, and in countries which are agricultural exporters of the farmers, may secure a sufficient force to bring down the industrial tariffs of the country by autonomous action. But the prospect of that happening over any considerable range in any near future seems to me rather remote.

I do not think we are likely to see a very great deal in the way of autonomous reduction of tariffs apart from the removal of those special tariffs which are really financial rather than economic in motive and have been imposed in the last two years, in order that a Finance Minister maysee a better balance of trade. But if we are contemplating

the tariff problem as it existed two or three years ago, there seems to me extremely small hope of improvement by way of autonomous action.

The next method is by way of bilateral negotiation. Professor VINER has explained the way in which the Most Favoured Nation Clause is an obstacle to the use of this method.

The third method is that of the formation of regional agreements, bilateral or plurilateral, to form something that is half-way or part-way towards a Zollverein system.

In my view, if the World Conference, or any other concentration of world authority, is to make any real progress in getting the tariff situation improved, it needs to take account of the existing forces in the world that are potentially capable of securing the reduction of tariffs. Among those forces is undoubtedly a very strong movement to form various forms of partial regional economic units. That movement is so strong as, I think, to be irresistible. I do not believe it can be blocked, but I do believe there is a very great difference between the one direction which that movement may take, which is a movement of promises between Powers or groups of countries that they will give preference to each other by means of increasing tariffs against other countries, and will then form a close unit to the extent of these preferences, and the other direction, which is that of giving each other at least temporary preferences by means solely of a reduction of tariffs and coupled with a provision which tends to make these areas of low tariffs extensible and extended.

At the present moment there is no doubt that complete Zollvereins are customarily admitted as exceptions in the Most Favoured Nation Clauses.

If Belgium and Holland, for example, desired to make a Zollverein, no country would claim the Most Favoured Nation treatment as a means of blocking it. But we all know the difficulties of ever making a Zollverein except as a counterpart of an almost complete political union. The reasons are familiar to everyone who has studied the attempts to make Zollvereins, which have often been tried but have never been successful, except where a strong political object has been associate dwith the economic object.

Let me refer to the particular case before the world now. Belgium, Holland and Luxemburg, while not being prepared to make a complete Zollverein between themselves, to secure an area of complete Free Trade, desire to make a Convention of which the following are the main provisions. First of all, that there should be no increase of tariffs as against any country; secondly, that as between themselves there should be substantial and progressive reduction of tariffs; third, this Convention is associated with an open invitation to every other country to come in on similar terms. I should like to add one further provision—that not only should the Convention be open to other countries to

join on the same terms, but that countries which do not actually come into the agreement but who nevertheless, in virtue of their own autonomous policy, offer on the whole at least as favourable tariffs as the reduced tariffs contemplated in the Convention, should be similarly admitted to the benefits of the treaty.

If you take those four conditions, and bearing in mind also that in the case of a proposed agreement between countries like Belgium and Holland, where nobody contemplates a political danger in the sense that the economic union is intended to develop a political alliance which might be a danger to other countries, if you have all those conditions, it seems to me just and expedient that an agreement of that kind should be encouraged.

I do not know who really has the right to object to an agreement of that kind if one is considering, not the legal effect of existing agreements, but the natural justice upon which agreements should be founded.

Let me refer to my own country. We decided to-day that at this Conference it was desirable that everybody speaking, of whatever nationality, should speak in no way as defending existing policies of his country, but should advocate whatever seemed to him just and expedient. It seemed to me completely just at the time when Great Britain was a Free Trade country that Great Britain should say, "As we admit all your goods free of duty, we ask you to accept our goods into your countries at the lowest rate of duty applicable to any country." Even when we began to make minor departures from that, it was still reasonable as a very low tariff country to make the same request, and perhaps it was still reasonable when only small preferences were given to the British Dominions, to make the same request.

But I confess I cannot see how it is possible to maintain that position now that we have substantial tariffs and now that we have substantial preferences with other completely self-governing countries, who, while they have the same sovereign as we have, are obviously completely masters over their own commercial policy.

I find it extremely difficult to see how in those circumstances we can think it just to maintain an objection to such an arrangement as Belgium and Holland, two small countries, each obviously too small to form an economic unit itself, who propose to make a Convention which is distinguished from that of Ottawa by the fact that it proposes no increases against any country and that it is open to all the world.

In the same way it seems to me extremely difficult that a country which like America has assimilated, let us say, Hawaii into the mainland so that it is treated as a part of its own system and which has a higher tariff than countries like Belgium and Holland, should object to an arrangement of that kind.

It seems to me that it is so unjust, that even though the objection

may be maintained and may block the first proposal or the second proposal of that kind, it cannot be ultimately maintained and will not be maintained because, as Professor VINER pointed out, it is only too easy and it always will be easy to defeat the effect of a Most Favoured Nation Clause by various administrative dodges.

When you get against the operation of the pledges, as they now exist, a sense of real and unquestionable injustice, it seems to me inevitable that the result will be that the clause will be left stranded high and dry with little and lessening influence upon the real commercial policy of the world.

I believe the best way to save the clause is to give it a safety valve by agreeing to exceptions for which you have already the precedent of the Zollverein, other exceptions which have often been admitted, such as the Balkan clause, the South American clause and so on, exceptions designed to make possible regional agreements of a kind which really will result in extending low tariff areas.

I believe that one of the most useful things that the World Economic Conference could do would be to lay down the conditions under which the contracting parties would agree to extend the exceptions to the Most Favoured Nation Clause. I have already indicated what I think these exceptions should be: first, the Convention should be such as not to cause or create a considerable political danger; secondly, the Convention should be such as to involve no increase against anyone; third, it should provide for a substantial and progressive reduction between the parties; fourth, it should be open to other parties on the same or similar terms, and even if countries do not come into exactly the same agreement, equitable treatment should be given in the sense which I have explained.

If the World Economic Conference said that, and if the countries there agreed to that, what would be the result? The effect of their agreement would at once be an answer to Professor VINER'S question of procedure, that is, by so agreeing they would agree that while their Most Favoured Nation pledges remain otherwise in operation until 1935, or whenever it might be, they would not take objection to conventions made under these conditions. The result would be to utilise the great force behind regional agreements in such a way as to create low tariff regions which would extend and coalesce until they covered wide areas and ultimately perhaps all the world.

Secondly, the fact that the Most Favoured Nation Clause had been purged of its most legitimate objection would mean that it would be very greatly purified for its essential purpose of preventing a whole chaos of discriminating tariffs formed mainly by the process of regional negotiations.

I believe therefore, as I say, that the Most Favoured Nation Clause itself, if allowed itself to follow an evolution to which the way is

already pointed by the customary exceptions that have been admitted in the past, would be much stronger for its vital purpose of preventing the world from falling into a chaos of discriminating tariffs, and at the same time the effect would be to turn a strong movement into the direction of creating and extending low tariff areas. And on the whole I think that this is the most powerful force that can be set into operation to secure a greater liberation of trade than that which the world at present has.

I should therefore like to suggest that a modification in the customary exceptions to the Most Favoured Nation Clause of that character should be considered by this Committee.

Professor HERBERT VON BECKERATH, Germany:

What I am going to say will be partly in favour of the Most Favoured Nation Clause. I do so not for my own sake only, but also with the interests of my country in view, as well as having regard for the type of government which now exists in Germany.

The General Rapporteur, Dr. WOLFERS, has hinted at the reciprocal relationship between political organisation and economic policy in this particular sphere. Now, from what we have already heard, ample proof can be produced to the effect that no such relationship exists between Fascist or National-Socialist principles and commercial policy as would in a way hinder the liberal processes of an international commercial policy.

What the National-Socialist type of government actually aims at is nothing else than the protection of the economic structure, which is based fundamentally on the conception of private property and individual economic responsibility, however regulated and restrained by social duties and responsibilities, and the protection of that economy from distortions which come on the one side from the political influence of the working class, whose social aims go beyond the limits which are compatible with a stable economic system of this kind, and on the other hand from the influence of certain tendencies to over-expansion and over-speculation within the capitalistic economy.

What it does require is a controlled and regulated economy, in a way which is perfectly compatible with the tendencies and necessities of a relatively liberal world economic order. And this is all the more necessary because both the countries, who have been the first to adopt this type of government and political structure, are in a position in which they need an active international economic intercourse, a position—and this is true particularly of Germany—in which they are keenly interested in a form of economic policy which embodies as much of the Most Favoured Nation principle as is possible.

All countries have the keenest positive interest in this question who, like Germany, have extensive interests in an export trade with

practically every other country in the world. They ask no particular favours from one or another country. They need Most Favoured Nation treatment in all countries in order to be able to compete effectively therein. This is a point which I thought it would be useful perhaps to stress because we are busy here with the problem of political and economic conditions.

As regards what Professor VINER and SIR ARTHUR SALTER have said, I think we must keep well in mind the object of our discussion. Are we discussing the theoretical advantages of a Most Favoured Nation Clause in not only a politically and legally but also in an economically stabilised and equilibrated world? Or are we discussing conditions as they actually are, together with the possible ways out of the present *impasse*? In the first case, I should be an unconditional supporter of the Most Favoured Nation Clause, and I think most of us would agree in doing the same.

The Most Favoured Nation system of pre-War times was simply part of the economic system of a relatively well equilibrated and ordered world, well equilibrated as to comparative costs in all countries, well balanced in regard to international trade and international payments, possessed of stable monetary and credit conditions, and so on. Under such conditions, the Most Favoured Nation Clause is to my mind the best instrument of commercial policy which could be imagined, and there has been no suggestion of anything being better. Thus I shall refer here to one important attribute it possessed, and which might be lost, even assuming the realisation of SIR ARTHUR SALTER'S suggestions, namely, the advantage, among others, of the Most Favoured Nation Clause was this, that it stabilised for a long time the conditions under which international trade could expect to be carried on in the different countries. I mean this was true, and is true—even in the case which Professor VINER cited, in which there is a combination of international tariff treaties with the Most Favoured Nation Clause.

We in Germany subscribed to a *bloc* of European treaties which were next in importance to us after the system which Professor VINER described. Then we had a world-wide Most Favoured Nation treaty system which gave us access to all markets under non-discriminatory conditions. We also had stabilised tariff conditions in the most important countries, and stability in so far as we were safe from being discriminated against in the remaining countries.

I think that, after the period of general disturbance which we have passed through, we have somewhat lost the sense of the extreme importance of preserving that stability, that stability of calculating conditions for ten, twelve and twenty years to come. When we return to more normal conditions, it will be at least as important to have stability as to have low tariffs.

All of us, trained economists as we are, know that even high tariffs, when they last for a very long time and are generally applied in a great many countries, have a tendency to counterbalance and offset each other, by causing an upward movement of internal prices and costs in the Protectionist countries, and by reason of the compensatory effects of one different tariff system on another through the process of mutual dumping.

Thus I think one cannot sufficiently stress the importance of this element of stability. I see perfectly well the great value and the advantage of SIR ARTHUR SALTER'S suggestion. But is it not true on the other hand that such a suggestion might give rise to a state of affairs in which incalculably unforeseen and variable conditions enter in regard to the tariffs of different countries? Suppose you have a *bloc* of countries based on an agreed preferential system, and other countries are allowed to join the system. Nobody knows in advance who will eventually join. The one that joins enjoys a different tariff treatment from what it had before, and so it is impossible to know what in the long run will be the conditions of international investment, particularly in the export trades.

This is a most important point, and there arises a great disadvantage, and for that I see only one solution. SIR ARTHUR SALTER quite rightly referred to the fact that the statesman, in deciding upon a new type of economic policy, has to deal in a very disagreeable way with vested interests of all kinds. All well and good. But I think the statesman at the present moment has a great chance—though this sounds paradoxical—to the extent that he is confronted with chaos, because in chaos there are in a way no vested interests which can be unduly defended; and anyhow we have to start from a new beginning.

I personally see no future for the Most Favoured Nation Clause, and I shall feel the same about these very reasonable regional arrangements, which also seem to me necessary during a period of transition, unless we can establish at once better monetary and credit conditions, lower tariffs, and so forth. We have to re-establish and maintain by joint political effort the basis of a new economic world, and we have to do it immediately.

I do not believe in building up a system, stone by stone, over a long, long period of time. We never will get over our present troubles in that way. Instead we have to begin with a single decisive stroke, and if the World Economic Conference will achieve anything, it must come to a kind of general agreement concerning a new method of world commercial policy, in which all the great nations, so to speak, become partners from the very beginning in a universal system of commercial credit and monetary arrangements.

Of course, in addition to that we have to take account of the fact that at this moment the problem of stabilisation, whatever it might

be, cannot be looked at entirely from a point of view of equilibrated comparative costs and terms of trade. We shall have to take into account the fact, for instance, that through recent technical developments which one-sidedly favour the Overseas world and Russia in the sphere of agricultural production, particularly that of cereals, and various other causes, there is a constant tendency for the European agrarian countries to run the risk of being overwhelmed by Overseas competition.

We have, in other words, a tendency towards another type of international division of labour. That tendency cannot be allowed to work fully because it would distort the actual structure of many European countries in a way which they can stand neither socially nor politically. I think this is a fact which must be looked at from this particular angle. And so, under certain conditions, which I shall explain in just a moment, I agree entirely with SIR ARTHUR SALTER'S proposals for exceptions in favour of regional agreements. They may be called Customs Unions, with clearly defined preferences on a fixed basis, or preferential systems, where the degree of preference is also clearly defined at the outset—a point which seems very important to me.

Thus we could, for instance, join with the Continental European countries in a kind of preferential system, or even in a Customs Union in regard to, say, cereals, because in Europe there are a great many barriers to the trade in cereals and consequently in other agricultural products in general, which, directed in the last resort against Overseas countries, disrupt and disintegrate the whole European economic system by giving rise to corresponding changes in the imposition of duties on industrial products.

This is only one example; thus, to put it briefly, when we take account of the present state of affairs we should agree perfectly with the ideas put forward by SIR ARTHUR SALTER, but, I am afraid, only on condition that the World Conference should establish at once a new all-embracing world economic system, adapted to the political and economic conditions of the world as it is, or if not, at least conforming with the main and indispensable elements of such a system.

It is far easier to begin from the beginning and to build up a new system at once than it is to start off from a disequilibrated and continuously varying state of affairs, and piling one stone upon the other. For it is likely that the first stones will have altered their position and changed their properties before the others can be placed on top of them; so the process of building will become an endless one.

Professor VINER:

I just want to make a few comments on SIR ARTHUR SALTER'S very able exposition of a point of view with which unfortunately I have little sympathy.

I would not like it to go on the record by default that no one seriously questions the compatibility of Customs Union agreements with the Most Favoured Nation Clause. I think that is still a matter that is at least open for serious discussion, and that there is considerable evidence for the opposite view.

In the first place, the mere fact that in many Most Favoured Nation pledges there exist clauses exempting from the force of the pledge Customs Unions, which may later be negotiated, implies that in the absence of such express provision the Customs Union would conflict with the Most Favoured Nation pledge. Moreover, I am under the impression that when Belgium and Luxemburg formed their Customs Union, they first obtained consent from other nations with which they had Most Favoured Nation treaties. As that was a post-War event, it would be very significant as a recent precedent on the other side.

SIR ARTHUR SALTER recommends that Customs Unions or regional agreements should be open; in other words that other countries could come in, on offering the same terms as the original participants. If there is anything we know, it is that the only way in which a tariff pledge ever gets enforced is when the pledge states in a form which can be reduced to a precise arithmetical definition what duties can be levied.

The United States once, in its Tariff Act of 1890, authorised the President to levy duties on other countries in accordance with whether or not their treatment of American trade was reciprocally equal and reasonable. Those words meant nothing—or anything—when enacted, and when they were put into operation. So also with provisions authorising other countries to come into the Union on the offer of similar terms. Who will decide whether the terms are similar or not? It must always be a matter of unilateral decision on the part of the countries already in.

Also SIR ARTHUR SALTER disclaimed very generously the right of Great Britain to object against a regional agreement say between Belgium and Holland, in the light of Great Britain's present tariff policy. Great Britain would have a perfectly valid legal right to object to a regional agreement between Belgium and Holland if Great Britain had treaties with Belgium and Holland guaranteeing equality of treatment. Otherwise it could not claim a right.

Also SIR ARTHUR SALTER stated that regional agreements should not be sanctioned by the World Conference in case they would prove to be a cause of political danger. I would like somebody to suggest a regional agreement which could not be a cause of political danger. A regional agreement would always involve a discrimination against some third country or countries, and would generally even involve a discrimination against another country in the same region. There would always be some country left outside, and it would feel bitterly injured

as the result and would often in a situation of that sort raise serious political objections.

Again, SIR ARTHUR SALTER said one of the conditions should be that equitable treatment should be provided for the countries outside any agreement. One of the sad things in the record of the League of Nations is that it has too often satisfied itself with resolutions containing such terms as "equitable treatment," which appear to involve an agreement but which simply give an additional basis for dispute between countries. They seem to give a pledge without pledging anything.

I should think it was very important that there should be one respect in which the resolutions emanating from this World Conference should differ from those emanating from others, in that when the Conference is unable to agree, it should admit it, and when it comes to an agreement it should state its agreement in terms which some two persons in the world would interpret in the same way.

SIR ARTHUR suggested that we must face conditions as they are, or we must be practical. There is only one way for scholars to be practical, and that is to remain scholars and not to be imitation statesmen. The statesman will compromise sufficiently with principle, he will follow the path of least resistance sufficiently, without any encouragement from scholars. The business of the scholar is to try and see in what path of action lies the most promising future for humanity. The modification, the alteration and the compromising with principle he can safely leave to the statesman. The statesman will take sufficient care of it without any added assistance from the scholar. When the scholar follows a different course, he will prove an inferior scholar and also an inferior statesman.

Professor ALFRED ZIMMERN, Geneva School of International Studies:

I only want to intervene very briefly in order to push Professor VINER a little further, to discover exactly what is at the back of his mind, and also to try and find out exactly how far SIR ARTHUR SALTER and Professor VINER are in agreement and where they differ.

Professor VINER really wants to go back to President Wilson's third point in the form in which it was originally in his mind, the general reduction of tariff barriers through the unconditional Most Favoured Nation system used for that reduction, but if I understand him aright, he wants to go further and would like to institutionalise President Wilson's third point, i.e. he would like to use this Conference for three purposes:

(1) To terminate all the existing Most Favoured Nation treaties, so that the world would start a Most Favoured Nation system with a clean slate.

(2) He would like to get a perfectly clear definition of Most Favoured

Nation treatment which would render evasion impossible in the future.

(3) He talked about the very mild protests of Governments against the violation of the system, and it seemed he would favour some form of sanctions or perhaps some authority to which such evasions could be brought, which could in case of need recommend sanctions.

I do not think SIR ARTHUR SALTER would object to any of those points, except that he would define the Most Favoured Nation treatment in a very much broader way than Professor VINER.

Personally I feel very strongly the objection that Professor VINER brought against SIR ARTHUR'S exceptions. It seemed to me that when Professor VINER said that every low tariff bloc is bound to be open to political objections, he was on very strong ground. It is quite true, however, that the Ouchy Convention in its present form does not appear to be open to such objections.

Professor VINER:

May I say here, I think I am correctly informed that in connection with the Ouchy Convention, the United States Government was asked whether it would object to the Convention, and it met the situation by refraining from answering, and has not yet answered the question.

Professor ZIMMERN:

I was thinking of the word "political" in rather a broader way.

Professor VINER:

If I may interrupt again, some of the ideas which Professor ZIMMERN has so clearly stated may not have been in my mind, but I am very happy to have a place for them there. But I would add that I do not believe this World Economic Conference has the slightest chance of succeeding if it pushes important regional conventions.

If I may speak very frankly, the Secretary of State of the United States is a person who is living in the atmosphere of President Wilson's third point. He is prepared to move in the direction of a substantial lowering of tariffs, in which the United States will for the first time in history fully and fairly participate, but I do not believe he will sanction agreements in which American trade is left subject to discriminations without overt justification for such discriminations.

Professor ZIMMERN:

I quite understand the political objection that the United States has to the Ouchy Convention, the objection that it is contrary to her interests, but there is a broader objection.

What safeguard have you against the danger that a low tariff *bloc*,

formed simply for the purpose of increasing the welfare of the inhabitants living behind it, may not through another more powerful State be diverted from its original purpose and become an element of Imperialism? That seems to me the real danger. The world is surely much safer under a system of small economic units, whose commercial policy is guided by simple international rules, than it would be if it became divided, as SIR ARTHUR suggested, into a number of regional units, whose composition and purpose and spirit might change in accordance with changes of government, changes of regime, that nobody could possibly foresee.

I remain a quite unrepentant supporter of President Wilson's third point, mainly for the reason of the danger of Imperialism which seems to me to be involved in any regional economic *bloc*.

Professor VINER:

The danger is peculiarly great for the small country, which may immediately or later on find itself outside a system. The great country can take care of itself to some extent, but for the small country it would mean economic strangulation if for one reason or another it should be left outside one of these regional agreements affecting its neighbours.

Dr. JØRGEN PEDERSEN, Denmark:

There seems to be something very academic about the discussion of the Most Favoured Nation Clause, for at present every State is able to evade it, and a law which everybody endeavours to evade can hardly be considered to harmonise with the general conception of what is right and expedient. Therefore I think it would be of very great value to discuss the question, if there are some people here who want to support the Most Favoured Nation Clause, of how to prevent the evasion of that clause. It is useless to declare that it is very desirable for Most Favoured Nation Clauses to be inserted into commercial treaties, if means cannot be devised to prevent their evasion.

It is curious that nations have for many years now been increasing their Customs duties. I think it would be very useful to consider for a moment why that is so. Is it simply for the purpose of destroying international economic conditions? Or is it for some sensible purpose? If you consider the question, I think you will find that there has been an endeavour to stabilise internal economic conditions in the various countries. Experience shows that the increases in tariffs are, as the Germans say, "Kinder der Not." When the economic system is out of gear, those duties are imposed in order to prevent prices from falling within national frontiers.

The pre-War assumption was that prices were fairly flexible, being regulated satisfactorily by supply and demand, and that therefore it

was unnecessary to protect national industries. For if over-production and falling prices did occur in certain departments of the national economic system, prices would react, production would stop, and prices would eventually rise. That process did not seem to work after the War; it scarcely did even before the War.

You have unemployment whenever there is a fall in prices; and unemployment in one country engenders unemployment in others. It seems that as long as such conditions prevail, it will be very difficult to get nations to reduce their duties, which are imposed precisely for the purpose of stabilising prices or eliminating the effects of their decline. Therefore, I do not see, even if the World Economic Conference agrees to lower tariffs, how that can be effected. If the conditions simply do not exist for the automatic adjustment of prices, the different countries must invent some means of evading those lower tariffs by means, for instance, of import restrictions in other forms.

There are at present a number of countries to which tariffs do not mean very much. Tariffs do not mean very much to Denmark, for example. It would not matter very much even if Denmark agreed to lower tariffs; the different countries would not be able to increase imports to Denmark for the reason that the Danish Government has adopted other forms of import restrictions. Most countries have similar restrictions, particularly currency restrictions.

Unless some means can be devised to establish something like economic equilibrium in the various countries, the discussion of the Most Favoured Nation Clause cannot be very important. Therefore I think it would be more promising if the World Economic Conference were to devote itself to finding out how to create not only economic stability at the present time, but also to devising some means of maintaining economic equilibrium in the future.

I think that can be done in two different ways: it can be done by leaving free those industries in the different countries which at present respond fairly well to an automatic adaptation of prices, i.e. the parts of the economic system which conform to the equilibrium theory. Then the rest of the economic system should be regulated in such a manner as to adapt its prices to economic conditions. If that could be done, I think the conditions of international commerce on the pre-War basis would, at least to some extent, be present; and such being the case, I think that the Most Favoured Nation Clause would be useful in helping to extend the area of lower tariffs which then would be made possible.

But, on the other hand, you may say that if such conditions of internal economic equilibrium obtain in most countries, the question is not so urgent. Thus we almost arrive at the paradoxical conclusion that the Most Favoured Nation Clause only operates when it is least necessary.

Professor J. COATMAN, United Kingdom:

Dr. PEDERSEN said, quite truly, that the supporters of the unconditional Most Favoured Nation Clause have got to show us how to prevent its evasion. As we look round the world to-day, we see in the economic warfare going on that the chief weapons being used are no longer tariff weapons. They are the quotas, clearing agreements, exchange restrictions, and so on, weapons whose action is immediate and effective. Also weapons, unfortunately, which are countered by other weapons, also immediately effective. We are only at the beginning of our knowledge of the uses of these new instruments of economic warfare. There is not the least doubt that the technique of their use will be perfected as time goes on. Therefore we must seek for some other way out than by merely sticking to the unconditional Most Favoured Nation Clause, which has made possible the use of these new instruments of economic warfare.

In spite of Professor VINER's very weighty onslaught on SIR ARTHUR SALTER's suggestion of regional agreements, I personally can see no other suggestion which can be made to remedy the state of affairs which I have been describing. Professor VINER certainly pointed out a number of very practical and very important difficulties and objections. Nevertheless, being practical objections, they can be remedied by practical means. Presumably a group of countries entering into low tariff agreements would welcome other entries into their group and would not put any obstacles in their way.

Briefly, the one point I wish to make is that I can see no other remedy of any sort than the one suggested by SIR ARTHUR SALTER, and I would welcome from the defenders of the unconditional Most Favoured Nation Clause their suggestions for obviating the use of the new economic weapons.

Professor G. M. VERRIJN STUART, Netherlands (*translation*):

Professor VINER declared that, in his opinion, the conditions enumerated by SIR ARTHUR SALTER would not have the practical effect which their author expected, in respect of his exceptions to the unconditional Most Favoured Nation Clause. I may perhaps recall these four conditions:

It is necessary, in the first place, to foresee the political dangers of regional agreements and to search for the means of warding them off; it is also imperative that these agreements should not lead to a new increase of Customs tariffs; furthermore, once these regional agreements are concluded they must remain open to other States; and finally, even if these other States do not adhere to a regional agreement they must nevertheless be treated in the manner described in the said agreement, from the time when they make their Customs tariffs conform with those specified in the agreement.

Speaking generally, I share the views expressed by SIR ARTHUR SALTER. The unconditional Most Favoured Nation Clause is—to put it cautiously—the least ineffective means of avoiding discrimination in Customs matters, the source of many international conflicts and endless discussions.

However, it is my wish that we should not linger on the first condition suggested by SIR ARTHUR SALTER. On this point, I agree with Professor ZIMMERN: if it be made a condition of regional agreements that they should not, by their very nature, give rise to any political dangers, it is evident that not a single agreement of this kind could ever be concluded. There will always be someone who will evoke the fear of political danger, even when it concerns something as innocent, if I may say so, as the agreement concluded at Ouchy between Belgium, Luxemburg and the Netherlands.

As to the other conditions, I share SIR ARTHUR SALTER'S point of view. But Professor VINER considers that these conditions cannot be applied in practice because they are too vague: what then does Professor VINER find particularly vague in the Ouchy Convention to which I have just referred?

The conditions of that agreement are clear and precise. They provide for a reciprocal lowering of tariffs in a certain number of cases, varying from 4 to 8 per cent. according to the products. Similarly, the condition relating to the adhesion of third States has been drafted in a precise fashion, and excludes all possibility of international conflict. In addition, the equity clause to which SIR ARTHUR SALTER'S fourth condition refers has also been inserted into the Ouchy Convention. In these circumstances, I ask a practical question: the Ouchy Agreement between Belgium and Luxemburg and my country is based on the general principles formulated by SIR ARTHUR SALTER; why should these conditions not be applicable, and what is there vain or dangerous in putting such an agreement into operation?

Professor VINER:

If I may reply first very briefly to Professor COATMAN, I do not know what I said which would justify him in thinking that I thought the Most Favoured Nation Clause is an adequate remedy for the woes of the world. We have a long agenda, and I was confining myself to the Most Favoured Nation Clause. Its merits are negative, not positive. It provides obstacles to certain evils; it does not confer blessings. But I think this is true, however, that the unconditional Most Favoured Nation Clause will prove merely a snare and a delusion if we continue to permit it to be evaded on the wholesale scale on which it can at present be evaded.

As to the problem of stopping these evasions, the League of Nations have suggested a number of formulae which would stop a number of

these gaps. The Most Favoured Nation Clause should be codified anew to provide means of checking, to some extent at least, these evasions violating the spirit of the clause.

As for Professor STUART, I did not mean to suggest that two countries cannot make agreements with each other which are precise enough so that they can operate satisfactorily between those countries. Nor did I mean to imply that two countries cannot extend the privileges of such agreement to third countries. All I wished to say was that the particular phraseology used by SIR ARTHUR SALTER, "equal treatment," was traditionally and historically of no meaning because it had so many alternative meanings.

If, for example, the World Economic Conference should provide that countries hitherto left outside of an agreement should be permitted to enter upon granting a similar percentage reduction of their tariffs as that granted by other countries, I would say the vagueness would not be excessive, though it would still be great. The mere task of finding the average level of a series of Customs duties has not yet been technically solved.

Professor ZYGMUNT CYBICHOWSKI, Poland:

The Most Favoured Nation Clause, existent in international relations since the twelfth century, is based on privileges, that is to say, on exceptional rights; yet its practical application should be considered as a manifestation of the principle of international equality, for the States which endeavour to obtain this clause aim at securing the same status and the same legal standing as any other State with which they wish to be on a footing of equality. This clause would belie its name if it were extended to all foreign countries, for the universal extension of the principle of equality would mean giving all States equal rights; there would therefore be no Most Favoured Nations.

The privileges derived from this clause may be in favour either of a State or of its citizens. If we investigate the rights of a country, we at once observe the relationship between such rights, that is, the Most Favoured Nation Clause on one hand and the fundamental rights of nations on the other, that is to say, their right to exist, from which derives their right to equality. All independent countries are equal among themselves, maintaining an equality which is recognised in law. Every independent State carries in principle the same weight as another in international life; there are, however, a number of exceptions to this rule, though I need not mention them for the present, as I am only endeavouring to secure a certain measure of criticism for the better appreciation of the Most Favoured Nation Clause in relation to the right of nations to equality. The principle of equality should be the point of departure in dealing with all foreign States; therefore, fundamentally, the Most Favoured Nation Clause is, as regards the

rights of nations, superfluous. And if, in spite of this, States often try to secure the benefits of the clause and succeed in doing so, it only proves that, from the point of view of international law, the principle of the equality of States has not achieved the results which might have been expected of it. In any case, States desirous of enjoying the same rights as other States do not follow a policy which is in contradiction to fundamental international law; on the contrary, these countries aim at realising the true principles of international law and support the tendencies which contribute to its development.

In discussing the rights of States, we are led into investigating the rights of their citizens, or, in other words, the question of the legal position of foreigners. History shows that since the earliest times the legal position of foreigners has twice undergone change; three periods of development, three progressive stages, may be detected in the evolution of legislation connected with the rights of foreigners. During the first period, foreigners had no rights at all; during the second period, they had certain rights; and during the third period, the principle of equality became the byword of legal evolution. The realisation of this evolution, however, is fraught with difficulties and can only partially be achieved on account of the resistance by sovereign States, whenever there is a conflict between the aspirations of foreigners and the aspirations of their citizens, to whom they are of course more partial. It should be noted at the outset that it is impossible for foreigners to attain complete equality of rights with nationals, for full rights imply full duties. In the first place, the duty to serve in the army is a corollary to the enjoyment of full rights, rights including the right to participate in the government of the country by voting and election, which cannot be conferred on a foreigner, who can on the other hand not be forced to serve in the army of a foreign Power which might possibly come into armed conflict with his own country. The result is, therefore, that the granting of equal rights to foreigners can only be partial; and, in our modern world, they are mainly concerned with private rights, granted either on an absolute basis or on a basis of reciprocity. Absolute equality of rights has been confirmed by the Italian Civil Code (Art. 3), which confers on foreigners the same private rights as are enjoyed by Italians. Many other countries grant foreigners conditional equality of rights on a reciprocal basis; as does Poland, for example, whose Constitution of March 17, 1921, embodies the general principle that foreigners enjoy equal rights with Polish citizens on a reciprocal basis and incur the same duties, except in the case of those duties which imply Polish citizenship.

The principle of equality of rights is upheld in a peculiar way by one country whose citizens hold an unusual position, namely Soviet Russia, Article 3 of whose Constitution of July 10, 1918, declares that foreigners residing on the territory of the Russian Republic for purpose

of work are endowed with all the political rights of Russian citizens, provided they belong to the working or peasant classes and do not derive any profit from the work of other people. Foreigners, endowed with political rights, also share the other rights of Russian citizens. According to the Soviet Constitution, the reason for granting equality of rights to foreigners is the solidarity which exists between the workers of all nations. Equality of rights is refused to persons not belonging to the working or peasant classes.

The principle of equality of rights is the basis and the mainspring of the Most Favoured Nation Clause. Since the principle of equality depends on various conditions, primarily, on the condition of reciprocity, the Most Favoured Nation Clause, which derives from this principle, is necessarily impeded by various reservations. The development of the two principles of equality and of Most Favoured Nation treatment are influenced by two strong currents in international life, two great forces contending with one another, two tendencies contradictory in principle though tending towards harmony: nationalism and internationalism: selfishness and altruism—the sympathy for, and the antipathy to, foreign influences, foreign interests, foreign countries and foreign citizens.

There are various difficulties in the way of the realisation of the principle of equality and the Most Favoured Nation Clause; in the first place, those difficulties have a political and economic character, and this is why the jurisconsult will willingly co-operate with the economist in the investigation of the problems connected with these clauses; both will derive assistance from history, ethics and the history of international civilisation in general.

Mr. S. H. Bailey, United Kingdom:

There seems to be general agreement that at the present moment, and probably since 1929, the Most Favoured Nation Clause in its unconditional form has been reduced to an empty formula as a means for ensuring equality of treatment as between the different States. The question, as I understand it, which has already been put is how far the Most Favoured Nation Clause in any form is suitable for maintaining full equality of treatment between States. The necessity for ensuring equality of treatment in my opinion is even greater at the present moment than at any other time in recent modern history. With the increasing participation of Government in economic enterprise, it seems essential that the possibilities of discrimination between different States on commercial grounds should be eliminated as far as is possible. How far is the Most Favoured Nation Clause to prove serviceable for that purpose?

So far, discussion seems to have been concentrated upon the possibilities of effecting tariff reduction by means of exceptions to the Most

Favoured Nation Clause, especially through wholesale regional exceptions to the operation of the unconditional clause. I wonder whether it is possible to foreshadow any large-scale measure of tariff reduction until another problem has been solved, namely, how to offset the extremely divergent social standards which are now in existence in different parts of the world.

It is a misfortune that there are no representatives at this Conference of Asiatic countries; for there is a problem which, I am convinced, is more and more obstructing the possibilities of tariff reduction, namely the competition which is felt in countries with highly developed systems of social legislation from the industries of territories which either do not possess such systems at all, or are only beginning to create them.

It may be suggested, therefore, that the term "equitable treatment of commerce" should be given a far more concrete form, and interpreted in a manner designed to promote the growth of an economic system which is capable of assuring to the individual, irrespective of class and country, the means of livelihood. Indeed, it seems impossible to foreshadow the creation of economic security for the peoples of the world until certain technical obstacles to international concerted action in economic affairs have been removed and agreement reached upon the basic principles of the economic system.

Two examples may be given. Proposals for tariff reduction have in the past come up against the technical difficulties inherent in the existence of different and contradictory national nomenclatures. The recent preparation of a draft uniform Customs nomenclature is a first step towards the removal of some of those difficulties. Secondly, the attempt to assure uniform standards in different countries of the world, particularly standards relating to the hours and conditions of work, has led to the adoption of over thirty draft conventions by successive international Labour Conferences. But there is very little prospect either of a general acceptance of the uniform Customs nomenclature or of the general ratification of these International Labour Conventions, unless some step of a positive character is taken to impel the Government towards acceptance. Could not the Most Favoured Nation Clause be used in such a way as to further the acceptance of these obligations? The benefits of the Most Favoured Nation Clause would only be extended to countries on the understanding that certain obligations under existing draft conventions designed to lay the basis of an international economic system were also accepted as a condition of the granting of the clause. While constituting an exception to the unconditional clause, this development would seem an essential measure if international society is to move towards the creation of an international economic guarantee.

It is essential, in my opinion, for two reasons: first, for the avoidance of international friction, and secondly, for the maintenance of those

standards which have already been achieved in countries with relatively high standards of living. The use of the Most Favoured Nation Clause for these ends would transform it from being primarily a device of purely national adjustment into an instrument for the development of international social policy.

Professor GIORGIO MORTARA, Italy (*translation*):

So well and so often has the Most Favoured Nation Clause been written about and discussed, that I shall ask leave of the Committee to confine myself to a few considerations of a rather recapitulatory character.

In theory, it would seem possible, perhaps even easier, to pass from one or several systems of regional agreements to a wider organisation which would include practically the whole economic world. But there is some reason to fear that these special groups would end by giving rise to an alignment of interests opposed to the wider extension of Customs facilities. Thus the old instrument, the Most Favoured Nation Clause, which, when faithfully applied, assures equality of treatment to all the countries *vis-à-vis* a given country, remains the least harmful —I dare not say the best—instrument of any commercial policy which tends to diminish the obstacles to international trade.

It goes without saying that, by reason of its very great simplicity, the Most Favoured Nation Clause in its unrestricted application can produce the most effective results. But it must not be forgotten that in practice it is noticeable that the opportunity for introducing restrictions into the clause has arisen, for example, in regard to the system of reciprocal concessions between a Mother Country and its Colonies, and also its neighbours, which, though politically distinct from each other, belong economically to a single unit. In this connection I would recall that Italy has on occasion even accorded Most Favoured Nation treatment to other countries without reciprocity.

The difficulty of eliminating these exceptions cannot be ignored; nevertheless it would be well to insist on the existing possibility of adopting in a general way the Most Favoured Nation Clause without any restriction whatsoever, thus immediately making it more difficult for those who try to evade it.

However, if I should express any hope at all, it is that an effort should be made to abolish at the earliest possible moment and by all possible means the obstacles to international trade, which, as SIR ARTHUR SALTER has pointed out in his admirable address, threaten us with universal ruin.

Professor RICHARD KERSCHAGL, Austria:

I have only a few remarks to make from the Central European point of view, in regard to which the situation is the same, not only in Austria but also in Yugoslavia and Hungary.

In my opinion the recommendations of SIR ARTHUR SALTER are very helpful; it may be useful to maintain the Most Favoured Nation Clause, provided it is rounded off by certain supplementary exceptions. It seems to me also a question of terminology, and I will draw your attention to two important points.

The first question is, are such exceptions automatic, or must one give beforehand a most complete definition of them in all treaties containing the Most Favoured Nation Clause? In the latter case, will it not be very difficult to come to any agreement at all if a Most Favoured Nation treaty has to begin with an enumeration of all the exceptions which could possibly be made to it?

In Central Europe, regional agreements are very important, notwithstanding the recommendations of the Conference of Stresa. Up to now, the Central European countries have not come to such agreements; for although they have existed in theory, they have never been given practical effect. One reason why this is so is that the Most Favoured Nation Clause, in its present interpretation, amounts to a kind of *liberum veto*, similar to that of the Polish Assembly a hundred years ago, so that the consent of every single State now possessing the right, by treaty, to unconditional Most Favoured Nation treatment, is necessary before any changes can be made.

I must say it is a very good recommendation that those exceptions should be permitted. We, in Central Europe, are very interested in it, but if it does materialise, we shall want a much better and more liberal interpretation of such regional agreements than we have been used to up till now.

THE CHAIRMAN (*translation*):

In the attempt made by several of our colleagues to construct or reconstruct—you will see why I hesitate between the two words—a world economy, it seemed to me that I saw a conflict not only between the details of this or that project, but, in reality, between two different conceptions of the method by which it would seem best to set about the task of reconstructing the world economic system.

One must here, as in every instance, designate things by names. On the one hand, I found what I would describe as the Anglo-Saxon conception, which those who find it rather vague will call empirical, a conception which, as one opponent remarked, consists in gathering stones here, there, and everywhere, and trying to construct out of these disparate materials the new economic edifice.

To this conception, which is the product of experience (whatever that may be worth) and has the advantage of being derived from existing realities, is opposed a somewhat different thesis, presented in the name of two distinct political philosophies, which consists in tracing out very much in the air, *a priori*, and in the absolute even,

a plan of what the perfect world economic system should be, and then in bringing it down to earth, adjusting it to reality, and perhaps even imposing it upon reality.

In order to uphold the one or the other of these theories, the speakers who have preceded me have resorted to a great number of historical arguments: more historian than economist, I personally was very much interested by the projection of history into the discussion, the more especially as I had noticed that in the general report prepared by Dr. WOLFERS reference to history was, to a certain extent, forbidden —it was, it appeared, a sphere into which, theoretically, one should not enter. This is, as a matter of fact, what I read in the report of our eminent General Rapporteur: "Although the national committees were requested to take the year 1914 as the starting-point for their study of commercial policy, the writers of memoranda naturally felt impelled to retrace their steps to that point, whether before the War or before the present crisis, at which the commercial policy of their respective countries was last given its distinctive form."[1]

Thus one notices an irresistible tendency to turn to history, a tendency to which one must give way, a tendency which is explained by the fact that the evils from which we suffer, though aggravated by the War and its consequences, in reality date back to more distant times.

You will allow me, then, as a historian to express my astonishment at some of the things we heard during the vigorous criticism of SIR ARTHUR SALTER'S thesis regarding the effects of the Most Favoured Nation Clause during the years preceding the War.

We were given a picture of that past epoch in bright colours; the pre-War economic world system was described as an admirably balanced one. I should not be surprised if I had heard such eulogies from the mouths of the young men who were but children before 1914, or who were born during the War even, and who might derive from those past times the vision of a sort of golden age which the War turned into an age of iron. But my hair is white, and my contemporaries, if they, like me, question this sincerely, they will have none of that admiration which seems to be professed for our pre-War world, and they will not accept without reserve all that may be said of the benefits of the absolute and unconditional employment of the Most Favoured Nation Clause.

As for myself, I have studied economic history, the history of Customs systems since 1880. And what do I find? I find exactly what is stated in Dr. WOLFERS' report, in which the author warns the Conference that things were not, perhaps, so simple, so rosy as they are generally made out to be. This is what Dr. WOLFERS says: "The development of the commercial policy of the United States did not

[1] See above, p. 22.

follow on the same lines as that of European countries. The United States adhered in the main to the policy of high tariffs combined with an absolute application of the Most Favoured Nation Clause and a dislike of specific reciprocity agreements well into the post-War period."[1]

Thus, at one point on the globe, respect for the Most Favoured Nation Clause is associated with the raising of tariffs, of which nobody can foresee the end.

I glance now at what happened in France. During the period since 1880 onwards, we have had three Customs reforms—the word "reform" is used for every change made, whether good or bad—in 1880, in 1892, in 1910. These changes, these reforms, were as much the causes as they were the repercussions of other Customs changes which occurred in the world. However it be, each of these reforms was represented by a considerable rise in tariff barriers, by commercial restrictions, by practices, the one more ingenious than the other, which tended to make relations increasingly difficult.

As regards the raising of tariffs—a somewhat limited subject, I admit, but all the more easy to survey—what characterised the commercial state of the world before 1914 was a perpetual tariff war between the various nations, a sort of race in economic armaments . . . and one may ask—though it is a formidable question which I shall not deal with, because it goes beyond the limits of our studies—whether that economic war was not one of the fundamental causes of the World War. As for myself, judging by the lessons of history, I cannot get rid of the idea that the Most Favoured Nation Clause, as it has been applied since 1880, was largely responsible for the War.

If, on the other hand, I study the history of Customs disputes between France and neighbouring countries, I find two of them that were prejudicial and grievous: the one with Switzerland, and the other with Italy, both of which are, incidentally, the most outstanding ruptures in the history of the French economic system since the Customs reform of 1892.

When the French negotiations with those two countries were first undertaken, they were based on the old principle which had dominated the entire commercial policy up to 1870, namely, that of "give and take." "We will grant those concessions on merchandise," said France, "which you desire most of all, and you in turn must do the same."

Let us take, for example, two concrete instances: I hope you will forgive me for entering into details, but it is the best way of making clear what I want to say. Italy needed to find a market for her silks in France. And France, in order to obtain compensating advantages, would have liked to have granted Italy the best Customs treatment

[1] See above, p. 23.

for her silks on entering French territory. But there were, in other parts of the world, silk industries, better equipped than those of Italy, which made for serious competition with the industry at Lyons, the French industry. France accordingly judged that she could not grant to Italy a Customs tariff lower than that deemed necessary for the protection of her own industry against imports from countries where the silk industries were better equipped than those of Italy.

Now I turn to Switzerland. There was a Swiss industry, the electro-technical industry, which wanted to extend in the French market, for it was just at the time that Switzerland was beginning to exploit her waterfalls industrially; furthermore, she produced her electro-technical products under conditions which made it possible for the French industry to compete advantageously with them.

If the negotiations entered into had been carried on solely as between two islands separated by the ocean and completely independent, an agreement could easily have been made. Unfortunately—you will see in what sense I use the word—the German electro-technical industry, centralised round Fürth, and extremely well equipped, manufactured the same products at such cost prices that, if France had granted this industry such tariff treatment, under the Most Favoured Nation Clause, as she could have given to Switzerland, it would have flooded France out and killed her electro-technical industry. Our negotiators were thus compelled to tell their Swiss colleagues that they could not lower the French tariffs, that France was bound to Germany by Article 11 of the Treaty of Frankfort, which made the Most Favoured Nation Clause perpetual, and that Germany would immediately take advantage of whatever concessions might be granted to Switzerland. The result is common knowledge: a rupture between France and Switzerland which was deplorable both for the countries concerned and also for the general conception of intercourse between nations.

And furthermore, it was because the Most Favoured Nation Clause, the universal, unconditional clause, governed every sort of exchange that abuses of the Customs nomenclature sprang up, which constitute one of the greatest drawbacks at the present time. It has already been stated that an advance which might be made fairly easily, on paper at least, would be the simplification of this Customs nomenclature, the complication of which allows Customs officers in the guise of excisemen and tax-gatherers to go very far towards corrupting the relations between peoples. And that abuse has led to another, from which we equally suffer: the abuse of Customs specifications.

Under the Most Favoured Nation system, which is outwardly respected, it is, in effect, possible to push the specifications to such a degree that a given schedule of the tariff will eventually contain extremely minute descriptions, which in fact at a given moment only refer to the products of one particular country, which in reality amounts

to saying to foreign producers: "Our frontier is open to you, but only in respect of those goods which you yourself cannot manufacture."

There you have yet another great defect—I regret to say so—of the Most Favoured Nation Clause, from the public point of view. It alone suffices to explain why, after having eulogised the clause, we have turned against it.

Another thought which came into my mind in following a previous debate was that the following question is forced upon us, as also upon the rapporteur of our Committee. What exactly do we want? Towards what objective is our Conference tending? And, ascending still higher, what aims should we like to see imposed upon the World Economic Conference? Is it a question of bringing about a lowering of tariffs between States, of rendering commercial relations more easy? It seems that such is the ideal towards which a Conference like ours should aim.

Is it possible for the universal and unconditional re-establishment of the Most Favoured Nation Clause, desired by two speakers, to bring about a policy of lower tariffs? Apparently not; since 1918 particularly, when the United States subscribed to the third of President Wilson's Fourteen Points, the Most Favoured Nation Clause has created—I shall even say was bound to create—the highest possible Customs tariffs in each country. The interpretation which President Wilson was forced to put upon his definition drives every nation to raise its Customs barriers as high as possible, provided always that in the wall thus raised there are neither windows nor battlements, cracks nor doors, or at least provided that the cracks and the doors are the same for everyone.

We may therefore well wonder why every Customs barrier in the world will rise higher with every tariff reform until it reaches the sky, like the Tower of Babel because it can go no higher. This, you will agree, is not the ideal for the future conduct of relations between States. Since the Most Favoured Nation Clause may be combined in a formidable way—as has been referred to apropos of Denmark—with a system of quotas and commercial restrictions, the danger is still more serious. For it has been found to be the method, acknowledged by international legislation, whereby a nation, by an internal act or simple decree, is allowed to interfere with the conduct of international relations, without appearing to have the slightest effect on the Most Favoured Nation Clause.

It is partly to deal with these drawbacks that our President, Sir Arthur Salter, who has done us the honour, and given us the great pleasure, of taking such an active part in the work of our Committee, has suggested as a remedy that the formation of regional agreements should be regarded as legitimate. Can one discuss the legality of these agreements, having regard for the absolute and unconditional form of

the Most Favoured Nation Clause? If we take a look at the pre-War period, we find that ever since that time there have been precedents for the conclusion of regional agreements. Only a few years ago I read a work entitled *Reciprocity and the Tariff*, published in 1910 by Professor Taussig, one of our colleagues of the University of Harvard and an expert in Customs matters. The author, taking the point of view not of the Most Favoured Nation Clause, but of reciprocity, said that reciprocity should be applied in an absolute way, but that there were, however, exceptions. And he pointed out, in particular, the case of countries bordering on each other, which, by reason of their common frontier or of their political system, maintain closer relations with each other than with other countries.

Thus a commercial agreement between the United States and Canada might be constructed on a special basis, without third parties being able to claim the right to reciprocity. And then there was the case of Hawaii, of that archipelago which was in what one might describe as a mixed situation, in which no one seemed to know at what point it really became part of the United States. The same remark might also be made about Porto Rico and the Philippines.

But cannot this conception of regional agreements, which is valid for two enormous territorial masses, separated by a frontier 4,000 kilometres long, and accounting for a population of 120 million inhabitants on the one side, and 10 millions on the other, that is to say a considerable portion of humanity, a conception which sanctions an exception to the rule of reciprocity and even more to the Most Favoured Nation Clause, cannot this, I repeat, be recognised as valid for two small territorial units such as Belgium and Holland? The frontier between those two States is not more insurmountable than that which separates the United States from Canada. The relations between these two countries, which have been reunited three times in the course of their history, and which may become reunited once more by a commercial agreement, are as close as those which can exist between the United States and Canada. If one may send goods from Washington to Toronto by paying other Customs duties than those imposed on goods coming from other countries, by what right should one be able to prevent the sending of goods from Brussels to The Hague, from Antwerp to Rotterdam, under similarly favourable conditions?

Such is the justification for the regional agreements which SIR ARTHUR SALTER recommends. And what is valid for Belgium and Holland is valid for countries which, though politically separated, possess, in the words of Taussig, not less close bonds of contiguity, meaning, of course, the members of the former Danubian monarchy.

In a very interesting communication, Professor KERSCHAGL showed

that the articles of the Treaties of Saint-Germain and Trianon, which allowed for an exception to the Most Favoured Nation Clause and outlined, on the map of Europe, the framework of a regional economic union, have remained a dead letter; efforts have since been made, at the Conferences of Porto Rosa and Stresa, to rehabilitate this special conception, to which unfortunately third countries have been opposed on the principle of the Most Favoured Nation Clause. Here again I am wondering whether the employment of the clause is consonant with the interests of humanity.

Let us discuss it on an economic basis. We are unanimous in saying that very close economic relations should be established between the States of the Danubian region, but when it comes to action, when it is shown that the only means of establishing these relations is to try and reconstruct—with due regard to political independence—a sort of Customs *entente*, the Most Favoured Nation Clause is evoked on all sides, and such arrangements are declared to be impossible. Is this not illogical?

In the exposition given by SIR ARTHUR SALTER, I noticed an argument which I would emphasise, for it is of capital importance. After having pointed out the good that might accrue from regional agreements if they were given opportunities of being extended, SIR ARTHUR SALTER declared that they were the only practical means of preventing the emergence of something quite contrary to commercial equality, that is to say, Customs Unions proper, in the form of Zollverein. Even if the unconditional form of the Most Favoured Nation Clause be applied in all its rigour, as three of our colleagues require, what means have we at our disposal—except a resort to force —for preventing two countries which have been forbidden to conclude a Customs *entente* from forming themselves into a Zollverein?

I have the ear neither of the Government of the King of the Belgians nor of the Queen of Holland, but suppose these two Governments attach a very great significance to their reciprocal Customs concessions and are ready to make sacrifices to realise their intentions. They make a courteous demand for an exception to the Most Favoured Nation Clause. We refuse to grant it, telling them that they may lower their Customs duties, but that we, third States, propose equally to profit by it. Who is going to prevent these Governments telling the world that they have formed a Customs Union? Shall we, contrary to the Kellogg and other Pacts, mobilise the English, American, French, Italian and Japanese fleets, to prevent Antwerp and Amsterdam, Rotterdam and Ghent, Belgium and Holland, from forming a Customs Union? By no means. The declaration will be registered at the League of Nations and the Belgo-Luxemburg Zollverein (already consummated) will include one more State, making in all three small States, of which two are great economic Powers, and the third, on account of its

production of raw materials, occupies an important position on the map of Europe.

Again, let us suppose that objections are made against the Customs agreement which is at the present time practically concluded between the Scandinavian countries, and that attempts are made to prevent the agreement from coming into force. Who is going to prevent the three Scandinavian kingdoms from re-establishing the Calmar Union—the previous Union—in an economic form? And who is going to prevent the Baltic countries, whose interest it would be economically to draw closer together, from forming a union of the same kind? And who is going to prevent the Danubian countries from dropping their ancient rivalries, if they are not going to be allowed to grant each other mutual concessions in the matter of agricultural products on the one hand, and of industrial products on the other? We can see how things will work themselves out on the map. These countries will decide to group themselves into a Customs Union, and it will be a Zollverein. And such agreements may have certain disadvantages from the political standpoint, I might even say from the standpoint of world peace.

For all these reasons it seems to me imprudent to desire that the Most Favoured Nation Clause be put in the way of regional agreements; it might also be dangerous to peace, in spite of the possibilities it may possess by way of being a safety valve for the economic passions of the peoples.

Furthermore, to oppose regional agreements is to a certain extent like participating in the game played by children at the seaside, who construct a wall of sand to prevent the tide from coming in; and according as the sea rises, the higher they build their mounds; then a moment comes and a wave carries all away!

SIR ARTHUR SALTER:

. . . If you would allow me, I would like to make just a few further comments, particularly as something Professor VINER said in regard to my proposals was based on some misapprehension as to what I meant. In the first place, I was, of course, not discussing at all the legal interpretation of existing Most Favoured Nation Clause pledges. What I was discussing was the kind of way in which it is desirable that Most Favoured Nation Clauses should be drafted in future and the way in which exceptions should be either anticipated and provided for in the original drafting, or admitted afterwards even though the contract at the moment might make it possible for countries to object to a particular proposal.

I was not for a moment suggesting, for example, that Great Britain had not a perfect legal right, as undoubtedly she has, to object to such a proposal as that of Belgium and Holland. But I was suggesting,

first of all, that it was desirable in future to admit certain exceptions which it is not customary at present to admit. Secondly, if that were agreed as desirable for the future, that it would be reasonable in relation even to existing pledges that countries that had a right to make objection might waive their objection as they have done with regard to the Zollverein proposals. I was not suggesting that the Most Favoured Nation Clause, as it at present appears, necessarily, automatically permitted a Zollverein, but I was calling attention to the well known fact that it has been customary to agree to an exception in favour of a Zollverein when proposed.

Just as an example of such a waiving of an objection, I might call attention to the fact which Professor VINER is doubtless aware of, when there seemed to be some possibility last year of the Danubian arrangement, that the American Government indicated it would in that case not oppose it on the ground of its Most Favoured Nation Clauses.

With regard to Zollvereins my point was not really that I wished for preferential arrangements in order to prevent the danger of Zollverein; my point rather was that it is extremely difficult for countries, except where a political union is contemplated, to make Zollvereins, and that Zollvereins as a method of extending or of freer trade are likely to have a very limited rôle. I think myself that in some cases Zollvereins would have very distinct advantages, though there are other cases in which they might involve certain political dangers.

Now, as to the point of the political danger of arrangements with regard to Zollvereins or preferential regional agreements, I am inclined to agree with Professor VINER and Professor ZIMMERN, who thought it would not be practical to define the political conditions in which exception would be allowed to the Most Favoured Nation Clause. On the other hand, I could not for the moment accept that a regional agreement will presumably cause political danger. I think it depends on many circumstances. For example, where you have a proposed regional agreement between countries which are potentially more likely to be enemies than allies, a regional economic agreement would, simply from the fact that it cuts across political associations, diminish and not increase the existing political danger. I should very much like to see an economic arrangement between, let us say, Czechoslovakia and Hungary, or between a group of countries which included those two. I think it would distinctly diminish and not increase the political danger.

In this connection I would point out that, inasmuch as at present, according to the customary exceptions, Zollvereins only, and not a sort of half-way stage to Zollvereins, are permitted, it is more likely the half-way stage which I am suggesting would be politically more desirable than the Zollverein, simply for the reason that it is only

where you have a very strong political association and even a potential political union that you are likely to get anything so extreme in economic policy as a complete Zollverein, whereas that does not apply to the half-way stage which I am hoping to facilitate by the proposals I have made.

Next I would like to refer to Professor VINER's point that it is undesirable to include in any convention a phrase so vague as "equitable." I entirely agree. I did not really mean that if anything in the nature of a real convention were being drafted defining the conditions under which exceptions should be allowed that the exceptions should be described as equitable. I was merely indicating an idea which I hoped if that convention were reached would be exactly defined, and possibly accompanied by some kind of arbitral machinery which would interpret in relation to any possible disputed case.

One other point Professor VINER made was that it would be very undesirable for the World Economic Conference to attempt to impose regional agreements. Certainly it would. I never for a moment suggested any imposition of regional agreements, but only that the way might be opened which would encourage and facilitate certain classes of regional agreement where there was a particularly strong desire for such agreements.

Lastly, Professor VINER said it was hardly for scholars to attempt to devise the compromises that would properly lie within the competence and sphere of politicians. But I do not think really what we are discussing is of the nature of a compromise between theory and practice. We really are discussing the desirable evolution of an important factor in the commercial policy of the world. The Most Favoured Nation Clause, its drafting, its customary exceptions, its method of application, have already had a long and changing evolution, and will undoubtedly do so in the future. It seems to me entirely proper that a scientific body should consider in what direction they would like to see that evolution develop in future. It was as a contribution to that that I made my suggestions.

May I just say in conclusion the reason why I advocate the proposals I do? In the first place, I have been very much struck with the way in which economists in different countries have, starting with a very definite adhesion to the most unconditional Most Favoured Nation Clause, by the force of events and experience been compelled to modify their views. I have seen in this country the way in which people like Sir Walter Layton, Mr. Maynard Keynes and Sir Josiah Stamp, starting with the "pure milk of the gospel," have been compelled to dilute and change their views, and one after the other have come to adopt the view that I expressed yesterday. Even more notable perhaps in America is the case of Professor Taussig, who was, I believe, one of the principal people in advocating America's policy

with regard to the Most Favoured Nation Clause, and as Professor VINER will be aware, in an important article in the American Quarterly, *Foreign Affairs*, he has been obliged completely to change his views. He goes back completely upon his past, having regard to subsequent developments in the commercial policy of the world.

I should like to see this change, partly because it will utilise one of the strongest forces now existing in the world that is capable of securing an extension of freer trade, of reducing tariffs and of extending the reduction; secondly, because I think that it is almost the only solution if we are going to have a world in which there will be considerable tariffs round national units in a world where there are very large countries and very small countries. It is almost the only way which I can see of securing some tolerable relation between large economic units and the small economic units. When you have a country with the size and resources of America, with all the strength that a complete Free Trade within its own borders gives, it does seem to me very difficult to conceive a tolerable state of things in which a unit of that kind will live with and treat with units as small as Belgium and Holland, if in practice the latter are not able to extend in some measure the area of their economic frontiers. The Zollverein solution, if it were adopted, would certainly be open to all and more than all the real objections of the half-way Zollverein, and at the same time for the reasons I have mentioned is extremely likely to have not very large extension. Where it did have such extension, it would on the whole be accompanied with more political dangers than the half-way Zollverein I desire to encourage.

Lastly, I would like to emphasise again my point that by this method we can utilise the Most Favoured Nation Clause, and the essential principle which that clause embodies, in order to prevent the very great danger that the movement for regional agreements will take the form of constantly increasing and more discriminatory and more chaotic associations, and will canalise that movement in the direction in which it secures a reduction and an extension of reduction.

My last reason for the proposal I make is that I hope by providing a safety valve to secure the safety of the essential purpose of the Most Favoured Nation Clause itself.

Professor VINER:

I wish to say a few words in order to make my position a little clearer than I seem to have succeeded in doing. In the first place, with reference to some of the remarks of our distinguished CHAIRMAN, which perhaps wrongly I gathered were partly directed to me, it certainly is not and never has been my position that at some previous date, say before 1914, there was a golden age in commercial policy to

which we must return. All I contend for is that, bad as the age before 1914 was, still it was not as bad as the present age is in that connection, and that the Most Favoured Nation Clause was not a cause of the evils then prevailing but a mitigating factor. I do not wish to exaggerate the importance of the Most Favoured Nation Clause. I think there are many other matters of greater importance. But that happens to be the item now up for discussion.

I do not wish to be interpreted as carrying out the function of defending the policy of the United States, either present or past. If I wanted to find horrible examples in commercial policy, I could find them most readily in the history of American commercial policy. To cite to me practices of the United States before 1914, or since, as evidence that a certain policy is right would lead me to suggest that if you can find it in the practices of the United States in the past, that is almost sufficient to condemn it. But I should like to point out that since 1923 the United States has changed its policy, that before 1923 the United States did not believe in the unconditional Most Favoured Nation Clause and was the main upholder of the contrary practice. Some of the difficulties in the operation of commercial treaties before the War were due to the fact that the United States as a great commercial country stood outside the general circuit of the unconditional Most Favoured Nation treaties.

With regard to Professor Taussig, I concede that he has since changed his mind; I think he is mistaken, but that is another question. What I think is important at the present time is that while the United States changed its policy in 1923, it may again change its policy in 1933; about that I will say a word later.

In connection with SIR ARTHUR SALTER's statement; the upholder of the unconditional Most Favoured Nation Clause does not necessarily object to exceptions. What he would ask is that the clause itself should not invite exceptions, that exceptions should not be granted unless expressly provided for in the particular pledges, and that the general tone or attitude of the World Economic Conference should not be such as to foster the setting up of machinery whereby on wide and important ranges of matters one can easily depart from the application of the Most Favoured Nation Clause while still giving homage to the principle. I think it would be a serious mistake for the World Economic Conference to encourage tariff discriminations rather than discourage them; that particular express exceptions for special and weighty reasons clearly defined should be permitted, all would admit, is inevitable as a matter of practical politics.

It seems to me on this general question the issue at the World Economic Conference, whether it gets stated anywhere or not, is going to be fairly clear. There is going to be an attempt to obtain a general world-wide reduction of tariffs at the Conference. If that

attempt encounters serious difficulties, a number of important participants in the Conference will give up hope in the possibility of obtaining such reductions at the present time and will look for other alternatives. One of the alternatives will be to retire within their own national boundaries and cease to participate in international economic intercourse. This is merely a personal view, but I think at the present time the new administration in the United States is not so firmly bound to any particular philosophy or doctrine in these matters that it could not change its mind over night on slight provocation. At the present time it is moving in the direction of advocating a reduction of tariffs, to the present height of which it has itself contributed its adequate share. If that procedure does not promise to produce results, one does not have to be a prophet to foresee that any American administration can find ample support at home if it decides to break its economic ties with the rest of the world.

At previous World Conferences there was one important country which fought ably to check the tide of upward tariffs. That country has now joined the ranks of the high Protectionist countries. The rôle of defence of international economic relations which previously was borne by the British Empire now falls to the United States. It is a rôle to which the United States is not accustomed. It is in the interests of the rest of the world, particularly of the small countries, that the United States should be encouraged to the utmost to play that rôle, which with the enthusiasm of a novice it may play more zealously than other countries have previously played it, rather than to divert it back to its traditional rôle of a believer in barriers to trade as a source of prosperity.

One other point I would put in the form of a question because I am not clear as to SIR ARTHUR SALTER's position. Does SIR ARTHUR encourage regional agreements at the World Economic Conference because he likes regional agreements—which, of course, looked at from another point of view are agreements providing for discriminatory treatment as between other countries,—or does he think that through regional agreements we can again approach to a situation in which whatever the height of the tariff barriers they are uniform as to all comers?

SIR ARTHUR SALTER:

My best answer is this: I should like to see universal Free Trade. We cannot get it. Failing that, I should like to see universally low and uniform tariffs throughout the world. We cannot get that. Failing that, I should like to see large and more or less equal areas of as nearly as possible Free Trade, for example, the United States of Europe on the one hand, and the United States of America on the other hand. We cannot get it. Failing that, I should like to see groups as large

as possible—half a dozen rather than thirty—in Europe for example. We have got to face the fact that there is and is going to be in the world a number of more or less partial, more or less complete, economic units.

There is a real alternative between, on the one hand, those units being in every case (*a*) national, as small as the national frontiers, or (*b*) wider than the national frontiers. There is a real alternative as to whether those units should be almost completely closed units or partial units, that is to say, units protected by small and reducing tariffs as against high and increasing tariffs. Thirdly, there is a very real alternative as to whether the units that are being formed will tend more and more to close and harden or will tend to extend upwards and coalesce till they form larger units.

As between those alternatives I desire a system which will encourage the larger economic units, the less complete, in the sense that they will be protected by low and reducing tariffs, and finally, units of a kind which will tend to expand.

My suggestion is, as between those two practical alternatives, to encourage movements of the latter kind, out of which I conceive my approach to greater liberation of world trade coming, not so to speak by a process imposed by a universal decision to have Free Trade—which I regard as impossible—but inductively through relatively small unions as big as possible, with their tariffs always coming down, and the areas of low tariffs always extending. That is the way in which I conceive the world returning to greater and freer trade.

Professor WILLIAM RAPPARD, Rapporteur:

If we consider this not merely as an academic discussion but as a consideration of the problem before the World Economic Conference, everyone will admit that the conversation between SIR ARTHUR SALTER and Professor VINER comes closest to putting us in face of reality. It is not the duty of scholars to make mutual concessions in spite of their better insight so as to agree on unity of doctrine. We are here to say what we have in our minds, even if by stressing differences of view we thereby seem to prevent desirable unanimity. No one in these discussions has put any restriction on the desirability of freer trade. SIR ARTHUR SALTER thinks the method of authorising certain exceptions to the principle of the Most Favoured Nation Clause is a good method towards securing the end which he considers as desirable. Professor VINER has doubts. It is here the difficulty of the rôle of scholars becomes apparent, because we are no longer discussing a matter of scientific insight into reality but of the expediency of certain political attitudes. If SIR ARTHUR's view is presented, notably to the American public, as the advocacy of a policy of discrimination, it is, of course, doomed to failure. If it is presented as a

method of securing greater Free Trade or freer trade areas in Europe, I wonder whether Professor VINER would deny that there may be something attractive in that to American statesmanship.

Since 1927, the Americans have been urging Europe to organise so that Washington would have something more worthy of Washington to negotiate with. Washington does not like to discuss, as an equal, matters of trade and economic organisation with small capitals. If we can present the proposals as a means of supplying America with better organised markets, even a man like the present Secretary of State might look upon them as a possible avenue for securing his own ends. It would not only be undignified but not clever to seem to tell statesmen how they are to go about their specifically political business, but in our report the discussion should be so summarised as to show there is no desire to secure advantages for European States at the expense of American exporters.

Professor VINER was very insistent on the difficulties and the possibilities of increasing the surface of friction. There will be constant difficulties of interpretation. Professor ZIMMERN's suggestion is a happy one, that if we seek to organise the world as SIR ARTHUR SALTER has proposed, there should be some machinery for the constant impartial discussion of divergencies of opinion as they arise.

We can congratulate ourselves on the rather unexpected degree of agreement which we have reached, our differences are rather those which confront statesmen than those which confront scholars.

Professor ZIMMERN:

This discussion is not complete in itself. You cannot discuss the Most Favoured Nation Clause independently of the whole question of trade in Colonial areas. When we discuss the Open Door, we shall find a great deal more light is thrown on the large measure of agreement amongst us.

THE OPEN DOOR POLICY

Professor ZIMMERN:

Professor VINER has given us a picture of the British Empire as a highly Protectionist community, having completely changed sides and face to face in the World Economic Conference with the United States, which is panting for Free Trade. That is not a fair description of the situation, nor is it a fair description even of the Ottawa Conference.

As regards the relations between the self-governing Dominions in the Ottawa Conference, it is impossible to say at present whether the Conference will lead to greater trade or less, because the policy of the British Government was to use the Conference as a means of increasing the trade of the world, reducing rather than raising trade barriers; this result depends very largely on the working of the new Tariff Boards in Australia and Canada.

The important part of the Ottawa Conference is the series of agreements which were made between the self-governing and the non-self-governing parts of the British Empire, including the agreements to which India was a party. From the point of view of foreign countries, those agreements undoubtedly bore a reactionary aspect, because they close the British Empire still further to foreign trade; but from the point of view of the constitutional evolution of the British Empire those agreements bore an entirely different aspect. They are a continuation of a process of increasing fiscal autonomy on the part of the dependent Colonies, which began in 1912 with an agreement between the West Indies and Canada. The agreement was entered into in accordance with the opinion of the West Indian community. This policy was carried further in 1917, when in face of the strong protests of the Lancashire textile industry, India was allowed to increase her duties against foreign textiles without a corresponding internal excise duty.

In preparing for the Ottawa Conference, the Colonial Secretary enquired of each dependent Colony what advantages they hoped to get out of the Dominions, and what they were prepared to pay in order to secure those advantages. The Colonial Secretary went to Ottawa not as the representative of Great Britain, but as the expert bargainer on behalf of Jamaica, Fiji, Malaya, Nigeria, and the few dozen separate fiscal administrations, and the bargains he made were bargains which were acceptable to the public opinion of the Colonies as represented in the various legislative assemblies. Embodied in the particular agreement between Great Britain and Canada was a very elaborate series of reciprocal treaties between the dependent Colonies, and in some cases these were ratified by the Colonies

in a few days, in the case of Fiji within a few hours of the Ottawa negotiations.

The idea of the Open Door is really in essence reactionary, because it makes a clean cut between self-governing areas and non-self-governing areas, treating the latter as the more passive elements in the world's economy. The maintenance of this point of view is quite impossible. India intends to exercise to the full her fiscal autonomy and will be an independent member of the world community as far as commercial policy is concerned. That doctrine is not agreeable to non-Britishers, particularly large industrial countries which have no Colonial areas of their own.

The dependent Colonies were given every opportunity of saying what sort of bargain they would like to make with the Dominions, but they were given no opportunity of saying whether they would like to negotiate with any Government outside the British Empire. Fiji succeeded in getting a market for her bananas in Australia; she could no doubt have got by bargaining a still better market in Germany. The line of advance is that the various Colonies should be encouraged to go on an absolutely independent basis into international trade assemblies and bargain on their own account. South Africa, which is a Dominion, attempted to negotiate a trade treaty with Germany which accorded to Germany a preference equal to that which South Africa was granting to Great Britain. That was very unpalatable to certain sections of British opinion, and as a matter of fact was not put into operation. It is quite impossible at the present time to go back to the old idea of the Open Door and to treat Colonial areas without any regard to the wishes of their inhabitants.

There is a good deal of discussion in Italy and Germany particularly about the desirability for industrial countries without Colonies to obtain them. That discussion is carried on without any reference to the wishes of the inhabitants of areas concerned. The right solution for the problem of access to raw materials is to bring the Colonial areas on an independent basis into discussions, so that they can get better terms from countries which would otherwise like to annex them.

Professor GIUSEPPE GALLAVRESI, delegate of the Sub-Committee of Experts for the Instruction of Youth in the Aims of the League of Nations (*translation*):

Professor ZIMMERN has just emphasised the difficulties which many European countries like Poland, Germany, Italy, etc., are experiencing as a result of the fact that the Door, so far from being open, is closed to them almost everywhere. In this connection I should like to emphasise an aspect of the question which has not been and perhaps could not have been dealt with in the reports on the Open

Door, as a consequence of the devotion of the authors concerned to topics of a highly specialised nature.

What I wish to point out is how the Door is closed to certain nations, to peoples more than to Governments, by reason of the fact that a number of States no longer give entry to the workmen of those nations which are still in the same position to send them as they were in the past.

In Italy, for example, we have felt profoundly the effects of the Australian legislation forbidding the entry of Italian labour. I do not refer to the legislation of the United States, which does not draw sharp distinctions between different kinds of foreign labour, whose entry it forbids on a global basis, so to speak, even though it may be worked out according to the customary percentages; but I would emphasise that the Australian legislation is directed against the workers of the most thickly populated countries. The result is that the free play of economic forces has been arrested, as in the case of the extension of vine cultivation in North Australia and the maintenance of sugar-cane cultivation. At any rate, this halt in production causes no great embarrassment in these times of over-production, but the measures so taken will be none the less anti-economic in a general way in normal times.

I would also emphasise the effects on Italy itself of the new policy adopted by those countries which in the past received its immigrants. In thus destroying the possibilities of emigration from over-populated countries, they have, at the same time, upset the balance of payments. These thickly populated countries, which have no raw materials to export, but only some few manufactured goods which they export at the cost of heavy sacrifices, managed to equalise their balance of payments, thanks to the money sent by their nationals working abroad; it was an admirable and worthy form of co-operation by the working population as a whole in the work of the Mother Country, of which the Italian and Polish emigrants were striking examples.

It may also be maintained that to a certain extent these thickly populated countries were driven to abandon Free Trade as a result of this change of equilibrium in the balance of payments resulting from the closing of the Door by certain States to foreign labour.

I realise that we must not prolong the debate on the Open Door unnecessarily, especially as we are discussing in the first place the tariff problem, but I think it is necessary to throw this special aspect of the question into relief, namely, the closing of the Door to foreign labour. If there had been a representative of some Asiatic country here he would not have failed to add his regrets to mine. I think I am expressing an opinion for which it would be easy to find support in certain European States, in pointing out how in certain countries the workers of great and ancient nations are treated without regard,

if I may say so, for the power of those nations or their contribution to civilisation.

THE CHAIRMAN (*translation*):

Professor GALLAVRESI seems to suggest that he was thinking more particularly of Australian legislation, and that the immigration laws of the United States are not so discriminatory. It is true that American legislation is not aimed at any particular people, but since it does apply the quota principle, it particularly affects, in fact, one or two European countries.

Professor RAPPARD (*translation*):

I shall take the liberty to reply to Professor ZIMMERN that if the plea he has just been developing were reproduced before the World Economic Conference, it would have exactly that effect on our American friends which ought to be avoided; I have discussed Colonial questions with our American friends often enough to be able to affirm that.

Professor ZIMMERN says that they had the air of doing something rational at Ottawa, and that what was an achievement was the granting of fiscal autonomy to the Colonies; it must be recognised, however, that the benefit of the measures thus taken was immediately employed to assure the whole Empire of reciprocal, preferential advantages with the Colonies.

And further, it is only being ambiguous to talk about the fiscal autonomy of the Colonial territories. The British Empire has indeed for a long time pursued the policy of handing over increasing powers to the populations with a view to hastening their evolution; it is not less true that the Crown Colonies, even those possessing a legislative council, are administered by a Governor to whom the Mother Country allows a great deal of liberty. The Governor has around him a council in which his own officials occupy a large place and is assisted by the representatives of the commercial colony, which is essentially British; the natives being left with a very small part, which is much more consultative than effective.

Consequently, to say that one is liberal, that the Colonies have been granted fiscal autonomy, is only true on the surface, for this autonomy is in actual fact granted not to the territories as represented by the majority of the inhabitants, but to an essentially British administration. That the merchants, the planters, who, in the Colonies of the Empire, are overwhelmingly British, should have welcomed with favour the autonomy granted to them, an autonomy which they have employed to assure themselves of reciprocal advantages in their relations with the Dominions, is not surprising.

On the other hand, I doubt whether this autonomy is consonant with the interests of the natives, whose advantage it is to buy in the

cheapest markets and to sell where they are sure of finding the best openings. It is in their interest also to be secured of an effective measure of autonomy which will enable them to negotiate with all States. The gift which consists in telling a Colony, governed as we have just seen: "You will no longer be the object of exploitation by the whole world, you can rest assured of advantages in your relations with other parts of the British Empire," is not perhaps very precious to the natives, particularly as it is impossible at the present time to find out what the natives think; those who have been made to speak are not the most representative, and the mass as a whole is incapable of understanding these problems.

The truly progressive policy in this matter, if we are to draw inspiration from the British example, is to raise the natives ever nearer to the level of individuals capable of governing themselves; but until they become such, particularly in the sphere of economic negotiations with foreigners, the last stage of evolution, it is best to consider them as pupils. And so when a tutor says to his pupil, "I speak in your name, I am going to put you in particularly intimate relations, from a commercial standpoint, with the members of my family," it is scarcely reassuring for the poor pupil. The defence of the latter's rights would be the better assured if he were made to face the rest of the world, and a representative of this world were allowed to have the right to supervise the administration by which he is governed.

Thus we must not consider only the advantages of this invention which consists of granting fiscal autonomy to the Colonies; the natives will always be better represented by London than by the planters surrounding the Governor.

From the point of view of the rest of the world, the decisions taken at Ottawa must be regretted to the extent that they assure preferential advantages to the Empire in its relations with the Colonies.

How is the possession of a Colony to be justified? Historically there is the right of conquest; morally there is the incapacity of the natives to govern themselves well; economically there are claims to natural riches, which are only to be found in the Colonies. But if colonisation can be justified that way, there still remains one condition: it is that the primitive population shall be governed in their own interests—as has always been the splendid British tradition—and also in the interests of the whole world, and not preferentially in the interests of the administrator.

It is in regard to this last point that I cannot see any sign of progress in the decisions taken at the Ottawa Conference. There is progress in the recognition of a liberty which is to be assured to the Colonies in the future. But whereas the pre-Ottawa system assured the natives of equality in their relations with the rest of the world, and assured the world of outlets for its industrial products and free sources of supply,

this liberal regime has been replaced by a system which is more restrictive in every way.

Professor ZIMMERN said just now that the British policy was not that of the Open Door, but of a Door open only in one direction. Quite so, the Colonies of the Empire could not come to arrangements with the rest of the world, but they had at least one guarantee—it was that their products could be sold everywhere to the extent to which the purchasing States opened the Door to them, and also that their own peoples could buy everywhere on the same conditions.

I hope that, while preserving the precious element of progress to be found in the conquests of Ottawa—to use Professor ZIMMERN's phrase—the facilities given to the Colonial administrations for granting preference solely to the other parts of the British Empire will be withdrawn. If one of these two steps could have been taken without the other, greater progress would have been made than if both had been taken, for the second has neutralised, and more than neutralised, the advantages of the first.

Professor NORMAN BENTWICH, Hebrew University of Jerusalem:

I come from Palestine, which is one of the mandated territories, and I should like to say a few words on the principle of the Open Door. That principle applies to the A mandates as well as B mandates, but it does not apply to the C mandated territories. Palestine happens to be at the moment one of the few economically prosperous countries in the world. That may be due in part to the fiscal system. The system of the Open Door, at least in the mandated territories, does not mean that the country cannot take fiscal measures to protect its own industries or its own products; but it means only that there is to be no discrimination in the Customs tariff between the mandatory country and any other country. There cannot be any preference to British trade in Palestine as compared with the trade of any other country which is a member of the League of Nations.

There has been in Palestine, in the last year especially, a certain demand from sections of the people for getting rid of this principle of the Open Door, because it is desired to get the benefits of Imperial Preference, particularly for the export of oranges, and in return to give preference in Palestine to British trade. That would mean, of course, discrimination against the imports of other countries, which is at present impossible under the terms of the mandate. And, in the long run, discrimination would provoke resentment against the Mandatory.

I entirely agree with Professor RAPPARD that the supposed independence given under the Ottawa agreements to the British Crown Colonies to adopt or not to adopt the system of Imperial Preference is unreal, because in the Colonies and also in mandated territories

the Government is in the hands of the Colonial or mandatory Power. I should say that, if you gave independence to the elected members of legislature in the mandated territories to make their own economic policy, they would be likely to discriminate against the trade of the mandatory country. Mandatories are not popular. It is in the interests of peace and good understanding and economic well-being of the mandated peoples that the mandatory power should be held by international agreement to the principle of the Open Door as fully as possible, and that neither it nor the representatives of the people under mandate should be free to change the principle.

When the mandate for Iraq was terminated last year, the Council of the League of Nations, on the recommendation of the Mandates Commission, decided it was desirable that the principle of not discriminating against the trade of any country should be maintained by the new State for a certain transitional period.

If it were possible to establish some impartial international body like the Permanent Mandates Commission, which would supervise the working of the policy of the Open Door in the Colonies, that also would make for international understanding and economic well-being. The principle of the Open Door, which is a fundamental part of the mandates system, has been a principle of British Colonial policy for a century. On ethical and international grounds, it should be defended and maintained as completely as possible. It is a small survival in the mandated territories of a better order, and it may be the example for a better order in the future.

Professor COATMAN:

There are grave objections from the point of view of the welfare of the native populations of the Colonial areas to the unrestricted Open Door policy and to the Closed Door policy. In the last analysis, by a complete Open Door policy and by a Closed Door policy you drag these primitive societies into the orbit of the economic system of highly developed Powers, and put them and their welfare generally at the sport of conditions over which they have no possible control and cannot even understand. There ought not to be discrimination in the operation of economic policies of Colonial dependencies in favour of any one metropolitan country.

The interest now, although it may not be generally recognised, has shifted from economic development and exploitation to the human development. An outstanding example is the very humane and enlightened policy of the Belgian Government in the Belgian Congo. Each Colonial dependency must have its own tariffs and fiscal personality. It is quite true that in most Colonial dependencies the Government is a mere delegation or agency of the metropolitan Power, but in the British Colonial Empire a number of Colonies are fiscally autonomous

and capable of standing up for themselves in discussion and against international economic conditions generally—the West Indies are Crown Colonies by their own choice. Ceylon and Malaya are similar. If the Ceylon Legislature decides against the acceptance of Clause 11 of the Canadian agreement, that clause will not apply to Ceylon. Malaya is a homogeneous political unit; the Federated Malay States could certainly have a say in their own economic matters; the Unfederated States could certainly take their own line. The whole problem is not so simple as one might expect, and the ideal should be the development of the economic personality of these Colonies. The work of the Permanent Mandates Commission is of high and fruitful value on the question of developing Colonial administration.

Professor RAPPARD deplored the Ottawa Agreements because they prevented the British Colonies from trading freely with other countries outside. Almost all our African Colonies are excluded from the Ottawa Agreements; the East African Colonies, except part of Northern Rhodesia, and even a part of Anglo-Egyptian Sudan, are excluded by the Congo Basin arrangement; West Africa comes under our agreements of 1898 with the French. All these, except West Africa, have been put on a satisfactory basis by the Treaty of St. Germain-en-Laye. Therefore the Ottawa Agreements are not likely to have the restrictive effect that is feared.

Professor ZIMMERN spoke about the Colonies sending representatives to international gatherings; in nine cases out of ten those representatives would be from the planting and ruling interests. Therefore it is better they should be represented by the Governor and the Colonial Secretary, in view of the doctrine of trusteeship which has been developed in the British Empire.

Mr. W. L. HOLLAND, Institute of Pacific Relations:

Hongkong and Malaya are confronted with a problem which consists in the fact that the development depends not so much on their own resources as on the fact that they are a great entrepôt and distributing centre for countries which are not in their own territorial boundaries. Hongkong depends on what is happening in China far more than on what is happening in the Empire. Alarm is already beginning to be expressed in Hongkong as to the effect of Preferences within the Empire.

This Conference is greatly hindered by the absence of a representative of Japan. You have there a very striking example of the development of a closed system of Colonial tariff policy, and going on at the present moment what will probably turn out to be a great extension of that policy—the developments in Manchuria. Although in name the policy of the Open Door is being maintained, yet by a series of administrative devices all kinds of discriminatory acts are being put in force. This

enormous economic *bloc* which Japan is trying to form is very serious. Public men in Japan have used the example of the British Empire as justification for their own action in Manchuria.

Professor VERRIJN STUART (*translation*):

For sixty or sixty-five years the Netherlands have always rigorously observed the rule of the Open Door. In the Dutch East Indies, of which I shall speak more especially—the West Indies being of little importance—the fiscal system is regulated by a law voted in the Parliament of the Mother Country, and the natives are not given the right, in the last resort, of making decisions regarding the fiscal regime of the Colonies. Nevertheless the Netherlands have always strictly followed an Open Door policy; the Customs system which has been set up grants no preference in favour of the Mother Country, and discrimination against third countries in any form is entirely absent from it.

Up to the crisis through which the world is now passing, one can say that this policy has produced very satisfactory results. It is for reasons of equity towards the natives, and with a view to maintaining a satisfactory international policy, that the Netherlands have adhered to the Open Door principle; and the Mother Country has, with great perseverance, always refused to allow the slightest preference to national producers in regard to the Indian market. We considered that a preferential system would result in a diminution of the Customs receipts of the Colonies; the day the revenues diminish it will be necessary to raise new taxes to meet local needs, or else make a further increase in the duties on merchandise coming from abroad, which would lead to a fatal rise in prices. The native consumer would then have to bear the burden of such a policy of Colonial preference. Such is the conception of equity which has induced the Government and Parliament of the Netherlands to observe, up to the present time, the rule of the Open Door.

A second consideration which has equally guided the conduct of the Netherlands regarding their Colonies is inspired by a certain point of view of international policy. The Netherlands, whose Colonial domain is inhabited by more than sixty million people, is a lesser Power, which, being in a very vulnerable position, should always avoid conflicts with third States. But a conflict could not fail to arise if the Netherlands resorted to a policy of discrimination, for example, against Japan, England, or any other State which exports goods to the Indian market.

I may also add that this Open Door policy has also been pursued in another sphere, which has not yet come into the discussions of our Conference, namely, the import of capital into the Colonies.

A number of Great Powers have already introduced a system of discrimination into their Colonies when it comes to starting commercial,

agricultural or industrial enterprises. This is the case, for example, in certain French Colonies, where it is sometimes very difficult to form limited liability companies if the capital is entirely or in part in the hands of foreigners. In the Dutch West Indies, any foreigner can start an agricultural or commercial enterprise; only two exceptions to this system of free capital imports exist, and they affect interior navigation and mining enterprises.

The fact of thus leaving the Door open to imports of capital has resulted in a splendid development of our Colonies, into which English and American capital, in particular, has flowed. That is another important consideration affecting our international policy.

In the crisis which the world is now experiencing, it cannot be denied that there are difficulties, particularly in view of the very lively competition created by Japan; we have to struggle against this competition in the European as much as in the Overseas market. But has Holland any intention of discriminating against Japan? Up to now, nothing has been done in this respect, and it must be recognised that the absence of Protection has caused rather serious damage to some branches of industry in the Mother Country.

Thus the earthenware industry, whose exports in the years before the War reached a fairly high figure, sends practically nothing at all to the Javanese market, where the formidable competition of Japan is felt. Nevertheless the Government of the Netherlands has up to the present remained strictly faithful to the rule of the Open Door, and grants not a single preference or subsidy to the metropolitan earthenware industry.

In the textile industry we, like the English, know all about the active competition of Japan. But even so, I do not believe that the Government of the Netherlands will abandon the Open Door system. Furthermore, plans are being prepared with a view to setting up a native textile industry in the Dutch East Indies; the necessary funds will probably be furnished by foreign capitalists in association with the Dutch spinners. And as far as I know, measures will be taken to protect the development of this growing industry, either in the form of an increase in the Customs duties on textiles or in the form of quotas.

In any case, the system which will be applied need not necessarily signify an abandonment of the rule of the Open Door. What is desired above all is to institute a kind of enlightened Protectionism, which the Germans call *Erziehungszölle*. These, Gentlemen, are the main principles to which Holland has subscribed up to the present time in her Colonial policy. The Open Door system has worked in satisfactory manner to all, and it seems scarcely probable that it will be abandoned.

There is another consideration to remember. A system of Colonial preference may be applied with certain chances of success in a large

Empire, since the Mother Country has a huge interior market in which the Colonies may sell their products, the counterpart of which being the export of numerous products from the Mother Country to the Colonial market; but that is not so in the case of the Netherlands. Our interior market is limited, and it is towards the other States that the greater part of the exports from the Dutch East Indies are sent; a tightening of the bonds between the Mother Country and the Colonies would not be of great benefit to the latter. On the other hand, we are very sensitive both to the plea of equity, of which it is necessary to give proof in dealing with the natives, and to the necessity of developing their economic system.

Perhaps the producers of the Mother Country would indeed be very interested in having the Colonial market reserved to them, but the Mother Country is not able to offer a sufficiently wide market to the natives for the export of their products. The balance of interests is difficult to establish. Under such conditions it seems probable to me that, so far as is possible, the Netherlands will adhere to the principle of the Open Door. It has produced one very good result: the satisfactory development of the Colonies, in that they have been enabled to import the products which they needed at the cheapest rate.

Professor HERBERT VON BECKERATH:

I wish to stress the immense political importance which the Open Door has for countries in the position of Germany, Italy, Poland, etc., which are in great need of foreign markets and do not possess Colonies. The Closed Door policy must lead these countries to ask for Colonies or mandated territories of their own. I would like the Open Door policy to be applied to all Colonies, and to have the Colonies make preferential treaties with European countries; it would be agreeable to Germany for obvious reasons. A policy which gives to these Eastern and Central European countries a better market is undoubtedly among the outstanding elements which will smooth over not only economic but also social and political unrest.

With respect to the Open Door problem within the preference scheme of the Ottawa Conference, I regret to be in disagreement with SIR ARTHUR SALTER. A distinction should be drawn between the effects of preferential agreements in an economically balanced world and in an economically unbalanced world. In a relatively balanced economic world, preferential agreements, if carried out in certain ways, might lower tariffs, and there might be a tendency for such areas to be enlarged. In an unbalanced world I am of the opposite opinion. For in this we have a case parallel to that in which a cartel tries to shift the economic disequilibrium from its own market to other markets. For the moment the economic equilibrium may get better within that sphere, but outside it gets worse.

SIR ARTHUR SALTER:

Ottawa is a different kind of arrangement in two vital respects—the preference was not only by way of a reduction, but partly also by way of an increase against other countries; it was not open to other countries on the same or similar terms.

Professor VON BECKERATH:

The effects of the Ottawa Agreements were, of course, felt elsewhere. The Dutch, Danes, and others who found themselves in a more difficult position in regard to their agricultural exports to other countries, particularly England, were obliged to unload their exports on the European countries at prices very much below cost, and the Continental countries, Germany in particular, had to take measures to counteract these attacks. Customs duties were ineffective, and so quotas were introduced.

The effect of the Ottawa Agreements was to make for more economic disequilibrium within the European system and for increased Protection everywhere. Suppose that what happened at Ottawa happened elsewhere, and that a certain number of the European countries or Latin-American countries came into a similar kind of group, it would mean more difficult times for those still remaining outside, for they could not very well stand aside from agreements which would fix their monetary policy and so forth.

Professor VINER's suggested procedure is more promising because it is easier to handle. The mutual lowering of tariffs would allow the impoverished countries to get a new start, and the American market would rise. Many artificial measures in Europe could be done away with because we would recover without them.

There is a tendency to build up a permanent philosophy regarding economic intercourse and international life out of things which are only a temporary reaction against the chaotic conditions of the world. Preferential and reciprocal tariff systems are of that nature. If America would come to some constructive agreement, things would improve and reciprocity could be done away with as much as possible; though certain regional arrangements of various kinds could be permitted for definite periods of time.

Professor ANTONIO DE LUNA, Spain (*translation*):

If the Open Door policy were a universal system with its proper counterpart in the Colonies, then Professor RAPPARD's thesis would be the right one, as opposed to that put forward by Professor ZIMMERN; but the Open Door is a unilateral system, and what we defend in upholding this principle is the equal exploitation of the Colonies by

all the great commercial Powers to the prejudice of the natives, or at least without having a concern for their interests.

Naturally the problem becomes more complicated if there is no evidence in the Colonies of a tutelage tending to train these countries in such a way as to hasten their maturity as quickly as possible. The fact is, however, that they constitute nothing but an addition to the machinery of a potential war, another weapon in the economic struggle.

Under these conditions, I agree with the conclusions of Professor ZIMMERN: the Open Door system ought to be considered not from the point of view of the great commercial Powers, but from the point of view of the natives themselves. According to what has already been stated, it goes without saying that it will not be possible to undermine the Open Door principle as long as there exists a genuine method of democratic government in the Colonies, which gives direction to local public opinion in the Mother Country, and represents neither the public opinion of the Mother Country in disguise nor, which is worse still, the opinion of the non-native minority in the Colony.

SIR ARTHUR SALTER:

Ottawa differed in two vital respects from this recommendation: first, preference was given by increased duties against other countries; second, preference was not offered to other countries on similar terms.

M. G. B. CECCATO, Italy:

The Open Door policy is a wise one; it facilitates commercial intercourse to the benefit of all concerned, helps towards the maintenance of peace and friendly relations in the world, and mitigates the disadvantages of unequal distribution of Colonial possessions

Professor ZIMMERN:

I would very much like to hear what the American view of this question is, and whether opinion in the United States is prepared to agree to the Open Door in the American Colonies. The problem is a big one. I would venture to christen it by the name of "Colonial Disarmament." You cannot separate the problem of Colonial trade from the general problem of security. If there is to be insecurity in the world, then the countries that have no Colonies will ask to be assured of access to raw materials in times of difficulties; they will also look askance at large Empires which regard their Colonial territories as reservoirs for munitions, for industrial potential in time of war, and also for man power. None of the suggestions I have put forward could possibly be entertained without a preliminary solution of the big political problem which has been engaging the world for the last few years. I hope we may be entering a period when Empires

will not be pitted against one another and when the resources of the world can be made available on just terms to all the inhabitants of the world.

I entirely agree as to the desirability of encouraging the "fiscal personality" of individual Colonies. Our problem is really not to get rid of the Open Door but to bring it up to date.

The British Crown Colonies are not administered in the interests of the white inhabitants, though sometimes there are tendencies in that direction—as in Kenya. But as soon as those tendencies are manifested, there is a movement of public opinion in this country. Colonial policy is much more discussed in this country than in most other Colonial countries. Where there are abuses in the British Empire, they are much more likely to occur where self-government has been prematurely granted, as in the case of Southern Rhodesia, than in the case of territories which are directly under the government of the Colonial Office.

As an instance of a bold forward policy I would mention the foundation of a native university in the Gold Coast, the College of Achimota, mainly due to the initiative of the local Governor. In that Colony it is quite impossible for a white man to buy land. In the schedules to the Ottawa agreements you will find the products favoured are many of them produced by the native inhabitants, such as palm kernels, sugar and cocoa. The cocoa of the Gold Coast produced by peasant proprietors has secured the preference in Australia and New Zealand, and the palm kernels of Nigeria have secured the preference in Canada.

Some of the Colonies of the British Empire are compelled to grant the Open Door by virtue of international conventions; nevertheless the products of those Colonies benefit by preferences under the Ottawa agreements in the Dominions. Sometimes a preference is given by a Colony without that Colony getting anything back. Hongkong against its own wishes found itself burdened with a duty on motor cars other than motor cars of British or Canadian make.

As a scholar I do not approve of the Ottawa Conference, and I wish it had been held after the World Economic Conference; but we waited for two generations for the world to follow us in the Liberal economic policy and for the Colonial Empires within the Closed Door to follow us. They did not do so, and the arrangements for the Ottawa Conference were made before the World Economic Conference had been agreed upon. The Open Door is unsatisfactory because it is unilateral.

I would like to see the Open Door assimilated with the Most Favoured Nation regime under the general heading of "Equal Treatment." As a scholar I would be perfectly prepared to see the whole regime of preference disappear, provided it could disappear in all the areas

of the world and not simply by sacrifice made unilaterally by the British Empire. I am pleased that Jamaica has been bargaining with Canada to make a reciprocity treaty; if reciprocity treaties are made between Canada and Great Britain it is an advance that Jamaica should be in a position to bargain on her own account. Many people share my view that we would gladly see all the fiscal relations of the world put upon a non-discriminatory basis, subject to the general oversight of that international commercial commission already mentioned. When SIR ARTHUR SALTER used the expression "arbitral boards," he evidently had in view some international authority which could give fair decisions and act as arbitrator in cases of disputes arising out of commercial policy. I would agree to that, and suggest that such a commission should lay down rules of commercial policy; it should define Most Favoured Nation treatment both in self-governing territories and in non-self-governing countries; it should then have the power to adjudicate on disputes, and further it should be empowered to draw the attention of the Council of the League or some authority set up under the Kellogg Pact to incidents in the commercial relations of the world, such for instance as the competition of countries with sweated labour interfering with the fair running of the world's commerce.

With reference to the representation of the Colonies in international conferences, I was not contemplating that the white community should send an independent representative. I was thinking there should be a spokesman for the Colonies through the recognised Government. That system has been followed at League conferences and has worked quite satisfactorily. The mention of India causes me to say that the whole problem opened up is one of enormous importance, because it affects such immense populations and raw materials which are of such great importance for the whole civilised world. For this reason we who belong to countries with large Colonies for which we are responsible will have to face this problem much more seriously than we have been doing hitherto.

Professor RAPPARD (*translation*):

If some of Professor ZIMMERN's previous declarations astonished me, I can only declare myself to be in agreement with him now.

Professor ZIMMERN declared that he regretted the decisions taken at Ottawa, that he preferred the Open Door for everyone to a preferential system. He added that he saw the danger, as far as the Colonial Powers were concerned, of allowing their Colonies to benefit by certain exemptions, and finally that he discerned in the Ottawa Agreements certain liberal tendencies which are still ignored. For my part, I would reply that after Ottawa, as before, a Power is always free to grant on its own imports preferences to its Colonies as also to the territories over which it exercises a mandate. I would point out, in addition,

that at Ottawa, as Professor ZIMMERN has reminded us, certain concessions for certain Colonies were obtained from the Dominions without anything being demanded in return. I am glad of that, but that is precisely where the fiscal individuality of the Colonies has not been recognised: they have obtained a material advantage, but nobody has taken their individuality into account.

In the case of Colonies exercising their individuality, my fear would have been that certain advantages would be exchanged for other concessions, and that these concessions demanded from the Colonies would not necessarily have been inspired by the desire to safeguard the interests of the natives. I am therefore glad that advantages were granted to certain Colonies without their having to pay the price; but Professor ZIMMERN cannot, on his side, congratulate himself unreservedly, since it was done without appreciation for the principle of their autonomy.

If this principle had been applied in the Colonies which do not govern themselves, I fear that the concessions granted would have been of such kind as to favour the planters more than the natives.

I agree that England has always been acutely aware of the abuses that may arise in Colonies; that is why I was alarmed by the tendency to proclaim a Colonial autonomy unrelated to anything real. The more autonomous the Colonies become, the less will British opinion feel itself responsible for them. The ideal is that these Colonies, that is to say their native populations, should become capable of governing themselves and then freed from the tutelage of the Mother Country.

And thus Professor ZIMMERN and I are, I am glad to say, in agreement.

THE CHAIRMAN (*translation*):

In regard to French Colonial policy one preliminary remark seems essential: the French Colonial Empire has no self-governing Colonies, and fiscal autonomy, to the extent to which local councils are competent to draw up their own budgets, does not exist at all. Algeria, though possessing an assembly, which goes by the name of *Délégations financières*, has a rather restricted fiscal autonomy.

The reason for this state of affairs has been already clearly indicated in the course of the discussion which has just taken place: in the self-governing Colonies, more than in the others, it is to be feared that the rights of the natives will not be respected. One of the reasons why France has always been rather hostile to the granting of self-government to the Colonies, where a fairly large European population lives in the presence of a still more numerous native population, is that France is concerned essentially with defending the rights of the native, in relation to whom she stands in the position of tutor.

There are certain things which one must have the courage to speak about freely, for it happens in newly opened-up countries where large

European elements of the population are in contact with the natives, that there does develop among the elements thus transplanted what is called in rather simple language, which is somewhat difficult to translate, the "Colonial spirit," a feeling of superiority of the race which believes itself to be superior to the natives; a sentiment which, I hasten to add, does not exist in the Mother Country, where, to our good fortune, prejudices of colour and racial inferiority are non-existent. The proof is that the present Government in office includes coloured men.

It is none the less true that if we allowed a regime of self-government to be set up, even in the Colonies next to those where the European population is considerable, the victims of that regime would be the people whom we, for our part, desire to protect and educate.

By reason of the fact that there are no properly self-governing Colonies in the French Colonial Empire, our Parliament has, *vis-à-vis* its Colonies, different responsibilities, different methods of procedure, and different powers from those possessed by the British Parliament and Government. We often hear talk of the "Imperial Parliament"; but that at London is certainly not it. On the contrary, the French Parliament is, one may say, in reality an Imperial Parliament, since certain of the Colonies send representatives to the Chamber of Deputies and the Senate; the Colonial settlers and a certain number of native electors can therefore make themselves heard.

What is the explanation of this peculiar situation? I shall be obliged, as before, to retrace my steps a little into the past. The situation is explained by historical causes. Our Colonial Empire is made up of disparate parts which became joined at different periods and under different regimes to the group of territories belonging to France.

First of all, there are what are called the "Old Colonies," small both in area and in relation to the number of their inhabitants, but interesting all the same, whose population in certain cases is mostly coloured, and has for a long time been gallicised—a fact of which it is very proud, since it is very much attached to its French nationality. This population, represented in Parliament by Senators and Deputies, would not, if consulted, accept the establishment on its territory of a fiscal or Customs regime different from that of the Mother Country. These Colonies regard themselves as an integral part of the Mother Country. It is a question of sentiment, at which you may smile, but we in the Mother Country must bear it in mind. These men would consider themselves excluded from the French community if we put them under a different fiscal regime from that of France.

In addition to these "Old Colonies," there is Algeria, which France occupied over a century ago—since it was only in 1930 that landing of French troops was celebrated. The occupation was developed by the planting on Algerian soil of a population of European origin,

which, now completely gallicised, comprises in all about a million individuals, who represent an important element—I emphasise this, for it is almost entirely a question of agrarian property—in the soil. Then apart from these transplanted Europeans, there is a population which would perhaps, on this as on the other side of the Atlantic Ocean, be called coloured, but which is really white and quite proud of its individuality, belonging to a religion which one might describe as one of the greatest religions of humanity, one which we have no reason to regard as inferior to any other religion. It is sometimes said that France is a great Moslem nation, and the Netherlands also; France considers it essential that the religious and social traditions of the Moslems under its protection be respected just as much as is their material welfare.

And further, when it is a question of property, the interests of the Moslem population are in the fullest sense respected and defended, to an extent that people steeped in the "Colonial spirit," of whom I spoke, are frightened at seeing with what rapidity the Kabyles are pacifically reconquering the soil of Algeria with their bank-notes. You have there, in reality, a complex harmony, upon which, in the higher interests of making civilisation widespread among races which are wrongly described as inferior, but which should be regarded as simply different, it would be delicate and imprudent to intrude.

To this must be added the fact that for sixty years there has been an absolute fiscal and Customs unity between France and Algeria. When we speak of Algeria we think of France, south of the Mediterranean, and not of a Colony; and goods have always been exchanged between France and Algeria as though within the interior of the same country. It is quite the case of blood being thicker than water, and the Mediterranean, in a word, seems to us to be only a ditch separating two parts of the same territory. The relations between Marseilles and Algiers are exactly similar to those between Marseilles and Bordeaux or Lyons. It would never have occurred to anyone that foreign goods could be taxed differently on entering Algeria from what they would be on entering France; the Algerians themselves would not dream of such a thing, nor would the educated Moslems even, who, thanks to the spread of education, grow more and more numerous, any more than the French Colonials would.

Better still, if there is a predominant feeling, it is rather the opposite of wanting Customs autonomy: the danger for the Algerians lies not in the tightening of the Customs bonds with the Mother Country, but rather in the possibility of their being slackened. I quote, for instance, the serious question for France of the over-production of wines, which puts French cultivators on both sides of the Mediterranean into competition with each other, namely, the Languedoc producers on the one hand and the Algerians on the other, themselves also

former inhabitants of Languedoc, who crossed from the other side of the water during the period when the phylloxera destroyed the French vineyards. The Algerians claim absolute equality of treatment with the French vine-growers to the north of the Mediterranean.

We cannot but be extremely anxious about this question, for there are, in history, certain facts which should not be forgotten. You may recall the celebrated remark of one of the founders of the American nation, John Quincy Adams, which ran: "Tea and molasses are amongst the ingredients of our American liberty." It would be tragic for France to think that wine might, in a future secession, play a rôle similar to that which molasses and tea played in the constitution of the United States. A "secession," I say . . . for separating France from Algeria, there is only a sea, so narrow that the posters might well depict it as a ribbon of water which a man could cross with a foot on either bank and a valise in his hand, . . . which would create for France a situation infinitely more dangerous than the secession of the United States was for Great Britain.

Finally, in the third place, are the other Colonies, some of which are fairly old, and whose relations with the Mother Country are such that up to the present time no one has thought of applying the system of the Open Door to them. And there are also Protectorates, a vague word covering rather varied systems of government, which I shall not explain at length, lest I should take up too much of the Committee's time.

I would point out, however, that in certain cases the regime is determined by international acts: here we enter the realm discussed by Professor ZIMMERN, and we can find in Morocco, of which I am thinking, an example of what may be accomplished by way of international legislation in Colonial affairs.

As you have seen from the report presented to the Conference by one of the most competent of men,[1] the Customs system in Morocco is regulated by the Act of Algeciras on lines which may provisionally be described as definitive. It is a system of the completely Open Door: neither French goods nor Algerian goods, that is to say goods coming from contiguous countries, can benefit by preferential treatment. I even believe that in Morocco we have gone further than the Netherlands when they introduced an Open Door regime into Java and the Dutch East Indies.

No exceptions, said Professor STUART, to the Dutch system are permitted, apart from mining enterprises and the business of interior navigation. In Morocco navigation is of practically no importance, but railways on the other hand, and also the mines, are of great importance. Now, in this sphere France enjoys no freedom. When the Moroccan deposits of phosphates were discovered, in themselves

[1] See below, p. 354.

more considerable than those of the rest of Northern Africa put together, it was asked, what would be the regime in regard to the future mines? Very quickly it was realised that if an adjudication of the deposits to be worked were proceeded with, all the foreign promoters of Europe and America could come forward and enter into competition. The only means that could be found of avoiding this possibility was to reserve the working of the deposits to the Government.

For there is, in effect, a Moroccan Government; the Protectorate is a real Protectorate. When one studies the administration created with so much ingenuity and at the same time with so much humanity by Marshal Lyautey, and continued by his successors, one realises that the Moroccan Empire has not ceased to exist. It has merely, in a gradual way, been freed from the cruelty that made it scarcely tolerable in the past.

Thus it is the Moroccan Government which directly works the phosphate mines; it would have been impossible to grant the privilege to French enterprises. And so there is in Morocco an Open Door system in the widest sense of the word, and there may perhaps be in the system elements from which we might draw inspiration.

Professor COATMAN referred just now to the Congo Basin, in which the regime in force applies to all the European Powers alike who possess Colonies within the Basin: England, Belgium, France. France, for her part, has fairly extensive territories there, which, as a consequence of international conventions, are binding in perpetuity, and come under the Open Door system. But that has not come about without causing France some difficulty: in the same group of Colonies, one particular part of the territory is a free zone, and another a Customs zone. France has to manage as well as she can—just as in mandated territories. But the situation has its drawbacks both for us and for the native populations even.

What are the interests of native populations under French rule in Equatorial and West Africa? It is to sell their principal products in the French market, especially an oleaginous product of capital importance: the ground-nut, which is exported to Marseilles. The prosperity of the black peasants, for there is an interesting black peasant race which has now reached the standard of civilisation of the populations of North Africa, but which one might regard as a secondary race (it would be unjust to consider it as an inferior race, and France has a duty to protect it), the prosperity, the wealth, of these peasants depends, I say, on the price of the ground-nut, on the price of Marseilles soap if you like, and it is to their interest that at all events the French market be kept wide open to them.

Would they enjoy this advantage if they had Customs autonomy? Would not France try to defend herself against the imports from West Africa which might harm French industry? Under the system they

have at present, the populations of these Colonies find a satisfactory outlet for their products in the French market.

A more complicated case is that of Indo-China. In that vast area there are places like Cochin-China, bearing the title of Colonies, in which we have been established for a long time; others like Annam, Cambodia, Laos, etc., which are Protectorates where the native sovereignty is respected; Tonkin itself bears the title of Protectorate, but it approximates closely to a Colony. In short, there are a great number of distinctions which are sometimes difficult to disentangle one from the other, but constituting, on the whole, a great country where we are guided by the interests of the native population.

When the question of organising these territories arose, we had under our eyes a model, for which I cannot exaggerate our respect—the Dutch example in the neighbouring islands: every time a Governor leaves France for Indo-China, he is advised to stop at Batavia and see what our neighbours and friends are doing there, and to take an example from them.

Allow me, in this connection, to recall what was said by one of our French travellers whose memory is cherished by our Conference, the late M. Albert Thomas, director of the International Labour Office, who, after having expressed the liveliest admiration for what France had done in Indo-China for the Annamite and Cambodian populations, added: "But there is something finer still that I saw—the Dutch organisation."

Now, in Indo-China we encounter problems similar to those about which Professor STUART spoke in regard to the Dutch East Indies; we see local industries arising there: textiles, wood, rubber. These industries, it is insufficiently known, are in the hands of Frenchmen and Annamites—I refer not to the labour, but to the capital. The Annamites, either independently or in association with Frenchmen, are beginning to take a part in industrial life; at Hanoï we have created a whole native industry.

Gentlemen, some day you must come for a walk with me in the corner of Paris which was known when I was young as the Latin Quarter, which one might to-day call the Yellow Quarter, and you will see, by the side of the Japanese and Chinese, how numerous the Annamites are who come to follow our teaching. I have already seen them in great numbers at my own lectures at the Sorbonne. I could, by way of example, pick out one such student, who, when his stay in Paris came to an end, returned to his own country as a Public Works official, and now holds an important executive position. I know a similar one at Dijon, who, having studied at the weaving school in Lyons, now manages a silk factory of his own.

Here then are natives who rise in industrial life and become modern officials; they constitute a reserve which will enable France to develop

a population of ancient and refined civilisation—which must not be confused with even the most highly evolved races of Central Africa—and to give it gradually an increasing measure of autonomy, and perhaps one day the possibility of governing itself. From the commercial point of view, the entire population fears the Chinaman, whose colonies are scattered all over the Far East; and already, thirty years ago, our first Annamite students had only one desire: to learn how to defend the economic system of their own country against activity of the Chinese, whom they rightly regarded as menacing.

And now a silk and cotton industry is established in Indo-China; but, like their neighbours in the Dutch East Indies, the Annamites fear Japanese competition. If France made a fatal gift of the Open Door system to Indo-China, it would cause a revolution in the country. It would be considered that France would, in abandoning them defenceless to Japanese competition, have committed a positive treason against these countries which it is her duty to protect. It is, as you see, a consideration which should inspire France with great prudence.

As for the activity of other European countries in the enterprises which are conducted in the French Colonies, great progress has been made with regard to French opinion, and this meets the wishes which lie at the centre of the discussions by Professor ZIMMERN and Professor RAPPARD. To-day there is a tendency in France to gather in as much European capital as is possible, from every quarter, for the development of the Colonies. And one of our veterans in Colonial policy, M. Albert Sarraut, declares clearly that we should appeal to foreign capital in an increasing measure for collaboration with us in the development of the French Colonies.

I do not know whether I would agree to go as far as Professor RAPPARD, who belongs to a country which has no Colonies. The sharing of Colonial riches in common is, said Professor RAPPARD, almost the only justification for Colonial activity based on force; a resort has been made to force in certain cases when there was nothing else to be done, but force has not always been detrimental. I can remember a time when local war was the permanent state of affairs in Morocco; French peace has thus been a boon to mankind.

In fact, in spite of abuses, which I am far from approving of, and which have left an ineffaceable stain on the brow of nations, armed intervention has sometimes worked for the good of humanity.

And, moreover, the blood of Frenchmen spilt in the Colonies gives us, perhaps, the right to preferential treatment; we, who made peace where there was war, and spread abroad the rules of health in territories hitherto laid waste because the natives did not know the most elementary laws of medicine.

There is another basis on which the rights of the Mother Countries can be justified: they have built railways, drained marshes, thrown

up barrages and carried irrigation into plains hitherto deserts. I am thinking at this moment of the admirable work done by Great Britain in India, of that team of engineers who have once and for all driven away famine, the endemic evil of the country. In the nineteenth century one still spoke of some great famines, but nobody has forgotten the time of the great Akbar, when millions of men died of hunger because the rains did not fall, and the Government of the Mogul was impotent. And in remembering this, one feels the greatest admiration for the British administration. In other spheres also one wonders whether it would really be for the good of humanity if the English rule in the ancient Empire of the Great Mogul were to disappear too quickly.

Thus the nations which do have Colonies pay dearly for the apparent advantage they enjoy in possessing Empires, in which, as Kipling says, they bear the weight of the white man's burden. Cannot they claim some privilege? It is a question I ask myself anxiously. They must induce public opinion to accept the burdens which the existence of Colonies involves, and prove to it that troops must be maintained in order to ensure that there shall be peace and order in regions where they indulge in a different kind of "national sport," and to ensure the service on loans contracted, for example, for the building of a large bridge. The traveller who had prepared to cross Red River long ago used to abandon his soul to Buddha or the Genii, for he knew how much this region suffered from incessant floods. To-day the great Pont Doumer, five kilometres long, allows the traveller to pass from the south of Annam to the Chinese frontier, under conditions of comfort which I should like to see established on the journey between the coasts of England and France.

We have therefore to make the English, Dutch and French electors understand that this is not merely a question of prestige, for indeed they have the souls of producers and shopkeepers. And it would perhaps be very difficult to go on interesting them in Colonial affairs if one kept telling them: "You have created a great Empire, you have spent money to keep it, to maintain peace there, and henceforth you will receive no further advantage from it." Perhaps we might encounter some lively resistance, and I wonder—though it goes a little outside the question of the Open Door—whether that would be any absolute advantage to humanity.

But leaving aside these considerations, which are no longer in the realm of economics, I cannot think that at the present time the example set by France is useless, for there are, taking the French Empire as a whole, Colonial territories where the Open Door is maintained under conditions analogous to those of countries under mandates A or B; I believe, on the other hand, that if one wished to draw up an international solution of the Open Door question in the Colonies, there

are in the Algeciras Act and the Act of the Congo Basin, many things to be learnt and many examples which should be kept in mind.

Professor ZIMMERN:

May I ask a question arising out of your address? In the French memorandum I read that Gaboon has got rid of the Open Door system. How did it happen that a single French Colony could somehow liberate itself from an Open Door treaty?

THE CHAIRMAN (*translation*):

Gaboon was not subject to a conventional regime, but has been put under the Open Door system for special reasons. To explain fully, I should have added that, in addition to our Open Door Colonies which are subject to contractual agreements, there are others for which France has adopted the same system, because it seemed to be in the interests of their populations to do so.

Professor ZIMMERN:

Not on any contractual basis?

THE CHAIRMAN (*translation*):

By a simple act of the sovereign Power only. I think I can be even more explicit: as other Colonies in French Equatorial Africa were developed, we found ourselves at a certain moment with a group of territories subject to different Customs laws, and so in order to establish greater unity between the different parts of the territory as a whole, Gaboon was brought into a Customs Union.

Professor RAPPARD (*translation*):

It would be more correct to say therefore that Gaboon has been liberated from the Open Door system.

THE CHAIRMAN (*translation*):

Yes, by an act of the metropolitan Government.

Professor ZIMMERN:

Why has the treaty for the Conventional Basin of the Congo not been strictly carried out according to Article 15?

THE CHAIRMAN (*translation*):

In fact, there must have been another agreement, but we know nothing about it. The diplomatic archives alone can furnish us with an explanation.

IMPERIAL PREFERENCE

Professor COATMAN:

I was anxious to raise this question of Imperial Preferences, particularly with relation to Ottawa, in a more definite form because of its own intrinsic importance. I want to try to justify the Ottawa policy on economic grounds as well as on certain non-economic grounds. The words "Imperial Preference" can be made to cover a very wide field. There are many forms of Imperial Preference. Most of us here have read the reports of our special trade delegations which went to various countries in the world, including some of the leading Empire countries, a few years ago. Even the Report on South Africa spoke of the strong voluntary preferences which existed for the British Empire at any rate in the self-governing Dominions. Imperial Preferences are not such a new and strange portent as many people make out. They have quite definitely been part of the commercial and tariff policy of a number of British countries since the end of the last century, and of course potentially part of this country's commercial and tariff policy since Lord Salisbury denounced the Belgian and German trade treaties at the end of the last century.

I would draw attention to one of the resolutions passed by one of the sub-committees of the Conference. One of the volumes of proceedings of the Conference gives the trade agreements and the schedules, and another volume gives the reports of the sub-committees. The Committee on Tariffs unanimously laid it down that Imperial Preference did not conflict with the Most Favoured Nation Clause. The significance of that is that it is the first time that we have had unanimously from all the self-governing parts of the British Empire a considered declaration to that effect.

When we consider the relation of Imperial Preference and the Ottawa agreements to the regional agreements that SIR ARTHUR SALTER has in mind, we see that there are very vital differences. An important difference is that the economic agreements between the British Empire countries at Ottawa are the result of an impetus which itself is not primarily economic. The first impetus to Imperial Preference came from the Dominions, and first of all from Canada.

It is necessary to distinguish in the results of the Ottawa Conference two quite definite things—a short-term policy and a long-term policy. The short-term policy is represented by the trade agreements. Remember the state of mind in which the Empire countries met; the fate of the World Economic Conference hung in the balance; this new and, I hope, extremely fruitful development in the United States and the return to power of Mr. Roosevelt and certain like-minded Ministers, was still below the horizon. The outlook was dark in those days, and it was natural, in view of the great unemployment here and in Canada,

that the minds of men should be dominated by this short-term policy leading to trade agreements and so on.

The general results of the Ottawa Conference were a net lowering of tariffs between Empire countries, and a net increase of tariffs as regards the outside world. The latter part of the Ottawa Conference is bad; any increase of tariffs is bad. But on the other hand the lowering of tariffs between the Empire countries is an entirely favourable feature. It may be said that in normal times the lowering of tariffs would tend to increase trade between the Empire countries merely by diverting it from other sources. But I maintain that the lowering of tariffs between the Empire countries will result in an absolute increase in the quantum of international trade. If a certain amount of Danish and Dutch produce is thrown on to the markets, as has been mentioned, a certain amount of Empire produce is kept off.

One is forced to take stock of the whole problem and the way in which those preferences are given. The Ottawa Delegation was composed of members of all three political parties; they all wanted preference and agreements by lowering of tariffs, in no case by increasing them. That led to bitter discussions, and we were only able to achieve a part of our ideal.

It is rather early in the day to talk of specific results of Ottawa, and of course we are living in abnormal times. Out of the discussions of a sub-committee at Ottawa came the notion of co-operation in production in different Empire countries. Already that principle is at work. The Australian electrical industrialists are negotiating with our own for the purpose of wiping out some of the uneconomic production of certain electrical goods.

There has been a certain amount of opinion expressed to the effect that these Imperial preferential arrangements are in effect arrangements between sovereign independent countries, and therefore do conflict with whatever the British countries may say with regard to the Most Favoured Nation Clause. That view is absolutely mistaken. The British Dominions, who made these agreements at Ottawa, are fully autonomous in their national action just as we are, and we are autonomous to exactly the same extent as Canada and Australia are. It is within the knowledge of all, that within the last few years, not only the economic policy of this country, but the foreign policy has been profoundly influenced by Dominion opinion. The status, particularly of the British Overseas Dominions, is what it is because they are members of the British Empire, and depends on the status which they acquired at the World Peace Conference after the War. Their status at that Conference depended on their participation in the War as members of the British Empire and on nothing else. Their status to-day is precisely what it was at the Peace Conference and has altered in no material, the Statute of Westminster notwithstanding

Although this country and the Overseas Dominions are in fact nationally sovereign in their own affairs, they are also in fact members of a greater society, their policy economic, political and diplomatic is conditioned by the fact that they mutually control each other, and therefore they have altogether a separate identity which is not the identity of any one Power. The Dominions are in association with the British Empire of their free choice.

One of the most significant results of Ottawa is the reception of the Ottawa agreements in India. All kinds of opinion are represented in the Indian legislature. When the Ottawa agreements were brought before the Indian Assembly for ratification, they were fiercely assailed by the strongest economic influence in India, namely the Bombay capitalists and mill-owners; the upshot was that the Ottawa agreements were ratified without the slightest change by an overwhelming majority. There is no question of compulsion. Countries like Ceylon and Malaya are following close behind.

If we are going to attack Imperial Preferences we have to attack them on some other ground than their conflict with the Most Favoured Nation Clause. You must show that actually they do reduce the quantum of world trade, or else that they affect trade between the Overseas countries and therefore bring in the international argument; you cannot attack them on the ground that the Dominions are sovereign, independent countries.

Another idea is that the Ottawa agreements will prove an absolute bar to any effective action in the direction of lowering tariffs. I should like to remind you that in the agreements it is stated that all these tariffs entered into as a result of agreements can be lowered by the general consent of the Dominions concerned, since they are all identical, and the Dominions will be at the World Economic Conference as autonomous members.

The raising of tariffs is a bad thing, but they are no bar to our action or to the Dominions' action, provided they are in the mood for lowering tariffs.

Under the long-term economic policy you have a Committee for Industrial Co-operation. The whole trend of the Report of the Special Committees is to wipe out uneconomic competition over a large area of the world's surface and replace it by planned, complementary, industrial co-operation. There is a good deal of talk already in this country and in the Dominions about tariff policy dependent on the co-operation in industry of this complementary production. It would be a tremendous discovery if we could attain to such a position that we could have tariff policy dependent on sane, planned co-operation, with the inevitable corollary of the disappearance of uneconomic industries.

In the Ottawa agreements, if we can rid them of their bad features, we have got organisation and canalisation of tariff agreements. We

have also this complementary production. This principle is available for all international activities. Any country is entitled to attack individual features of the Ottawa Agreements. That is the line to follow. Do not regard it as all bad, because it is not, but where the shoe pinches try to loosen it. Certainly try to abolish or get rescinded any features which appear to savour of narrow, national, exclusive things.

Professor VON BECKERATH:

Although the Ottawa Agreements may be consonant with the *Zeitgeist*, we cannot at the same time believe them to be objectively good. The interesting argument was put forward that in the long run the whole world economic order must profit by a procedure by which the economic situation and productivity within the realm of the British Empire gets better. Under certain conditions that is a small consolation for certain countries who are only interested in making sure of their share.

In all these questions we cannot argue along traditional lines, as is the custom of economists. We used to argue, presupposing a world made up of units with a very high degree of economic adaptability and elasticity as well as of social and political adjustability. This condition does not exist any more. We have rearranged a world in which certain units are extremely delicate and are not even able to bear the burden which comes from the normal process of adjustment and readjustment. It has been hinted that when Denmark and Holland were forced to export more products to Germany because they could not sell them in England, fewer Canadian and other products, on the other hand, may perhaps have come to Germany. But those Danish and Dutch imports threatened that part of the German agriculture which is indispensable to our economic system and which cannot sustain the effect of such changes. If we had not taken measures by way of quotas, a breakdown of the economic as well as of the social and political order might have taken place. That might have had unforeseen consequences.

Economists should bear these factors in mind when planning a new economic world order. There are members of that world order who are sick, and one cannot, without causing great harm in the long run, act on the assumption that all the members are strong and well when such a condition does not exist.

Mr. S. H. BAILEY:

There has never been any positive acceptance of the principle that agreements within the British Commonwealth of Nations should be recognised as constituting a valid exception to the unconditional Most Favoured Nation Clause; the absence of protest so far has very largely

depended upon the absence of adequate military or naval force to bring effective pressure to bear upon the British Government and the other Dominion Governments.

The discussion of the Ottawa Agreements raises the more general question of the principle of reciprocity. By reciprocity I understand exclusive reciprocity, whereby the considerations exchanged between the parties are not transferable to third countries. There are possibilities of international political friction arising from such agreements, when the agreements themselves are of such a character as to constitute an arbitrary interference with existing channels of international trade. There seems to be some evidence that such a disturbance is already taking place. Friction also appears likely when a political interpretation is placed by third States upon the bases of the agreements between the parties. In particular where the parties to the reciprocity agreement are unequal in power, there is always the danger that its conclusion will be interpreted as the first stage in a policy of economic aggression. These causes of disturbance would seem to open up possibilities of increased military and naval competition in order to create the sinews of bargaining power for a commercial policy based upon exclusive reciprocity agreements. The principle of reciprocity seems to be entirely opposed to the general tendencies which are evident in the Covenant of the League and the Kellogg Pact. Finally, the difficulties of defining "equivalence" and of deciding whether the terms of an originally equivalent exchange of concessions are being maintained open the door to innumerable disputes between the parties to reciprocity agreements. Nothing in the history of the British Commonwealth of Nations is more likely to disrupt the association between the various partners than the recently concluded Ottawa agreements.

Dr. PEDERSEN:

I do not intend to make any attack on the Ottawa Agreements; I only want to say a few words about their economic consequences in respect of certain particular acts, about which I happen to know a little.

Take, for instance, the case of butter. It was agreed in Ottawa that there should be imposed a duty—and as far as I remember it was fifteen shillings per cwt.—on butter, which could not be changed for a period of three years. The immediate effect of that duty was simply to tax the foreign producers of butter, because there is no possibility of shifting the tax on to the English consumer so long as the countries producing butter for export to Great Britain maintain the livestock by which that butter is produced. It will take a couple of years, more or less, before production in those countries can be reduced and prices raised in England. But, of course, when that period has elapsed, prices will rise.

In the meantime the New Zealand and Australian production, which has been expanding by leaps and bounds in recent years, will keep on increasing, while the Danish butter production has decreased between 1931 and 1932.

Professor COATMAN has said that one of the very promising things about the Ottawa Agreements was that any industry which had proved to be uneconomic would be abandoned. I do not know what that word "uneconomic" means, but presumably it means a production which could not be kept up on a competitive basis; an industry which could not be kept up on a competitive basis has always, among economists, been considered to be uneconomic. Of course, if the New Zealand and Australian butter production cannot be kept up to the level it has reached without having a preference, as compared with Danish or other European butter, of fifteen shillings per cwt., it cannot be considered economic. But there is absolutely no provision in the Ottawa Agreements which will tend to rectify that state of affairs.

Professor COATMAN said further that there is absolutely nothing to prevent a change in these Customs rates. Well, in my opinion, it does not require much knowledge either of human or national psychology or of economic affairs to know that when the producers will have enjoyed this preference for three years there will not be any chance whatsoever of reducing it, because there certainly will be very strong vested interests opposing it; at the end of the stated period it will really amount to a crime to reduce it.

You tell us that Denmark does not buy as much from Great Britain as she ought, in view of her exports to that country. But it is a very narrow-minded view in my opinion, because while Denmark has been importing enormous quantities of goods, of which about one-third came from Germany, that does not mean that Great Britain does not benefit at all from that importation.

It has been proved in recent years that Germany cannot buy from other countries when nobody wants to buy from her. The shifting of purchases from Germany or any other country to Great Britain therefore means that these other countries are deprived of their purchasing power in respect of English goods. Such a shifting also disrupts the economic structures of these countries; and I do not think that will be to Great Britain's benefit to disrupt the economic structure of these other countries, which in many cases provide a larger market for English goods than do the sparsely populated Dominions, where there is no great prospect of a large development in population, and where an immigration policy is being pursued which offers no favourable prospects of an immediate increase in population. So much for the ultimate effects of the preferences on Dominion butter.

Now turn to another product in which my country is very much interested, namely bacon. Arrangements were made at Ottawa that

Canada should at any rate be allowed to export freely to Great Britain 2½ million cwts. of bacon. That is many times the amount which Canada imported previous to that agreement. And in order to make that agreement something more than an empty formula, it was, of course, necessary either to impose high preferential duties on other countries, or to introduce a bacon quota. Great Britain followed the latter course, with the result that at present she is paying for Danish bacon some 40 to 50 per cent. more than the cost of production, including overhead charges and everything. We get at present 90 kronen for bacon which we can produce for 50 or 60 kronen. That is all very nice for us, but is it economic?

I suppose that is the price at which the English farmer can produce bacon, and probably also the Canadian farmer. But if the bacon industry in Great Britain and Canada has to be supported by the payment of 50 per cent. above the normal cost price, is that economic? In what sense is that economic? Is it economic that Canada should develop a bacon industry when it cannot do it unless it has a preference of 40 per cent. above the normal cost of production?

The economic situation is, it seems to me, that Denmark has eminently a capacity for producing bacon. Its production of that commodity has been fitted into the agricultural system of the country in such a manner that its industries are complementary to one another. We can send bacon to Great Britain at a very low price and make a profit on it. The British Government wants to change that. It wants the English farmers to produce this bacon at a much greater cost. We have been told that by so doing it will improve the British balance of trade. Pigs in England probably need 150 per cent. more grain to produce the same amount of bacon as we do in Denmark. We can do it cheaply, but instead of letting us do it, Great Britain wants to import the grain and produce bacon herself. The Canadians have a capacity for producing wheat, but Great Britain wants them to produce bacon. Experience has proved that they cannot by any means do that on a competitive basis. They require a large preference.

When it was stated that the Ottawa Agreements could be defended not only on sentimental grounds—which I do not doubt at all—but also on economic grounds, I leave the audience to judge for itself.

Professor VINER:

Gentlemen, I would like to bring to your attention the fact that, without provocation, certain Englishmen suddenly began defending the Ottawa Conference. It seems to me to reveal some signs of a guilty conscience somewhere. Apparently they anticipated that, the thing being what it is, it would be inexplicable if someone did not proceed to attack it vigorously.

Professor ZIMMERN found solace in the fact that the British Empire

had discovered a democratic, or pseudo-democratic, procedure for doing reactionary things. Professor COATMAN insisted that you cannot understand the behaviour of the British Empire unless you take account of the peculiarity of the characteristics of the British Empire; as a guest I refrain from disputing any such claim a Britisher wishes to make on its behalf.

Professor COATMAN went on to state that, first on political grounds, the Ottawa Conference could be defended, because the preferential system would be a contributing factor to an enduring and natural development of the British Empire. Purely as a matter of objective interpretation I would question that very seriously.

I happen to have had occasion to study in great detail the history of British Imperial Preference, and I have found that as between the Dominions and the Mother Country, preferences have been the chief source of controversy and irritation in the last seventy-five years.

I feel convinced there is no future for the British Empire on the basis of *quid pro quo* Imperialism. If they try systematically to make mutual profit out of their Empire, they will find that Britishers are too good bargainers to remain good friends. That is a matter which used of right to be of concern to me. Perhaps I should no longer speak on such questions. They are perhaps private matters.

On the economic side Professor COATMAN argued that the Ottawa Conference was defensible on economic grounds because it increased the volume of trade. If a woman gives her favours for cash instead of for love, there is an increase in the volume of trade, but it does not follow there is an increase in the net sum of human welfare.

Let me give you two examples of the increase in the volume of trade which has resulted from the Ottawa Conference. In Pennsylvania, situated opposite Ontario, there is the greatest coal-field in the world; and across rather a small patch of water there lies Ontario without any coal. The Ottawa Conference has made it necessary for Canadian consumers of coal to get some of their coal from Wales instead of from across Lake Erie. If anybody sees anything economic in that, I would like to know what it is.

In certain parts of Ontario they can grow very good cabbages and very bad tobacco. As a result of the British Imperial Preference, the Ontario farmers are growing the tobacco instead of the cabbages, without prospering more greatly. The British Treasury is losing revenue. The Britisher has to smoke bad tobacco instead of good (a tobacco which the Ontario native will not smoke himself), not to the profit but perhaps to the greater glory of the British Empire.

I could go on with instances of that sort, but I think I have said enough to show that an increase in the volume of trade is not necessarily an advantage after all the parties affected thereby are taken into account. But it is rather late in the day, I think, at a Conference which

has expressed itself as desiring to have some practical significance, to praise or to blame the system of Colonial Preferences; if the world is ever going to get rid of them, it will be by a very slow process of education. People in the United States do not think either that they have the right to claim or that they have any reason to expect that overnight the Imperial world is going to turn to the system of the Open Door.

In 1921–22 there was some serious discussion in high quarters in the United States as to whether the expansion of the system of British Imperial Preference was not becoming such a menace as to justify the United States in taking a more definite attitude of hostility to it. That discussion eventuated in legislation, which is still on the statute books. That is something which I find very few Englishmen are aware of. No American legislation is required now in order to empower the Treasury to shut out imports from any part of the British Empire which has been helped in any way in competing with American trade by intra-Imperial Preferences. But there was some doubt in the United States as to whether it was logical for her to discriminate against another country, in view of her own record in that respect.

If there is hostility in the American attitude towards the Ottawa Conference, it is not because the Ottawa Conference involves the system of British Preference, but that at a time when the world was already sufficiently encumbered with tariff barriers, and when many persons—including England itself—were saying that the only solution, or an essential part of the only solution, for the world's immediate and pressing ills was a removal of trade barriers, additions to the barriers, increase in the volume of discriminations should have been made. It seriously affected the trade and the economic prospects of the United States; and the United States, without having any legal grounds or moral grounds for taking retaliatory action, is fully justified in so revising its own trade laws as to enable it to defend itself from the otherwise injurious effects of the Ottawa Conference.

I do not think there is any intention to initiate a trade war, but there is in many quarters in the United States a feeling that the Ottawa Conference is just one additional sign that the world is getting rather tired of trade and does not want it, and that the United States must look in other directions than foreign trade for the maintenance of its economic life.

It is my impression—it is not more than that—that the situation at the present moment at Washington is something like this: that there is a fairly general conviction that the Economic Conference will not succeed unless the British Empire and the United States come to a pretty thorough and general and comprehensive understanding on economic grounds; that there cannot be satisfactory trade relations between the British Empire and the United States while the Ottawa

Conference stands as it is; that therefore revision of the Ottawa Conference is a necessary pre-requisite to a successful understanding between the British Empire and the United States this summer, and therefore is a pre-requisite to a successful outcome of the Conference.

However discouraging that might seem, the situation did not seem altogether hopeless to me until I heard certain expressions of opinion in previous speeches. I expected to find here some Englishmen saying that after all there was not any great enthusiasm for the Ottawa Conference to start with in England. There was not even any great enthusiasm in Canada. It apparently seems to be the fact that Washington and Mr. Bennett have already come to a fairly good understanding that the Ottawa Conference, in so far as Canada is concerned, need not be a barrier to a satisfactory agreement on economic matters between the British Empire and the United States. The Ottawa Conference concerns Canada much more vitally, and was pressed for by Canada much more seriously than by other parts of the British Empire, and in those circumstances we ought to feel justified, unless the British have become more enamoured of the Conference than they seemed to be when they were at it, in not regarding it as a serious obstacle to a fairly satisfactory outcome of the World Economic Conference.

Professor ZIMMERN has also expressed the wish that somebody would indicate an American point of view with respect to Colonial Preferences and the Open Door. The Americans are not very much interested in the Open Door in Colonial territories. They are interested in the Open Door where they think they can make some profit out of the Open Door, and only there.

Many of these dependent territories that have previously been Open Door territories, whose doors have been closed or may be closed in the near future, are in what I might call the "map" class. On the map they look like something, but for trade purposes they are fairly negligible. I do not think the United States cares very much just how most of Africa is managed by the European Powers. The United States might conceivably be interested fairly extensively in the tariff policy of India. The United States is interested in the relationships between the Dominions and the Mother Country. The two most important export markets for the United States are Great Britain and Canada. They are about on a par, one being more important one year and the other the next.

The possibility for Canada of diverting trade from the United States to Great Britain has been shown by forty years of Preference to be very limited. I think the Americans are more concerned with the possibility of British Preferences diverting export trade to England from the United States to Canada, but a great number of Americans admit that the history of their trade and tariff relations with Canada

is one which gives some valid grounds for complaint to Canada as a friendly neighbouring country. At the present time there is willingness in the United States to come to an understanding with Canada.

As far as the American Colonies are concerned, let me point out to you that officially there are no American Colonies, and that the term "Colony" has no official or legal meaning in American law. The word Colony does not appear in any American statute except with reference to the Colonies of foreign countries.

As far as what the United States calls the non-contiguous territories of the United States, or occasionally the insular possessions of the United States, let me point out with respect to the most important one of them, the Philippines, that the United States has promised the Philippines their independence—and all Britishers will know just what that means, or does not mean.

As far as Hawaii is concerned, it has been absorbed legislatively, legally, fully into the American system. There has not, I believe, been any special Act passed by Congress to apply to Hawaii since the Act accepting Hawaii into the Union. It is legally, constitutionally, politically and integrally part of the United States. There are, it is true, some thousands of miles of water between that part and the mainland, but it is an integral part of the American Customs Union. It is from the point of view of the French tariff system an assimilated Colony, except that it is assimilated in respect of all matters and not only tariffs. It is in almost every respect a self-governing State of the Union in the sense in which any State of the American Union is self-governing.

Americans do not know much about Colonies and about the fine differences between their political status. They have succeeded, just like the British have, in making the status of every one of their Colonies legally and constitutionally different from every other. They have no machinery, no organised body, to deal with Colonies. American Colonies do not provide jobs for the Mother Country. They are mostly self-governing. In so far as the Philippines are concerned, I should say the Philippines are with one or two qualifications as self-governing as a British Dominion is, and certainly as self-governing as Newfoundland is.

Americans can think of the question of the relationships between the Dominions and the British Mother Country without recalling their own Colonies for a number of reasons. In 1922, one of the reasons why Section 317 was inserted in the tariff law was the belief of many Americans that the British Dominions could not reasonably claim to be autonomous nations for purposes of world government and of the League of Nations, and at the same time claim to be part of a single political unity for purposes of trade and commerce. The claim of Canada to be represented by an independent Minister at Washington particularly caused the United States to feel that it would be justified

in treating Canada and Great Britain as if on trade matters also they were independent of each other.

This is where the peculiarity of the characteristics of the British Empire becomes relevant. I would say exactly the same thing of the American Colonial Empire. As has been alleged of the British, it can also be said of the American Colonial Empire, that it was acquired in fits of absence of mind, and Congress has never had full consciousness of its existence, has never been willing to sit down and legislate for it. The American Colonies are governed largely by accidental statutes dealing with other purposes, if governed at all from Washington. They are of negligible, political and economic importance. Hawaii is not anything to quarrel about at the present time. It is an economic drain on the United States, as the Dominions and the British Colonies threaten to be on Great Britain if the Imperial Preferential system has a still more flourishing growth in the future.

As far as Porto Rico is concerned, it is a poor territory, with a low standard of living, and has often great difficulty in keeping its people alive. It is not a great market for foreign products. There are no great economic prizes to be won in the American Colonial territory by other countries, with the possible exception of the Philippines, and there the party chiefly concerned would be Japan and not England.

But if the British really are willing to discuss completely and openly on economic grounds the question of the proper trade relationships of different parts of the Empire to foreign countries, I feel sure the Americans would welcome the opportunity and would gladly exchange a wiping out of Colonial discriminations and preferences as between the two Empires.

With reference to Imperial Preference and the Most Favoured Nation Clause, I do not think there is any case in which any country has objected against Colonial or inter-Dominion Preferences on the ground that they were violating the Most Favoured Nation pledge. The Most Favoured Nation Clause is not an Open Door pledge for territory which has not an independent political status of sovereignty, so that I feel certain that the State Department in Washington is never going to say to England that it is violating its Most Favoured Nation obligations to the United States when it grants preferences to Gambia or Sierra Leone.

In any case, as far as the United States is concerned, it has not the right to the Most Favoured Nation treatment as far as much of the British Empire is concerned. Canada has been carrying on a discriminatory tariff war against the United States, a one-sided war, for many years now without violating any Most Favoured Nation obligations, because it has no treaty with the United States.

To return to a theme which I perhaps have sufficiently presented before, if the World Conference is to succeed, not merely in coming to

an agreement, but in coming to a desirable agreement, I had supposed that scientists and scholars were agreed that the character of that agreement would be that it would tend to remove barriers to trade and discriminations. It may not be altogether polite on my part to point out that the general course of the discussion so far here has been such as to strengthen the hands of those who would instead make the World Economic Conference a vehicle for further trade barriers and further extension of discriminations.

The note that has been most prominent at this Conference has been defence of regional discriminations, an apology for closing the few doors that had been left open, a defence of the Ottawa Conference which still further raised tariffs and still further extended the areas of tariff discriminations, on the ground that it was increasing the volume of trade and satisfying certain sentimental longings of the British people. It seems to me it would be a sad misfortune if such were the outcome of our deliberations. Surely statesmen do not need any encouragement to proceed in the way in which they have been proceeding in the last twenty years, with results that are obvious to anyone. If we have any function at all, it is to bring them back to sane paths.

There is no particular profit in trying to figure out the degrees of sinning which different countries have displayed in the past. They have all been sinners, or have been so weak that they have feared to sin.

Even in Holland there has been a strong movement to close that one remaining Open Door, the Dutch East Indies, and that Door is not in fact as open as has been claimed. I think we ought not to encourage our statesmen to proceed in the way they have been going. On the contrary, if what we have learned from our studies has any merit at all, we should be disputing with our statesmen and not raising their right arms.

Professor ZIMMERN:

I should be very sorry if, at the close of this discussion, the meeting took as the main gist of Professor COATMAN'S and my contributions that we advocated trade restriction and discrimination. The meeting will remember that the subject of the Ottawa Conference was introduced by me as part of the discussion on the Open Door, and in a previous speech I tried to make it clear that my interest in the subject was from the point of view of what I called Colonial Disarmament, and my whole purpose was that we should get a diminution of trade barriers and a diminution of preferences and discriminations as the result of discussing this subject.

One other point. I do not think it is true either to say that opinion in Great Britain has become more enthusiastic about the Ottawa Agreements. We were not enthusiastic about them last year, as

Professor COATMAN, I think, clearly said. At the time when they were negotiated, it was not expected that the United States would revert to a more liberal commercial outlook. We are not enthusiastic about them to-day, and, speaking for myself, I am quite certain that the people of this country would be only too pleased to put an end to the Ottawa Agreements if substantial reductions were obtained from the United States and perhaps from other countries in return. I was therefore delighted to hear you say at the end of your remarks that the United States would be prepared to wipe out the discriminations in those territories that you do not want to call territories.

Professor VINER:

I am not able to say that. I said I thought the United States would be very glad to discuss with the British Empire a mutual wiping out of Colonial discriminations.

Professor ZIMMERN:

I was very glad to hear that. Of course, the discussion would broaden itself out on to other matters, such as shipping and so on.

But I would like this discussion to close on a note of co-operation. All the members here in my opinion do desire the frankest discussion with the United States of these subjects, with the feeling that it is only through our co-operation in commercial and financial policy that the World Economic Conference, which we all have at heart, can be brought to a successful conclusion.

Professor COATMAN:

I just want to say one word. Of course I want trade barriers to come down. I said that clearly, and I am the last person to defend those parts of the Ottawa Agreements which raised barriers against foreign countries.

I still feel that my main contention, that we have entered in the British Commonwealth on a process which will increase the net quantum of world trade, has not been overthrown. I still believe that, and that is the only ground on which I defend them. If I believed that they would reduce the quantum of world trade and that we of the British Empire would benefit at the expense of others, of course I would not defend them, because I know that the good of the whole is our good, and our good is the good of the whole.

I am all for the reduction of trade barriers, and I defend Ottawa because I believe that in the long run the work we did there is the beginning of a process which will lead to greater freedom of trade and greater international intercourse.

Professor RAPPARD:

Just a word as the rapporteur: I think it can be said now that of the four British speakers who have expressed or implied views on Ottawa, no British voice was raised to defend the Ottawa Conference except in so far as it would tend to increase the volume of world trade. That is a unanimous opinion.

INTERNATIONAL DEBTS AND CAPITAL MOVEMENTS

Professor STUART (*translation*):

At the present moment the world is suffering from a terrible financial crisis, to which the present depression is in great part due; much capital that might be at the disposition of borrowers is no longer in circulation, and is, so to speak, immobilised. Thus in several countries the question has been asked whether it would be desirable for the State to intervene in regard to the movement of capital, and for national or international measures to be taken in order to encourage a renewal of its circulation.

It has been suggested in a memorandum,[1] as also in Dr. WOLFERS'S report, that in order to encourage a revival of activity a public body should exercise control over the international movement of capital, a body which could protect the capitalists from losses by preventing the placing of investments in industries not established on a firm basis. The idea has also been defended in SIR ARTHUR SALTER'S well-known book.

I do not, if I may say so, share that opinion. If we want to revive the movement of capital in the international market, it would be very dangerous, I think, to create a controlling body of States. For it would mean that the States would give guarantees to capitalists which they might not be able to back, and, whatever control be exercised, one can never be certain that there would not be losses: in which case, who would take the consequences? Very probably it would have to be the capitalists and not the States. The official body thus proposed by SIR ARTHUR SALTER and another of our colleagues would give a certain feeling of security to the capitalists, but the States could never guarantee that there would be no losses; they have not sufficient foresight in economic matters. The worst measure we could take, therefore, would be to create this controlling body.

On the other hand, is it desirable for the States either to restrict the movement of international capital or to accelerate it, as the case may be; in a word, to regulate its movement so as to avoid too swift a rise or too pronounced a decline?

Dr. WOLFERS, in his report, mentions several measures which might be adopted to avoid too great a movement of capital—that is, from the point of view of the States which export capital—as, for example, the embargo or some such measure. Then he asks in what manner it would be possible to avoid too pronounced a movement of capital? And at what moment does the export of capital abroad become

[1] See below, p. 335.

excessive? The answer to these questions should, I think, be as follows:

There is too great an export of capital when the means of saving in the exporting country are not large enough to finance the exported capital; one can assess the means of financing these capital exports, thanks to the state of short-term credits, which increase visibly in the exporting country. To combat the danger of an excessive export of capital, it is necessary to resort to a well-known policy; it becomes necessary for the institution which regulates short-term credit in the national market to make it more difficult for such credit to be obtained, either by raising the Bank Rate or even by limiting the demands for short-term credit that are made upon it.

Certain authors have advocated the embargo: that has always seemed to me to be a somewhat arbitrary measure. If we wish to regulate the international capital market in an elastic and satisfactory manner, we must avoid the embargo and look, as we have done in the past, to the Central Bank for a solution, since it alone is capable of taking measures to avoid the increase in short-term credits. In co-operation with the other banks, the Central Bank can raise the discount rate and limit the demands made on it for short-time credits.

But that is not really the position at the moment: the movement of capital has been slowed down, and it has been asked what can be done to revive it? Now, two methods might be adopted: the State or the Central Bank might intervene either in a permanent or a temporary way. It is to temporary measures that we should have recourse, since the evil to be combated is essentially temporary and momentary. If the State becomes deeply involved in the business of international finance, it is to be feared that it might never again be able to extricate itself.

It is then a question of temporarily reviving the movement of capital which has been slowed down; some interesting suggestions in connection with this matter have been made in the programme of the Preparatory Committee of the World Economic Conference; it has been suggested in particular, and without adopting the solution unreservedly, to found an International Financial Institute which, if I understand aright, would only be of a temporary character.

A last point I should like to examine is the part which the Government should play in a capital-importing State, in Germany, for instance, which imported a great deal of capital during the period preceding the crisis. Should the State be opposed to such enormous imports?

But first we should ask, What is the danger of this excessive importation of capital? The danger is, in my opinion, twofold. The first is that the State, or the private enterprises which operate on its territory, may not be able to pay the interest and amortisation on loans contracted abroad; in such a case I do not see how the State

could be opposed to its nationals undertaking excessively important responsibilities. The risk in such cases falls where it always should fall, namely, on the foreign lender. The State can do nothing. The second danger, which has been especially revealed in the case of Germany, is that capital placed on long term in enterprises had been borrowed abroad on short term, so that it could—and this is the problem of liquidity—be suddenly withdrawn. The solution in this case can fairly easily be found by State institutions or by Central Banks if the control which normally belongs to the State can be delegated to them. The liquidity of the national economy should be controlled by the Government or the Central Bank of the capital-importing country, in order to avoid a collapse of the balance of payments, in the event of the foreigner suddenly withdrawing the funds he has lent.

THE CHAIRMAN (*translation*):

Before proceeding with the discussion and in order that we may be further enlightened, I shall ask Professor STUART to explain more fully his ideas on one point. He has revealed the dual nature of the question: the case in which the exportation of capital is too great, and the case in which the capital-importing country is embarrassed by a sudden speeding up of repayment or amortisation. Setting aside State intervention which would lead to an over-controlled economic system, Professor STUART attributes the important rôle to the Central Banks of the different States.

It is true that the rôle of the Central Bank may consist in raising the Bank Rate or restricting the possibilities of credit; but it must not be forgotten that the statutes of the Issuing Banks vary with each State. In the U.S.S.R., for example, the Central Bank is only the financial expression of the State, which is a point we have not yet discussed. Elsewhere the Issuing Bank is very much freer; for example, the Bank of France and the Bank of England, while being freer, have nevertheless close relations with the public authorities.

In the latter case, how should the State intervene? Intervention by the Minister of Finance can affect the discount policy of the Issuing Bank, but is it not to be feared that the State may one day be led to intervene directly in the entire policy of the Issuing Banks?

Let us suppose that the Bank of France is asked to furnish a plentiful supply of credit to a country; what does Professor STUART consider to be the position of the Minister and the Parliament which intervene to demand a rise in the Bank Rate? If the intervention be made with discretion there need be no serious difficulty; but if it be made publicly we fall into the danger of which Professor STUART spoke, of direct intervention by the State, which would look exactly like giving a guarantee to the exporters of capital and so involving the State in possible losses.

That is why I am asking Professor STUART to be kind enough to state clearly his conception of the rôle of the Issuing Banks, and also of their relations with the State in regard to the raising of the discount rate as a means of avoiding too great an export of capital.

Professor STUART (*translation*):

I agree with the CHAIRMAN in recognising that complications may arise as a result of the fairly intimate relationship which exists in most countries between the Government and the Issuing Bank; it would not be realistic to deny that relationship. Very frequently, even in countries where the Central Bank has great independence, the Government tries to exercise its influence on the financial policy followed by the Bank.

To make my opinion more explicit, the task which the Central Bank should have in view is this: it should prevent the short-term credit market from becoming overloaded at any moment in consequence of certain projects for exporting capital. For instance, a Government may intend to float a large loan on the national market; at the same moment another State, or a private enterprise within a third State, approaches the same market with a view to placing a loan there also. The function of the Central Bank should be to avoid a conflict between the national project and the foreign project, and to take a certain number of factors into account: What is the probable amount of short-term funds at its disposal? What is the amount of the country's savings? Do the available short-term resources enable the two loan operations to be carried out?

If the answer to this last question is affirmative, there is no need for the Bank to intervene; the projected export of capital does not exceed the resources of the market. If, on the contrary, the short-term and the long-term resources are not sufficient to cover the two projected operations, then two distinct courses can be taken.

The first is to make an appeal for some kind of economic planning, as for instance an embargo on the foreign loan in favour of the loan of the national Government. But such a procedure always partakes of an arbitrary character, and that is why I am not in favour of it. And so the course I should prefer to see taken is that of effecting a rise in the rate of interest. For in that way it will be possible to put a stop to excessive lending, while at the same time leaving the movements in the demand for capital in the short-term market entirely free.

In other words, I am not in favour of introducing an element of economic planning into the market for long- and short-term credit. Some may lean towards such a system; others will prefer to defend the free movement of economic forces in the capital market. I stand for the latter point of view, and for the system which gives the Central Bank of the country to which one turns, a discretionary power to supervise the monetary market of the country—a power which should

be exercised by way of a rise or fall in the rate of interest on short-term credit.

It goes without saying that the function of the Central Bank defined in this way is a rather difficult one, for since the influence of the State on its existence has become very great, the State intervenes arbitrarily almost as a matter of course. It is against this arbitrariness that I protest.

Professor KERSCHAGL:

As you know, there are two problems: that, in the first place, of the many countries of Central and Eastern Europe, where the Central Banks exercise only a *de facto* and not a *de jure* influence on the movements of capital.

This influence wielded by the Issuing Bank is not always that which is derived from its statutes: these statutes are very often far from being the ideal which Professor STUART has put before us, especially in these times of foreign exchange restrictions that are based almost entirely on the policy of the Issuing Bank, and on no other authority. That is one great difficulty.

The second problem is that which we often encounter in sketching the ideal policy for an Issuing Bank; but it is much easier to ascertain what the ideal is than to devise the appropriate means of attaining it. In my opinion, the discount policy of the Issuing Banks has failed in so many cases during recent years that one doubts very much whether it is, or will be, a very effective weapon in case of emergency.

We do not live under a system where all banks, or even two-thirds of the banks, are under the direct influence and control of the Central Bank, and what Central Bank control we have is insufficient to meet the case. Even in the United States the influence of the Federal Reserve Board was very often not as strong as it desired to be. We, in Central Europe, have centralised banking systems and are beginning to attempt an approach to some ideal. We are often very far from having sufficient control. Perhaps in a few years time we shall have a control in the English sense of the word, but we are still very far from having a control in the American sense of the word.

Professor VINER:

I was very much interested to hear Europeans bemoan the fact that the Central Banks of Europe have not got as much control over their banking systems as has the Federal Reserve System in the United States.

The control of the Federal Reserve Board over the Member Banks is not particularly impressive even when you read the statutes, and in this case, as in so many other cases, the actual text of the statute is

one thing, and the significance and the mode of operation of the system in practice is another thing. It so happens that these instruments of control, which the Federal Reserve System actually has over the Member Banks, are in large part exercised by delegates from the banks to the system.

The great problem of Central Banking, the one condition necessary if a Central Bank is completely to carry out the functions it is supposed to exercise, is the insulation of Central Bankers from the currents of psychology which affect other bankers. In actual fact, however, Central Bankers and Member Bankers come from the same set of human beings and respond in the same way to the same set of psychological factors, so that there rarely is in the United States any serious conflict between American Bankers in their capacity as American Member Bankers and American Bankers in their other rôle of Central Bankers. They are essentially the same persons; the very individuals often have the same rôles to perform: (1) of augmenting the profits of their own individual banks, and (2) of regulating the banking system.

Central Bankers are quite right in their general doctrine, which they have always held unanimously all over the world, that they are unable to exercise any substantial control over the general situation. The reason is that at the time when it is important that Central Banks should contract, the Central Bankers have also imbibed the expansionist philosophy; and when it is important that Central Banks should expand, they are also scared of the future prospects and are contracting. If you were to trace the operations of the American Federal Reserve Banks, if you were to have some sort of psychological temperature chart of their feelings, you would see that the Central Bankers and the Member Bankers were optimistic and pessimistic at the same moment, and instead of checking each other, they were reinforcing each other in their trends, whether desirable or undesirable.

There is a school who see in some automatic formula something which will overcome the shortcomings of the human temperament when it faces the necessity of making a decision. The great difficulty is that nobody has succeeded in devising a formula which meets all circumstances.

I do not think myself—perhaps I am excessively pessimistic—that we have much reason to expect any better course of credit control in the future than we have had in the past. Central Bankers may learn to avoid certain mistakes, but one of the things which perhaps the Bank of England's history reveals more clearly than any other is that the mistakes which one generation of bankers makes tend to become the gospel of the second generation, the "sound principles of banking." They become institutionalised and respectable.

There is not very much evidence that bankers have learnt from their predecessors' mistakes or know anything about their predecessors.

Their chief achievement is to add to the possible ways of doing the wrong things. As in the past, so it will be in the future.

One remedy I see—and on that also I am not particularly hopeful—is that there may develop a wider body of general, intelligent and educated public opinion which is itself in some degree disassociated from the general active course of business and therefore can succeed in keeping its balance, and which by pressure acts as a check or as a stimulus according as the one or the other is needed.

Thus Central Banking might be made more intelligent as the result of a very select public opinion, which hardly exists yet, rather than as a result of any mechanical rule or formula, or even as the result of the appointment of experts as Central Bankers, because in that case within a month or half a year they would become merely Central Bankers and therefore, in other words, would have ceased to be experts.

THE CHAIRMAN (*translation*):

After the two statements we have just heard, one can realise the difficulty of arriving at any conclusion in regard to the functions of the banks. But there is another point which is more important and has not yet been touched upon, and which is perhaps essentially the object towards which we should direct our study: that is, to find out whether, and to what degree, it is advisable to encourage the export of capital.

We should try and increase the volume of commercial intercourse within the world and reduce the obstacles that stand in the way of it: can we work out a theory on the opportunity for a greater development of capital movements?

Dr. PEDERSEN:

As I see it, the problem of the international movement of capital is part of the larger problem of establishing and maintaining economic equilibrium in the different countries. It is not, in my opinion, a matter which can be regulated and controlled solely by a Central Banking policy. I think that recent experiences have taught us that interest and discount rates do not determine the amount of credit in circulation. There are several other factors. Interest rates, in other words, are too weak an instrument by which to regulate economic life. We see, for instance, in Great Britain at the present time that interest rates are lower than have ever been recorded, and yet there is no capital expansion. How much credit is going to be put into circulation by interest rates at a certain height depends of course on how profitable industrial activity is.

Therefore, the international movement of capital is determined by the profits which industry makes in the various countries at the present

moment. The very large foreign indebtedness incurred by Germany between 1924 and 1929 must have been due to the fact that Germany was able to pay very high interest rates. It was due to the fact that high interest rates could be obtained, and therefore in spite of the risk and distrust capital was loaned to Germany.

Capital may be borrowed by a country for two different purposes. It may be borrowed to develop natural resources and finance industry—which will be able, at a future date, to pay interest and amortisation charges on the capital borrowed. It can also be borrowed to fill the gap, the deficit in the balance of trade, due to inflation. By inflation I mean a state of affairs in which wages are rising and consumption increasing, without production being expanded to the same extent. Therefore consumption exceeds the amount of real income in the country. Of course that leads to a deficit in the balance of payments, and that deficit has to be financed, as it often is, by borrowing from other countries.

It is a well-known fact that during the process of inflation profits are high because wages, although rising, still lag behind prices and profits. Therefore profits rise and high interest rates can be paid, so that the country concerned becomes attractive to lending countries. I think that was what was going on in Germany between 1924 and 1929. Of course, the process had to be stopped somehow.

I am not quite clear as to how it should have been stopped. It is well known that the (then) director of the German Bank of Issue, who is its present director, was aware of this situation and tried to devise means to stop it. Experience seems to have shown, however, that it could not be stopped solely by notices of warning. Something ought to have been done to correct the fundamental cause, that is, the disequilibrium between costs and prices.

I would like also to say a few words on the short-term credits which played a very important part prior to the depression, and which finally seemed to have been the cause of the financial crisis in 1931. Such short-term lending or movement of short-term capital from one country to another does not to me seem to be so dangerous as this other process I have described. It ought to be possible to neutralise the effects of such a movement of capital from one country to another—this flight of capital—by a pooling of the resources of the different Banks of Issue

If, for instance, there had been a perfect co-operation between the American Central Banking system, the Bank of France and the Bank of England in 1931, I do not see why Great Britain should have been forced off the Gold Standard at all. Perhaps she wished to be forced off the Gold Standard, in which case it was of course fortunate that it appeared, at least, to be so necessary. But if there had been co-operation, I do not see why there should have been any necessity for it. If the Bank of France or the United States Federal Reserve System had

assured the Bank of England that it could have drawn on them as much as it wanted, why then, it would have been perfectly easy to neutralise the withdrawal of short-term credits from London. The whole thing would only have been a matter of book-keeping. If we can ensure that co-operation between Central Banks will be possible in the future, then the short-term movement of capital does not seem to present any dangers at all.

Of course, I am pessimistic regarding co-operation between Central Banks, and therefore it may, in reality, be a great source of danger in the future, as it has been in the past; but if co-operation between Central Banks cannot be so established, I can hardly see how international commerce and financial intercourse can have any very large rôle to play in the future.

Take the case of Denmark as an example. The Danish balance of payments showed a surplus of some 40 million kronen in 1929; in 1930 there was a small deficit; in 1931 there was a somewhat larger deficit; then came the very catastrophic fall in export prices brought about by Great Britain's abandonment of the Gold Standard and her introduction of certain measures of Protection. Of course, if we cannot get rid of that deficit and if we cannot expect to be able to fill such a deficiency in the future by foreign borrowing, we shall have to impose restrictions on foreign trade or reduce the volume of purchasing power by reducing wages and salaries.

This question we are here discussing is right in the centre of all our economic difficulties. International commerce cannot be carried on on any significant scale at all unless there is freedom for the movement of capital; and that, of course, cannot come about unless in some manner economic equilibrium can be maintained, so as to avoid the kind of thing that happened to Germany and several other countries after their currencies were stabilised in the post-War period.

I think there lies herein a great deal of the trouble we have experienced during the last two years. For the stabilisation of currencies which took place from 1925 to 1928 was really not in harmony with the internal economic structure of the countries concerned. I think it would be extremely important at the forthcoming World Economic Conference that a stabilisation of currencies should not be undertaken before the stabilisation of internal economic conditions has been allowed.

Professor RAPPARD:

I would like to ask Dr. PEDERSEN a question to make clear a point which may have seemed obscure to others. He said, if there had been real co-operation between the Central Banks in 1931, there is no reason why Great Britain should have been forced off the Gold Standard. There was a deficit in the balance of payments. Great Britain was

losing gold. Great Britain then applied for it to Paris and New York. The Bank of France and the Federal Reserve Board opened credits.

Dr. PEDERSEN:

But they were not sufficient. If those advances had been continued, there is no reason why Great Britain should have gone off the Gold Standard.

Professor RAPPARD:

If they had been inexhaustible, I would have understood it. But why do you hope that a great increase of credits would have suppressed the cause of the trouble, which was the deficit in the balance of payments? The increase of credits, would it have automatically limited Great Britain's imports or automatically stimulated her exports? I do not see how you can expect the indefinite extension of credits, unless it is absolutely infinite, which is absurd, to help a country in the position of Great Britain in 1931.

Dr. PEDERSEN:

Professor RAPPARD is assuming that the underlying reason why Great Britain went off the Gold Standard was not due to foreign short-term credits in London, but to the effects of the large deficit in the balance of payments. That is of course true in a way, because the deficit in the balance of payments as reflected in the budgetary troubles of Great Britain in the summer of 1931 caused a general distrust of her economic stability the world over. Thus it eventually caused a sudden withdrawal of those very large funds which had been removed to London.

What I maintain is that if the enlightened people who direct the Bank of France and the United States Federal Reserve System had not taken heed of Great Britain's advertisement of her own difficulties, or of the formation of other banking opinions which were current all over the world, but had put at the Bank of England's disposal those resources, Great Britain would have had time to settle her differences and would not have needed to come off the Gold Standard.

The deficit in the balance of payments in Great Britain was not serious, as far as I can see. It had been of very short duration, and it must be remembered that Great Britain was in possession of very considerable resources all over the world. It could have gone on for years in the same way.

What I want to say is this: that such short-term movements of capital as have played a very conspicuous rôle in recent years cannot be dangerous. The underlying situation is a very different question, and that is what I was talking about in the first place. A flight of capital must be corrected in some way.

Professor RAPPARD:

There is no automatic action.

Dr. PEDERSEN:

No. But the funds put at the disposal of the Bank of England were not sufficient. The banks who lent England money did it in a half-hearted fashion.

A MEMBER:

Equal to the total amount of gold in the Bank of England at the time.

Dr. PEDERSEN:

It has nothing to do with gold at all. The gold had flown out of Great Britain because other countries had withdrawn their short-term credits and capital was circulating only between those two or three countries. Only by such a co-operation between the banks as I have suggested would it have been possible to maintain the Gold Standard.

SIR ARTHUR SALTER:

. . . Personally I think that the experience of the last few years has shown quite clearly that the ordinary working of the credit system, through which capital has normally flowed from one country to another, has proved to be in some respects extremely defective.

It seems to me that the difficulties have been of two chief kinds. The one is that the course which foreign investment has taken in creditor countries has been in no way related to the general policy of the country which is essentially relevant to its action in the sphere of credit.

It is obvious, of course, that the policy pursued by a creditor country as regards lending should be the counterpart of the whole of its foreign trade, and is necessarily affected by and affects vitally at many stages, let us say its commercial policy. It seems to me that from that point of view it is extremely desirable that there should be some relation, some attempt to form something like a collective policy as to foreign lending, developed through the institutions in the creditor country through which foreign lending is arranged; and, secondly, that that collective policy should be related to the general economy of the country and the general commercial and economic policy of the country.

In the second place, it seems to me that the experience of the years immediately preceding the depressional crisis showed that in regard to one class of loans the defect in the credit machinery was particularly serious, namely, loans of a substantial kind to public authorities,

whether Governments or municipalities in other countries. These loans are more serious in their consequences because of their scale, because of the fact that the borrower is, unlike the ordinary borrower, immortal, the State existing from generation to generation, and because, unlike the ordinary borrower, a collapse in regard to these loans affects the whole of a community and not merely an individual concern, whose repudiation or bankruptcy destroys a small fraction of an economic system but does not spread over the whole of a great community.

Having that in mind I should like to see the institutions (which are happily very few in number so that the problem is a manageable one), through which foreign lending proceeds, trying to form, first nationally, and then in consultation and contact with similar people in other countries internationally, something like a code of good foreign lending.

I should like them to address their minds, in the first place, to the particularly important class of foreign lending, namely, lending to public authorities in other countries.

It is evident, for example, that in a country like America, half a dozen institutions led by half a dozen men determine the character, the scale, the direction, the conditions of the important foreign lending from that country to the rest of the world, and certainly monopolise that part of the foreign lending which goes to public authorities in other countries. It is clear that an even smaller number of institutions in this country and in France have a similar control of the situation. Therefore agreement between a mere handful of people in three creditor countries could probably deal with the abuses that experience has shown to have arisen in regard to foreign lending to public authorities.

Let me just illustrate the kind of code that I think might be developed, and, being developed, effectively applied by a relatively small number of people and a relatively small number of institutions. I need not dwell at this moment on the fact that if they did agree, they would certainly have the power to enforce their decision. It is quite clear that if a dozen or so leading institutions of the world agreed that they would themselves not lend abroad except upon certain conditions, and that they would use their influence as effectively as possible against loans being raised otherwise than on those conditions, no outside house would be able to tempt the public to subscribe to other classes of loans.

What are the kind of principles, the kind of code that such a body might develop, encourage and help, but which might in the case of necessity be directed by the respective Governments? I suggest, just as examples, one or two things that they might decide.

They might well, I think, decide that whenever a large loan, which

might be defined in terms of the percentage which the total of the loan would bear to the revenues of the borrowing State or public authority, is being issued from a great creditor country to a small Government or a public authority, the presumption is so strong that public and political considerations are involved, that public authorities ought to be consulted and to consider the character of that loan in some form or another before it is issued, and insomuch as it is a loan from one country to another, that it would be desirable that this public consideration should be not national but international.

And I should like the Governments in turn, as a corollary to that, to make it perfectly clear that except when those conditions had been satisfied, then from beginning to end the lenders' risks must be purely private risks, in regard to which they must not expect any form whatever of Government assistance if the risks matured into actual disaster.

As a type of the two kinds of lending which, I think, are tolerable and the one kind which I think intolerable, let me give three examples.

On the one hand you have a loan for the reconstruction of Austria. It was recognised from the beginning that a loan of that character in its nature, having regard to its scale, necessarily involved public and political considerations of an important character, and consequently the Governments likely to be principally concerned in the possible repercussions met together and agreed upon the conditions for that loan to satisfy themselves that the loan was in the interests of the borrowing country, that it was attended by conditions which would eliminate to the utmost possible extent the possible political dangers that might result from it, and, thirdly, assure for the investor in regard to that loan some safeguard from some of the risks that attend foreign loans.

Very well. That loan having been certified by an international public authority to be of that character, it seems to me legitimate that afterwards, if difficulty should arise in regard either to the expenditure or the subsequent payment of the interest on that loan, that the same public international authority should take a definite interest and should try to ensure the continuing success of the schemes for which it had been initiated.

On the other hand, I can conceive loans which are not regarded as sufficient in importance or in scale to need a public international consideration of that kind, or official consideration of any kind. But in that case it seems to me that the consequences should follow, and that if it afterwards proves that the loan has been imprudently made, that the scheme with which it is associated should be a bad one, and the scheme ultimately fails and the interest is not forthcoming, then I think it should be an absolute rule on the part of the Governments of the world that in that case no aid of any kind whatever should be

given to the lenders in establishing their claim. They have taken their risk. They should be left, in my view, with the only proper sanction in that case, which is a sanction that if the country defaults it is likely to be less able to secure a future loan on satisfactory conditions.

That seems to me, for a loan in regard to the contracting of which no public authority has been engaged, the only proper sanction in the interests of the lenders.

These seem to me proper forms of loan. The first appropriate to loans so considerable in scale or of such a kind that they presumably involve some political and public interest. The second of such a character that they do not involve such interest. The third class of loan is one which seems to me intrinsically wrong and improper, and here I will quote an instance that is against the past history of my own country, but illustrates the kind of compromise between the two that seems to me essentially wrong.

You have, for example, an autocratic monarchy of a not very developed country contracting a huge loan from two great creditor countries. I am taking the past case of Egypt raising a loan partly from England and partly from France, a loan raised on rather extravagant terms, raised for purposes that certainly were not very directly related to the general national interest of the borrowing country, a loan to be spent on the personal luxuries of the monarch but legally charged upon the revenues of that State.

When such loan is contracted, it is regarded as a private matter of the investors lending and of the issuing houses. The risks attending and properly attending a loan of that kind are reflected in the character of the commissions and interest and so on. No public authority considers whether the scheme is a good one, or such as should be encouraged or is desirable on public grounds.

The time comes later when the inherent defects of the loan develop; when the money has been spent, the country has no assets resulting from the loan at all corresponding to the burden of the loan charges which rest upon the country; when there is a not unnatural revolt from those burdens; when the borrowers default. At that moment the lenders prove to have sufficient power with their Government to secure pressure of the most drastic kind.

Regarding that purely as a loan transaction, that seems to me essentially wrong. It seems to me that if, at the moment when the conditions of the loan are decided, it is regarded as a purely private matter, then at the moment when the loan scheme fails—if it does fail—it seems to me wrong that it should be regarded as anything but a private matter; and in the case therefore of that second class of lenders, I should like to see the lenders left purely to their proper sanctions. Not only should not armed force be used, but I should like to see the principle carried much further and carried to the point of

an absolute rule that no Government would ever allow any of its accredited representatives to say a word to the borrowing Government in regard to the default of a lender of that character.

I have given those as some suggestions of the kind of code of morality which I should like to see developed, and which I should like to see developed partly by the private institutions of the world through which foreign lending takes place, but with the encouragement, stimulus and, if necessary, more than the stimulus of the Governments, who after all are concerned to see that the main credit system of the world is such as to fit in with the normal and regular development of the flow of capital between one country and another.

It is clear that one of the great causes of the present economic depression, and still more of the financial crisis, has been the way in which, without regard to the general economy either of the world or of the borrowing or lending countries, loans were for a period recklessly poured out with a completely inadequate consideration of the purposes to which they were going to be applied, with no consideration in many cases of any safeguard to secure that even the purposes that were proclaimed were going to be those on which ultimately the money was spent; with the natural and indeed necessary consequence that you have a collapse that spreads in its effects far beyond the area of those with whom the original responsibility for making those loans should rest.

It is a counterpart too of the same ill-considered foreign lending on such a scale as vitally to affect the whole economy of the world and of the countries directly concerned, without any relation to the framework of general policy for national or world policy, that you have had as an immediate cause of the financial crisis, a sudden arrest of a flow of capital, excessive in amount, ill-directed in direction, but upon which a large part of the economy of the borrowing countries had come to be founded.

Those, in a less organised form than I would have attempted had I had a little more time to collect my thoughts, are the general ideas which would underline my view as to the kind of policy which I think ought to be developed in the world to mitigate the defects in the present system of foreign lending and remove some of its worst evils and dangers.

Professor RAPPARD:

SIR ARTHUR SALTER has not unnaturally placed himself in the position of the lender. He has been considering the code of morality for the lender. Does he contemplate any similar arrangement for the borrowers? The borrowing country has a problem also. When shall the Government be interested in the borrowings of its institutions or private concerns?

SIR ARTHUR SALTER:

These are the main principles I should like the borrowing Government have in mind.

First of all, I think it is of great importance that every borrowing Government, whenever it is contemplating a loan which is considerable in relation to its normal revenues, should consider very carefully whether the effect, direct or indirect, of the loan and the purposes of the loan will be such as to produce additional revenue at least as much as and preferably more than the service of the loan in the way of interest and amortisation.

Secondly, they should consider the prospects in their relation to their own economic policy of it producing a sufficient effect upon their balance of trade to make their balance of trade capable of carrying the foreign payments that have to be made in the service of the loan.

Thirdly, in regard to those problems they would, when the loan is considerable, certainly find it a very great aid to be assisted in their first considerations by consultation, in proper form, through experts of creditor countries, including those who are not themselves interested in the actual loan operations.

Fourthly, they should recognise that when they are contracting a loan which is very substantial in relation to their revenues, and particularly if they are not quite certain as to whether those earlier conditions will in fact be satisfied, they are in the nature of the case incurring an inevitable danger that the future exercise of the full sovereignty of successive Governments during the period of the loan must be to some extent impeded and affected by the charges that result from that loan. In those circumstances, they are not escaping what they are inclined to think of as some kind of infringement of their sovereignty by declining to have any relations, at the time when they are contracting the loan, with such a public international authority as, let us say, the League of Nations. So far as their sovereignty is interfered with, it is an inevitable thing that arises from the facts of the case, and it is extremely unlikely that that interference will be less onerous if effected by great private firms. The corollary of that being that in the circumstances which I have mentioned where the loan is considerable, they would really be increasing and safeguarding their national dignity rather than endangering it by welcoming the assistance in the early stages of consultations with a body of experts appointed by such authorities as the League of Nations or the Bank for International Settlements.

Lastly, I think it is extremely important that the present dangerous anomaly between the life of a State, which is so much longer than that of an individual, and the life of a Finance Minister, which is so much shorter than that of an ordinary individual, should be prevented from having its present extremely dangerous consequences. When a man

as a head of a business is contracting a loan, he normally thinks with a perspective of a quarter of a century ahead, which is probably the duration of the loan. When he thinks as a Finance Minister, he very often thinks in terms of three years or two years of life. That is, in relation to the problem I am having in mind, a very practical and serious consequence.

I have often in talking to the Ministers of certain countries said something like this. "You are proposing to raise a loan to run for twenty-five years from now at a time when the general conditions of credit in the world and the credit of your particular country is such that you will have to pay eight or nine per cent. You are incurring a very great risk that you will be making an engagement which will look extremely onerous in a few years' time. If you can refrain from borrowing at a time of such high rates, it would be wise, but if you cannot, you ought to insist on a right of conversion after a period not longer than ten years."

Directly I mentioned ten years, I would see an expression on that Minister's face which showed me exactly what he was thinking. "Ten years! But that is long beyond my life, my official life as Finance Minister." And the prospective inconvenience to a future and perhaps politically opposed Finance Minister to himself was an extremely small restraint to him in incurring a contract the discharge of which would come in the regime and add to the burdens of his successor.

In the borrowing countries there should be some method of government which tends to prevent the disadvantages of the extreme contrast between the longer life of the State and the shorter life of the Finance Minister as compared with the normal human life of the individual engaged in business.

I should like to see in countries generally the establishment of permanent Economic Councils, which as regards the sort of financial and economic position of the country would tend to create a tradition of policy that would be carried on through successive alterations of successive Governments.

But that would carry me into a wide sphere. I just want to mention it in connection with the dangers that attend foreign borrowing.

Professor VON BECKERATH:

In order to be practical, we have first to discuss, in this field as in all others, what can be done in order to restore the economic world to a state in which it can be reasonably expected to become once more self-adjusting. That is one thing, and with it, of course, comes the question of regulation. Then the other question crops up, which Professor VINER and later SIR ARTHUR SALTER were dealing with, namely, what can be done, after the economic world order has been fundamentally restored, to avoid the recurrence of those events which

might again disturb and destroy the economic structure just as they have done during the period since 1924?

First as to Professor VINER's contentions. I entirely agree with him that we must not expect too much wisdom from a policy of co-operation between Central Banks. But more profound reasons for that exist. The aftermath of a great general war always means wholesale inflation, and then there is necessarily a period of readjustment which gives rise to a process of world-wide deflation. A normal proportion has to be re-established between gold, bank-notes and other such means of payment. That takes a long time. It is a time of deflation and depression.

As to the borrowers, Dr. Schacht and many others tried their very best to avoid that unsound kind of borrowing on the part of Germany, but they were unable to. Of course, the question here arises as to the extent to which a stabilised economic and political situation is, in fact, the condition *sine qua non* of reasonable economic arrangements. When Germany over-borrowed, it did so for two reasons. First, for reasons of interior policy which are well known. It was that we were not able to press down our wage-level sufficiently to keep our economy on a competitive basis with other countries, and in order to avoid an internal political rupture, we received all this money and simply postponed our difficulties. And secondly, for reasons of foreign policy which I shall not discuss here at this moment, we found it inconvenient to deal with the problem of Reparations at an earlier time, and so we also postponed those difficulties. The consequences were very bad, extremely bad, in both respects, and we have now to foot the bill.

On the other hand, I might recall here that the Italian Government was, and in my personal opinion it is one of its greatest achievements in the economic field, at the same time able to resist the import of foreign capital into Italy in all forms, long-term as well as short-term credit, which, for similar reasons as in Germany, would have been extremely dangerous for the future of Italy's economic position and, above all, for its freedom and independence.

This brings me to the practical point which I should particularly like to dwell upon. I am extremely interested and, from my personal and individual point of view, I am very enthusiastic about the views explained by SIR ARTHUR SALTER, only I am afraid we cannot deal with this topic without taking account of corresponding arrangements for private loans: for as we know, private loans can be substituted for the same purpose. What would take place in the borrowing country, with a controlling institution, such as you have in mind, would be an embargo. Suppose the borrowing country under the conditions laid down was in great need at a certain moment of receiving money, for social, economic, or political reasons. Among other things, such a situation would always make for very high fiscal pressure, which in turn would react on the private economic system

and force it to take in funds from elsewhere for private purposes. That has happened in Germany very often. There would then be an outpouring where possible, for instance, of shares and the like, and in the long run I am afraid the effect on the structure of the borrowing country would be exactly the same.

SIR ARTHUR SALTER:

Might I just interject? I quite agree there are dangers of that kind, but they seem to me immensely less, and for this reason: the great danger of public borrowing is this, that a transaction that would be visibly bad to borrower and lender, if examined by itself in isolation, is good enough to go through, because a thing essentially unsound can draw upon that which is sound in the whole of the borrower, which is the whole State.

If you stop that, it is quite true you have great pressure for the individual concern to borrow, but then the individual concern has to borrow in relation to its lender on a scheme which looks good in itself and on a credit which has to support itself, the lender knowing that if that scheme is bad and that individual borrower is not strong enough, then the loan will fail, and he cannot draw upon the whole of the community and its resources. Therefore you have a much greater difficulty in contracting the bad individual loan than you have the bad general loan.

Professor VINER:

Your analogy would also apply here with the business man.

Professor VON BECKERATH:

All that is true. Nevertheless our general experience has revealed another very dangerous consequence. Just because what SIR ARTHUR has stated is exact, what comes about is an unsound selection of private borrowers in the respective borrowing countries, because private borrowers only get money, of course, if individually they may be reasonably expected to pay back their borrowings—at least, that has not been true in the past, though I think it will be true in the future. Nevertheless what comes about then is that for reasons which in the last analysis are not reasons of private, but also of public and social, economy, some outstanding firms receive credits. They are forced to do so in the last resort on account of the general economic, social and political situation of their country.

That means, incidentally, that these big units, which are banking enterprises as well as large industrial units, assume a quite abnormal position within the whole framework of the social economy concerned. They encounter not only the greatest economic difficulties, they get

into the greatest social difficulties. They are burdened unofficially with a social function which they are unable to bear, and the outcome is that these big enterprises are in this way ruined, and sooner or later give way to social influence or State control. Then you are exactly where you were, except that what has happened in the meantime has had the worst possible effect on the rest of the private economy and enterprise of the country, in view of the fact that the medium-sized industrial concern has been practically cut out as a borrower—the concern which is in many cases much more worth while than those big industries which are supposed to be the best to lend to, but which, in fact, are only so for the reason that they are technically the most convenient organisations for the lending banks to deal with.

I think that the credit institutions of countries, not of all countries, but of some outstanding borrowing countries which are the centre, so to speak, of economic infection, definitely ask for the exercise of a certain control in this respect. If you stress the fact that there should be some control also from the borrowing side of public lending, you cannot avoid extending it to the control of foreign lending in general.

I cannot see any way of escape from that, and I think the matter is more easily dealt with not by general international rules, but by legislation in the respective countries. I feel quite sure that the great success of Italy, in spite of primary errors regarding the high stabilisation of the lira, etc., has been due to the fact that through its political structure it disposes of such a general form of control; and I cannot see how certain other countries, at least, can tackle the problem from the borrowing side successfully, except by that method.

Professor RAPPARD (*translation*):

May I ask Professor STUART if the objections he made to an idea which he came across in SIR ARTHUR SALTER'S book still hold good after what the distinguished President of the Conference has just said?[1] Does he think that, even with the first type of borrowing over which SIR ARTHUR SALTER would reserve governmental control, intervention by the State is inappropriate and might possibly give the capitalists a sense of security which the facts were likely to deny.

Professor STUART (*translation*):

I was very interested by the statement made by SIR ARTHUR SALTER. My impression was that it concerned the institution of an official centre of research and study of foreign loans, publicly making known its opinion to private capitalists; a form of advice which would give rise, if not to a legal guarantee to the capitalists in the event of a total or partial loss of their money, at least to a moral guarantee. In

[1] See above, p. 125.

view of what SIR ARTHUR SALTER has said my fears on this score have vanished.

If from the outset it be plainly understood that a body for the study of the condition of debtors, of foreign borrowers, will make it clear that the Government of the country gives no guarantee to the capitalists, I agree. But I will add that in certain countries there is a tendency to let the foreigner borrow without requiring sufficient guarantees. We had examples of this in the years preceding the crisis. It is proof of a real defect in the organisation of credit.

On the other hand, it is sometimes said that although no guarantee whatever is offered to the public ready to take its money to the counters of the banks in order to subscribe to a loan, it is nevertheless given to understand that the loan is contracted on a sound basis. Then, when losses do occur, it follows that the Government has given the lenders something like a moral guarantee.

If SIR ARTHUR SALTER believes that this danger—which would be very serious—can be avoided, I am ready to agree with him. If the appropriate authority declares from the beginning that the Government accepts no responsibility of any kind, there can be no objection to the system outlined by SIR ARTHUR SALTER.

Professor GEORGES VLADESCO-RACOASSA, Rumania (*translation*):

I should like your permission, Mr. Chairman, to draw the attention of the Committee to the rather special position of the agricultural countries of Central and Eastern Europe, in regard to the circulation of capital and international debts and credits.

There is, indeed, a very close relationship between a country's commercial policy and its financial policy. That is why statesmen and economists are not always in agreement as to the precedence to be given to the different means considered adequate to provide an effective solution of the crisis.

Some recommend in the very first place the establishment of a commercial policy capable of stimulating international commerce by abolishing all restrictive measures; others insist, above all, on the necessity of first taking measures of a financial kind, more especially to ensure the circulation of capital and, at the same time, to tackle the urgent problem of public and private debt. In either case, intervention by the State is generally recognised to be necessary, and in the agricultural countries of which I speak the conviction is steadily growing that we cannot remedy the present transfer difficulties, nor avoid the control of foreign exchange until we have created conditions favourable to the re-establishment of the now deficitous economic systems of these agricultural countries. With this end in view, it is proposed to grant them—having regard for the existing quota system —supplementary export quotas, the product of which might be

"blocked" for the benefit of creditor States; and on the other hand to put a foreign exchange fund at the disposal of the Issuing Banks of the agricultural countries, allowing them to attain once more that liquidity which is indispensable for the abolition of the existing control of foreign exchange.

As regards inter-governmental debts, a general regulation of these debts is considered urgent and indispensable, and it should have the immediate effect of reducing the charges to which they give rise, both in respect of capital itself and the rate of interest.

The public debt abroad might be settled by taking into account the paying capacity of each debtor country, and then by conducting direct negotiations between the creditors and debtors. For this, it would be more useful to establish in advance the procedure to be followed in these negotiations.

The speediest possible restoration of the freedom of the foreign exchange market and of the circulation of capital is dependent in the first place on monetary stability and a sane credit policy. But the policy of the Issuing Banks in the agricultural countries, while following the recommendations of the experts and the Gold Delegation, should at the same time have that elasticity which the seasonal character of agricultural production necessitates.

Similarly, it is necessary that the efforts conducted separately by the different States in the national sphere should be supported and co-ordinated by international action, and that they should be especially assisted by the creation of an international fund for monetary stability.

The agricultural countries assent to every proposal for an international institution, as well as for the scheme of Public Works drawn up under the auspices of the League of Nations.

State action and the international organisation of economic life as a whole appear thus to be necessary, both of which the agricultural countries are quite disposed to accept completely, in the hope of restoring as quickly as possible the financial and economic equilibrium of the world. The conferences of the agricultural countries of Central and Eastern Europe held in recent years at Warsaw, Bucharest, Sinaia and Sofia provide conclusive proof of this.

THE CHAIRMAN (*translation*):

The Chairman of the Conference has dealt rapidly with the question of sanctions against bad debtors; it would be outside my province to find out who have been bad debtors in the past. I will regard these considerations in the abstract and take up a theoretical point of view.

For purely private debts, SIR ARTHUR SALTER condemns the penalties imposed in the past, the bombardment of Alexandria, for example —to call things by their proper names. On that point everybody is in agreement: juridical and moral obstacles are opposed to this type

of sanction. SIR ARTHUR SALTER then says therefore that a single sanction only is necessary and sufficient: the impossibility, as far as bad debtors are concerned, of obtaining new credit.

It seems to me that this sanction is somewhat insufficient. It is all very fine to try and establish the world on new bases, but we have no hope of changing humanity. Even after the World Economic Conference there will still be bad faith, both in private individuals and groups of individuals. It will never be possible to prevent someone from contracting a loan who is influenced by the forethought of not paying the interest if the charge becomes too heavy, or of not repaying the capital.

Let us look now at the question from the point of view of lending countries. In this discussion on the circulation of capital what we want is to suppress the obstacles in the way of that circulation. It is sometimes said that there are a small number of countries holding practically all the gold in the world, and to this bad distribution, it is held, can be traced the universal evil. It is desired that the gold should leave the countries which have too much, to be shared amongst those which have not enough.

But have we reflected on the procedure necessary for enabling capital to circulate? We, who consider things from above, see the Central Banks and groups of credit institutions, powerful in their possession of reserves, of foreign exchange and other means of payment at their disposal, opening credits for such and such a Government. If they are able to do so, it is only because they dispose of funds which either belong to them or have been provided out of the national savings. And those who save must have a certain degree of confidence in the transaction which it is proposed to carry out on their behalf.

Now, I think I can see how things will inevitably happen in the future. An agricultural country in Central or Western Europe, let us say, is in difficulties; for reasons of political, social, or internal policy, it needs to raise a loan. It is not the foreign Central Bank, but foreign credit establishments, which will in reality finance the operation; in France, for example, they would apply to the Bank of France, whose gold will in one way or another serve as a pledge for the transaction. It is not less certain that when these establishments launch the first national transaction or float another to finance the first, it is to "the woollen stocking" that they will appeal, to our peasants, our lower middle-class, our small landowners.

In other countries, the big capitalists will share in the transaction; that makes it easier; but with us, as a result of an old democratisation of savings, it is to the population as a whole that the appeal has to be made: all our small capitalists, who have already suffered not a few most unfortunate losses, have learned from natural experience. They have the right to be distrustful.

As Professor STUART has just said, the guarantee of the French State is refused them; the State cannot give its signature to guarantee money invested abroad. The only guarantee then is that of the great credit establishments. If the investors know that, in the case where a borrowing State will not pay its debts, the only sanction to be anticipated is that the State will no longer find anyone to borrow from the next time, they will refuse their money. And the result, in short, will be that we shall have driven these people in the various States which are capable of supplying credit to hoard, and that the circulation of capital will be impeded. That is the point which makes me fairly anxious, and to which I would draw the attention of the Committee.

SIR ARTHUR SALTER:

It seems to me that we have to make up our mind what is the main kind of world structure within which the economic and financial life of the world is going to develop. If we are contemplating, as I imagine we do for the purposes of our discussion, a structure within which you have on the one hand States with their own economic functions, but on the other private enterprises, private individuals, with their functions, the State in regard to them exercising only a regulative and supervising function and not with a direct control, in that case it seems to me of the greatest importance that there should be clearly defined relations between the State on the one hand and private operations on the other, known from the beginning to all parties concerned and consistently followed through from beginning to end.

It seems to me that, as I ventured to say before, on the one hand, if the State is going to intervene at the last stages, it is right in justice to the nationals of that State, whose diplomatic machinery, whose armed forces may be involved, at least to supervise and safeguard the conditions under which an operation is started that may have those results. And, on the other hand, if the private individual is conscious, when he starts the operation, of being free from restraint by those who represent the public against any scheme however dangerous, which promises, if it goes well, great profits and great inducements to himself, it seems to me extremely dangerous that he should do that, relying in any way upon an expectation that the risks of a perilous adventure, of which he gets the profit if it goes well, should, if it goes ill, be transferred from his shoulders to an authority representing the whole of the State, which has taken none of the responsibilities that should be the corollary to the assumption of that risk.

That being so, when for sufficient reasons it is thought that the State should not intervene when the operation is being started, then

I think the consequence must be followed all the way through, i.e. that the operation must be such as to offer inducements sufficient to the lender to lend, and if the borrower cannot offer those inducements, I think the consequence must be faced that the loan will not be made, as perhaps it should not be made.

I think on the whole it is better in the kind of economy that I am assuming, that if a transaction cannot offer a sufficient security, a sufficient prospect of reward to those who make the initial deal, that on the whole it is better that it should not be entered into at all than that the lenders should rely upon governmental assistance. It seems to me better that the private lenders, assuming there will be no governmental aid, will take all their own precautions and allow themselves a sufficient margin of prospective profit, if it goes well, to cover a very perilous risk, than that when, as will happen in a certain proportion of those cases, the perils of that known to be perilous operation mature, that they should then escape the natural consequences which are the counterpart of the proportionately high profits which they would make if the venture does not go wrong.

So that, even though it is true that many operations which would take place if the State was going to intervene at the last moment would not take place at all, I think it is better they should not than that one should have this peculiar position of the State using the forces of the State as a whole to make good the risks of a venture in which no public authority was involved at all at the beginning and which never ought to have been undertaken.

Mr. G. K. LOGIE, United Kingdom:

I should like to emphasise the difficulty of expecting any direct improvement in the flow of capital by considering primarily the possibilities of supervision and better economic control. I admit, however, that there has been, for quite a long time, a definite defect in the machinery of foreign investment. I think SIR ARTHUR SALTER is of that opinion and feels that the defect should be remedied.

I should like to narrow the discussion down a little. There is clearly a serious defect in that a great deal of the lending between 1924 and 1930 was based in fact primarily on market considerations: loans could be arranged if the lenders' market was likely to take them up at the appropriate rate of interest and if the borrowers agreed to the terms. The financial details of all the loans were investigated, of course, but their underlying economic implications were ignored.

Whenever a minor country borrows to a degree which is large in proportion to its general volume of trade, particularly the foreign part of it, it is obvious that there are two ways of looking at the possibility of eventual repayment. The first is that as a result of this borrowing the country concerned will be able to alter the terms of trade in its

favour, or secondly that it will be able to secure a somewhat higher share of the future increase of world trade.

Consequently I think there is an urgent need for an economic supervision of loans. I am rather uncertain as to the actual form it should take, because I do see a good many practical objections to some of the suggestions that have already been put forward in this respect. I am not quite sure whether it would not be better if each of the lending countries were to institute some small advisory body whose sanction would be required for the negotiation of large international loans.

I agree with Professor VINER regarding what he said about the Central Banks. The economic expert attached to the Central Bank or the Finance Bank may tend to become a banker, or at least to imagine he has. Therefore independence of judgment would probably be more effectively secured by keeping the economic advisory functions quite distinct, not only from the business of banking but also from the Governments themselves.

In Great Britain, political considerations are really remote from most lending operations. Rightly or wrongly, we believe in a rather free market. On the one or two occasions, as in the case of a certain pre-War Chinese loan, when the Government did interfere, it was severely criticised. The feeling was that the Government might use its influence unduly, even if it had not done so in the past, and that discrimination would be the eventual result.

Actually there is good reason for getting all the possible lending countries together. There have, admittedly, been a great many bad loans in the past on account of the conditions of competition under which the lending was effected. I am at a loss to know just how we can effectively mitigate this evil, but I am convinced that something should be done. If each of the major institutions in the lending countries were to be made subject, in its own country, to proper supervision in the interests of securing good borrowers, I should prefer that to the proposal for a small body comprising the representatives of all the lending countries, for the reason that the latter would probably frighten off certain Governments which might dislike having their loan-proposals supervised, and in fact judged upon, by such a body. Although the League of Nations Committee was able to examine and scrutinise the flotation of a certain number of post-War loans, particularly for the Succession States, very soon afterwards one or two other countries not very far removed and in similar economic circumstances to these States rather stubbornly objected to anything like the League's supervision of their financial plans.

Again, to take the whole question of Government intervention in regard to the flotation of loans, I think another serious problem arises out of past experience. It is a regrettable fact that when the so-called Reconstruction Loans were floated between 1924 and 1929, the in-

vesting public in many countries assumed automatically that these loans were not for the purposes of carrying out a process of reconstruction, but merely for administering the *coup de grâce* to an already effected reconstruction. This was very noticeable, and it had rather bad effects. Looked at from the point of view of an investor, say in the London market—and very likely in New York too—it is a fact that if in some of these cases Governments had not intervened to support a loan, the particular would-be borrower would have secured no loan whatever from the private investor. The result is that the private investor is worse off to-day, in possession of securities which are certainly almost unsaleable, than if his Government had never intervened at all.

Taking the question of bad loans generally, however, I think we may be exaggerating the degree to which lenders as a whole have suffered during this period of depression. In this country we possess at the moment about £1,900,000,000 of foreign loans outstanding, of which there are in our own possession some £1,400,000,000. The annual interest that Great Britain draws on this investment amounts to about £70,000,000, of which there were in 1932 just over £5,000,000 actually in default; it was not more than that.

I was much struck by the fact that Professor VON BECKERATH cited the example of Italy, which has impressed me for some years. I was in Italy at the time when $375,000,000 had been borrowed from New York, and the Head of the Government used to say in the friendliest terms to anyone offering loans that he considered the resources of the country would not stand the risk. If Italy had borrowed further she would have quickly over-borrowed.

I do not know that there is any mechanism likely to serve as an effective deterrent to bad borrowing and unwise lending unless the investor and the Government take the consequences of errors committed by them. No mechanism can be completely successful. I do not think we can, by creating a special institution, contribute towards a resumption of lending, even to very distressed countries, although some mechanism might, however, be devised to prevent economic considerations from being so utterly neglected in future major loan operations. The borrower must in the last resort be responsible, and the investor must suffer the fate of having chosen a bad borrower or having invested his savings without regard to underlying economic tendencies.

Actually I would like to say this about foreign loans: firstly, that they have held up astonishingly well, if one takes into consideration the fall in prices that has occurred over the whole world in the last three years. If anything, on careful investigation it is surprising that so many of them are still meeting their interest payments. What we are now trying to do is to maintain these loans, or to keep their interest

going, by making the necessary adjustments in trade. It is a process which is completely ruinous, as it increases unemployment and causes fiscal disequilibrium.

Another question seems to arise at this point: is it not true that the whole of these loans are the outcome of the fact that since the War almost all the world has been living on an overdraft from the United States? I do not quite see how we can get away from that fact. Its history is simple: after the War all the European countries were impoverished and would in any case have had to resort to the biggest lender in order to obtain new stocks of raw materials. Once that period was over, however, what should have happened is that the terms of trade resulting from depreciation of the currencies of those countries (as in the case of Germany) should have been such that they could have exported more and more to the United States, the one all-in creditor, in order to maintain the service of their borrowings. The world as a whole should have been selling more to the United States and buying less, once the initial period of re-stocking was completed.

The reason for which I would suggest nothing of the kind took place was, firstly, that the change-over of the position of the United States from being debtor to being creditor was extremely rapid—in history it is unparalleled—and, secondly, that the American tariff effectively prevented any such adjustment. America, the all-in creditor, had its own foreign investments; it was drawing a very large revenue from abroad; and yet was at the same time actually able to export across the frontiers and across the tariffs of other countries, owing to its own natural advantages. When you can produce anything of any kind for a protected domestic market of 120 million consumers to begin with, you are likely to be able to compete with all smaller producers.

I would suggest that it is of fundamental importance to take account of this over-borrowed position, including the tariff question, in working out a general economic policy.

Professor VON BECKERATH:

I entirely agree with your point of view that there can be no financial adjustment without general economic adjustment, and that the international credit situation is fundamentally wrong, and will, as regards a substantial part of the existing credits, be fundamentally out of order in the future. For it is essentially impossible to make the stream of capital change its normal course and flow up the mountain —which is what we do when we export goods for services, when we export funds from very poor countries which have exhausted all their possibilities of production on a decreasing cost basis, into countries which at present have more capital and many more opportunities to

put capital investments to good use. Of course, it is quite unnatural and we never should do that.

Now as to your claim that these credits have nevertheless remained fairly firm up to the moment: that is true if you have regard only for the credits, but look at the general consequences in the form of pressure on the various economic, social and political organisations! The general unrest which emerges as a result of that pressure works against the possibilities of lending on an international scale in such a way as to more than counterbalance the advantages of stability in existing credits.

That is where my point of view differs from yours; otherwise I am entirely of your opinion, and I think that what you say makes it clear that there are two questions which are fundamentally different from each other, and which perhaps should not have been treated together. The first question is how to get the world economic system into working order—which is a matter of credit readjustment, tariff policy, monetary policy, etc.; the other is, when we have once more made the world economic system a going concern on more or less liberal lines, what can we do then in order to prevent a repetition of the errors of the same destructive kind as we committed in the past?

Dr. F. C. C. BENHAM, United Kingdom:

I should like first to make one general remark. In the British delegation each member speaks for himself, so that I must not be held to implicate the others.

I should like to take this opportunity of dissociating myself from what Mr. BAILEY has already said about the desirability of a Most Favoured Nation Clause which would preserve the standard of living of backward peoples. I would like to see those standards raised, but I feel this cannot be done by refusing to buy their goods.

I should also like to dissociate myself from any suggestion that the Ottawa Trade Agreements are to be desired: I think they are very undesirable.

But the point we are discussing at the moment is whether or not it would be desirable to set up some control over lending from people in one country to people in another country. I take it that control may be advocated on three grounds. From the standard of the lending country, control may be advocated either to protect the money of the investors or to preserve the balance of trade, with all that that implies. From the standpoint of the borrowing country, the only reason why control might be advocated would be to protect the balance of trade, with all that that involves, in the future.

I am in sympathy with those who are opposed to any such control. As regards Protection, we would probably all agree here, if we were

taking the standpoint of the pure scholar, which we are not, that the reasonable thing to do would be to reduce duties, and indeed remove them. We would all agree, in fact, that a reasonable thing to do would be to reverse the policy which most Governments have pursued in the last few years in the realm of trade.

Yet it is suggested in the same breath that we should do a very similar thing to imposing duties: set up an institution to limit and control the free flow of capital, which is analogous to controlling the free flow of trade.

On the first ground, that this is necessary in order to protect investors from losing their money, I would reply that the people who can best look after the money of the investors are the investors themselves. People lend abroad at their own risk, and they usually, for a time at least, get much higher rates from investing abroad in a fairly risky security than they would from investing at home in a safe Government security. They collect the interest for a number of years, and then sometimes it cannot be paid, and they complain. Why? They took the risk with their eyes open, and if they lose it is their fault.

If you say that it is desirable that they should be protected from making investments which turn out later on to be losses, surely the same ruling should apply to the investments which they make at home in their own countries. If you compare money invested abroad and at home, I am sure you will find that losses of money invested at home are at least as great as of money invested abroad. So that if it is urged that some control of foreign lending should be set up to protect the investors, then you should also urge that control of home investments should be set up to protect investors at home.

On the second point I should say that if the economic system is otherwise working freely, there is no need to bother about the balance of trade or the balance of payments or of indebtedness, supposing you have a free exchange rate. When Great Britain went off gold in 1931 she had a free exchange rate. Nevertheless we were told in the Press that all kinds of things had to be done in order to preserve the balance of trade. I say it was a lie. The balance of trade would look after itself simply by the operation of the free exchange rate. Provided it were kept free, and provided there were no control in any way, then the free exchange rate would automatically preserve the balance of payments. Nothing could go wrong in that way with a free exchange rate.

Similarly with the Gold Standard if you work it properly, but there are half-way houses. We see countries which pretend to keep on the Gold Standard, but which are not really on the Gold Standard at all. They are neither on the Gold Standard nor have they a free exchange rate, and therefore they are compelled to exercise some control over the export of capital.

One solution to that, I suggest, would be for such countries overnight to give themselves a free exchange rate. If they did that, the threatened and feared export of capital would be automatically checked by the free exchange rate itself.

That is one possibility. I do not like it. What I would prefer is to see the Gold Standard being worked properly. I would like to see that because I do feel that what the world needs now is first and foremost a certain measure of security, of security and certainty, ability to forecast for the business man, for the trader, or the investor. That is what we need.

If this is going to be anything more than a mere academic discussion, we cannot talk about doing impossibilities, like reducing tariffs wholesale. But we can introduce security into the realm of tariffs, capital movements and exchange. We can get some stability into tariffs by general agreement not to raise tariffs. We can sweep away nearly all the emergency restrictions of the depression, if we can at the same time provide such countries with means of preserving their balance of trade.

Those kinds of things, I think, can be done, and I should like to see a general return to the Gold Standard. I am sorry that Great Britain left the Gold Standard, and I think that she undoubtedly caused a great deal of uncertainty in the rest of the world and assisted very greatly to push further downwards the downward trend of prices by her action in doing so and taking a number of other countries with her. It did not do Great Britain any particular good. Unemployment is just as great. British exports are no greater, and I think the thing to do is to restore certainty and stability; and one means to that is the Gold Standard.

Even under a Gold Standard I believe there is no need whatever for control of lending between people of different countries providing the Gold Standard is worked properly. Some countries have not been increasing their production as fast as other areas, and nevertheless they have wanted to increase their money incomes *pari passu* with the money incomes of other countries, and they have done it by borrowing. There has been a great spate of borrowing.

I should like to put on record my own opinion that there is no need for any international control of borrowing and lending provided the Gold Standard is worked properly; and that when a country does begin to lose gold—and let me point out that Great Britain itself was tending to lose gold all the time since 1925, which is indicated partly by the actual outflow of gold, and partly by the sterling dollar exchange rate—as long as a country does not do what Great Britain did in those five years, but does play the game, and when it tends to lose gold does contract, then I say there is no need for any control of international lending and borrowing in order to preserve the balance of trade.

Professor VINER:

I wish to make a remark or two about one phase of SIR ARTHUR'S proposition, which would leave one type of transaction subject to no recourse for the lender. There is an analogy in internal matters for a situation of that sort. A person may invest in a risky enterprise and still have recourse to a system of internal law. If the transaction was respectable, if he comes into the court with clean hands, he is protected against certain types of practices on the part of the borrower.

There is equal ground—not greater or less ground—for protection to the lender against breaches of good faith on the part of foreign borrowers, but he must not expect his own Government to be the policeman where he is the person who is concerned.

Therefore I would suggest as a footnote that here, as in other matters, what the world needs in international transactions is means of recourse to impartial arbitrators or judges, judicially minded arbitrators, who, in case of a claim by one party against the other, could render an approach at least to equity.

I do not have reference to a debtor Government which, because of economic distress, or because of revolutionary activities, is not in a position to pay. I am not advocating military enterprises or bombardments as a means of enforcing payment of debts that were risky speculations. But there have been cases in which the debtor was in a position to pay and did not because of bad faith. In those instances there ought to be recourse to some agency which is not merely acting as the agent of the creditor but is impartial.

It is easy to provide for future occasions of that sort by providing that loan contracts shall be subject to it. There are provisions now in some loan contracts where recourse can be had to an arbitrator, to a League of Nations Committee, or somewhere, in case of dispute or default.

Professor RAPPARD:

And then what?

Professor VINER:

There is a great deal of value, in international operations as in internal operations, in having acts of bad faith declared such, so that would be a distinct gain, and so that you should not mingle the defaults due to pressure of circumstances with the faults due to bad faith.

SIR ARTHUR SALTER:

I am almost entirely in agreement with Professor VINER, perhaps entirely. Half my difficulty would disappear if there was not the national Government that was dealing with this matter; but if there

were an international authority of a judicial character pronouncing on the rights in the case, I should not myself think it either necessary or desirable to attach anything to that international judicial authority, partly because of the enormous difficulties, and partly because I can conceive a system which, linked up, related to the pronouncements of an international judiciary authority, would be amply sufficient.

It is quite easy to see a development as between the Bondholders' Associations of the different countries and the lending institutions of the different countries. I cannot conceive anything more effective than Bondholders' Associations in contact with the Foreign Lenders' Associations, looking towards the awards of an international judicial authority to see whether particular borrowers had been guilty of breach of faith and acting as they would act accordingly.

Professor VINER:

Let me point out that on the same basis you could say that voluntary bankruptcy proceedings are a sufficient remedy for claims of creditors in internal affairs, that that is all the protection the lender needs. We all know that that is not true, and that we need courts and policemen.

SIR ARTHUR SALTER:

It is much more true in regard to foreign lending, and it is infinitely more true in the case of foreign governmental loans.

Professor VINER:

I will refer, not to Europe, but, as they are not represented here, to Latin-American Governments, where the Finance Minister may expect not only very soon to leave office but to leave the country.

SIR ARTHUR SALTER:

Those are the borrowers. We are in a system in which the lenders are never Governments except in the case of a war. The lenders are the private investors borrowing through private institutions. They are subject to none of that difficulty of the Finance Minister with his short term of office.

The borrowing Government may try to borrow in those circumstances, but if you have an announcement by an authority that a Government of X country has broken such contracts, it seems to me very easy to see a very small development for the existing Bondholders' Associations of the world, in contact with the foreign lending institutions, to prevent it from being able to borrow again—looking at the actual lending machine of the world.

Professor VINER:

Honduras has been defaulting in its obligations steadily for a hundred years, and it has succeeded in floating loans at fairly high rates of interest.

The lender has two personalities—the issuing house that wants the issuing profit, and the body of innocent investors who are not in a position to judge as to the good faith of the borrower, unless you provide a machinery which will educate the investing public, and it is clear that business will not itself provide that machinery. I still insist that the innocent investor has grounds to complain to the Government of his country, but I did not intend to imply that the arbitral authority should use force.

SIR ARTHUR SALTER:

You must take my argument in relation to my proposal that there should be an organisation, if necessary stimulated and enforced by the Governments, which would protect against that danger. One has to take the proposal as a whole.

Professor VINER:

You trust the lending houses to take care of their clients' interests then?

SIR ARTHUR SALTER:

Not necessarily.

Professor VINER:

In England it took fifty years before genuine reforms were introduced, and they were introduced under the pressure of a Government Commission.

SIR ARTHUR SALTER:

It seems to me quite easy and practical to see such a development on the lending side as would make the sanction quite sufficient in the case we have in mind, and greatly preferable to what seems to me an impossible thing, i.e. to attach to your international judicial authority a collecting police.

Professor VINER:

It does not have to collect; it merely has to render its decision as to the merits of the case.

SIR ARTHUR SALTER:

I completely agree up to that point.

Professor VINER:

Very often in the United States the best-informed financial writers on the best financial newspapers do not know the terms of the loan contract.

SIR ARTHUR SALTER:

I should entirely agree with Dr. BENHAM that if all the conditions for working the Gold Standard perfectly could be secured, and if you could reverse the policy of controlling, limiting and restricting trade, finance could safely be allowed to be as free as trade would, with that hypothesis, be free, provided also it were possible, politically and socially, to effect all the adjustments and downward movements of wages as rapidly as is necessary to secure the proper working of the gold system. But I think the experience of the last few years shows that those conditions are not going to be realised to the extent he assumes. One of the great causes of recent trouble has been a combination of an extreme restriction of the economic life of the world and complete ordinary freedom for the capital of the world.

If and to the extent to which we must envisage that wage rates cannot be rapidly and completely lowered, then to that extent there must be some counterpart in control on the financial side which will prevent that disparity being as great as in the past.

Mr. LOGIE:

It seems important to focus attention on the position of capital movements for a reason which I tried to bring out earlier in the debate. We are confronted with a rigid but powerful influence, the influence of international indebtedness created by the flotation of large foreign loans during the last decade. Actually we are trying to render possible by every device the continuance of the service of those loans by a downward adjustment of trade. That is what is going on.

It would be quite useless denying that an adjustment is not being made, or that the degree of adjustment is not considerable. Unfortunately it is taking place almost entirely by means of economically destructive processes, among which we must include sheer default. Default is, in fact, not a remedy; it is one form of adjustment. Furthermore, the currencies of the creditor countries have been weakened, and that has benefited debtors to some extent, although it has harmed them at the same time. Another factor is that the debtor countries are repurchasing as best they can, at almost bankrupt prices, their pledges of indebtedness, i.e. their foreign bonds. Whatever one may think of it from an ethical point of view, that, too, is one of the ways in which the crisis is liquidating itself.

Is it not probably true that we shall have to get back to some sort

of equilibrium? though not, of course, an absolute balance in every international account, for the simple reason that we shall always settle some balances internationally by means of short-and long-term certificates of indebtedness. We cannot have the whole of the world going on what we might term a cash basis. Its trading accounts must be adjusted by the creation of temporary and sometimes of long-term indebtedness. But how can we get back to a position of recommending long-term or even short-term lending on a serious basis until there is some reason to believe that by so doing we are going to get rid of this post-War legacy of an entirely unbalanced world economy, in which all the debtors converge on one country, not as the result of a deliberately unhelpful or malevolent policy on the part of that country, but as the effect of its inherent economic strength?

Professor RAPPARD:

There are still a few specific points on which I, as the rapporteur, would like to have the expression of this Committee's opinion. There are three questions which should be put:

(1) As to the lending States, do we feel that we should recommend control of international lending by the lending States?
(2) Do we feel that we should welcome or recommend or approve the control of borrowing by the borrowing State?
(3) Do we, as SIR ARTHUR SALTER and several members of the Committee already did, recommend or welcome the setting up of some international advisory body, which would, on the one hand, be called upon to arbitrate in conflicts arising out of international capital movements; and, on the other hand, set up a code of business morality?

If we followed Mr. LOGIE'S line and said whether we thought the world should lend, I am afraid we would not get very far, because even if we thought the world should lend and nobody was inclined to lend, what then?

Mr. FREDERICK GEIDT, United Kingdom:

It seems to me that unless the World Economic Conference has some real success in raising commodity prices and thereby enabling the debtors to pay, and so getting the wheels of commerce and finance going again, the debtor countries as a whole will be faced with a position in which they will require some international body to whom they can go; and this international body will have to possess juridical powers by which it can declare a debtor nation bankrupt and will be able to say, "You have done your best to meet your obligations. The conditions under which you borrowed the money are so entirely different from those now existing, that you have a right to ask for a reduction in the interest and the terms of your loan."

The body itself would have juridical powers, and would have an independent existence, and once the debtor countries could reduce their liabilities to a reasonable proportion, then it would be possible for international lending to start again on sound straightforward terms, for, from the point of view of the existing bondholders, a bond which bears a low rate of interest, which can be and is willingly paid by the debtor, is a far better security than one on which the interest is too high to be paid.

If it were possible to help the debtor countries in some such way, we could make real progress with the resumption of international lending.

THE CHAIRMAN (*translation*):

That is an interlocutory question which should be examined: do we envisage the possibility of creating an international institution? If we do, how do we propose that it should be constituted? One is always coming back to the idea of arbitration between lenders and borrowers, but we do not know who is to carry out the arbitration.

Professor RAPPARD (*translation*):

One could appeal to the League of Nations, but there are no judicial tribunals.

THE CHAIRMAN (*translation*):

Neither are there any preliminary consultations in order to give confidence to the lender.

Professor ZIMMERN:

I would like to add a fourth point. I agree with the other points that there should be some international economic control, but I think reference should be made to the inseparable connection between political systems and economic systems. And what our political system suffers from can be described broadly by the term of insecurity.

In the nineteenth century the international economic system functioned more or less automatically, because we assumed a condition not of lasting peace but of relative stability. The primary malady from which the world is suffering is the shock to confidence given in 1914, and that can only be restored by a political system side by side with the more technical systems proposed in this room.

It is all very well to talk about a recommendation on sound straightforward lending when certain States have been declared bankrupt, but that will not happen unless the political problem is solved. There is the whole problem raised by the Drago Doctrine, the spread of democracy to countries which used to be much safer markets for investment than they are to-day.

Professor RAPPARD:

I do not want to ask for anything like a vote, but I am in full agreement with what Professor ZIMMERN said as well as what Mr. LOGIE said. That is the analysis of the situation. I would simply like to have the general feeling whether, when all steps had been taken to secure and improve the political situation for the future, the gentlemen around this table had any views as to the possibility of urging the policy of control of foreign lending. Certain States had that control; other States have not had it. Possibly there is not one doctrine that commends itself to all States in all positions.

Profesor VINER:

May I suggest that control is not an end in itself, and we should not recommend control or the absence of control without indicating control of what, and for what ends, and of what type, we have in mind. Merely to propose control may be proposing control for evil purposes. So that it would not be control alone, but control for some rational ends, if we are going to recommend it.

I presume the advocates of control had some ends in mind. I have been waiting to hear just what it was they wanted to control, and why, and for what purpose.

Professor RAPPARD:

I infer that Professor VINER is reluctant to recommend control unless and until the advocates of control have better specified the ends they pursue. He did not find in SIR ARTHUR SALTER'S statement a sufficient definition of his purpose.

Professor VINER:

With some qualifications. For instance, SIR ARTHUR SALTER did indicate that Governments should disallow loans which were going to be used for governmental extravagance. He might have had in mind loans for competitive armaments. I do not know.

No Government I know of would be willing to set up a control on such terms. One instance, if you like, was a question in the House of Commons yesterday,[1] to which an official answer was that no Government could conceivably take it upon itself to make such invidious distinctions as between foreign Governments. The question was, "Would the Government provide a list of the countries to which it was safe for English tourists to go?"

It is exactly that sort of issue we have before us: that the Governments should set up a list of the countries to which it was safe for Englishmen to lend.

[1] May 1, 1933.

Professor VON BECKERATH:

I agree with Professor VINER. The same difficulty naturally presents itself from the borrower's point of view. I personally feel that it would be impossible in this case to proceed on international lines, i.e. to do the same for borrowers as SIR ARTHUR SALTER has in mind for lenders. That is obviously impossible. But it is obvious that control from the point of view of the borrower is in some way necessary in the interests of the lender, in a world where lending involves great risks. The kind of control exercised by the borrowing State over the capital which pours into it should always be consonant with the moral code of the lenders.

That kind of control of borrowing, which we have had in Italy and might yet have in Germany, forms part of a State-regulated, State-controlled type of economy. Of course, it is impossible to allow an international institution to interfere with and make suggestions about that method of control, and that is why I believe in the necessity and usefulness of such control being exercised entirely by the individual borrowing State. I do not think it is useful to put it into the hands of an international institution.

SIR ARTHUR SALTER proposed that a body be set up, composed of the leading banking figures in this field, a body which would build up a moral code for this type of lending, etc. Now the question arose as to how far the same thing should be done from the borrowing side as was done from the lending.

In this case I should have thought it not useful, and perhaps not even suitable, to constitute another body for the same purpose on the borrowing side, for the reason that the control of the import of capital is in a far stricter sense evidently a national affair than the lending of capital. I think some useful control of borrowing from abroad can be done in individual cases, as for instance in the Fascist type of regime where it can be done only through the State.

Professor VINER:

Except in respect of the borrowing of the Central Government itself.

Professor VON BECKERATH:

That is different. The lending body there is confronted anyhow with a certain situation, and it might work out a rule for those cases also. I cannot see any difficulty there.

Professor RAPPARD:

I imagine that when we speak now of international control, not of national control . . .

Professor VON BECKERATH:

I am assuming, in accordance with the ideas of SIR ARTHUR SALTER, the institution of a kind of private bankers' control in the case of lending. I am discussing also the possibility of the State control of private capital imported into certain borrowing countries, which is a different affair. The first can and should be internationalised and is easy to internationalise. I cannot see, on the other hand, an international rule being made for borrowers. I regard it as useless anyhow, because the control of lending implies the control of borrowing.

SIR ARTHUR SALTER:

Obviously the problem of lending only arises when you have got to the point when the borrower definitely wants to borrow.

Supposing that for internal reasons any State thinks that borrowing, left completely free and without any relation to the general economic condition and policy of that country, is likely to be excessive or ill-directed, it obviously must be a purely national measure to restrict that. It is only to the extent to which beyond the permitted limits of borrowing as determined by national action, it is only beyond that, that the question of any kind of international or external limitation of any kind arises.

No stable body of international control of lending would desire to impose a loan upon either an individual borrower or a borrower in the State which, acting as the State, had thought that in national interests it was desirable to restrict his borrowing.

Professor VON BECKERATH:

I understood that we were discussing a borrowing body.

Professor RAPPARD:

No, no. This international body, if one is conceived of, should not base itself on merely the point of view of the lender. It should conceive whether, even if a Government welcomed or urged its own people to borrow, it is in the interests of the world community that capital movements of that kind should be encouraged.

SIR ARTHUR SALTER:

Having regard to the world position and the balance of trade, of which world lending is a counterpart.

There is one idea I would like to emphasise a little because it offers a possible line of reconciliation between views at first sight rather divergent. It is this, the absolute necessity of a real balance between the two sides of the life of the world, the economic life, which is the main thing, to which finance should be the mere servant and assistant.

There are those of us who contemplate a world in which there will be considerable regulation both of the economic life of the world and of the financial movements of capital and so on. There are those who would very strongly prefer complete freedom on both sides.

The idea that I think might unite us all is that there must not be, unless we are going to contemplate breakdowns of our system, a very great disparity between the measure and the character of the one side and the other. Finance will adjust itself to trade so long as both are left free; but if you have trade so regulated that you are bound to have balances of trade of a certain kind, then if in relation to that static side of one part of the whole you have a complete unregulated fluidity of capital on the other, we shall have again breakdowns as we have had in the past.

My own view is that one of the greatest causes of the trouble of this depreciation and crisis is the fact that you have had an extreme restriction of movements of trade, very great and very rapidly increased in recent years; that you have had that combined not only with a freedom in capital movement equal to that of the nineteenth century but immensely increased by the whole mechanism that is at the disposal of speculation and for the purpose of effecting short-term movements of capital. As regards both short-term and long-term movements, there has been an immense development in the great new creditor country America, brought into existence suddenly, without traditions, without any kind of conscious relation between the movements of capital abroad and the general economic position either of the world or of America, stimulated by an enormous new mechanism of bond salesmen all over the country, representing firms relatively ignorant and drawing from investors completely ignorant money which was poured out under the direction of immediate opportunities, and without any relation whatever of that enormous financial movement to certain hard and immovable economic facts that were bound to make that movement ultimately disastrous.

Therefore my conclusion would be that there must be a reasonable equality in the measure of regulation and positive policy applied to the movement of capital on the one hand and that which is applied to the economic life on the other.

Dr. PEDERSEN:

It seems to me that this question of capital movements is a question which concerns not the present situation so much as that of the future. I agree with SIR ARTHUR SALTER and several other speakers that capital movements should not be entirely uncontrolled, but I do not think that either the present difficulties or the crisis in general has been due to previously uncontrolled capital movements. The capital movements which have taken place have been a result of certain

economic disequilibria in various countries, and things might have turned out better if some control had been exercised.

But still, I think that if we had not experienced the extraordinary, unprecedented fall in certain prices, while costs remained almost constant, the debts which were contracted would not have become intolerable.

I feel quite sure that if Germany was allowed to keep up her international trade, she could pay interest on her commercial debts, and she could repay them altogether.

Therefore I do not think we ought to discuss this particular aspect of capital movements, because that is taking a long-period point of view. At present there will be no borrowing because there is no basis for lending.

SIR ARTHUR SALTER:

I agree that the danger is not a very imminent one at the moment, but I take it we are very much concerned here to consider the conditions of a permanent world structure, not measures to deal with difficulties of the next few months or even years.

In relation to the further future, I think this is a very important problem, and I should differ with your view that among the preceding causes of the economic depression, and particularly the financial crisis, excessive and unwise lending was not a very big element.

If you put aside altogether countries where the Reparation problem is a factor, and if you examine the extent and the character of the lending that took place in the years 1924 to 1928 to countries like South America and to a considerable extent Australia, and other countries of that kind, I think it is impossible to resist the conclusion that there was being piled up a source of trouble, and of very serious trouble. That, as it happened, aggravated trouble arising from other causes, but even if those other causes had not existed, it would still have caused difficulty.

Professor RAPPARD:

There would have been the same urge to borrow.

SIR ARTHUR SALTER:

To a large extent the borrowing I had in mind was really not dependent on that. I could give you innumerable instances in South America of borrowing to make completely unnecessary railroads and so on.

It is a real danger in the world system. It is not imminent for the moment because nobody will lend, but it will arise again; and it is clear that if there is going to be any protection against it, you must crystallise the feeling of the disillusioned investor at this moment and

get your system established, so that it will be there and working when the change in world conditions takes place.

If one waits until people again feel happy about lending abroad, and there is no system and no code, we shall be running into the same trouble again.

Dr. PEDERSEN:

I admit the importance of this question of controlling credit, but I do not attach so much importance to it as SIR ARTHUR SALTER does. I would like to emphasise the immediately important problem, the re-establishment of economic equilibrium in the various countries. We should begin to work, so to speak, from within. It is superficial to begin by regulating credits in a situation where no international credits exist.

The most necessary thing is that the unemployed people in the world should be put to work. If that is done, the elementary basis is established on which these countries will be enabled to fulfil their financial engagements. And if the resources were utilised, if the unemployed were put to work, it would mean that the prices would rise, and debts would be made tolerable to a much greater degree.

I would like here to call attention to the plans proposed by Mr. Maynard Keynes, and as far as I understood accepted in the main by SIR ARTHUR SALTER, for insuring that such an expansion of employment, which of course requires an expansion of credit, should be done on an international scale. It can be done on a national scale, but that would mean a readjustment of the currency rates between different countries. But it would be better if it were done on the international scale, because then it would not affect currency rates, and a rise of prices would be secured which would make debts tolerable.

I think it would be well to indicate that establishment of internal equilibrium in the various countries is the main basis of economic recovery, and that with that secured, it probably would be well to devise some methods for controlling capital movements in the future.

The proceedings of the First Committee then terminated.

REPORT ON THE PROCEEDINGS

OF THE

FIRST COMMITTEE ON INTERNATIONAL TRADE AND FINANCE

LAID BEFORE THE CLOSING PLENARY MEETING OF THE SIXTH INTERNATIONAL STUDIES CONFERENCE

BY PROFESSOR WILLIAM RAPPARD,
Rapporteur of the First Committee

The Most Favoured Nation Clause

The Committee was unanimously of the opinion that, whatever the underlying causes of the present depressed and chaotic condition of the economic world, the depression was deepened and the chaos intensified by the instability and the increasingly restrictive character of the measures taken by States to limit the flow of international trade. The Committee was equally unanimous in noting and deploring the unsatisfactory working under present conditions of the Most Favoured Nation Clause.

Its working was held to be unsatisfactory, in the first place, because it was being more and more generally evaded, violated, or disregarded with impunity by its signatories. The general uncertainty and loss of international confidence which resulted from this growing laxity were held to be in a measure responsible for the paralysis from which economic enterprise was suffering.

On the other hand, the clause, which historically had been intended to promote commerce and to prevent discrimination among nations, had come to restrict international trade while still allowing international discrimination. This was due to two principal circumstances: first, in bi-lateral negotiations States were often reluctant to make certain concessions to their partners which, while held to be desirable in themselves, would entail undesirable consequences with respect to third parties. Were it not for the clause, therefore, it was held that in many cases there would be at least freer bi-lateral trade than there is to-day. In the second place, the clause was often an obstacle to the conclusion of such regional agreements, short of Customs Unions, which, if concluded with due regard to the rights of third parties and with the will to promote and not to hamper general international trade, might make for improved world conditions.

In spite of this general recognition of the unsatisfactory working of the clause to-day, no one on the Committee suggested that it should be

abandoned. All agreed, however, that it should be altered in its practical application.

According to one view, put forward with peculiar force by a British member of the Committee, certain exceptions to the general and unconditional clause should, by international agreement, be specifically defined and authorised so as to allow for the conclusion of certain regional agreements. Such exceptions, however, should be limited and rigidly subordinated to the three following conditions:

(1) No regional agreements between States bound by the clauses to third parties should be tolerated if their conclusion were to entail the increase of Customs tariffs with respect to third parties.

(2) Such agreements should be tolerated only if they were designed to bring about substantial and progressive reductions of Customs tariff between the signatory Powers.

(3) They should be tolerated only if they were further open to all States who might wish to adhere subject to the same conditions.

These three conditions, it was held, were fulfilled in the proposed agreement between Holland and the Belgo-Luxemburg Customs Union.

It was suggested by the author of this proposal, that the third condition above mentioned might be usefully and legitimately formulated so as to extend the benefits granted to each other by the members of the agreement to countries which, without completely adhering to it, imposed Customs duties with rates at least as low as the reduced tariffs prevailing among the full members of the group.

It was argued that, if the Most Favoured Nation Clause were in future drafted so as expressly to allow for such exceptions, no one could raise any justified objections. The result would be to make for freer trade not only within the group but even between the group and those remaining outside. Furthermore, it would tend to secure the retention of the clause which would otherwise probably have to be abandoned.

This suggestion gave rise to certain questions and misgivings. An American member feared that any such proposal might be interpreted in his country as an attempt to introduce new discriminatory practices into international economic relations. This would tend to discourage the desire for a general reduction of tariffs which now so happily prevailed in certain high quarters. He further called attention to the difficulties of formulating in clear and unequivocal terms some of the conditions put forward by his British colleague. How, for instance, were the absolute and relative heights of tariff barriers to be measured and defined? A German member of the Committee, while partly sharing the misgivings of his American colleague, further feared the increased instability which would result from the authorised gradual extension of the scope of regional agreements. What the present situation called for, he held, was not only, or perhaps even not mainly, a general reduc-

tion of tariffs, but enhanced commercial security based on increased stability.

With a view to obtaining such security, the American member of the Committee, who had questioned the advisability of authorising general exceptions to the clause, suggested another method of dealing with the difficulties to which it had admittedly given rise. What was objectionable and untenable in the present situation, he held, was not so much the rigidity of the clause as its continued co-existence with materially altered tariff systems. He fully appreciated the grievances of States which, while pursuing relatively liberal tariff policies, themselves were obliged by the clause to grant without compensation to such highly Protectionist countries as his own the benefit of all further reductions with which they might purchase equivalent advantages from their neighbour. Therefore he advocated the abandonment, by mutual agreement, of all too onerous present pledges, and their renewal if and when the highly Protectionist countries would consent to abandon their former policies. The Most Favoured Nation Clause included only in liberal Customs agreements could and would present nothing but immediate advantages for their signatories. For them as well as for the whole world it would offer the additional ulterior advantage of an inducement to highly Protectionist States to reduce their tariffs so as to secure for themselves the benefit of the clause in future.

Although an explicit agreement on this matter was neither urged nor sought by the Committee, the unanimous view was that if and in so far as exceptions to the Most Favoured Nation Clause, such as those above contemplated, were practicable and truly tended to make for freer trade between all nations, they should be welcomed. If the universal reduction of tariff barriers, which it was universally felt was the imperative need of the hour, could be achieved neither by autonomous action nor by bi-lateral or multi-lateral negotiation with the general and unconditional Most Favoured Nation Clause, then, but then only, it would be desirable to authorise certain specific exceptions to the clause under such as the above-mentioned conditions.

Whatever the policy adopted in this respect, it was generally felt that the present state of international interdependence urgently called for the creation of some international trade commission or commissions. Such a body or bodies should be created for two general purposes.

On the one hand, they should be entrusted with duties of arbitration in conflicts concerning the interpretation and the application of Customs agreements. An arbitral authority, whose competence and impartiality should be established beyond question, would appreciably contribute to the smooth working of international trade and to the enhancement of international confidence.

Furthermore, the same or similar body or bodies might usefully be entrusted with the task of drawing up a code of political morality in

international commercial relations. The provisions of such a code, embodying the best approved rules of conduct, would of course at first have no legally binding force, and the functions of its authors would be solely advisory. If, set up under the League of Nations or otherwise, such an international trade commission came to be endowed with that authority which high competence and undoubted impartiality alone can give, it might materially contribute, through the enhancement of international confidence and commercial security, to the increase of trade.

The Open Door Policy

The second general topic discussed by the Committee—the Open Door —was considered in two of its main aspects. The Committee first discussed the economic relations of non-self-governing Colonies within the metropolis, and then the matter of Imperial Dominion Preferences in the light of the recent Ottawa Agreements.

The consideration of the first of these two subjects gave rise to a review of the economic policy of the principal Colonial Powers. It showed that of those Powers Holland only had for the last sixty years remained consistently faithful to the principle of the Open Door. Except as concerned mineral rights and internal navigation, Holland had never claimed nor received any preferential treatment for her own citizens in their dealings with the Dutch Colonies. This was attributed to political as well as to economic motives, and generally recognised as being in the interests of the natives of the Dutch Colonies, of Holland herself, and of the rest of the world.

The principle of equal economic opportunity in Colonies prevailed also in the Congo Basin, in A and B mandated areas, and in some other regions covered by international agreements.

The general feeling of the Committee was that this principle should be maintained and, if possible, extended and re-established in all non-self-governing areas of the world. This seemed justified both in the interests of the native populations, who could but benefit economically from the international competition of buyers and investors, and in the interests of the rest of the world. The latter point was particularly stressed by the German and Italian members of the Committee, who would find some compensation for the unequal distribution of Colonial territories in the equal rights of nationals of all countries to trade therein on equal terms.

One British member made certain reservations concerning the policy of the Open Door as exposing native populations to the evils of unbridled competition and premature industrialisation, and another criticised its unilateral character.

The tendency of the Ottawa Agreements to substitute Imperial Preference for the traditional policy of the Open Door was generally

deplored. Attention was called, however, by two British members to the constitutional advantages resulting from the extension of fiscal autonomy which was encouraged by the Ottawa Agreements. The reality of such advantages, on the other hand, when enjoyed by Colonies which were not truly self-governing, was questioned by other members. They feared that in such cases fiscal autonomy might result in the subordination of native interests to those of the local white population. Several members from various countries stressed the fact that, particularly in British possessions, native interests seemed better safeguarded by the vigilance of the Colonial Office and by public opinion in the metropolis than by colonists on the spot, whose influence was apt to be predominant in local legislative councils, and whose interests were not always identical with those of the natives.

As concerns Imperial Preference in the economic relations between the self-governing Dominions, the Ottawa Agreements were defended by one British member on sentimental, on legal, and on economic grounds. No one questioned the legality of Imperial Preference and its compatibility with the Most Favoured Nation Clause as it had been inserted in British Trade agreements.

On economic grounds, however, Imperial Preference was very generally deplored and criticised. Certain British members insisted on the disruptive influence which commercial bargaining between the United Kingdom and the Dominions was likely to exercise on the unity of the British Commonwealth. Most noted with deep regret the economic repercussions of the Ottawa Agreements on international trade in general. The establishment of Imperial Preference coupled with and intensified by the raising of tariffs and the introduction of import quotas had undoubtedly already led to most unfortunate consequences in the trade relations of other countries, notably Denmark and Holland, and indirectly Germany By diverting trade from its natural and accustomed channels, Imperial Preference was generally considered as unfavourably influencing the economic organisation of the world from the point of view both of production and of distribution. It was therefore generally hoped and by some expected that the preferential policy pursued at Ottawa would be reversed, notably as a result of conversations between the United States and Canada.

The general and, indeed, the unanimous feeling of the Committee was that from the economic point of view the Ottawa Agreements could be welcomed only if and in so far as they contributed to the extension and to the more rational organisation of world trade.

The Regulation of International Capital Movements

The Committee finally considered the general topic of international capital movements. The following statement is an attempt to present in

a somewhat more systematic form than that of the discussion a summary of the views put forward in its course on a very wide range of specific points.

The rôle of international finance in the present disturbed state of the world gave rise to two general observations, on two outstanding facts, which were challenged by no one; on the one hand, there has since the War been unwise, indiscriminate, and excessive lending abroad, which is in some measure responsible for the present position. On the other hand, the almost complete cessation of international financial transactions prevailing to-day is also in some measure responsible for the delayed recovery of the world.

The main reasons explaining the first of these two facts are twofold. The general economic disequilibrium between States, intensified if not produced by the huge amounts of post-War inter-governmental indebtedness, created in many quarters an abnormal need for foreign credit. Loans were often sought and obtained abroad either for covering budgetary deficits, for a momentary stabilising of the balance of payments, or for unjustifiably extravagant purposes. The capital movements resulting from such non-productive borrowing in the post-War period may have delayed the international collapse, but they have certainly contributed to its gravity.

This abnormal need for foreign credits was both met and still further stimulated by the ease with which such credits were obtained. Long-term lending was facilitated and promoted by the appearance on the international market, as the principal lending nation, of the United States of America. The zeal with which American bankers, unhampered by the teachings of past experience, offered loans abroad and the alacrity with which their customers responded to the efforts of their pushing bond salesmen constituted a new factor in international relations. Furthermore, the world had never witnessed such a volume of international short-term lending as that to which unstable conditions, increased speculative facilities, and often abnormal rates of interest gave rise.

As to the importance of this factor on the present economic depression, various and somewhat divergent opinions were expressed. No one contended that the present crisis was due primarily to these movements, but all agreed that they had contributed to intensify it.

The reasons for the second fact above noted are so obvious that they aroused little discussion. International capital movements are reduced to-day because the previous excesses of borrowing, the impoverishment of the borrowers, and the excessive fall in the price of their exports have led to much partial or complete default. Furthermore, the flow of capital from formerly lending nations has stopped because of the complete loss of international confidence. The actual or threatening insolvency of would-be borrowers created a well-nigh universal reluctance to lend,

which has been made more general and more resolute by the prevailing insecurity of political conditions.

On the basis of this analysis of the present and recent past, various suggestions were made for the future.

For the immediate future, as a means of reviving the normal flow of capital no purely financial measures were deemed sufficient nor indeed possible. For the immediate future, the problem of world statesmanship would seem to be that of restoring conditions of political security through the organisation of peace and disarmament. Thus alone could confidence be resuscitated.

For the remoter future, however, various methods and institutions for the control of international capital movements were recommended. It was urged that these should be considered without delay by the competent authorities, even if their influence could not become immediately effective. It was generally felt that reforms useful for the future would prove more acceptable to public opinion to-day than in times of revived confidence.

Such methods and institutions, it was proposed, should be set up and adopted both by State and by international action.

A British member of the Committee very strongly urged the necessity for the lending countries to adopt and apply sound principles of foreign lending. Such principles would provide for two quite distinct classes of loans. When public and political considerations were involved in the extension of credit to a foreign country the public authorities of the lender should be consulted before the loan was issued. In the case of foreign loans involving no such considerations, it would be unnecessary to obtain the previous approval of the Government. In the latter case the loans would be considered as purely private business transactions which, in case of difficulties, should under no circumstances be allowed to give rise to military or even to diplomatic intervention.

If such a proposal were adopted, the results, it was submitted, would be beneficial to all. The Government of the lending country would have full opportunity to consider the national and international repercussions of large public loans and effectively to prevent rash, unwise and undesirable transactions. The private investor would, for such loans as were approved by his Government, enjoy the protection to which he might legitimately lay claim and of which he would no less legitimately be deprived when he had, with full knowledge of the position, assumed the risks involved in loans of the second type. The world community would benefit by the adoption of such a proposal both because sound and generally useful borrowing would be promoted and directed to the best channels, and because it would be saved the jolts and uncertainties to which violence or unjustified diplomatic pressure had often exposed it in the past.

The Governments of borrowing countries, on the other hand, should,

it was urged, consider the activities of their borrowers with vigilance and with a due regard to their balance of payments and to the general economic state of their countries. This view was expressed with peculiar force by a German member of the Committee. As an instance, he pointed to the disadvantages which had ensued for his country from excessive and indiscriminate borrowing. He contrasted the failure of the German Government to protect the German people against their excessive borrowings with the successful action of the head of the Italian State which, during the same period, had discouraged the inflow of foreign capital to Italy.

Besides these proposals for national action, it was urged that the establishment of some international authoritative expert body for the consideration of international capital movements would be called for. Such a body might, in the first instance, be called upon to examine and settle in an impartial manner difficulties arising between borrowing and lending countries. Besides such arbitral or even judiciary functions, it might also be entrusted with the duty of elaborating a code of international financial ethics embodying the principles above sketched.

These various methods of national and international control were not without arousing some measure of disagreement on the part of several members of the Committee. The dangers of creating in the minds of investors an illusory sense of security; the difficulties involved by the proposals to saddle public authorities with responsibilities which they might be ill-fitted to bear and with powers which they might use for doubtful purposes; the possible threat to liberal Governments which might result from the dictation of powerful financial interests; and, finally, the advantages of allowing the free flow of capital as had generally prevailed before the War—such were some of the objections made to the above-outlined proposals.

In reply, the author of these proposals, as well as several of his colleagues, stressed the fact that if they could not be justified in an international community in which all economic forces enjoyed free play, they represented a necessary counterpart to the great measure of regulation and control to which all economic activities were to-day subjected. No one advocated financial control for the mere purpose of restricting individual freedom. When, however, it was urged, freedom was in fact narrowly restricted in the whole field of economics, it was both legitimate and necessary that international finance should also be controlled. Where the freedom of the master—economics—was limited, his servant—finance—should and could not be allowed complete licence.

General Conclusions

In all three of the topics considered, one general conclusion very familiar to all students of international relations emerged with striking clarity: the complete and compelling mutual interdependence of the

various elements of international economics. Trade is hampered and diverted from its natural channels through abnormal capital movements and monetary fluctuations. Capital movements in turn are deflected from their normal course by currency fluctuations and trade restrictions. The Gold Standard finally has proved unworkable not through any inherent defect but because of the anarchy of international trade and finance.

The obvious practical lesson to be drawn from this state of affairs is the necessity for concerted international action, not in one sphere alone but in all spheres simultaneously.

A second general conclusion to which almost all, if not all, members of the Committee were drawn was the recognised futility, on the part of the international community, of an attitude of serene or resigned *laisser-faire*. This conclusion is the more impressive as it was generally adopted with sincere reluctance. Most economists, mindful of the teachings of the founders of their science and struck with the unfortunate consequences of many instances of State action in the past, naturally tend to rely for progress on the free interplay of economic forces more than on political intervention. The fact that, in spite of their contrary bias, they now almost unanimously plead for such intervention is not a reflection on the teachings of classical economists. It is due to the disappearance of the assumptions on which those teachings were based. To advocate absolute Free Trade in goods and capital and unconditioned fidelity to the Gold Standard, in a world in which private monopolies and public intervention of all kinds have very appreciably narrowed the field of free competition, would be to betray a lack of realism and of logic which the earlier economists would be the first to condemn. It is therefore not in a spirit of revolt against the best traditions of economic thought, but in deference to deplorable but unescapable facts, that the members of the Committee were led to advocate remedial action on the part of the national States and of the international community.

Without attempting to repeat in these conclusions the course which such intervention should take, the Committee—and that is the third general conclusion—believes it should tend towards two distinct although closely interrelated ends. In the first place, immediate steps must be taken to set international trade in motion again. Secondly, the present crisis and the meeting of the World Economic Conference would seem to make imperative the attempt to re-establish permanent and normal world conditions once the present emergency is overcome. The motor-car of international economics has come to a stop, both because its supply of petrol has given out and because its machinery has broken down. It would be well-nigh useless if the Economic Conference were content to renew the supply of petrol without at the same time making the necessary repairs.

Finally, the need of extraneous intervention to revive the body economic and to restore it to normal health, combined with the fear that such intervention, practised in the area of national and international politics under the influence of political partisanship and nationalistic bias, might increase and not overcome the present disorders, led the Committee to favour reforms of another nature. The dispassionate study of all three of the topics considered gave rise to suggestions for the establishment of impartial and expert bodies both for the solution of conflicts and for the elaboration of rules of economic conduct. Such a result is not surprising. The ever-increasing complexity and intricacy of economic international relations naturally call for the establishment of new institutions and the recognition of new principles. The more such institutions and such principles are divorced from political partisanship within the State and from nationalistic passions in the world community, the better both for the national State and for the world community.

STATE INTERVENTION IN PRIVATE ECONOMIC ENTERPRISE

SECOND COMMITTEE

ON

STATE INTERVENTION IN PRIVATE ECONOMIC ENTERPRISE

ADDRESSES AND DISCUSSION

Chairman: Professor EDWIN GAY, United States of America.

Rapporteur: Professor J. H. RICHARDSON, Geneva School of International Studies.

The Second Committee met at the Royal Institute of International Affairs, London. In the course of six meetings it considered the following topics:

The Philosophical Aspects of State Intervention in Private Economic Enterprise.
The Practical Aspects of State Intervention at the Present Time.
Certain Forms of State Intervention in Actual Practice.
The Problem of Labour Organisation and Representation.
Planning: Liberalism versus Authoritarianism.
International Implications of Various Systems and Forms of State Intervention.

Six meetings altogether were devoted to the study of these subjects. Twenty-eight members took part in the discussions—3 being American, 1 Australian, 6 British, 1 Canadian, 1 Danish, 3 French, 4 German, 5 Italian, 1 New Zealander, 1 Polish, 1 Rumanian, 1 Spanish. The Committee was greatly assisted generally by the Chairman's direction of the discussions and by Dr. WOLFERS' statements amplifying his general report.

The Philosophical Aspects of State Intervention

THE CHAIRMAN, *after a few preliminary remarks on the agenda of the Committee, made the following observations:*

. . . I would raise, first of all, this question: Are we face to face to-day with a movement which is common to a large number of countries, already running over a considerable period of years, and manifesting itself in a great variety of economic and social organisations? Are we dealing now with what looks like a new era, a new period of history, a desire for increased social stability? Or are we faced with a comparatively short-term movement which has been greatly emphasised and stimulated by the experiences of the recent crisis? On this latter point I express my own personal view as a student of economic history, that a comparatively short period of expansion, of *laisser-faire*,

relatively to a longer preceding period, animated by a desire for economic organisation, is now being followed by the beginning of a new period; that we are going, at first still apparently haphazardly, into a new period of economic and social organisation which is likely to last for a considerable period. This first question is important because if we are dealing with a long-time and deeply moving historical force, of course our whole problem of adjustment is one thing, whereas with a comparatively short movement we must take another attitude entirely towards the adjustments which must be made to meet it. We may have some differences of opinion on this point which I have raised, but if there is general agreement on the whole that we are facing a movement of world magnitude and of probably long existence, then we can examine the present extraordinarily varied experiences which are going on in a number of different countries and regard them all in the light of extremely interesting experimentation.

It is obvious that fundamental readjustments must be made, politically, economically and socially, to meet a change of the character I have just indicated. It is quite likely that the experimenters in this line or the other will be, as experimenters frequently are, extremely enamoured of their own particular projects and points of view. As scientific students of a great process of social change we shall welcome an exposition, in detail, of differences in these experiments. Both national and other experimentation may be going on within a national field, all kinds of adjustments being made. We shall welcome such exposition, not merely with open-mindedness, but with interest.

One State, which has specifically and consciously undertaken this process of adaptation, is making a contribution to the study of the readjustments required, to which different States will find different answers. I refer to Italy, which, within the Fascist organisation, has made a study of the problems of the Corporative State. It is therefore advisable, in the opinion of the organisers of our meeting, that our first discussion should open with a statement from a distinguished Italian, a representative of the Fascist organisation, who will present to us, concretely, some of the peculiar characteristics of the Corporative economic system, with the points which distinguish it from the Socialist system on the one side and the so-called Liberal system on the other; he will examine and present to us some of the great manifestations in the various branches of economic life of this particular form of State intervention. I shall therefore call on Professor AMOROSO to open our discussion.

Professor LUIGI AMOROSO, Italy (*translation*):

What we are all suffering from to-day is, if you will allow me to say so, a lack of theory. At one time there was a theory: it was the Liberal theory. It was never fully and completely put into practice, but the differences between theory and practice were justified by saying that

theory, however fine, is never completely realisable. To-day we have no theory whatever, and I think it is that to which we should attribute the excesses we have witnessed in all countries, which are, in fact, under a Protectionist regime.

The lack of theories and principles in our time leads us to the acceptance of everything. I do not mean by that that the existence of a theory can act in such a way that everything will work out according to rule; but the situation grows much worse if there is no rule at all.

Liberalism is no longer an article of faith with us: it is only a relic of the past. What, then, can we substitute for it? I think the task of us who concern ourselves with economic science should be that of constructing a new theory which would serve as the mainspring of economic practice in our time. The members of the Italian delegation have sketched out such a plan, taking quite for granted that this sketch which they have the honour of putting before the Conference can be modified, being quite ready to accept every proposition that may be put forward with a view to its possible improvement. I shall enumerate and underline the fundamental points of this theory without, however, giving the details which are set out in our report.

We have the conviction that it is not Socialism which has to be substituted for Liberalism, for the essential reason that Socialism destroys private property, and when private property is abolished, nobody has any motive for working. It is for this reason that Socialism does not suit us.

But why is it that Liberalism does not suit us any longer either? Liberalism has a glorious past, particularly in England where it was born. Nevertheless, if it was formerly a force and a faith, Liberalism to-day is neither the one nor the other. I give three principal reasons for this.

In the logical order, Liberalism says that economic forces, when allowed to act freely, produce a social system which is the best possible for everybody. We see every day that that is not true. The Socialist movement which, for the last sixty, seventy or eighty years has had a determining effect on the history of all countries, is no more than the expression of the contradictions and difficulties of the Liberal regime. There you have the first reason for the disappearance of Liberalism.

The second reason—presented perhaps from the philosophic point of view—is that economic Liberalism is a rationalist system, considering only the forces which act *pro tempore* and neglecting in theory every link which binds the present to the past. There is here a contradiction which was made clear by the Historical School, which constitutes, in effect, a reaction against the rationalist conceptions of the Liberal economy.

The third reason—which forms a third contradiction of the Liberal system—is that Liberalism is materialistic and deterministic, as a result even of its philosophy, which was the philosophy of its time.

According to Determinism, man is powerless in the presence of social difficulties, and Liberal agnosticism is based on the fundamental conception of that philosophic system, according to which man is the plaything of forces immeasurably greater than himself.

Materialistic empiricism has been discredited in our century, which is a century of will; the century in which, in the realm of history, dictators take charge; the century of authority. Our history is not the history of the amorphous masses; it is the history of men of genius, of men who lead the masses. We are living in a political era. That is why Liberalism has been left behind; Liberalism belongs to the past.

So I come to the system which we have formulated, and in which we try to conciliate the three points of view: of the classical theory, the historical, and the political theories. I want above all to declare, in this land of Ricardo and Adam Smith, that we do not for an instant deny the classical economic theories, but that, on the contrary, we take them as our point of departure, trying at the same time to fill in the gaps which they present.

We try to make a synthesis of certain fundamental ideas, which Dr. WOLFERS has illustrated in his report. We describe as "living forces" of the economic system, those with which the classical economic theorists were concerned; and "forces of inertia," the historical forces, in view of the analogy that exists between these forces and the inertia of physical matter. The "directing forces" or "political forces" are, we think, the expression of the will to act and to assert one's personality.

I have been invited, in a certain sense, to open this discussion, and I can only set the question as I see it. To sum up, I do not think, I repeat, that it is necessary for each one of the delegates here to explain what he has already written; it would be better, in my opinion, if we considered the philosophy of the different reports on State intervention in private economic affairs, while taking account of the different historical, political and social tendencies.

We might, for instance, ask ourselves, what were the social, historical and political reasons that made such and such a form of intervention advisable? If the problem be set in that way we should be dealing immediately with one of the questions which have been submitted to us: that of assessing the degree to which State intervention can be regarded as an effect of the crisis.

The crisis from which we are suffering at present may have been made more acute by the contradictions of which I have just spoken, but the latter existed nevertheless before the crisis intervened.

If we try to make our statements in a form which I have taken the liberty of describing as *philosophical*, we shall succeed in accomplishing that which, as men of study, it is our duty to accomplish, that is to say, to contribute, each one according to his capacity, to the formula-

tion of directions in accordance with which the soul of contemporary society must be guided.

Professor ARNOLD J. TOYNBEE, Great Britain:

A number of thoughts came into my head as I listened to Professor AMOROSO, thoughts about the history of my own country in the nineteenth century and my own family history. My first thought was that it is very seldom, perhaps never, that the same person or nation is a pioneer twice running. No doubt when the Corporative State a few years hence is in the same decrepit condition as Liberalism is now, England may produce some new pioneers; possibly the end of the age will be once more on the lines of Liberalism as it was first invented. It is natural that countries which in that age adopted the first form of the modern industrial organisation at second hand from England should now be pioneers and experimenters, and that a country like England, where Liberalism had its roots, should find it harder to make experiments to-day.

I rather disagree with Professor AMOROSO when he says that Liberalism had no historical roots. Looking at it from the English point of view, I think it is because it has such deep roots in the history of this country, roots going right down to the Middle Ages, that we are finding it difficult to strike out new paths to-day, and we are specially interested in watching the experiments of other countries in which the nineteenth-century Liberal tradition has not such deep connections with the past, and so is not so hard to throw aside and give up for other experiments as it is in England. Certainly the world now is very far from the nineteenth-century English *laisser-faire*.

I was thinking of the subject of history, and of one of my own grandfathers who was an early manufacturer of railway carriages in Birmingham. He made railway carriages for the whole world and was financed by members of his family. At first he built them of wood, but after a bit he thought it would be a good plan to build them of iron. So he went to his cousins who financed him and told them what had occurred to him. They thought he had gone mad, and they withdrew their capital from his business, and he was ruined. Later, other people thought it would be a good thing to build railway carriages of iron, and they had the same experience also. Later still some capitalists were persuaded to finance the building of carriages of iron, and it was a great success. That was the way in which Liberalism has operated. An individual has some particular idea; but whether he can carry it out depends on whether he can persuade other individuals that it is a good idea. It is all haphazard, rather by chance, an expensive system.

In that age, when it was a successful system, it accomplished one great achievement. It introduced the complicated system of society in

which we are living at the present moment. But we are now in a new chapter of history. No doubt you will be pioneers and will find the solution. But I am an English Liberal, with that background.

I do agree with our Chairman in suspecting that the new tendencies we see all around us, in Italy and Germany, for instance, and even (in the last few weeks) in the United States, have come to stay for thirty, or fifty, or even a hundred years (not perhaps for ever, for no system is permanent). But personally I share the opinion that these new tendencies are not just *extempore*, provisional attempts to palliate the crisis, surmount the crisis, and then get back to a pre-twentieth century regime.

I think that affects one's view of what is happening in several ways. In the first place it makes all these experiments much more serious. If they are imperfect, or if, being perfect within their local national sphere, they cannot be adjusted to one another internationally, if they have come to stay, that makes the situation more serious. I think the Liberal, or *ci-devant* Liberal, has one retort to make to the pioneers of the new planning, which is this: "If you abandon *laisser-faire* you must abandon it very radically; it is not enough to abandon *laisser-faire* within the frontiers of a single State, even one with the immensity and the resources of the United States or Russia. You cannot abandon it without also abandoning a system of *laisser-faire* in the relations *between* States. By national planning you are increasing the momentum and force and impact of the economic life of each national entity, and if you do that and at the same time not only leave the old system of *laisser-faire* in your relations between States but increase the chaos in the relations between States by breaking down the haphazard, but none the less effective, system of trade and economic conditions which did exist in the *laisser-faire* of the nineteenth century, you are releasing relations of the most destructive kind between the local State-entities; and the more perfect your national plan may be within each local sphere, the more terrible will be the clash unless you rapidly and consciously, with all that formative will which Professor AMOROSO has described, carry forward your national planned economies into an international system."

Are we to look upon the planned economies which we see around us in different forms and in different national States simply as instruments for the maddest folly of *laisser-faire* in a haphazard clash of one national economy with another, or are we alternatively (and I hope this is the alternative line which our discussions will take) to regard them as local bases for building a world-wide structure? In the second case, instead of each of us regarding another person's nationally planned economy as a threat to our own economic life, we can regard it in a more constructive and helpful light as a contribution to the common building which is necessary to all of us, and, when we

see the varieties of philosophy and varieties of organisations which are worked out in the different national units, instead of having feelings of aversion or even hostility, expressed in, "I am a Liberal and here is something threatening the Liberal tradition," or, "I am a Fascist and this threatens Fascism," we shall rather say, "Here are alternative experiments which, when they are scientifically studied and compared and practically co-ordinated by the work of international statesmanship, will between them not only allow of a suppleness and variety in the world, corresponding to the great difference between one entity and another, but will arrive at a variety of possibilities between which the old world may choose for building up a new system." Because, when faced with unprecedented situations and with problems of which you have had very little past experience, what you want is a great variety of experimentation.

The obvious danger of the moment is that, so far from *laisser-faire* having vanished, it has passed from a clash between individuals, who could do only a certain amount of harm to one another and to society, into a clash between nationally planned and organised States. Instead of that, should not our aim be so to organise this chaos that we see around us, by a combination of study and statesmanship and experimentation, into some system in which local differences do not mean clashes between the local national units, and the variety does not lead to antipathy and hostility and recriminations against one another's systems, but becomes that precious kind of variety which gives a wide field of choice in working out solutions of problems. Working out the new building of the future in that spirit, it is possible that, when we have added to Professor AMOROSO's account of the Italian experiment the accounts we shall have of national experiments in other countries, we can get on to a formative stage of our proceedings in which we can make a comparative study of the different national experiments which seem to all of us to be of common interest and value, thereby not only solving our own national problems in each country but doing a thing without which each national planning must be in vain, i.e. building our national plans into a world-wide international structure.

THE CHAIRMAN:

I think all of us must feel that we are opening a subject of great difficulty. The nations (I speak with some feeling, because of recent experiences in my own country) are launching on an unknown sea which is, we believe, uncharted and unnavigated. In many ways our only experience of attempts at the regulated State is in the later Middle Ages and early modern period. These earliest attempts do not afford us a sure guide, but we look eagerly at experimentation which is now going on in other nations, and the more we become convinced that we are facing a long-term underlying change, the more we are

aware of the difficulties with which we are confronted. There are three most important dangers to which one or two of the speakers have referred.

First of all, under State intervention there is the possibility of the weakening of individual initiative and hence of technical progress. Technical advance may be seriously slowed down together with a slowing down of production. We may get a definite retardation in this dream of ours that we have conquered the problem of economic security. If you bear in mind all the millions of the human race in Asia and Africa who exist below the American and Western European standard of living, we have a real problem to face on that score.

Secondly, undoubtedly the developing of natural planning is intensifying the movement of nationalism to a point to which Professor TOYNBEE has already referred, intensifying nationalism and making more difficult, perhaps necessarily, the development of international co-operation. We have these two great dangers to face in connection with the movement of national organisation. We have before us, then, a problem of great complexity.

I suspect that we shall wish to deal incidentally with the question as to how far this is a long-time serious change that we are facing. In the first place, we shall want to discuss whether we are making these changes from the Anglo-Saxon point of view by a process of gradual adaptation. What is the possibility that, once started, we might find it would be best to move in a more revolutionary way? Very interesting movements are going on. Take, for example, London's transportation problem, which illustrates one line of attack through an organisation of a public character. Something similar, in connection with the light-railway system, was established in Belgium before the Great War. Numerous experimentations of that sort have been going on which show the marks of an organised voluntary process. In this gathering, where the members are interested in a variety of countries, I feel sure we ought to be able to throw some light on the possibilities of the voluntary process in this adaptation, and the types of activity to which it is most applicable.

The view has been expressed in the United States by an eminent physiologist that there is an analogy between the social sphere and the physiological process; that social change and social planning will be successful, analogous to the blood system in the physical body, in the field of transport and communication. One finds, even in countries which are most characteristically the *laisser-faire* countries, that the Governments are controlling money, banks, transport, and might control, further, any social adaptation. There are differences, of course, both in the types of economic activity in which this control can be established and in the methods of control, and there are limits to which it should be extended.

Professor AMOROSO and the reports of the Italian members[1] indicate that there is opportunity left for the utilisation of individual initiative within the Corporative State. . . . My point is that one of the dangers which many critics of the developing social order can see is a check on industrial productivity, a check on technical progress. It might be urged against that doubt that, with the present control of natural forces, we can handle the problem. I merely raise the question for discussion. I had my doubts, considering the masses of mankind who are living below a right standard, whether we are justified in checking productive powers.

M. LUIGI VILLARI, Italy:

At the present moment so many millions of people live below the standard of decency that it may be dangerous or doubtful to adopt any system that might restrict production. But is it not a fact that we have, on the one hand, great over-production in many countries, and on the other hand, people living under the conditions which Dr. GAY mentioned? Does that not show that the difficulty arises in the system of distribution and the control of goods rather than in that of production? We might produce the same amount of goods, perhaps even a smaller amount of goods, but if we distribute them and regulate their flow efficiently from one country to another, we should overcome the difficulty of having a large number of people who are living below a decent standard.

THE CHAIRMAN:

I do not raise that as a point of definite statement so much as a question, in view of current statements that we no longer need to trouble about production, but should devote ourselves to problems of distribution. That may be a mistake. My own impression is that our present situation is to a large extent a problem of distribution in Western Europe and the United States, a problem of economic distribution. But when that is overcome, as I have no doubt it will be, for any defect in organisation can be overcome by human efforts, we shall still be facing the necessity for a continued increase in the means of production if we are to make a new world.

Professor CÉLESTIN BOUGLÉ, France (*translation*):

I gather, in effect, that the speech of our learned Italian colleague, Professor AMOROSO, is one which calls for discussion. He has taken his stand on principles, and he has done well, for he intended to give us a lead. He has suggested a theory to us, a theory which we recognise: our colleague wants to steer a middle course between Liberalism and Socialism, and he finds it in "Corporativism," thus seeking an inter-

[1] See below, pp. 376-393.

mediate position between what one might traditionally call the "German" point of view and the "Anglo-Saxon" point of view.

In the process, the French tradition was, in its turn, subjected to some criticism: that had to be expected. For my part, I think it is well that we should be invited to philosophise and to choose between these general alternatives. It would seem that each one of us should have come to the discussion with, in a certain sense, a set of questions in his mind.

As for myself, there are two questions which I wanted to ask, to which our colleague has already given a reply. First of all, is it true that politics dominate economics? Some of us may recall that that was the original preoccupation which gave rise to the discussions we have been holding during the last two years. Is it true that politics dominate economics? In the second place, is it true that in order to extricate ourselves from the present economic crisis, we must abandon the democratic system which includes both parliamentary control and individual liberty?

These are the two questions I raise. To the first our colleague answers immediately, "Yes, politics dominate economics," and to the second, "Yes, we must abandon the Liberal democratic system in order to deal with the economic crisis."

Here I ask to be allowed to reflect and consider the facts. Now do I, in fact, see that the crisis has been better dealt with by the States which have abandoned the democratic system than by the States which have maintained it?

If I look along the horizon and take the point of view of a future historian, I perceive that the system which has been tried in all the countries of Europe is a mixed, hybrid system, difficult to define in a single word. It is not absolute Liberalism (which, incidentally, never existed); it is not integral Socialism either; it is something in between: it is neo-Capitalism and neo-Socialism. In short, it is State intervention in some degree or another.

In all the European countries—Russia excepted—I maintain that the historian of the future will observe similar, analogous fumblings, in which a great deal is done by the State, and at the same time something is still relegated to individual groups and private initiative. Setting aside purely political systems, that is precisely the sort of economic regime under which we live. Thus the situation reveals a community of efforts, influenced much more by actual fact than by a political theory. And actual fact is what we call the crisis, the economic crisis.

Here I come to a subsidiary question. It would be interesting to find out if, in truth, the crisis which we are in is only, as has often been said, a consequence of the Great War. Personally I do not believe so, and I think it can be shown that it is a consequence of the Capitalist system,

a consequence which is in the process of developing, of spreading. It is a consequence of the Capitalist regime, of disorderly over-production, of the anarchy in industrial activity, so often denounced.

In every country in the world an effort is being made to do something; the effort is spontaneous, and is explained by reasons which go far beyond the mere realm of theory; for there are mass movements whose development we are aware of and which we desire to ward off.

But all that had begun to appear before the War, and if it has appeared more clearly since, then it is because at certain given moments the masses have been more exigent after the War than before, and have given voice to even greater claims. The phenomenon is logical enough, it is a natural product of Capitalism itself.

Here I disengage myself from Marxist doctrines, because Karl Marx believed, at least at a certain moment in his career, that Capitalism would logically bring on a universal crisis, the result of which would be poverty for an increasing number of the proletariate in face of a decreasing number of property owners. I simplify, but that is the main idea. Now that has not been borne out by the facts for all sorts of reasons, and, amongst others, because, in every country where the system has been developed, a reaction spontaneously has arisen: we have not been able to drift to the furthest limits of the crisis by reason of the protests, the claims and the anger of the masses.

Under these conditions the Governments have done what they can without too much theorising; after much groping, they happen to have, somewhat haphazardly, outlined a system which abandons more and more the classical tenets of Liberalism. Because, quite simply, there is a degree of anarchy, against which the world must turn at a given moment, or go under.

And so a social policy comes into being, which involves State intervention in all manner of ways, here limiting hours of work, there providing the workers with pensions, now refloating banks to assist certain industries. This social policy is, in fact, a natural and logical effect of Capitalism in all countries, however different be their respective systems.

The whole problem with which we have to deal is to find out whether, in order to perfect this system of intervention, the States must put on an entirely new garb and abandon all that still reminds them of Liberalism and democracy.

That is our position. It is a question here of comparing experiences; we possess the necessary elements for making a comparison between Italian and French experience. Our colleague, M. OUALID, is not able to be present, but you have before you his memorandum on "The Juridical Rôle of Trade Unionism,"[1] which, with the help of Professor AMOROSO'S memorandum,[2] will enable us to effect this comparison.

[1] See below, p. 364.

[2] See below, p. 376.

We are told that in Italy they have succeeded in re-establishing social peace by incorporating the workers into Trade Unions and Corporations, while respecting individual initiative, and continuing to permit business for profit. But it is very difficult to find out just exactly what result has been obtained, what has been given, and what has been sacrificed.

Naturally, when I ask what has been sacrificed, I am thinking of that aspect of Liberalism which must be distinguished from economic Liberalism. When you attack Liberalism, Professor AMOROSO, you confuse two forms of Liberalism, which experience has taught me to dissociate from each other, namely, economic and social Liberalism, and intellectual and political Liberalism.

What remains in Italy of political liberty and intellectual liberty? Your workers are content, you say . . . excuse me, my dear colleague, I do not wish to be ironical, but how should I know? for in all countries where political repression reigns one never gets to know what those affected are really thinking. Why?—because silence reigns, a silence which you call peace.

It is therefore possible that you are sacrificing many things; and experience could prove that it has not, perhaps, been necessary to do so to such an extent. Here I turn to French experience, and, using M. OUALID'S memorandum,[1] I can show that in France, also, Trade Unionism has created a niche for itself, whereas it seems that you wish to throw us back on to old-fashioned Liberalism and exclusive Parliamentarianism.

In France we have not felt the need of Corporations to encompass everyone, yet one notices nevertheless that in France the Trade Unions play an increasingly important part, not only in what concerns the application of the laws, but also in their preparation.

There are, in France, as M. OUALID shows, mixed committees, departmental councils, the Conseil d'État, the Administration, in which many opinions come to light, thereby creating a legislation which is not purely and simply the product of a democratic Parliament.

I have another observation. In your memoranda, and even more in your speech, you have more than once referred to the French tradition of exaggerated individualism. As proof of that, the Le Chapelier law, which dissolved the Corporations, was cited. The *ancien régime* suffered cruelly from the Corporative system, and so, by that law, the Corporations were abolished. But later on, when a new economic situation had to be faced, other doctrines were built up. I am thinking particularly of the theories of Saint Simon and of Proudhon. "The administration of things will replace government by persons" is also a thesis of French thinkers. Do not therefore be astonished if we, in our own way, try to conciliate these tendencies, while preserving our parliamentary,

[1] See below, p. 364.

democratic and Liberal system, and allowing for the spontaneous organisation of economic forces.

If I recall these two French traditions, it is to make clearer the situation in which we find ourselves, and in which other countries are found, in common with us—the situation in which all are to be found who reject and disown the excesses of economic Liberalism—while preserving as much as is possible of intellectual and political Liberalism.

This is our double ambition: we claim that, to bring about greater prosperity and greater justice, a Trade Union organisation is necessary, but we ask ourselves as well, whether the facts have really shown that, up to the present, nothing much can come of economic and Trade Union organisation without abandoning parliamentary control, the right of public meeting, the liberty of the Press, and the freedom to express one's thoughts.

I believe that there are many people in France who think in this way, and they are not peculiar to France: these thinkers want the economic organism to progress, but they have no desire to abandon liberty, intellectual Liberalism, because that still constitutes an article of faith for them.

When you say that Liberalism is no longer a faith, I reply that as regards economic Liberalism I agree, but in the matter of liberty, intellectual Liberalism, there are still people who are ready to die in defence of it; they are a race which still exists, which is not yet quite extinct. This sentiment must be taken into account; it is a thing which still has value in our eyes—and I do not believe that the experiments made, as yet, in any country in the world can show that on this point we should abdicate. It is the future which will judge between you and us; it is experience which will divide us.

Professor KARL BRINKMANN, Germany:

The speeches of Professor TOYNBEE and Professor BOUGLÉ have furnished valuable material for the development of the viewpoints of Professor AMOROSO, but I think they have in no way succeeded in making a point of their own. To put the matter briefly, Professor TOYNBEE said the Fascist line can only be followed if in the future it is pursued beyond the national into the international sphere. Professor BOUGLÉ has pursued the other mathematically possible course and said that there is nothing new in the Fascist policy, for the Liberal State itself was possessed of Corporative elements. So the new theoretical starting-point, which Professor AMOROSO says is in danger of vanishing before our eyes, is being pushed into the future by the one speaker and into the past by the other.

But at the point at which Professor TOYNBEE has joined in, a contradiction has also arisen. It is by no means true that there does exist a plane on which the different nations have interests in common

with each other, which is analogous to that which unites the interests of individuals and groups within the Nation itself. There is a difference in kind between these two spheres of interest. My economist colleagues here present will remember that in the classical economic theory there is a curious contradiction, that there is no room for the Nation or the State. The Nation or the State in the theory of comparative costs is what I may call a sublimated check or hindrance. At this point enters production, which grows more important in every country from day to day. It is not true that the Nation constitutes such an idealised check or hindrance upon the exchange either of economic goods or cultural values between regions or localities. The Nation is an entity in itself, it has something peculiar to itself. I do not see that we are imitating the Italians by going back to Hegel. I do not say that I am quoting the doctrine of Hegel to the effect that there is a being above us in the form of the State. I shall be more modest and keep to accepted economic theory.

I want to make the point that, besides the classical assumption of an atomistic structure of individually competing forces held together by absolute laws, one great presupposition is that sociological, political and cultural conditions underlie every one of these laws. There can be no economic laws which hold individual economic forces together, unless there is present a definite cultural, social and political background, a definitely social and political morality—or whatever you like to call it. These morals and this background (and upon this, I think, the Italians and Germans are united) are, for us, embodied in the State and the Nation, and nothing but the State and the Nation. That is the reason why we deny the conclusions drawn by Professor TOYNBEE. Though we demand that the Nation and the State shall develop to the full, what we actually see underlying economic competition is the reality of political society. And it will continue to be the same in the future.

At the moment we are just beginning to recognise the cultural, political and moral laws that constitute the background of competition. It is impossible to draw the conclusion that, according to the old-fashioned laws of Liberalism which tried to bring the nations together in international unions, such as the Geneva League of Nations, and other similar pacifist ideals, competition is a scientifically valuable thing. There is no question of it being anything like that. The whole plan of international co-operation between individual nations is a problem for the future, to be explored on principles of its own.

There is another thing concerning the perspective of the past which Professor BOUGLÉ has opened up for us. I do not think that the two great concepts of Democracy and Liberalism should be blurred over and confused with each other; nor do I think the two intimately connected concepts of economic Liberalism and cultural Liberalism

should be separated. The two former concepts should be dissociated, but never the latter. Of Democracy I think it suffices to say in this connection that we are all Democrats, and that even with the old form of Liberalism there was a dictatorial phase. Every other form of political organisation too, like the Corporative State which Italy has already built up, and that which we are now trying to build up in Germany, is a Democracy. It has nothing to do with Liberalism; but we can claim the name of Democracy for it.

On the other hand, I do not see the least reason for Professor BOUGLÉ distinguishing between economic Liberalism and what he calls cultural Liberalism. The two things, great as they are and deeply rooted as they are in the history of European civilisation, are intimately, logically and systematically bound up with each other in the atomistic structure of society. All the values for which Liberalism stands are culturally bound up with the atomism of the individual as far as it goes, and as far as it enriched the world with its particular values. But where economic Liberalism breaks down, I think cultural Liberalism breaks down also; both stand in need of the same kind of renewal—a renewal which is going on in a great many European societies at present. I think it is going on in those places where you get anything like a Fascist Movement, which works as an undercurrent and a deep-rooted movement in nations which, for that very reason, are more solidly built. In Anglo-Saxon nations like America and England it constitutes a marked undercurrent; it consists in the renewal of society, of the State and the Nation, not on undemocratic principles, and (though I should not like to say on principles which I should call illiberal) on principles that at least are more embracing and inclusive than the principles of atomistic Liberalism up to the present.

Professor TOYNBEE:

Professor BRINKMANN says the National-Socialist or Fascist point of view sees the weakness of individualism of *laisser-faire* in connection with Liberalism, and immediately advances to the most complete individualism and *laisser-faire*. Professor BRINKMANN objects to making an international system of States, but it is not a question of making a system. These States are a non-existent abstraction. There are sixty or seventy States in the world in relation to each other. No State which wishes to plan its own parochial State can do so unless it arranges for co-ordinated planning with other States; otherwise, if it goes its own way without a co-ordinated plan, you will get collisions between States. There will be warlike militarism between States. The reality is a world of States in contact with each other, which must take counsel with each other, and take account of the co-existence of the other States. Otherwise any attempt at parochial planning will come to grief.

Professor BRINKMANN:

In reply to Professor TOYNBEE, what I meant was this. The moment we perceive that the free play of forces is insufficient to make for order inside a nation, we also see that the prevailing ideas about international policy, which have been invariably taken from ideas of free play—either Free Trade between the nations, or free discussions in leagues like that of Geneva—are completely ineffective. I grant your point on the necessity of organising nations. What I contested was the validity of certain existing methods for so doing.

Professor C. A. W. MANNING, Great Britain:

I would like to say one or two words arising out of Professor AMOROSO'S most interesting exposition. I am here, not as a defender of Liberalism nor as a defender of Socialism; I am here in the capacity of a student, and my understanding of the position of a student, as contrasted with a politician, is that while the politician is a man who is preoccupied with matters on which his mind is closed, the student's interest is a matter on which his mind is open. My mind, I shamelessly confess, is open on this question of the Corporative State. It would take a week at least, I should think, for us to begin to touch the fundamentals of this subject. Professor AMOROSO has supplied us with a starting-point.

Professor AMOROSO'S written paper[1] was to me not the least valuable of the many valuable papers laid before us at this Conference. To me it seems that that paper throws out a challenge—a challenge to the defence of Socialism, to the defence of Liberalism. I do not know whether that challenge has been met; I rather doubt it. The challenge is based on a very ably stated analysis of the character of our modern economic society.

In this short Conference, to my very great regret, I do not think we can exhaustively discuss that subject, but I want to insist that in my opinion the two sections of our programme in this Committee, the philosophy of interventionism and interventionism in actual practice, are fundamentally different. We hope later on to discuss concrete applications of interventionism. Those concrete applications may occur in Italy, in the United States, in Russia, England or France, but what makes an important difference is that in some cases the concrete application is attempted in spite of, and as running counter to, the fundamental philosophy on which the State is founded. I hope I make my point clear. As I understand it, we agree that interventionism, for better or for worse, seems to be universal and to have come to stay. We are not, however, agreed that interventionism is in itself a desirable thing; in the eyes of some of us it is at best a necessary evil. It appears

[1] See below, p. 376.

from Professor AMOROSO's exposition that interventionism is part of the essence of the Corporative philosophy. His understanding is that it is not of the essence of the Liberalistic philosophy. It is admitted in deference to social interests, which are often at loggerheads with individual freedom, and represents an element of contradiction in a society resting in principle on Liberalism.

He has, in theory, demonstrated *prima facie* that Fascism is a "possible world." (There is a book called *Possible Worlds*.) Conceivably it appears you could have a world made up of States organised on the Fascist theory. He goes further and says he can prove it in fact; and the rest of the Italian memoranda[1] go to show—if we may take them as a correct appreciation of what is happening now in Italy—they go to show that the thing can happen in the world of fact as well as on paper. The Liberalistic interpretation having, he claims, been refuted by experience, the world need to-day, he argues, is to "reconstruct a theory." Professor CHARLÉTY already said something rather similar in suggesting the hope that from this Conference there might result "*quelques éléments de doctrine universelle*," some community of doctrine concerning the basis of our economic life. It is suggested by Professor AMOROSO that a community of Liberalistic doctrine is not likely to be achieved, and, if achieved, it would not meet our current problems of the day. And, indeed, it is commonly asserted that our problem now is not one of production but one of co-ordination and distribution. SIR ARTHUR SALTER, you will remember, said that regulation—his expression was "regulative wisdom"—is what we need to-day.

In this possible world, which would be a universal Fascist world founded on the ideas in the Italian memorandum, regulation would doubtless exist. But how far, I ask, is our problem to-day merely one of seeking to reconstruct a theory? Professor BOUGLÉ suggested definitely that it was not; we had, he said, a "*situation de fait*" and we must look for "*solutions*." If even a mere theory could be found which would lead us to solutions, I should be glad. Is it, however, at this stage merely a matter of looking for *a* theory? What is the world in which we live? A world in which we have not got the Fascist system accepted universally. Why?

In England we have English opera (though it is little known on the Continent), and in one of our operas there is a jester's song. Jesters are like statesmen in many ways. The complaint made by the jester in this song is that one cannot generalise because "what is all right for B will not satisfy C." That was his complaint. The trouble is that we are seeking for solutions to be applied in a multiplicity of diverse States and they have diverse constitutional philosophies; the constitutional philosophy of Liberalism in terms of which this country is still living does not seem to me to invite confident recourse to so far-

[1] See below, p. 377 et seq.

reaching and drastic a programme as is possible in the Italy of to-day. The difficulty seems to me to be that in this country we have a State which is not so generally thought of as a person, but is thought of rather as a piece of machinery which may come successively into the hands of various groups of persons, so that we have, as Professor BOUGLÉ said, a hybrid system. This system is the result of a little bit of interventionism here, expressive of a Socialistic philosophy, and a few years later another little bit expressive of a Conservative or individualistic philosophy, or some other philosophy, all having an equal opportunity within the same constitutional structure which rests on a foundation of what I may call "political atomism."

Professor AMOROSO argues that the evils which have come upon the world are largely due to the belief in "economic atomism," and to the incorrect assumption that in the modern world as it is individuals do in fact enjoy freedom to pursue their own lives—whereas actually the individual has to look for some niche in order to fit into a system in which the only effective freedom is enjoyed by great industrial combinations and financial combinations. To counteract this monopoly of *economic* power which he sees, what has the Italian community discovered? A system by which there is a monopoly of *political* power enjoyed by those who hold a certain political philosophy.

In that sort of world results become possible, and, if you can get a world of that kind universally, results there too will be possible—but at the cost of things which Professor BOUGLÉ, for one, is not prepared to sacrifice. That is one of the big topics before this Committee, the discussion of the fundamental basis on which your constitution is raised, because in effect it is a question of constitutional philosophy.

Supposing we accept the Italian philosophy of to-day, there is one question I would like to ask Professor AMOROSO. Supposing we accept the view that this is the century of the genius, a genius who is able to impose his aims upon the amorphous masses as a leader. And we need not quarrel with Professor BERGSTRÄSSER'S contention that this also is in its way a form of democracy. The question I would ask Professor AMOROSO is, what guarantee have we that we shall have combined in the same person the power of spell-binding the masses and with it the insight which will enable him to dictate the wise and sufficient solutions, the co-ordinating solutions, which we need? I do not know the answer.

Let us discuss "the State" and economic life, but be careful while doing it not to think only of "the State" in the abstract but of States in the concrete, and, when we come to discuss the concrete applications in France, or Germany, or England, let us think of these applications in the context of the constitutions under which they are effected, otherwise we shall be comparing incomparable things. Even in the United States, which, for the time being indeed, appears to be on a rather special footing, you may find a competition of schools of thought,

whereas in Italy a single school of thought has been in control for a number of years. It is a magnificent opportunity and, given the wisdom with which we are told it is being applied in Italy, it should have magnificent results. If you could enthrone that wisdom every time in a world in which your democracy is a democracy of monopoly (a monopoly of power by one school of thought and possible only by using machinery which prevents too much cultivation of other schools of thought), we should doubtless find that we should get what SIR ARTHUR SALTER asks for, a regulated world; but maybe we shall never get it until we have that monopoly of authority. In the absence of that monopoly in this country, or in France, or indeed in the United States, except perhaps for a few weeks at a time, the problem remains of how to get this co-ordination which is so eminently desirable if the world is not to seek refuge in that extreme form of economic nationalism which, as SIR ARTHUR SALTER put it so clearly and so grimly, seems to be the only alternative. I must say I do not myself at present see how we are to get that co-ordination. Do not let us treat as if they were comparable the interventionism which under the Corporative system is thought of as a normal and essential function of the State, and the interventionism which is admitted on sufferance, *faute de mieux*, or which occurs under a constitution that permits a free competition of schools of thought. It is that competition which makes it so difficult to get a common unity of doctrine.

Professor JOHN M. CLARK, United States:

As an Anglo-Saxon I share the prejudice in favour of the thing we have been calling liberty and am in favour of the slower and more voluntary forms of development. But I wonder if we are not in danger of emphasising the contrast between that and the "monopoly of political power," and also if that element which has been called the monopoly of political power is not a phase of the emergency character of the change which took place in Italy, and of the rapid and sudden transformation which was necessary. Possibly, if other countries follow a development towards somewhat similar results under the pressure of the economic situation, but by slower and more constitutional methods, and if the situation in Italy proves itself to be capable of a degree of stability, the thing called the monopoly of political power might relax. Possibly we may be making a mistake in concentrating so much attention on that contrast.

Professor ARNOLD BERGSTRÄSSER, Germany (*translation*):

I should like to draw your attention to some points of principle, but I want, in the first place, to make some remarks on the sociological developments which have constituted the basis of the events in Germany. I think it would, in fact, be interesting in this discussion to

show what were the social factors which led up to the foundation in Germany of the Corporative State, a State which resembles the Italian Corporative State, but which is nevertheless different on account of the economic and social differences between the two countries.

First, I want to point out that the word "interventionism" is an expression which derives from the Liberal system, in that it establishes an opposition between the State and economic society. Now the essential aim of the Corporative State is to make this opposition disappear, to bring about unity between the State and economic and intellectual society. It may be said that it is a matter of the complete extension of the idea of the State, of a transformation of the idea of the State, and the realisation of the State in a conception which makes the State and Society one and the same thing.

It is what has been called the "Totalitarian State," "*Der totale Staat.*" But what is that Totalitarian State to be? It would be quite wrong to consider it as being an administrative device, for instance. This State can be much more than a form of discipline. One might say that it is a solidarity organised within society. The State is life itself, the living existence of the Nation. With us in Germany the word "Nation" has a rather particular meaning, and to make it clear we add the word "*Volk.*" It may be said that by this word we mean the productive and spontaneous forces of the soul of the Nation, which form an intimate relationship with the State and internal economic policy.

Hence it is a question, in fact, of a complete reconstruction and of a new relationship between Society and the State, and this transformation consists in replacing the democratic system by the system of appointed leaders. But if you scrutinise the method of this selection, you will see that in reality the head of the State can only nominate as leaders those who enjoy the confidence of the people, or those who are likely to win its confidence.

What Professor BRINKMANN said is quite true: it resolves itself into a question of democracy, a plebiscitary democracy, and not of a democracy based on the fiction of the general election.

The difference between our German system and the Italian system consists perhaps in a certain tendency that might be termed "Socialist," that is to say, in the tendency to struggle against the bourgeois spirit. The bourgeois spirit is, in fact, opposed to the German National-Socialist movement, because the youth of Germany, the German peasantry, the German middle class, regard bourgeois individualism as the great adversary, the great factor in the disintegration of Society, of the State and of the Community.

One might perhaps find a much more adequate epithet than "Socialist" to describe it; one might for example say "Solidarist," because it is the idea of solidarity, quite simply and clearly, which is at the basis of our revolutionary movement.

And now, Gentlemen, I will, if I may, draw your attention to some of the essential differences which separate the Socialist conceptions now being developed in Germany from the ideas in accordance with which the nations of Western Europe live, France and England particularly.

At the basis of Western democracy we should, I think, avowedly establish social homogeneity, a homogeneity of ideas. Thus I feel a great admiration for the homogeneity of the French nation, which, in my opinion, was created by the dictatorship of the absolute monarchy of Louis XIV, and accordingly now constitutes the basis of the French democracy in our own time. But would the constitution of the present French nation, the existence of a Government functioning by means of elections, and the whole apparatus of democracy be possible, if society itself had not been disciplined by a certain social constraint, which incidentally is very strong?

Professor AMOROSO referred earlier on to some excesses of that constraint in regard to the Press, but in France it weighs more heavily than financial coercion. With us in Germany separatism and internal opposition are much greater in society, the unification of which has not been achieved as it has in France and in England. We have a much more active federal spirit, our differences are much greater; above all, we underwent a much more rapid economic evolution, which occurred, moreover, much later than in other countries.

Similarly, the opposition between Capital and Labour was, of necessity, much more pronounced in Germany than in France or even than in England, not to speak of Italy, and I think it is precisely this opposition between Capital and Labour, resulting from our industrial system, which will give rise to the greatest differences between the Italian system and the German system, and will compel us to take quite special measures of redressment in the domain of public life.

What I mean to say is that the forces of revolution have led us on to this new conception of society in Germany. Three great movements have produced this result: in the first place there was the position of the middle classes, of the artisan class, for example, and of the small business man, who, deprived of all hope, had no longer any hope of living on in the old traditions. Then there was inflation, and finally the rationalisation of the heavy industries. All these post-War changes ruined not only the economic, but also the moral, foundations of these classes.

If you study the economic situation of these middle classes, you will see that it really resolves itself into a question of social groups leading a capitalistic kind of existence; groups whose social and economic ideals the dynamic force of contemporary capitalist evolution has overturned.

To these middle classes must be added the peasants, who perhaps

constitute the most revolutionary factor in Germany, because they have passed through a formidable crisis and, above all, because they have been hit by the increase in the real value of their debts. Look at the new rights of succession in Prussia and ask yourself what they mean: they are a means of securing the peasant in the possession of his land. A new notion has thus been introduced into economic theory, that of duration, to which reference has already been made.

To the middle classes and the peasantry must be added the intellectuals, the university men, the intellectuals without hope, without a future, and grateful for being able to continue their studies, because on passing their examinations they found themselves with no future in front of them, and no occupation in which they might apply what they had already learned.

The whole history of our society is the result of the profound deceptions which we have experienced in international negotiations and of the fact that these negotiations were stricken with sterility on account of their being restricted to juridical discussions of treaties, without any reference to the realities of national life, and that it was, in consequence, impossible to come to the help not merely of Germany but of the world as a whole.

Distrust of the policy of *laisser-faire*, in the international as in the national sphere, together with strong ideas about the unification of the State and of society, formed the basis of the main conception of this movement. But there is no question here of the abolition of liberty: it is only a question of restricting liberty. Liberty, in the intellectual as well as in the economic sphere, still exists, and will continue to exist, but within limits established in the interests of the community.

Countries which do not possess the social restraint to which I referred, such as France has, are obliged to replace it by political restraint, a restraint applied through the intermediary of the State, the absolute and totalitarian State to which I have just referred. For us Germans, it is first a question of establishing a new relationship between the intellectual proletariate and the State. And perhaps we may have an opportunity to deal with this question again when we come to speak later of the relations between Capital and Labour.

What I want now to say is that this problem concerns an effort which has been the great task of German policy for the last sixty years, and which has not yet been achieved: that of the reintegration of the proletarian masses into the German State.

In recent months you have seen very interesting developments in Germany, the transformation, for instance, of the relations between the Reich and the Federal States and the transformation of the Trade Unions. In both cases the same question arises: that of avoiding abuses. We want to avoid the abuses of the Federal Constitution, worked by

the different political parties in their own interests. Thus the policy of Bavaria was not only a Bavarian policy, but a policy of the Bavarian Centre Party, of the Catholic Party. As for the policy of Prussia, it was no longer a Prussian policy within the framework of the Reich, but a Prussian policy dominated by the Social-Democrats. There again we saw abuses due to the federal structure of the State.

On the other hand, in regard to the relations between Capital and Labour, the policy of the Trade Unions was sometimes inspired by purely political motives. We want to put these Unions back into the economic sphere, and to permit the existence only of those Trade Unions which keep exclusively to economic affairs.

Therefore it is a question of creating a new discipline, of trying to discipline the Corporative State and to establish what may be called self-government within it. We are not concerned with setting up "*étatisme*," but with establishing self-government. The different professional groups will be placed under the control of the State, but the State will not control them more than is necessary. The State will only safeguard the common interest.

I even believe that control by the State will be quite different according to the various spheres of society and economic life. It will be different in its methods. The methods applied in the middle-class domain, among the peasantry and in the liberal professions, will be the methods of the Corporative State: it will be the Corporation, under the control of the State, that will take the necessary measures, which we shall discuss later perhaps. But in the domain of large capitalistic enterprise the measures applied will again be quite different.

We cannot say anything yet as to the future organisation of navigation, the steel industry, or of the credit system, but in these matters there will also be self-government combined with State control.

There you have a system quite different from Socialism or Liberalism. It is a new method of organising society, and in Germany we call this new method, this new procedure, the "organic way." In fact, this natural organism of the State derives all its productive force from these new divisions of society.

Here I would admit frankly that it is going to be very difficult for us thus to establish a new organic society within the existing social groups, which have been formed according to mechanical rules and conceptions; but that it should be done is the intimate and absolute desire of the German people, the State not being considered as a fiction, but as a personality.

It would be wrong, however, to believe that this liberty should be abolished for that: on the contrary, it is a question of preserving that liberty which, even without the Corporative State, would have had to be suppressed. But we believe that in this State of new masses, of great masses, it is not possible to preserve the liberty which had been

established by a small middle class. The origin of the Liberal State derives from the domination of society by the middle class. And as our masses have not been taught how to form such a strong and durable group as the middle classes of the early nineteenth century, we must institute a new discipline in order to avoid both social mechanisation and Liberal anarchy, and as Liberalism no longer corresponds to the idea of a free discipline, we must renew liberty by discipline.

One further word on our commercial policy. I do not think that commercial policy in Germany should be one of pure Protectionism. We have to create an economic and social structure, but within the framework of a world economy; and it is perhaps the foundation of the Corporative State which will provide the possibility of conducting a Liberal policy in commercial matters, precisely on account of its disciplined control of the interior social organism.

In fact, it will no longer be private interests which will dominate the important negotiations in the domain of commercial policy; thus it will be much easier for the State, with its disciplined interior economic forces, to practise an exterior commercial policy, productive of useful results for the different countries. It is thus, I think, that the essential traits of our social and economic revolution may be described.

Professor BOUGLÉ (*translation*):

I should like to say how much I was interested in the explanations given by our German colleague, Professor BERGSTRÄSSER; he has chosen ground which is dear to me: that of the sociologist.

Two theses emerge from his explanations, as from those previously given by Professor AMOROSO. According to them, it would seem that it may be impossible in future, at least in Germany, and no doubt also in Italy, to separate two ideas in the way we should like; indeed, it may be impossible to dissociate them from each other at all, that is, the conception of the State from that of Society. It would also seem that it is impossible for us to dissociate economic Liberalism from intellectual Liberalism. And so they maintain that if we abandon economic Liberalism, we are forced to abandon intellectual Liberalism; both must be put into the same bag.

On the other hand, we can no longer distinguish the State from the Nation, from civil society. In short, the State—so we have been told—the Nation-State is an organic unity which has its own needs and interests, and for that reason it should not allow itself to be distracted from its work by individualist claims, protests, or criticisms.

Here I find old acquaintances, ghosts of the past. I recognise ideas dear to Hegel and Fichte; in short, an aspect of the nationalist economic system with which Germany is always pleased, and which Italy seems now to favour. On some points, I am in agreement with

our colleague. I too attribute a reality to the Nation; but I distinguish it from the State, and I ought to say that we in France—since each one of us here makes an examination of national feeling, while awaiting the appropriate moment when our separate arguments necessarily converge upon each other—do not seem to be in the mood for merging the Nation and the State into one.

Why? Perhaps because we have had frequent experience of previous dictatorships. We have had not only Louis XIV but Napoleon, and we know that in the end they did not turn out so well. The average Frenchman, in consequence, nurses a certain suspicion of "*étatisme.*" When we are told that we must submerge everything in the State in order that it may be able to defend our interests, we think we recognise the theory of the "benevolent despot" and the "enlightened dictator," and we say, "If, by chance, the tyrant be bad, then the wholesystem is wrong."

We are not in a mood to unify the Nation and the State, though we know well enough how to personify the Nation. If for many Frenchmen "the State is our master," and, in consequence, our enemy, we cherish, on the other hand, feelings of filial affection for the Nation. We willingly personify the Nation. Michelet once remarked that "France is a living being."

The whole problem is to know whether the real interests of the Nation, in so far as it is a unified group, a social being, prevent us from identifying it with the urgency of all decrees and the demands of democracy, as with the necessities of individualism. There is not necessarily an antithesis here. At certain historic moments these great moral beings, the Nation-States, realise that they have to render account to the individuals which compose them. At certain historic moments the peoples arrive at a certain degree of consciousness, then the State must render account of itself, and become organised in such a way as to allow the individuals who compose it to acquire the maximum of equality and liberty. It is here that I deliberately recall those two words of our national motto: Liberty and Equality.

At certain historic moments all nations are aware, to a greater or lesser degree, of the necessity of ensuring respect for the equal rights of individuals; that is the central problem. Thenceforward the master-State must become the servant-State, learn to respect the rights of the individual, and see that they are respected.

This is what seems to me to be perceptible in the trend of sociological theories themselves. For example, in Germany "*Gesellschaft*" was for a long time opposed to "*Gemeinschaft.*" In England, humanity is stated to have passed from the age of status to that of contract. In the French school of sociology we say that the era of mechanical solidarities should make way for the era of organic solidarities, which acknowledges the differences between individuals.

In thus considering the movement of sociological theories, it has struck me that there is one point at which modern societies differ from ancient societies: it is that the State is obliged to make a place for what we call individualism. But it appears that you have changed all that. You do not wish to have anything more to do with liberty, and in your anxiety to organise everything, you wish to sacrifice not only all economic liberty but also all intellectual liberty.

Now this is a sacrifice which you ask me to make; it is a considerable one, and I hesitate. For it seems to me to be very serious. Is it true that in order to organise society economically, to remedy the anarchy of the Capitalist system, to prevent industrial anarchy, I must be forced to sacrifice every form of intellectual Liberalism: not only Parliamentarianism, but the freedom of the Press, the right of public meeting, freedom of opinion, the right to express one's thoughts, the right of petition—the entire system of political liberties? Must all that be thrown into the abyss?

I want to be clear, by taking an example, namely the eight-hour day, about the possibility of dissociating these two notions, a possibility on which our colleague, Professor BRINKMANN, seemed to cast doubt. In practically every country in the world the hours of work are regulated. In spite of the diversity of political regimes, the workers in practically all countries have insisted upon the reduction of the hours of work. When this reduction was effected, economic liberty, in the sense of the arbitrary caprice of the individual, was naturally limited. He who wishes to work for nine hours may no longer do so, but is his intellectual liberty endangered for that? No, not necessarily, and this is how it may continue to exist: first of all, it rises to the surface in this system, which does not ask a man who wants to join a group of workers, even a Trade Union, what his religious or political faith is. Socialist as well as Catholic, Freemason as well as Jew, are all allowed to join the Trade Unions and all benefit equally by the eight-hour legislation. Here, already, we have a form of intellectual Liberalism, to which many individuals continue to be attached; a diversity of opinion subsists, therefore, within the professional groups.

In the second place, certain divergencies of opinion make themselves felt either through the group or from outside: the Socialist, the Freemason, the Catholic, the layman, each has his word to say before laws are made: they all can, for example, vote for or against the eight-hour day. And afterwards they can criticise it. In a word, there exists the possibility of defence, protest, criticism and control.

That is democracy, that is Liberalism. And that is what you abandon in returning to the conception of a benevolent despot. If he is good, so much the better. But if he be bad, so much the worse. In any case, nothing can be done, for nobody knows where the opposition will come from.

I quite understand that you should not want your State to be the butt of criticism at every turn: but reflect, will that strengthen it in the long run?

If, on the contrary, the democratic State succeeds in enabling the mass of individual opinion to be expressed on it, more or less freely, then this control and this criticism will not only act as a brake on it, but also as a further source of impulsion, a motive force.

It is very possible that, in regimes where one abdicates to a despot-organiser, at the end of a certain time the movement will slow down, and instead of growing better the system in question will serve what Stuart Mill called "the sinister interests," which rest on governmental authority. From this point of view Liberalism provides a certain guarantee, and that is why I would like to retain something of it.

We have been told about Trade Unions and Trade Union forces, which one seemed to place in opposition to the system of strikes in democratic States, and I answered that in France we also give Trade Unions their opportunity, that we have men who have impelled us in that direction, and that the demands of the masses forced them upon us. But in order that a social policy, arising out of the control of the Trade Union forces, shall produce its beneficial effects, it is still necessary that there should be similar Trade Union organisations in the other various States, so that they could come to an understanding with one another regardless of frontiers. You understand why. It is, for example, because a social policy which reduces the hours of work and at the same time tries to maintain the level of wages is not possible in an isolated State, on account of competition from the other States. A social policy cannot therefore be developed easily unless it is carried on to an international plane.

Now, knowing the resistance which the workers will encounter in the political domain, we foresee that they will only gain their points if they sympathise with each other, and combine their forces across frontiers. In a word, there must be international labour organisations, in which the organised workers are represented and enjoy liberty.

In the French State at the present time, just perhaps because it has not yet become "organic" and because it still seeks to crystallise, the Trade Unions are very powerful; they are very active, and at election times one perceives that all the parties take off their hats to them. However, they are jealous of their autonomy and, politically speaking, do not let themselves become absorbed in any party. We believe that this is a source of strength, and that in international gatherings it is to be desired that the different countries will be represented by representatives of labour, who think for themselves, who are free men, and who defend their own point of view.

I hope, Gentlemen, that in your organic States, which are so well organised, the independent strength of the Trade Unions will continue

to exist. In France, we have need of them in order to carry out social policy in conformity with the wishes of our democracy. But the latter needs to be considered internationally. And that is where the question becomes serious: if your "organic" States which declare the maintenance of Trade Union liberties to be useless or somewhat undesirable, and which determine the form of the workers' organisations, all international intercourse across frontiers will become difficult and almost impossible. That would be a retrograde step in international politics.

For my part, I believe that these *rapprochements*, these relations, and these collaborations are still possible. You have said that they are possible on the commercial plane, and I was told in the First Committee that they are possible in the domain of social policy. I should like to believe it; for if it be not true, we may well despair.

You see the position I take up. These forms of co-operation must remain possible. I have faith that they will remain so. For, however original may be the one system or the other which you may be trying out, everyone is a subject to a great historical fact, which is the slow and irresistible pressure of the masses.

THE CHAIRMAN:

I do not wish personally to control this fundamental discussion, but I wish to remind the Committee that there now seems to be—at least I have heard no sort of criticism on my opening statement—a general acceptance of the fundamental statement, namely, that there is a very widespread, you might say universal, long-time movement towards, I will not use the word increasing State intervention, because that implies, as Professor BERGSTRÄSSER has pointed out, a *parti pris* in the subject, but towards an increasing social and economic organisation. That is general throughout the whole of the Western world, and we are facing one of the greatest movements, the beginning of a new period. There may be, for the time being, for the present generation or so, strong opposition, strong differences of opinion as to how that change shall be brought about. Shall it be done brusquely, or shall it be done fundamentally, or radically, or by gradual degrees? That, simply, is the standpoint of the spectator of the story 250 years from now. It is largely a question of method. We are facing in all these countries, no matter what the method of approach, common problems, and it is to our address to those common problems that I think the Conference should turn its attention. . . .

Professor BRINKMANN:

I should like to make a few remarks on the very interesting speeches of two Anglo-Saxons, Professor CLARK and Professor MANNING, at the opening of this debate.

Professor MANNING has emphasised the point, in speaking of a privilege, of a monopoly of political power as the backbone of the new State, that there must be sufficient guarantees that this political monopoly will be exercised in harmony with the wishes and interests of the nation and of the State. I would submit two considerations. Firstly, that under what you call a Liberal democracy the parliamentary method of government there were no such guarantees; secondly, that in all the countries where the more modern movements have latterly come to the fore, it is practically certain that the will of the nation, as expressed by Parliament, did not correspond to the will of the nation in general.

That brings me to a remark of Professor BOUGLÉ, who said that the new advance of the nineteenth century should have consisted in making certain ruling classes feel that they were accountable to the masses below. I submit that the moment has come in another and different way from that of the nineteenth century, for the rulers of that century—the bourgeois classes—have been called to account at the beginning of the twentieth century by the masses of their respective nations. Some of you call it Fascism; I do not like that expression because it has national limitations; I like to think of it as a new construction of social, economic and political ideals. I think the political monopoly of which Professor MANNING spoke is, in fact, only the illusion of a moment of transition.

Looked at theoretically, it resolves itself in the following way, that what statesmen and practical politicians see as a clash between two definite systems is the process of transition from one epoch to another, from which it is far removed. To the student to whom Professor MANNING has appealed this morning, it resolves itself into a much more steady process of transition. I am satisfied with what Dr. GAY said about the different rate at which different countries will travel, but the problem will not perhaps be settled by national temperaments, minds and mentalities, but by the social and economic necessities of the moment. When you have once realised that, you also will understand, just as we in Germany will admit, what Professor CLARK has stated. There is no need, in abandoning an old system, to introduce "root and branch" reforms in order to obtain a new system which is by no means clearly defined and worked out: and it would be just as well to move, in regard to many national situations and domestic problems, very gradually and very constructionally, in the theoretical sense, when considering the introduction and infusion of this new element, which we and our Italian friends have been trying to make clear. The thing is new in principle, but the proportion in which it is being introduced at any given moment depends on experience and on necessity.

Professor GEORGES OPRESCU, Rumania (*translation*):

If I enter the discussion, it is only to make an observation of a general nature. It seems to me that we have wandered a little, that we have left our real subject. In fact, it is evident that we have mixed up political questions with the real subject of our meeting, with the problem which preoccupies us. Political questions usually excite the mind, but on the other hand they lead us far away from our subject.

Personally, I should like to return to our programme and see the various items in our agenda treated specifically. I shall not speak about political questions and still less as someone who officially belongs to a party. In fact, I belong to no party. I am perhaps one of those rare ones—if not the only one—among you who has never voted, except when I was obliged to nominate the senator of my university. That day, unfortunately, I could not have done otherwise: the electors being rather numerous and the candidates sensitive, I just had to go and drop my card in the ballot-box. Apart from that occasion, I repeat, I have never voted.

I have, in consequence, never taken sides. I could have wished that each one of us had done the same. And so I am rather surprised to see one or the other of the speakers trying to put in the foreground his political point of view. For my part, what interests me among various experiments, which are naturally being undertaken in Europe, is not the political aspect nor, in one way or another, the theoretical aspect of these experiments: it is the experiments in themselves and their practical results. That is so real to me, I declare, that after having heard the Fascist point of view, the point of view of the representatives of the National-Socialist Government, and the point of view of the doctrinaire Liberals, I should have been interested to hear the Communist point of view, that is to say, not to hear another exposition of their theories, but to know what they have also accomplished in the realm of ideas, which interests us. But the Communists are not present.

Instead of that, we have heard philosophical explanations of every kind, justifying every policy. That is doubtless interesting, but somewhat outside the scope of our subject. Would not it have been more useful, after having analysed what the various Governments have done in this sphere which occupies our attention, if we could possibly have arrived at some conclusions and have made a symposium of truths, or, at least, of statements drawn from the various attempts to find a remedy for the situation which we find so hateful.

Politicians never trouble themselves to construct theories. When a statesman does something, whether good or bad, he always finds a philosophy to justify his action, and even a poet to praise it. Everything is justified, and can perhaps be covered with praise, theoretically.

I am not an economist and I am perhaps less of a specialist than any of you. But I am, Gentlemen, something of an historian, and I know that it has been possible at certain moments of history to justify every idea and all opinions. I know that the opinions which Fascism and National-Socialism believe to have definitely killed have been seized upon by entire generations—opinions which, in the view of those who enunciate them, will open up an era of good will in the history of the world. Those who preceded them thought the same of quite opposite ideas and with the result. . . . But since we are a Committee with pretensions to study these questions from a scientific point of view, I believe that we should give proof of our objective character, that is to say, benefit by the lessons of history. But history tells us that the truth of to-day is not necessarily the truth of to-morrow. Consequently, let us be a little sceptical and abandon this attitude which presupposes, on our part, the conviction of being possessors of the absolute truth. Let us examine all that the Governments have done to combat the present crisis and we shall perhaps arrive at some conclusion.

I have myself seen Fascism in action. Thanks to my office, I have been obliged to go to Italy every year to be present at certain meetings. I have been able also to confirm, from one year to another, the progress made by this Government towards the betterment of the working class. For me it was an object of admiration. I am not a Fascist, I am even the contrary, but here you have an incontestable fact.

It is testimonies like that which we should listen to, to accounts of the experiments tried and the results obtained, and not to the philosophy of Fascism, the philosophy of National-Socialism, or the philosophy of Liberalism, however attractive it may be.

The Practical Aspects of State Intervention

SIR ANDREW MCFADYEAN, United Kingdom:

Professor BRINKMANN maintained that it was impossible, as I understood him, to distinguish between economic Liberalism and political or intellectual Liberalism. Personally I do not believe it. I think we can, for our purposes in this Conference, dismiss more or less from our minds the question of intellectual Liberalism. Personally, I think that no economic system is going to have more than a transitory life if it is not infused with a real Liberal spirit. I do not believe that "the great soul of the wide world, dreaming of things to come," will be satisfied with arid repressions. But, Liberal as I am, I am prepared to consider the question, even as a Liberal, of Nazi-ism, Bolshevism, Fascism, or any other "ism" as a possible State form for achieving the best economic life. And when I say that, I am really using a Liberal concept: we shall continue, in this country at any rate, to judge

political economic programmes by the test of this question: will this or that programme conduce in the end, so far as human beings can reasonably foretell, to the greatest good of the greatest number?

We may of course, if we meet here again next year, have made as much advance towards an organic system as the German delegation has since it spoke at Milan last year. But I do not think so, because I believe the question that we are now discussing is by no means as novel as perhaps it appeared from some of the observations which have been passed by previous speakers. It is true that planning, if you put planning in inverted commas, sounds something new; but, so far as this country is concerned, it appears to me to be a continuation of a struggle which has been going on ever since 1833, when, a hundred years ago, the first effective Factory Act was passed in this country. And if there ever was such a thing as pure individualism since the Middle Ages, I think that its death warrant was written when that Act was put on the statute book. Since then we have had a struggle to and fro, but it has always been a question of more or less. Practically all the progress that has been made by the State in intervention in the last hundred years has been due to Liberal principles and Liberal statesmen. I think that the matter is well enough summed up in a short quotation from the Liberal Yellow Book, published some five years ago, which I should like to read to you:

> Change has been going on at a great rate. It is not a choice between nailing to the mast the Jolly Roger of piratical, cut-throat individualism, each man for himself and the devil take the rest, or, on the other hand, the Servile Society of a comprehensive State Socialism. Nor is the alternative between standing still and violent change. The world moves on anyhow at a smart pace; it is only the ideas of Conservatives and Socialists which remain where they were.

Most of the things that have happened in this country and America, and many things that have happened in Germany, will be found in the Liberal Yellow Book.

If there is a distinction in the way in which we and other nations regard these things, it is that we refuse to be bound by theories. We usually do what Professor OPRESCU suggested: we build a system and then we look for the theory that justifies it. But we do dislike the State as a personality. When we use the word "State" we think of it primarily as a tax-gatherer, and we dislike it; we do not personify it, and above all we do not deify it; we generally prefer to talk of the "community."

I am reminded of some rather caustic words by an English poet about people's attitude towards the Deity: people do not think about Him much when they are in normal health,

> But almost every man when sin and sorrow strike him
> Begins to think there is a God, or something very like Him.

I think that is largely what has been happening in the last four years in England and elsewhere. The world has fallen into serious trouble; sin and sorrow have struck us and we realise that there is a State, and the result is, as the German writer Salin points out, that every man thinks, when difficulties arise which would not have worried his grandfather very much, that he has a right to go to the State for help. He goes on to add in a bitter phrase that, in a world where leaders of industry have failed and bankers have failed, none is ready to pay the penalty; and only a few adventurers and criminals have the courage to show that they can die!

I am not sure that all that we are worrying about is permanent. I am convinced that our struggle dates back to 1833, but if we begin to get a little prosperity in the world again, many of the things we have been doing in the last three years (and in various other countries too) will be scrapped again, and scrapped rather quickly. After all, we had a pretty complete nationalisation of all the means of production, distribution and exchange some fourteen years ago, and as soon as we could get rid of State control we did so.

I want to move on to a little closer consideration of the directions in which the tendency to intervention has shown itself. There do begin to emerge a few principles; it is not merely a seeking for help in a time of serious trouble. We have, I think, one of the most interesting examples of State control or State intervention to be found anywhere in the world represented by our rather peculiar Public Corporations, which started a long time ago, but which have gained a great deal more momentum in the last ten years. Outstanding examples of these are our Port of London Authority, the Central Electricity Board, the British Broadcasting Corporation and the London Traffic Commission, set up a few days ago. All these corporations are quasi-monopolies. They are in no case for administering services which are competitive, but services in which it is recognised that competition is undesirable. We are enlarging our spheres of intervention. I think that the question of competition gives us the key-note to the direction which intervention will take in this country as it expands and is organised. We have started trying to control competition in coal. We have had movements and suggestions that the State should intervene in this country to control big industries which have fallen on evil days, such as the cotton and steel industries. I believe it all rests on this question of competition. Where industries organise themselves their tendency is to restrict competition, and when that tendency is carried far enough I am convinced that the State must intervene in order to protect the consumer. Competition is wasteful. It must be remembered that competition becomes increasingly wasteful in the modern world where industry requires huge plants which are very expensive to set up, very expensive if they are not used, and very wasteful if they become

obsolescent, which they do very quickly where competition continues unrestricted. Again, when an industry is inefficient, the State is interested—interested because of a century of intervention based on social grounds. It has now put itself in such a position that, if an industry is inefficient, the price of inefficiency is largely borne by the taxpayer owing to support of the unemployed.

We have, in setting up these corporations and in gradually extending control, raised interesting problems. We are gradually coming to face one of the problems which Dr. GAY has already mentioned. How far is it possible to maintain private initiative with an extension of State control? That is a particular problem, a precise and concrete problem upon which it would be interesting to hear the views of the other delegations. I do not know whether my British colleagues will agree, but I believe that we have very largely managed to deal with the problem of initiative by the Public Corporation. We have divorced control from ownership; we have put control into the hands of the State, but left initiative to the management. In that respect the new Public Corporation does not differ very much from other large corporations which are not controlled by the State in any way, because one of the outstanding features of our present economic organisation is that ownership and management have been very largely divorced through the joint stock system without any destruction of initiative.

Take a slightly different point which, I think, leads us to the international question. I believe, with SIR ARTHUR SALTER, that our main problem is how to deal with a very great mass of production which now, or in the comparatively near future, will be enough to provide for all the needs and some of the luxuries of most of the population of the world; that is to say, that our problem is mainly one of distribution. If it *is* a problem of distribution, I understand that it is a problem of international distribution. If we, in this country or any other, are to try to organise our whole economic life, can we possibly do it? What country can do it without taking account of external matters? We are already meeting some of those difficulties in this country in our attempts to plan agricultural production. Much of that particular planning will not improbably stop when the crisis comes to an end, but the international problem must arise when any industry is being nationally organised. You must take account of what you need from abroad, and you cannot take account of what you need from abroad without taking account of what the foreigner takes from you.

Professor BRINKMANN spoke as if the national and international problems were dissimilar. I think they must be connected very closely. Just as when you are dealing with the various economic necessities and interests of a country there are divergencies within that country, even regional ones, so you have within the world various units which

must work together, or else the only result will be that any country which has not got the means of self-sufficiency within it will, compared possibly with the life we have had and certainly with the life that is possible, be poor and brutish. In other words, while, as Professor MANNING has said, the Fascist State or the Nazi State is a possible State, is it a com-possible State? How far are these various striving new organisms going to work together, and how far are they going to insist on a self-conditioned nationalism which is entirely opposed to the purely economic interests of the world?

Professor EDWARD LIPINSKI, Poland (*translation*):

We are witnessing a continuous growth in the influence of the State on economic life. I believe that this development has its origin in the changes which have come about in the organisation of production. The structure of net costs has changed, above all in the heavy industries. The mechanisation of production has resulted in an increase in the proportion of overhead charges to cost prices; in consequence, enterprises have become rigid and adapt themselves badly to changing conditions; hence the necessity for agreements to regulate the market and to counteract the effects of the crisis.

In this we have, without doubt, one of the principal sources of the monopolist tendencies which dominate production at the present time. The necessity for being assured of regular openings gives rise to a desire to monopolise the market. The heavy industries themselves also exercise a powerful influence on the State in demanding the imposition of Customs Protection. Customs barriers are necessary to industry if it is going to set about winning foreign markets. And so the character of Protection changes: instead of being an instrument of defence, it becomes an instrument of attack. Dumping, which is necessary as the means of diminishing the weight of overhead charges by increasing the volume of production, is only possible under conditions of a market-monopoly. The export problem thus gradually becomes a national problem.

The existence of monopolistic industries, and the resultant problem of their profits, becomes so important to the State that the latter becomes, so to speak, industry's commercial traveller. So one might speak not only of an "*étatisation*" of economic life, but also of a "*privatisation*," of the State. Exportation ceasing to be a commercial transaction becomes a diplomatic affair. Thus a close bond is established between the State and production.

Great industrial enterprises should be protected by the State in periods of economic depression, for the bankruptcy of any one of them means turning thousands of workers into the street. That is the cause of the phenomenon known as the "nationalisation of bankruptcy."

The rôle played by the State in industrial enterprise can only increase through the vicissitudes which affect the organisation of enterprises, which end up by becoming something like public institutions.

The young countries possess another source from which the movement towards "*étatisme*" is nourished, namely, the necessity on the part of the State to create general conditions favourable to the expansion of a modern industry. A capitalistic industry needs for its development railways, ports and other installations, which represent investments that cannot be financed by private capital. That is the explanation of the excessive part played by public enterprises in the life of countries which are young and backward from the economic point of view.

One might even venture to say that certain forms of political organisation are only the result of a modified economic structure: we might, for example, consider Fascism—if not National-Socialism—as a form of political organisation, whose aim is to make possible the establishment of a modern capitalist industry. Political democracy, together with the increased influence of the working class after the War and the emergence, as a result, of new social forms, have created numerous obstacles to economic progress. Thus there arose something like an economic necessity to counteract the over-expansion of political democracy and social reform, and the State assumed the rôle by reason of its claim to modernise economic life.

Economic difficulties have accumulated, and the automatic play of economic forces alone is no longer sufficient to solve them—all of which creates an atmosphere favourable to the idea of a planned economy. Nevertheless, we may doubt the possibilities of a planned Capitalistic economy. A planned economy is distinct from a free economic system precisely in that all the decisions taken in the former are made by central institutions, in accordance with certain general principles. Investments made in accordance with general principles may easily be unsuccessful investments, which means in the end a loss of capital and an impoverishment of the population. Now, investments cannot be methodically controlled without regulating consumption, and there can be no doubt that an economic system, in which consumption is regulated, ceases to be a Capitalistic economy and becomes a feudal or Communistic organism.

It is therefore certain that the increase in intervention—whether it be by the State or by monopolist organisations—leads to the destruction of capital and the impoverishment of the people.

A planned economy must necessarily be an economic system of misery. And yet a return to a free economic system is no longer possible. We can scarcely prevent the creation of cartels, for they are a necessary form of industrial organisation. The State cannot regulate the prices of monopolistic concerns, for there exists no standard by which a

"just price" can be measured. "Just prices" are what are established by free competition—and free competition no longer exists.

So the situation is rather strange: monopolist tendencies make intervention necessary, in view of the fact that the regulation of prices by cartels gives rise to serious economic disturbances. The regulating of prices by the State, however, would only provoke similar disturbances. We may say then that neo-Liberalism, also, is nothing but a form of intervention, and, as such, must lead to disturbances.

In these circumstances, the only possible and effective policy is to increase our knowledge of market phenomena and the tendencies of production. In this way we shall be better able to make our calculations, so that our projected investments will be less likely to fail, thus avoiding a loss of capital. I believe that the only rational form of a planned economy lies in the development of reason and experience in economic activities. But I think an absolutely rational economic system cannot exist; the rational economic system is an abstraction of a purely scientific nature.

Professor ETTORE ROSBOCH, Italy (*translation*):

I have been asked to indicate the principal spheres in which the State has intervened in Italy. I shall reply briefly.

The principal sphere in which the Fascist State has thought it necessary to intervene is, in the first place, that concerning the relations between Capital and Labour. The object in intervening here was to put the forces of Capital and Labour on the same footing, under conditions of perfect equality, so as to obtain an effective collaboration between the two great factors of production. In the second place, the Fascist State has made a very important intervention in the realm of banking organisation within the country, with a view to defending the national savings.

In the sphere of production and exchange it was at once recognised that the greatest liberty should be left to private enterprise, an even greater liberty than had been left to it in the past. We have not therefore any established plan for the organisation of industry, agriculture and commerce. In this sphere, I would repeat, we are convinced that the greatest liberty must be left to private enterprise, for it is always the most useful instrument of production, whether on the national or on the international plane.

Gentlemen, we have arrived at the moment when we propose to examine concrete questions. We have discussed questions of principle at length; at a later stage I shall have a few further remarks to make regarding some of the observations made by Professor BOUGLÉ. But, once again, I think we should first tackle the examination of concrete questions.

THE CHAIRMAN:

SIR ANDREW MCFADYEAN stressed one point which we are sometimes likely to forget, i.e. that the great enhancement of State activity and control which has occurred in recent years may be due to the effects of the economic depression, and much that we now do may be swept away. I agree that that may be the case. That is the uniform experience, glancing back over the fairly long history of the development of State control during the course of the nineteenth century. He noticed, for instance, the number of economic activities in England which were taken over by the State and then surrendered, but not entirely, by 1921. The same thing happened in the United States. You can look back over the history of the United States and see successive advances of the wave, then the recoil, but more was left at the end than existed before. In other words, the movement is like that of a tidal stream with a longer and shorter wave movement. There is advance and recession, but the movements do not cancel each other. Every time something more of power is left to the State. That is one of the reasons which compels me to think that we are facing a long-time movement.

It is therefore important to remember that, while some of the recent manifestations may be temporary, yet they are signs of a fundamental movement. But we shall have to admit, as students of social science, that it is impossible to resolve ourselves into a laboratory, with an expectation of results as certain as those discoverable by the natural sciences. But we have before us the examination in experimental fashion of the problems of increasing State control in all the various political points where experiments are taking place, the branches of economic activities in which experiments are going on, the forms and methods and, if possible, some valuation of the results.

Dr. HUGH DALTON, Great Britain:

. . . I am now going, as you directed, Mr. Chairman, to pass from considerations of general theory and philosophy to the concrete experiences of various nations, many of them represented here, in this sphere of State intervention and control in various forms. I would venture, before referring to particular experiences of particular States, to offer, as it were, a framework of classification. I cannot hope to cover in detail all the realistic phases of State intervention, but I offer this general framework of classification into which it seems to me most of those particular experiences can be fitted: We may consider, first, the degree of intensity of intervention, and second, the scope of intervention.

Let us take, first of all, the classification based upon the intensity of State intervention.

There is, to begin with, the most extreme intensity of State intervention, i.e. the complete and unqualified State operation of an

industry; but we may pass from that extreme case through varying degrees of indirect State operation of industry—the British Public Corporation being an illustration of that—to the extreme, at the other end, of State regulation, even in a minor form, of private enterprise. The cases cited of the Factory Acts in this and other countries were an example of that extreme limit; a minimum degree of intensity of State intervention, private enterprise being allowed to carry on in all other respects according to their own free will, except that the State imposes a minimum of conditions.

Cutting across that classification there is another, based upon the scope of intervention and planning. We may have planning, it seems to me, in three degrees. In the first place, we may have planning within one particular industry or service, a planning definitely limited to this. There is, for instance, a scheme of planning in British electrical generation. In the second place, we may have a scheme of planning seeking to link up a number of different industries and services in one country, which is usually operated in the practical experiments which are being attempted through some planned, social control of finance, a deliberate distribution of financial resources as between a number of industries and a linking together of those industries in a common plan. In the third place, we may go outside the national unit to super-national planning, but this is still mainly in the future. There is, however, the possibility of State planning extending beyond the limits of one country and involving international economic relations.

Into that framework, it seems to me, that all practical experience can be fitted.

To pass to particular countries, the British practice and British experiments have been described very lucidly by Professor RICHARDSON in his memorandum[1] submitted to the Conference, and some others were referred to by SIR ANDREW MCFADYEAN, so I shall not spend long in elaborating what we have attempted to do in this country in regard to State planning and intervention. But I would like to say a further word about the conception of the Public Corporation which, I think, is specifically English. Experiments in other countries have taken somewhat different forms, but the Public Corporation, as embodied in our British Broadcasting Corporation, our Central Electricity Board and our London Traffic Commission, has certain special characteristics. The characteristics are shortly these:

The conduct of business is entrusted, not to any nominees of shareholders, but to a small body of supposedly able persons who are chosen either directly by the Government or, as in the case of the London Traffic Commission, by certain trustees who themselves have been chosen by the Government. A small and supposedly able body manages the concern without reference to the interests of shareholders

[1] See below, p. 403.

or to the profit-making motive. At the same time the conduct of the business is removed from detailed control by Parliament. I know not what the experience of others may be in regard to the competence of Parliament in such directions, but having served for seven years in the British Parliament, high though my admiration for this institution is, and unwilling as I am to exchange it for some alternative institutions, yet I do not consider that the general body of Members of Parliament is suitable for managing, or supervising in detail, enterprises of the kind we are discussing. So it seems to me that it is a valuable intervention to set up a body which is only ultimately, and in the last resort, responsible to Parliament. Parliament is able to express from time to time general opinions on broad principles which are to be followed by these organisations, but at the same time Parliament is not to have the right or duty of continual meddling and interference in the details of their administration. Further, there is no control by shareholders.

I may say, in passing, that the British delegation here resembles a family rather than a regiment. We are not all of the same opinions. I stand rather to the left of SIR ANDREW MCFADYEAN, for instance. I am in favour of an extension of planning and of State enterprise, and I both believe and hope that these new developments are not transitory, but approaches towards a more effective future organisation of our economic life than past institutions or lack of institutions has furnished. But I go on to say that we shall do well to adjust our particular forms of State control and activity to the special conditions of our respective countries.

The Public Corporation, as I have said, removes the control of Parliament to a remote and generalised sphere. The control of the business is in the hands of a small and supposedly able body of men who are chosen by Government.

In each of these corporations there is no governing body on the side of capital at all. In the case of the British Broadcasting Corporation no interest is paid on borrowed capital from anyone; it has borrowed no capital and pays no interest. It finances itself out of the surplus which it realises on its effective working, so that it has to be competently conducted. So far it has paid for its extensions and it pays a comparatively large contribution to the revenue. It is a revenue-yielding instrument, as well as one of information and education and culture in the broad sense. I see in that, if I may be permitted to express a Socialist view, the prototype of Socialist institutions in the future: to finance themselves from their own successful working without raising loans, while at the same time making a contribution to the State revenue.

Finally, and this is common to the British Broadcasting Corporation and to our other Public Corporations, the particular purpose of these

corporations is to replace competition between alternative sources of supply by a co-ordinated plan conceived in the public interest. We do not permit private broadcasting, or private electrical generation, or a private London traffic committee. Here, expressing a slight difference of view from SIR ANDREW MCFADYEAN, I would say that I anticipate that over a much larger range of industry, I think that we shall find the same principles applicable, and that it will be expedient to abolish competition in favour of co-ordination on the lines of these corporations I have mentioned. So much for what we have attempted in this sphere.

These are all examples of my first classification: attempts at planning within one industry or service.

We have not travelled very far in England under the second heading of planning as between industries and services, through the social control of finance. We are backward as compared with other countries, including the United States, and as compared with Italy and Germany, and even in some respects France. We are backward in so far as we have as yet hesitated to emphasise the social control of financial institutions. In my own opinion, in order to advance our planning policy in this country it will be necessary, at an early date, to extend our planning conceptions to the realm of finance and to rationalise the City of London. But I halt on the threshold of these controversial subjects.

To turn to Italy, I had the pleasure of attending the Conference at Milan and the pleasure, last winter, of spending a little time in Italy and studying on the spot the Italian Corporative State. We are much indebted to the Italian delegation for furnishing us, not only with a subtle theoretical paper by Professors DE STEFANI and AMOROSO, but with a number of concrete accounts of Italian economics, e.g. with regard to Public Works, agriculture and a number of other subjects. We see here the way in which the Italian State is endeavouring to introduce an element of planning and orderly intervention into Italian economic life. All these attempts belong to the lesser degrees of intervention, private enterprise being left to carry out its normal functions; but in all these memoranda there is evidence of a certain directive force applied at the centre and radiating throughout the whole country.

I had the pleasure of visiting one of the best known of the Italian positive achievements, namely, the reclamation of the Pontine Marshes, and was very much struck by the evidence which met one on all hands of the interest taken by the State and the organs of the State in the carrying through of that great enterprise. I was struck by the work of the Commission for Internal Migration, which is, in another aspect, an inter-industrial planning organ. The Internal Migration Commission, as I understand it organises the movement of labour, and does not leave the mobility of labour to show itself through the painful individual

initiative of poor men without work or financial resources. They are not required "genuinely to seek work." They are told where work is to be found, though no doubt a little pressure is put on them to move and find it. It is a planning organ which cuts out a great deal of the slow, lagging inertia and the pains incident to private enterprise in the past.

I spoke to a number of the newly settled cultivators in the neighbourhood of the new town of Littoria. I asked where they came from. They came from the Valley of the Po to the Pontine Marshes, and work and livelihood have been deliberately provided for them there. No one would pretend that what could be achieved in a small way in this remarkable experiment in restoring these malarial swamps to settlement could be universally attempted, but it is an example in a small way of what may be done by a positive and vigorous scheme of economic development.

With regard to Public Works and agriculture generally, I leave the memoranda to speak for themselves,[1] but we shall all admit that the Italian Government is exercising great energy and drive in regard to these programmes of development. In regard to banking, again we have much to learn respecting deliberate control and distribution of available financial means. In one point I must confess that I found in Italy a little less than I expected. The conception of the Corporative State and its theory, concerning which I had read a good deal, led me to think that I should find that in a number of the principal industries in Italy there had been set up a network of Corporative institutions. With regard to that I confess I came away, not disappointed exactly, but finding that these things had not yet fully come to pass.

Here I am able to quote the highest available authority because I had the honour of being received by the Head of the Italian Government, who explained with great courtesy and lucidity a number of doubtful points which had puzzled me. I asked Signor Mussolini how far the network of Corporative institutions which he desired had been established in Italian industry. He replied: "We are proceeding with great prudence. We do not wish to establish, prematurely, institutions which perhaps will not serve the objects we have in view." And he went on to add that, excepting one particular and rather small case, that of the theatrical profession, the Corporative machinery was not yet completed. He hoped in the next few years there would be large extensions of it, and I know there exists on a national scale a Council of Corporations; but so far as particular industries and services are concerned the network of Corporative institutions is not yet created. So in the next year or two we may find emerging from the Italian experiences some valuable additions to what we have already learned from them.

[1] See below, p. 379 and p. 383.

One other thing which Signor Mussolini said to me made a great impression on my mind. It was about the degree of central control exercised in Italy over economic life. He said, "Do you realise that by recent law no new factory may be started anywhere in Italy without the permission of the State authorities?" That, after all, is a very drastic intervention. It would terrify some of the old-fashioned advocates of *laisser-faire*, but it is an intervention with which I, for my part, find no fault at all. I can well imagine that in other countries too it would be well if permission had been refused to establish factories in unsuitable places, befouling the beauties of the countryside and leaving the depressed industrial areas to stew in their own ruin.

I think we shall all agree that, when discussing planning, it is a misfortune not to have present any spokesman from the Soviet Union. Russia can tell us many interesting things about intervention. We must have the Russian experiment in mind in these discussions because the Russian experiment has been much the most ambitious with regard to the creation of new institutions. There is another point to be borne in mind, if I may put it in this way. Those who are inclined, as I am, to be partisans of planning will not be discouraged by failures of Russian experiments, but we shall be encouraged by their successes. The Russians, having regard to the historical background against which they stand, are far less efficient and command far smaller resources of skill, experience and education than we in the Western countries. If in a small way the Russians can succeed, in spite of the handicaps which derive from their past, we in the West should succeed even better along similar lines. If they should fail, their failure may be attributed not to their planning institutions but to their inefficiency in operating them. Perhaps at our next Conference it may be possible to bring some Russian representative here who will be able to speak to us from practical experience.

From the point of view of the classification which I ventured to offer, the Russian experiments are interesting in so far as they endeavour to adopt very far-reaching inter-industrial planning methods. They do not deal with one particular industry, but they aim at the social control of finance and of industry at large and the distribution of their resources between different industrial areas, according to a centralised plan. When I was in Russia last summer I was very much struck by the development I found in the Ural area, which in the past was left almost undeveloped, but where now some of the most ambitious projects of heavy industry are being set up. When I questioned some of the Russians as to the theoretical basis of the plan, they said to me, "We are sorry we cannot answer your questions; our practice has run ahead of our theory. We are proceeding empirically." I asked them, "Do you derive much guidance in the problem of planning from the works of Karl Marx, from *Das Capital*?" They answered that there

was no direct guidance to be obtained in regard to these practical problems in Marx. So there is this immense Soviet laboratory in which these experiments are being worked out. Many are failing at present in greater or less degree, particularly in regard to agriculture; but some are having notable success, and in any scientific study we should incompletely cover the ground if we did not try to keep abreast of them and inform ourselves about them.

With regard to sources of information, we Englishmen must pay a special tribute to American and German writers because, when I attempted to study the subject before going out to the Soviet Union, I found that very little had been written in English. I turned to an American writer—Calvin Hoover—and also to certain German writers, such as Dr. Pollock, which threw much light on this subject. Whatever may happen to such German books in Germany, I hope they may still be available to students in England.

To pass from Russia to America, I feel, Mr. Chairman, that your country and Government are giving us now a great deal of most interesting material on this subject. If six months ago we had made a comparative study of the practice of planning and State intervention in various countries, the United States would have stood at the extreme limit indicated by the absence of such arrangements in economic life and the general distaste of your people and Government for State intervention on a federal scale. But in the last few weeks and months we have all been deeply interested in the great change which has taken place in that respect. It is not for me to express a view on the probable developments in your country. By next March, when I hope to pay you a visit, things may have developed; but until President Roosevelt shows his hand we do not know how those powers will be used. He is taking powers—but the use that will be made of them is not yet clear—for a tremendous amount of State intervention and State planning of all kinds, even in the realm of finance. We shall watch developments with a great deal of interest. Perhaps some of the American delegation will say something about this phase, and it will be illuminating to us in other countries.

We were all interested in the statement made by Professor LIPINSKI, and in the suggestion that we should have a fuller account of what has been done in regard to planning in Poland.

We were all interested in what was said by the German delegation. At the same time the German national revolution is ten years younger than the Italian Fascist revolution. It is interesting, however, to study the ideas that lie behind it. I can assure my German friends that their revolution is being studied closely and attentively in England—in all its aspects. A little later on, when there has been time for those who are at the head of the Government to devote attention to purely economic questions, we shall be glad to hear what they can do, but it

has clearly been, as yet, impossible for them to pass from the stage of theory to the stage of practice.

We have here a representative of Spain, a country which carried through a national revolution of a very different kind some little time ago, and we may, perhaps, learn something from him as to what the Spanish Government has attempted.

Then there are also representatives of British Dominions who will have something to say. We in England have always looked upon our Dominions as being pioneers in regard to State intervention of various kinds, so we shall be very interested, and I am sure other delegates also, in any contribution they will make regarding the experiences in their respective dominions. Many of us have quoted the success of Canada with regard to hydro-electric power, and the success of New Zealand and Australia in other directions, and contributions from them would help in a general survey.

I would finally say a word about the third aspect of international planning—that which goes outside the national sphere and enters the international.

The World Economic Conference is shortly meeting. I could wish to combine it with this Conference so that we might influence those tired statesmen who will gather in this city. Tired, preoccupied and terrified—I am not very hopeful that they will evolve any strikingly new policies. And yet for them, perhaps, the need is not to seek out new ideas, but to act on old ideas elaborated some time ago.

But, leaving the World Economic Conference aside as a mere historic incident and looking to the wider future, much more thinking is needed, and I hope we shall all take our part in it with regard to possibilities of planning in the international sphere. Many are not satisfied either with the old conception of free trade between nations, or with the modern phase of increasing tariff barriers, restrictions dictated by vested national interests and panics about trade balances, etc. Many of us have felt that it ought to be possible to get some more scientific organisation of international trade than either of those two old policies furnish. But the technique is very difficult. I merely desire now to indicate the nature of the problem. Assuming for the moment that an increasing degree of State intervention and planning will probably prevail in the separate national units, that this will be a permanent and not a transient element—what is the best relationship to be created between national units in respect of trade and exchange? Can something be done by way of direct trade between State monopolies? Is it possible to conceive that each of our national States will establish a monopoly of foreign trade and that satisfactory trading arrangements may be come to between such bodies? Or will they turn to the alternative of merely regulating private trade, regulating it on some criteria of the mutual interest of the great masses of producers and consumers in the

respective countries? I would ask in particular my Italian and German friends—and the Russians if they were here: Is it possible to operate such a technique harmoniously with the national economic institutions which we are tending to set up? I think this question falls within the competence of the other Commission upstairs, but I suggest it as a subject worthy of consideration in the future. Nor should we lose sight of the existing international organisations, especially the League of Nations, which would have a part to play in any such arrangements and the perfecting of this exceptionally difficult technique.

I have endeavoured to touch on some of the lessons, as they present themselves to me, which can be drawn from the experiments of the different countries as revealed in the documentation presented to us. I would repeat one point. Those who were at the Milan Conference last year will recognise that a great advance has been made, in response to the generally expressed opinion, in furnishing us with the detailed raw material for scientific consideration and for reaching valid and objective conclusions. If similar progress is maintained in future years, this institution will more than justify its existence, and we may be able to arrive at definite scientific conclusions regarding this important aspect of the relations of the State to economic life.

Dr. ARNOLD WOLFERS, General Rapporteur of the Study Conference:

I do not intend to make a second report; I simply speak as a member of this Committee, picking out some of the points which seem to me to be important.

I am in a somewhat peculiar situation. I have often been attacked by friends of mine for being a Liberal economist. I am not horrified at the name of Liberal, but the fact of the matter is that I find myself in harmony not only with Professor AMOROSO's thesis, but on the whole with the policy of the Fascist State, such as has been explained in the Italian documentation.[1] On the other hand, I find myself obliged continually to oppose the methods and modes of intervention in what has been called the Liberal State, which existed in Germany before the new regime, and as it actually exists in other Liberal States.

That seems to prove to me that there must be different kinds of intervention, some right perhaps and some wrong. We are here inclined to believe that State intervention in itself, or any intimate relationship between the State and economic society, must be right. It is just as if we were to say that we want the Chairman to rule with great authority over this Committee in such a way as to cut short our speeches or compel us to speak for as long as our powers of endurance permit us! That is not the kind of thing we have in mind when speaking of the development of a new system or a new relationship between the State and

[1] See below, pp. 376–393.

economic life. I agree with Professor AMOROSO that what we need is a theory which tells us which kind of intervention or planning by the State is right and which is wrong, for what most countries suffer from is not a lack of intervention. I even believe personally that we are passing through a crisis of interventionism. To a certain degree, the over-production in the world, in the wheat and other markets, is due not to Liberalism but to chaotic State intervention in the wrong direction.

Let me give a few examples of what seems to me to be the right and the wrong way, though of course some of you will probably disagree. It is very difficult to say what is right or what is wrong if one does not happen to possess any broad theoretical principles on which to base one's ideas. To give a few of those principles: there is, in the first place, what I would call the policy of social conservation. Every State has within it certain social groups which it desires to maintain; for example, certain agricultural groups which are not able to adapt themselves individually to the changes of the market. Or again, it may seem useful from a political point of view to maintain the middle classes, or the retailer who cannot compete with the multiple stores.

There are two methods of making a policy of conservation effective: the one which seems to me to be right and the other wrong. The wrong one, generally speaking, apart from certain exceptions of which I shall speak in a moment, is that of giving Protection or subsidies, purely and simply, to those groups which are unable to compete; for that only shifts the burden of the policy of conservation on to other sections of the population. It has of course been resorted to, and every country has, I imagine, been obliged to use this method in certain times of crisis. But the wheat-growing population in Germany has been maintained by high tariffs for decades, without having ever reached a standard of productivity sufficient to enable them to dispense with these methods of Protection.

When I read the Italian[1] and English memoranda,[2] I observed that in the former there was hardly any reference to this method of conservation in agriculture; on the contrary, it is stated that although they want to maintain, strengthen and develop the rural population, the idea is not to maintain it by means of Protection, subsidies and a holding up of prices, but by carrying out what I call the right kind of intervention, a policy of maintaining the rural middle classes by increasing their productivity. And that is something totally different. From the point of view of the theory of intervention, we should say that *laisser-faire* is wrong in so far as it permits the destruction of important social groups of the population which are unable to adapt themselves quickly enough, either because of inertia or because they are unable to change from one kind of production to another—groups

[1] Op. cit. [2] See below, p. 345.

which need to be maintained, not from an economic but from a social point of view.

Professor BRINKMANN has called this the policy of social conservation, which is one of the aims of State intervention. But the two methods must be clearly distinguished. One is the method of protecting and subsidising non-productive branches of industry by shifting the burden on to others; and the other is the long-term intervention which the Fascist State has made the key-stone of its agricultural policy—the education and transformation of agriculture with a view to increasing the efficiency of the agricultural population. This involves a wide plan of education and technical improvement and the adoption of methods which are in line with economic progress.

I said there are exceptional cases in which a policy of conservation by means of Protection and subsidies may be necessary, as, for example, in a country which cannot possibly compete successfully in an industry which is indispensable for military reasons; there subsidies will always be necessary, and the burden is one which should be borne by the military budget. But I warn students from too easily accepting the proposition put forth by groups of interests that they must have Protection because their existence is necessary for military or other similarly important purposes! What I have noticed is that there is a lack of planning in the field of economic preparation for war. I have not yet encountered any military experts who say, "We need this industry or that," though some group of industrialists having great influence with the Government will say, "How do you expect to get along without our important machinery? Give us Protection, and we will inform the public it is for military purposes."

The second large field of State intervention is that of monopoly and competition. Here again the State can intervene in different directions. It is State intervention if only the State intervenes to make monopoly impossible in the interests of competition. There I again find myself in harmony with the principles put forth in the Italian memorandum,[1] which stresses the point that in many cases it is the duty of the State to enforce competition and not to do away with it. There are large branches of industry which, by their technical nature, are in need of centralised direction and fall therefore into the hands of a single private enterprise, thus leading to a monopoly. For those branches of industry I believe that nationalisation or, better still, the English form of the Public Corporation, is the only way of avoiding private monopoly with all its disadvantages to society. Public utilities, railways, electricity and other branches of economic activity fall into this category, which is not, incidentally, a haphazard one. It is necessary to find out which branches of industry require to be treated as monopolies. Such monopolies seem to exist wherever a network of rails, pipes or roads

[1] See below, p. 376.

is involved. Naturally the normal rules of competition cannot apply to a national system of pipe lines. There planning is needed. It is true also of city planning, road planning and railway planning, as it is of other spheres of economic life. Take emigration again. You cannot expect hundreds of thousands or millions of individuals to emigrate of their own accord in a rational way; you need an Emigration Bureau. That applies also to national colonisation. You cannot build up new villages by private initiative or by a group of scattered farmers, any more than you can hope to expect them to make progress in the technical sphere. The Italian memorandum[1] showed the extent to which technical advance can be furthered by the State, as for example in the form of avoiding waste in use of petrol and other combustibles.

But apart from this very large section where the Public Corporations or Nationalisation is necessary, there are other fields of industry where I am far more sceptical about the need for doing away with competition than many of those who have spoken before me. I do not believe we have reached a period in which there is potential over-production in every field. We have experienced it in certain fields, and it has led to a crisis in all the other fields: by destroying the purchasing power of the masses, it has made us feel as if there was over-production everywhere. Over-production in the steel industry, the iron industry or the wheat market is not due purely to competition; it is due far less to competition than to the wrong sort of intervention. Pools, compulsory cartels and other methods of holding up prices have induced people to invest capital in the very branches where over-production already exists. In this sphere, intervention might easily go wrong. If, having emerged from the crisis, we want to avoid new crises and over-production in the future, we shall have to allow greater scope for competition, avoid pools, specially privileged industries, high monopolies and price restrictions, etc., all of which provide an inducement for people to invest capital in the very branches which are prone to over-production.

A third important aspect of State intervention of a somewhat special character concerns the problem of subsidies. Subsidies and Protection fall into the same category. If a branch of industry is not profitable, one can make it profitable by raising prices or by reducing costs. Subsidies are all very well if they are temporary, or if they have the very definite purpose of overcoming a temporary weakness, or are intended to maintain an industry or a group of people whom, for social reasons, it is expedient to maintain.

And here I return to what I said about the policy of conservation. I can understand that every country wants to possess a shipbuilding industry, for instance, and also a mercantile marine; in times of crisis no country wants to see its own shipbuilding industry destroyed,

[1] See below, p. 389.

because it is always difficult to revive such an industry once such a thing happens. But that is an entirely different proposition from the building up of industries in each country separately, each piling subsidy on subsidy as in a sort of a race, each trying to give its own industry greater competitive power. This is simply a case of international anarchy leading to State intervention in every country, with no planning and much over-production, intensified by the fact that each country has to do the same as the rest. That is one of the cases in which I cannot think of any other means of getting out of the vicious circle than by some kind of international arrangement. The theory of interventionism will have to devise methods of intervention which need international co-operation, if intervention is not to increase the anarchy of the economic world. That is one of the best examples where national intervention can be regarded as a haphazard method of self-defence.

These are just a few illustrations of what seems to me to be necessary, namely, the establishment of a theory of intervention which will show, for once and for all, where State intervention is required and in what direction it should be carried out, if it is to have the character of planning.

Lastly in regard to the word "planning." The Fascist policy, which has already been explained, is a very active State economic policy. An economic policy naturally has to be planned. If you want to pursue a social policy of conserving certain groups within the nation, you must have vision and a plan. That is true of every form of intervention based on such principles. But this planned economic policy, which seems to me to be the essence of what is described here as the Corporative State and forms the essence of the leading ideas of the new German economic policy, is not the same as what we in Germany used to call *Planwirtschaft*, and what Dr. DALTON has in mind when he speaks of a planned economy; it means doing away with private initiative and competition and putting in its place monopolies, which are either owned or controlled by the State. It is very important to point out that the entire documentation of the Fascist group mentions not a single instance of this particular kind of planned economy. On the contrary, every Italian memorandum shows that care is being taken to maintain and develop the essentials of the individualistic system, of personal initiative, private enterprise and free competition.

I think that the two expressions, "planned economic policy" and "planned economy," ought to be distinguished very clearly from each other, because otherwise certain forms of Socialism and the Corporative State will, in the minds of many people, become one and the same, thus giving rise to the idea that all kinds of intervention, even the Communist, mean the same thing. I, of course, think they are fundamentally different.

Certain Forms of State Intervention in Actual Practice

THE CHAIRMAN:

After that illuminating general discussion on principles I should like to invite the Conference to turn to an example of State intervention or control, using that perhaps as a laboratory example. We have heard several times in the Conference of the recent experience of the Public Corporation. I am not sure that it is very recent; I am not sure that it is entirely British in its origin; but certainly the British have done more in recent times in developing that particular kind of control than any other country has. It would be worth while for the Conference to hear from Professor RICHARDSON, in somewhat more detail, the reasons for the development of this particular answer to our problems.

Professor RICHARDSON, Rapporteur:

The general question which we have been considering here—State intervention—is interesting from the British point of view and from that of other Anglo-Saxon countries.

In Great Britain there has hitherto been a marked distrust of any complete or logical system such as has been experimented with in several other countries. There are, however, in Great Britain examples of almost every type of State intervention, including full ownership and management by the State, partial ownership by the holding of shares by public authorities in companies which by that means are to a greater or less extent brought under public control, the subsidising of private enterprise, and also particularly the method of Public Corporations. It is in developing this method of the Public Corporation that Great Britain has made her most important contribution in recent years to the problem of State intervention.

You suggested, Mr. Chairman, that the Public Corporation method might not perhaps be a recent introduction. That is true. In Great Britain, certain Public Corporations date from the middle of the nineteenth century, particularly for co-ordinating the docks and harbours in several of our great ports. It is interesting that this method which was applied so long ago should have attracted comparatively little attention for many years and should then have had the rapid development which has been witnessed in Great Britain during the last few years. It is true that there was one important application of the method a few years before the War in 1908 in the establishment of what has proved a very successful Public Corporation—the Port of London Authority. Before this body was set up the Port of London was controlled by a large number of separate bodies, and it became necessary in the interests of efficiency to establish central control. This was done by Act of Parliament rather than by the independent initiative of the separate interests concerned. It is, however, mainly

in post-War years that wide interest has been shown in the Public Corporation method of intervention.

The essential feature of Public Corporations, as they have been developed in Great Britain, is that these bodies are appointed by and are ultimately responsible to the Government. In other words, there is responsibility to the representative organs of the community under the political constitution. In the last resort, therefore, if things were going wrong, the Government, the local public authority concerned, could intervene and modify the conditions under which the scheme was being operated.

The main lines of policy of a Public Corporation are laid down by Act of Parliament with the express purpose of securing co-ordination and safeguarding the interests of the community.

Once the general framework indicating the limits of action has been drawn, a large measure of freedom is left for the initiative of those set up to administer the scheme. They are not subject to continual intervention by an outside political body.

Another feature, which was mentioned by Dr. DALTON, is that Public Corporations are usually of the non-profit-making type; the rate of interest, if any capital is held by the public, is usually a fixed rate, and the body responsible for the administration is required to apply any surplus income either to a reduction in the prices charged to consumers for the services rendered, or to developing the scheme so as to render more adequate and efficient service.

An interesting question is, why this system came to be favoured in Great Britain. A chief reason has been a desire to keep bodies, which were going to be responsible for public business administration, free from political influence and from the intimate control of Parliament or of municipal political authorities. Experience of the direct management of business undertakings by elective municipal bodies has not shown a high record of efficiency. Indeed, the method of administration by a committee of an elected body has sometimes proved to be the least successful of the methods available. It gradually came to be recognised that the committee type of administration, with continuous responsibility to a democratically elected political body, was not the best guarantee of business efficiency.

In this connection there arises the question whether Public Corporations should consist of representatives of interests or should be composed of men whose judgment and business ability are recognised, and who have acquired a high reputation by their general experience. On that point the British practice varies from one scheme to another. In some of them, more particularly the older of the schemes, representation is based upon interests; but in the opinion of those who have given most attention to these problems, this method suffers from a difficulty similar to that which results from detailed control by democratically elected bodies. If the Public Corporation consists of persons nominated

by a member of interested bodies, some of the members may be men whose experience is not adequate for conducting a business job efficiently. There is now a tendency, which is supported by many who have examined the operation of different schemes, to favour the appointment to these Public Corporations of men with wide business experience and reputation rather than to invite separate interests, whether local authorities or such interests as capital organisations or labour organisations, to nominate the members.

Another reason why the Public Corporation is favoured in Great Britain is that we have had experience of the administration and control of a number of scientific and educational institutions by bodies, responsible indeed to their members, which were successfully conducting activities involving difficult problems of policy and organisation. There is little doubt that the work of such bodies as the British Medical Association and the governing bodies of the Universities has had an influence in determining the evolution towards control by Public Corporations.

Finally, the system represents what is perhaps a typically British attitude to a problem, that of a compromise between different points of view. Some people advocated public ownership and control of these undertakings by very advanced democratic methods, while others wished to retain a large measure of private initiative and private ownership. The Public Corporation method was a compromise between these two alternatives.

Turning now to another question, that of the kinds of industries or activities which have been considered suitable for control by these bodies, I have mentioned the Port of London Authority and the control of the ports of several other shipping centres. Dr. WOLFERS has mentioned transportation as being typically suited for State intervention. Most of the Public Corporations in Great Britain, including the port authorities, are in control of communication and transportation undertakings. Secondly, they conform to another of the conditions which he advanced, i.e. that of monopoly. Thirdly, they are to a considerable extent at least forms of public service, the ports, however, being less directly public services than some of the others.

The British Broadcasting Corporation is an example of a Public Corporation which is rendering direct service to the public and which is also a form of communication, with advantages in centralisation or monopoly. There is a special reason for State intervention in the control of broadcasting. The public authorities, through the Post Office, have long exercised control of the telephone and telegraph services and other similar kinds of communication. From the outset of the development of broadcasting the Post Office had powers of control, under existing legislation, even when the system was operated by a private company, up to 1927. Subsequently, broadcasting was transferred by special legislation to the British Broadcasting Corporation.

The Central Electricity scheme was developed about the same time, and a similar method has been applied. Under this scheme a Central Board has been set up consisting of a chairman and seven members representing different interests, nominated after consultation with bodies representative of commerce, industry, labour and other interests. The Board exercises little control over the generation of electricity or its final distribution, its main responsibility being the development and control of the transmission system, known as the Grid, i.e. a network of lines by which the electricity is distributed throughout the country. That again falls within the category of lines of transport or communication, and requires centralised co-ordination, with monopoly powers.

There is another point to which I think it is useful to refer in dealing with the activities controlled by British Public Corporations, i.e. that they are largely sheltered by their nature from foreign competition. This is closely related to the point which Dr. WOLFERS had in mind when expressing doubt about the suitability of State intervention in manufacturing industries. These are usually subject to foreign competition, but hitherto State intervention has achieved its chief successes in sheltered, monopolistic, public-service industries. Also, State intervention has been facilitated in those industries which are of recent development. Broadcasting is a recent invention, and relatively it was easy to intervene in such an industry before vested interests had become highly organised and well established. It was relatively easy to develop the scheme for electricity because it was a new growth, and vested interests had not become firmly embedded. They were new industrial services. Further, British experience of the uncoordinated development of the railway system had made it clear that, if similar difficulties were to be avoided in the electricity scheme, early action by a centralised controlling authority would be necessary.

It is recognised in Great Britain that it is much more difficult to work out a system of public intervention in the manufacturing industries which are exposed to foreign competition. In the cotton and iron and steel industries, shipbuilding, coal-mining and agriculture, a large variety of plans have been elaborated, often by leaders within the industries themselves. Some have been adopted, some rejected; some have involved State intervention, others are based on agreement in the industry, without legislation. In such branches of industry State intervention has hitherto been very tentative and cautious.

In agriculture a system is being developed which bears, in a sense, some resemblance to the electricity scheme. It leaves the original producer largely free to produce in his own way, and the retailer free in distributing the product to the final consumer, but it involves the organisation of a network linking together the producer and the retailer. In other words, it is, in part, a marketing or transportation

system for the commodity stretching from the producer to the retailer, who will be responsible for the final distribution.

How far we shall develop the different methods of State intervention in the manufacturing industries is yet difficult to determine. In Great Britain there is considerable support for a further extension of the system of Public Corporations in branches of industry for which State intervention of this type is suited. We are generally satisfied with the results obtained by this method. Certain improvements are suggested, but there is little opposition to these systems by any political party. The systems of the British Broadcasting Corporation, the Port of London Authority and the Central Electricity Board have so far given considerable satisfaction. The method will shortly be applied to the control of London passenger transport. Other schemes based on different principles and methods, such as the scheme in agriculture, which so far is only in its early stages of evolution, have not yet developed sufficiently to permit of any judgment being passed upon them.

I may say, in conclusion, that with regard to manufacturing industries we are retaining a large amount of elasticity, both in the type of intervention, where intervention has been adopted, and in endeavouring to secure the elaboration of schemes of co-ordination by those within the industry.

There is at present much support for the policy that, if the producers in an industry requiring reconstruction have the initiative and ability to set their own house in order, they should have the opportunity to work out their own salvation, and that the State should intervene only in certain cases where an industry has shown itself unable to take the steps necessary for its reorganisation. Even in such circumstances there is hesitation to intervene, especially where opposition is shown by those in the industry. Thus, in the cotton industry, which consists mainly of small-scale units, considerable opposition to intervention has been shown by the employers, who have not been able to reconcile their individualistic point of view with the operation of schemes of co-operation. By contrast, the shipbuilding companies have worked out without State intervention an interesting co-operative scheme to close redundant shipyards.

To summarise, the point of view at present widely accepted in this country about this more difficult group of manufacturing industries is that the State should intervene only in the last resort. It is likely, however, that if the crisis continues much longer there will be a tendency towards more intervention in certain of these industries. On this question I am in agreement with SIR ANDREW MCFADYEAN, that some present measures of intervention are closely related to the crisis, and that a recovery would result in some of them being abandoned or modified. Taking a longer view, however, I agree with those members

of the Committee who consider that we are now experiencing the beginning of a long range trend in which State intervention will be more extensive than during the latter part of the nineteenth and the early years of the twentieth century.

M. PHILIPPE SCHWOB, France (*translation*):

I agree with Dr. WOLFERS'S views on the methods of supplying electricity. It concerns a public service. There is, therefore, something about it which endows it with quite a special character. Furthermore, it is a peculiar public service in that, from an internal point of view, the problem of the relationship between Capital and Labour has scarcely yet arisen.

On the other hand, it is an industry which is extremely highly capitalised in relation to the small number of individuals who compose the personnel. We find ourselves, therefore, in the presence of an industry in which almost the only problem that arises is that of conciliating the general interest and the interests of those who run it. It is also a specially favoured sphere, in that it has developed very rapidly. To the extent that it existed before the War, it had scarcely developed. During the War, on the other hand, it developed immensely, as for example in France. And as a result of the German military occupation of the French mining regions, particularly the coal areas, which made the extension of our hydro-electrical industry indispensable for the national defence, we had to multiply the number of hydraulic power equipments.

And since the War this branch of industry, in France as in all other countries, has been still more considerably developed. It has therefore passed very rapidly from the stage of being a local industry, in which private enterprise could very easily fit in with the general interest, to the stage where private enterprise and the general interest find themselves in fairly violent opposition to each other. Such a situation arose much more rapidly in this industry than in the transport system and the railroads.

In France, the first principle applied in this branch was extremely liberal. Without entering into details, I will remind you that the system was simply that which we call "right of way permits," implying that the authority had no control over the promoters, apart from the fact that the latter needed the use of public land, in order to lay down their lines. This system was very rapidly transformed into a system of "concessions," which we had already frequently adopted in regard to questions of transport and the railway system.

I should first of all point out that, although I have, in my report,[1] made fairly severe criticisms of this system, it has nevertheless given

[1] See below, p. 362.

results that are far from being bad. If I am to be guided by French statistics, the price of the kilowatt-hour in France is, in fact, relatively low compared to that in most other countries. That is an important consideration for the French consumer. Nevertheless, the development of the consumption of electric current in France has not been what it was in other countries, perhaps because the use of electricity has not been sufficiently extended into different spheres. This is mainly due to certain peculiarities of our legislation, and above all to a general clause forbidding the concessionaire to engage in any commercial enterprise dependent on his concession. Thus a concessionaire may not, for example, sell flat-irons, etc. This legislation, however, has been recently amended.

It is therefore certain that the French system of concessions has from the beginning given excellent results. Unfortunately, it is not less certain that we are faced with considerable difficulties. The concessions have been, in fact, acquired in the regions that are economically the most developed, that is to say, where the profits should have been most considerable. Thus at the basis of all our great groups of electrical producers are to be found extremely prosperous regional and urban concessions, as in the regions around Paris, Marseilles and Lyons.

I have emphasised this point in my report, and I do not wish to repeat it here, but the French Government found itself in the presence of a serious difficulty: that of electrifying the countryside. And in this connection it was a question entirely of getting the concessionaires to construct the necessary apparatus for the supply of electricity, and so putting it within the reach of all possible users.

We can say that about 70 per cent. of the French population has been supplied with electricity directly, without State intervention, and that for the remaining 30 per cent. the State was led to intervene in a more or less active way. It would seem, therefore, that it would be advantageous to establish a system which would enable the State to deal more satisfactorily with the economic aspect of the problem and to distribute, on the other hand, the profits and losses over the system as a whole.

Is it an authoritative system, a system of governmental predominance in the electrical industry that we need? I am not certain. We have, in fact, the experience of the railways before us.

You will remember that, as regards the railways, a system of concessions was adopted, under the Conventions of 1857, by the plebiscitary, arbitrary Government of the Second Empire. Those conventions have created extremely influential economic powers, which we still encounter at the present time, immediately any attempt is made to reorganise the railways.

My colleague, who wrote the report on the railways,[1] though he

[1] See below, p. 358.

remains in favour of those conventions, notices, nevertheless, that a kind of misunderstanding has grown up between the public authorities and the concessionaires. That is a situation which could have been avoided, but which may be repeated in the electrical industry in a similar way in a few years' time unless adequate precautions are taken. We ought to pay attention to the matter.

On the other hand, if we try to find out what could have been done with an authoritative system and what such a system might have produced by way of results at the period when one seriously thought of developing this particular industry (after the War, that is to say), we can see that the consequences might not perhaps have been so good.

Taking account of the production and consumption of coal during the period of hostilities, on the one hand, and the closing of our mines, on the other, the public authorities and responsible administrations wanted to give an impetus to the large-State development of the hydro-electrical industry after the War. You know that for this industry a considerable amount of fixed capital is needed. If this development only had been followed, we should possibly have ended up by losing the fixed capital in the manner anticipated by Professor LIPINSKI. If our electrical industry had been developed solely in the direction of hydro-electrical production, it is certain that we should now, on the other hand, have found ourselves faced with a still more serious crisis in the coal industry. Every plan laid down at the period was as likely as not to prove uneconomical at the end of a fair number of years.

It would also seem that though authoritative methods may give excellent results in certain foreign countries, it appears that in France certain doubts are felt as to the possibility of organising the electrical industries through the intermediary of the public authorities, without at least letting the cost fall on the consumer.

In effect, the most active protagonists of the authoritative movement in France are certain important persons in the electrical industry who are very much opposed to the classification of their industry as a public service, and whose sole object should, of course, be the greatest benefit of all the consumers. I think, therefore, that in France it would be to our interest, if not to maintain the system of concessions, at least not to institute such an authoritative system as exists in certain foreign countries. I am convinced that the best way open to us, in this respect, is that which has been mapped out by the Anglo-Saxon countries, and by England in particular. In effect, I think that from the point of view of the development of the electrical industry we are somewhat in the same situation as England was before the law of 1926.

I consider that it is in the direction of Public Corporations and of a controlled distribution of electricity that we should look for such a solution as would permit us to conciliate private and general interests

in the widest sense. In conclusion, I can only declare myself to be in entire agreement in this matter with the Anglo-Saxon representatives on the Committee.

M. VILLARI:

I am inclined to agree with Professor MANNING that each country must choose different methods of dealing with its problems, especially as each has some problems which are more urgent than others. In the case of Italy, agriculture is a very urgent problem; it is relatively more important to Italy than to Great Britain, where agriculture represents a smaller percentage of the population and the economic activity of the country. In Italy the majority of the population—between 50 and 60 per cent.—is agricultural, in spite of the considerable development of industry in the last half century. We consider that this is an advantage to Italy, though in a certain sense it is forced upon us, because we are lacking in mineral resources. We have no coal and very little iron, but have been able, to some extent, to make good the deficiency of the former by means of hydro-electric power. But that still leaves agriculture as the key industry of Italy.

Generally speaking, having a large agricultural population has certain social and ethical advantages. On the other hand, our agricultural area is not large, a great part of our country is mountainous and rocky; some areas are absolutely sterile, while others can only be made fertile by heavy capital expenditure and very hard work. The fertile parts of Italy are the plains of Northern Italy, the Po Valley, the plains of Southern Tuscany, the province of Rome, and the plains of Apulia, and other areas scattered about the country. A considerable section is infested with malaria and subject to floods at certain seasons of the year; to drought at others. That is what has made the question of land reclamation so important for the economic development of the country. Land reclamation has been carried out to a greater or lesser extent in Italy throughout the ages: by the Romans in ancient times, by the Popes and other rulers during the Middle Ages and in the eighteenth and nineteenth centuries. In the last few years, the characteristic feature of the various agricultural policies is the speed with which the land has been reclaimed. In the case of the Pontine Marshes quoted by Dr. DALTON, attempts at reclamation were made two thousand years ago and again at different times throughout the centuries. The work of scientific reclamation was begun thirty or forty years ago, but during the last five or six years it has been carried out at a greater speed and is now well on the way to completion.

What has been done in the Pontine Marshes has been done in other regions too. Maccarese, an estate of a thousand hectares, which supported a permanent population of 50 or 60 inhabitants, besides 200 or 300 more, who came in the harvest-time, now supports a

permanent population of 2,000 to 3,000, with the possibility of maintaining 5,000. One of the principal advantages is the improvement in health conditions. In the Pontine Marshes, the Maccarese and other districts, in the south especially, where reclamation had not been carried out, agriculture was carried on before, but the agricultural workers had as a rule to live in hill villages many miles away from the malaria-ridden zones in which they worked. They had to sleep in these villages and walk or ride on donkeys every morning for several hours to reach their place of work, and return in the same way in the evening. This rendered their labour less efficient, and they were still subject to malaria because they could not always get away from the malarial plains at sunset, at certain seasons of the year when the work was hardest; so they suffered from malaria, even though they slept in the hill villages. Others had to sleep after their work on the land under unhygienic conditions with foul water and inadequate housing.

The work of reclamation had been carried out piecemeal in the past. In some zones housing would be improved; in others drainage canals would be made; in others irrigation canals or roads. Under the present system all these different phases of work are carried out at the same time, so that you get a complete agricultural enterprise, a complete transformation of the area. Houses are now built, roads constructed, canals dug and irrigation provided, and at the same time agricultural improvements of all kinds introduced, by means of the establishment of the so-called itinerant Chairs of Agriculture and in various other ways.

This work has been subject to considerable difficulties in the past, especially in Southern and Central Italy. The least opposition was encountered in the Po Valley. There the unreclaimed land produced nothing at all; consequently the landowners had an interest in reclaiming it, because it meant for them not merely an increase in income but an income where none had been before. In Southern and Central Italy the non-reclaimed land was used for grazing purposes and extensive cultivation, and it did bring a certain amount of income with a very small outlay of capital. This caused the landowners to resist the policy of land reclamation, and for many decades they resisted successfully. It is only within the last ten years, under the new regime, that it has been possible to overcome this resistance.

As other speakers have pointed out before, the Fascist system does not consist in the substitution of the State for private enterprise, but in the intervention of the State where private enterprise is either lacking or insufficient, or where it is considered that intervention is expedient for reasons of public policy. This has been effected to a large extent in the field of agriculture, with the object of increasing the national income and the production of food, and of making the country self-supporting in the matter of wheat. The average output of wheat

per hectare was between 9 and 10 quintals about ten or fifteen years ago; to-day the average has been brought up to 14 quintals, and Italy is now not quite self-supporting as regards wheat, but nearly so. The average consumption of wheat is between 80 and 85 million quintals. The last harvest amounted to 75 million quintals. That is important from many points of view. Also, owing to the improved health of the population its economic efficiency has been increased. All this is part of a general land policy which the new Government has adopted.

One advantage which the Fascist system enjoys over its predecessors is that while under the old regime many valuable schemes of land reclamation were introduced and attempts made to carry them out, every district in Italy demanded money for land reclamation, and the available resources were frittered away on a large number of small schemes, or on larger schemes inadequately carried out. To-day, on the advice of experts, the Government can decide which schemes are of the greatest urgency and concentrate such resources as it has on these particular schemes, carrying them out thoroughly and completely. In future years it will be possible to proceed with other schemes which are less urgent at the present time.

The principal schemes are in the Pontine Marshes, at Maccarese in Apulia and Sardinia. In the latter island artificial lakes have been made, and works for irrigation, for the drainage of malarial land and the production of hydro-electric power have been carried out. Sardinia was more backward than any other part of Italy, but now its position has been improved and its economic resources are being developed better.

These, I think, are the most important features of Italy's agricultural policy. And another point to be borne in mind is that under the schemes of land reclamation not only is more wheat produced, but a larger number of people are settled on the land. They have come chiefly from the Po Valley and Venetia, the most congested districts as regards population; also the percentage of permanent land-workers as compared with temporary workers has increased on the reclaimed land. On unreclaimed land a much larger percentage of the population is of a temporary kind than on the reclaimed land.

Professor MORTARA (*translation*):

I think it would be of interest to give you a brief sketch of the Fascist Government's policy of production. But before I begin, I must inform you that in my own country I am not regarded as being particularly orthodox. I address you therefore not as special pleader for the system I defend, but as a simple onlooker who has always tried to take an objective view.

In the first place, there has been what is called the "wheat battle." It does not refer to a battle against an outside enemy, but to a struggle

against nature and that human tendency to follow in the same tracks, which we call routine.

The Great War showed us that not only the belligerents but also the neutral countries were in danger of having their normal supplies cut off. In Italy especially we were more than once extremely doubtful of the possibility of providing the population with the indispensable ration of bread, and it was almost by a miracle that we always were able to do so.

The Peace—that Peace which reminds us, unfortunately, too often of the War—did not allow us to forget the imperative necessity of making sure at least of our wheat supplies, a necessity which has, in virtue of the policy pursued by the countries which have closed their doors to our emigrants and their markets to our goods, now become an obligation.

The shrinkage of our assets in the national balance of payments necessitated a corresponding diminution of our liabilities, especially in regard to imports. We could not create deposits of coal beneath the Italian soil, but we could at least demand that it should yield a greater quantity of foodstuffs. This is roughly what we did about it.

Our object had to be achieved without extending the area under wheat cultivation, lest we should have been forced to return to foreign countries not for wheat, but for other not less necessary products, such as maize, hay and provender.

We tried to facilitate intensive production by means of researches into the possibility of increasing the productivity of the area under cultivation. The problem was not easy to solve. An ordinary increase in import duties would probably have produced a contrary effect to that desired, for it would have encouraged the extension of cultivation. Nevertheless it was felt that this method of protecting our farmers against the risk of an eventual fall in prices in the export market should not be neglected. When the fall did occur, in a manner much more severely than had been anticipated, we raised the import duties, as did France, Germany, and even England, where bounties were given to the national cultivators. But this Customs Protection, which has, as a result of the fall of prices in the world market, played an important part in the "wheat battle," is only a secondary measure, the principal measure being the encouragement of technical progress in regard to wheat cultivation and the study of more rational methods of cultivation.

In this, the rôle of the State was neither that of a guardian nor that of an executor; it was more particularly that of a promoter. Now, the Italian State has acted as the promoter with so much energy and so fortunate a choice of means, that it has been able to obtain quite remarkable results within a very short time.

It has encouraged scientists in their researches into the various kinds

of wheat which would yield the greatest returns under the special climatic and geological conditions of the Italian peninsula and the islands of Italy—conditions which differ greatly from those obtaining in the large countries of Continental Europe, and even from those in the Valley of the Po.

It has encouraged research into the methods of cultivation most likely to produce high returns, as, for example, the most effective ways of combining fertilisers.

In this domain the State could not have acted directly, because it had neither the brains of a scientist nor the limbs of a farmer. It therefore encouraged private enterprise and stimulated scientific research by making available the means of experimentation, and by giving suitable honours to those who made the most useful discoveries. This encouragement has been extremely effective, and in the technical sphere of wheat cultivation there have, as a result, been increasing signs of remarkable progress.

Of course, such progress would have been purely theoretical had we not been able to persuade the farmers to adopt the new methods; it therefore became an urgent matter to secure the wide application of such methods. It was not easy, because agriculture in our country, as elsewhere, is very largely a matter of routine. Nevertheless the encouragement given to agriculturists, in the form of money prizes, and, above all, in the form of special rewards for the most expert cultivation, was sufficient to overcome these routine tendencies as well as a certain passive opposition in such a way as to stimulate rivalry. Here again the State did no more than take the appropriate measures to encourage private initiative.

Experience showed that the progress made towards increasing the yield has been accompanied by a diminution in the relative costs of production. And when the farmers witnessed this improvement in the cost of production, as the result of adopting more rational methods, they were encouraged in their own interests to adopt the newly discovered methods.

On the eve of the "wheat battle" in Italy, the production of wheat was about 50 million quintals, whereas in the last two years it has reached 70 million quintals. There has therefore been an increase of 40 per cent. in production.

You will ask me whether the area under wheat has not been greatly extended. No, we cultivate now the same area as we did before the "wheat battle," namely, about 5 million hectares. The 40 per cent. increase corresponds to an increase of from 10 to 14 quintals in the yield per hectare.

One may ask what are the special features of the Fascist Government's policy in this domain. It has encouraged the scientists and the farmers; it has introduced Customs duties; but Liberal governments

also do that. I think that what characterises our policy is not the employment of this or that method, but the systematic application of all efforts, co-ordinated with a view to obtaining the result which it is believed will best serve the interests of the national economic system.

In addition it may be observed that the special character of Corporativism is to be found in the disciplined nature of the relations between landowners and farm labourers. By this means were effected certain changes in wage-rates and also reductions in the ground-rents, both of which were regarded as a necessary means of adapting our economic life to the conditions of the world market. By adopting methods of conciliation, all this took place without conflict, strikes, or interruptions of work. That was in itself an inestimable advantage.

To sum up, I think the example of the "wheat battle" is likely to show that the Corporative policy of production makes no revolution in the Capitalist system, but on the contrary that it constitutes an endeavour to retain the advantages of that system by giving a stimulus to private initiative and directing it for the good of the national economy.

M. J. H. RICARD, France (*translation*):

It may be said that this problem of wheat production is at the root of the world economic crisis. In my opinion it is even the capital problem of the crisis. To measure its importance we have to consider the wheat situation from a world standpoint rather than that of any particular country. Without going back to pre-War times I may recall that, soon after the cessation of hostilities, the wheat countries of Europe were, as a result of the War, in a state of serious under-production; the area under wheat having been greatly diminished, whilst the needs of the belligerent countries had, on the contrary, caused a considerable increase of production in the Overseas countries, especially in North America (Canada and the United States), as well as in Australia and the Argentine.

In France, the greatest consumer of bread (indeed, to have sufficient bread in a London restaurant one has to ask for "enough bread for a Frenchman"), it happened that after the War the area under wheat was greatly reduced, the northern provinces having been completely devastated. It was then, in 1920, that I was appointed Minister of Agriculture (being neither Deputy nor Senator, but merely the representative of the agricultural associations, for that was the way in which the agricultural interests were introduced into the Councils of the Government), and I had to concern myself particularly with the question of wheat. We launched what I called the "wheat crusade."

I shall not go into the characteristic features of the French "wheat

crusade," for they were much the same as those of the "wheat battle" undertaken by Mussolini in Italy four or five years later, on a much larger scale and with magnificent energy.

The result of the crusade undertaken in our democratic country was that in a few years, thanks to the efforts of our scientists, professors of agriculture and agricultural groups, we obtained a greater amount of wheat from a smaller area by the use of selected seeds and manures and the better utilisation of the soil.

But the point which strikes me as being the most interesting to raise at this meeting, which is preoccupied with a search for principles most likely to improve the relations between peoples, is that in France we acted not according to any imperative formula issuing from the Government, but by way of emulation and the creation of a spirit of co-operation between the administration and those concerned. This appeal to the initiative of the cultivators of land produced such results that our country, previously an importer of wheat, now experiences, in good years, harvests which even permit us to think about exporting in fairly limited quantities.

During the same period a much more important increase in the wheat production of the world occurred. In 1923 there was great uneasiness, for a cry of alarm had gone up that we were on the verge of universal scarcity. Agriculturists, economists and statesmen could be heard repeating that the world was doomed to famine, because the consumption of wheat continued to increase while its production was rapidly diminishing.

The repercussions of this uneasiness were felt at numerous conferences, notably at the International Parliamentary Commercial Conference at Rome in 1925, when Signor Soleri, an Italian delegate and former Minister of Finance, emphasised the necessity for an international agricultural credit organisation as a means of developing, at whatever cost, the production of wheat in the Danubian countries, and in Europe and the Overseas countries as a whole.

In the following year, at a similar conference, which met in London this time, several delegates spoke to the same effect. Thus you can see how the economic problems of the world often become brusquely transformed. For although in 1926 some people still believed in the possibility of a wheat famine, two or three years later the situation had been completely reversed, so much so that we are faced at the present time with the catastrophe of excessive production.

In fact, the world stocks of wheat have continued to increase in impressive proportions ever since 1927. On August 1, 1927 and 1928 respectively, there existed 67 and 86 million quintals of wheat, being the normal stocks. Nevertheless the production was increased almost everywhere, here by a more extensive cultivation by the use of machinery (as in the Overseas countries), there by a more intensive

cultivation through the application of scientific methods as a means of producing greater yields from smaller areas. In short, in 1930 the stocks recorded at the end of the campaign reached 127 million quintals, and in 1931 the figure exceeded 151 million. Hence the decline in wheat prices and a sharp crisis in all the producing countries, particularly in the old European centres.

In the United States, the wheat problem determines the general tone of the economic system of that large country; it is not an easy problem to solve. For, according to the latest estimates of the International Agricultural Institution at Rome—that magnificent establishment which enables us to secure an absolutely first-class survey of agricultural production as a whole—the stocks to be carried forward on August 1st next, from former campaigns, will amount to 178 million quintals, that is to say, double what in international trade is considered to be the normal for maintaining what might be called the cohesion of the world.

The problem confronting the States to-day is quite different from what it was a few years ago; scarcity is no longer what we have to fear—it is a superabundance of reserve stocks, especially in the Overseas countries.

You have seen recently that there has been held at Geneva, in preparation for the World Economic Conference, a special meeting of the reprcsentatives of the following countries: Canada, the United States, the Argentine and Australia. It was suggested there that measures should be taken to limit the production of wheat in the different countries, and to create, on the other hand, an outlet for the reserve stocks which are crushing the exchanges, and finally that measures should be taken to make it possible for the wheat of these countries to be imported into the markets of the other countries.

Nobody can foresee what will happen at the World Economic Conference or how the suggestions of the non-European wheat exporting countries will be received, but I should like to point to this assembly of intellectuals, who seek to abstract from economic phenomena general directions for the use of statesmen, that it is clear from the documents prepared by the League of Nations in Geneva (where for several years past the evolution of the world crisis has been studied minutely), that the origin of the crisis lies in agricultural over-production. Geneva has come to this very conclusion that "the basis of the world economic crisis is the crisis in agricultural production, and the basis of the agricultural crisis lies in the crisis in cereal production."

Consequently, we are right in affirming that it is now indispensable, whatever solutions with regard to money and tariffs be contemplated, to tackle the problem of over-production at the earliest moment, and more especially the problem of wheat over-production. In fact, we may make as many decisions as we like from the point of view of

stabilising currencies or regulating the Customs, whether Liberal or dictatorial, but if we have excessive reserve stocks of cereals in relation to the needs of commerce and consumption, it will be impossible to improve world agriculture, and consequently the economic situation in general.

A final consideration is that the conflict between the interests of the Overseas countries, attached to extensive cultivation, and the European countries, attached to the intensive kind, throws into relief an aspect of the crisis about which the leaders of the people cannot be mistaken—as in fact they are not—namely, that in all the countries, both European and Overseas (though the townspeople are not aware of it), it is the position of the peasant population which is of the greatest importance.

Even the United States, for all their magnificent over-industrialisation, are in the first place confronted with the question of the farmers. It is the same thing with us in France, inasmuch as there is, in addition to the economic problem, scarcely a social and a political problem in which a Government is not interested.

It would be foolish to think that we could here lay down the guiding lines of solutions to be recommended. Mathematical formulae and rigid systems do not promise to lead to favourable results. On the contrary, I think that agreements of a flexible kind would be better, which would promote a mutual adaptation between production and consumption.

However it be, I have no other aim, as I said when I began, than to emphasise the primary importance of the wheat problem, not only from the point of view of this or that particular country, but from the general point of view, to establish what, in fact, it really is: the dominating problem of the world economic crisis.

Professor MORTARA (*translation*):

If we compare France and Italy from the point of view of increasing wheat production, we see that in Italy an average increase in production of four quintals has been obtained, and that in France a somewhat smaller increase has also been secured. It is noticeable that in Italy the area cultivated with wheat has practically remained the same, whereas in France the area has been reduced by 1,500,000 hectares. We may therefore take it that the average increase in production is not entirely due to progress in the methods of cultivation, but that it may also have something to do with the cessation of wheat cultivation in less fertile soil.

M. RICARD (*translation*):

I am very glad that this special point has thus been cleared up. It proves that France exercised foresight in reducing her wheat acreage

by over a million hectares, a reduction which, naturally, was not carried out on the best land. If she had not suppressed the cultivation of wheat in over 1,500,000 hectares, the crisis we are actually experiencing in this domain would be still more intense. It is remarkable that, thanks to our very extensive system of varied cultivation, we should have passed from one type of cultivation to another, and that this evolution should have been completed even before the present world crisis.

It is an example which should be followed: instead of unceasingly increasing the acreage under wheat, the world should, on the contrary, try to cultivate other crops on the areas now sown with wheat, as France has done.

Professor ROSBOCH (*translation*):

I should like, very briefly, to give you some information about State intervention in the Italian banking system.

There are two kinds of intervention: the voluntary, organic intervention, which aims at strengthening the banking system and making it healthy; and the non-voluntary intervention, imposed by necessity. In Italy the organic intervention started off with the unification of the Issuing Banks. In 1926 we still had three Issuing Banks, and it seemed very difficult to change the situation. Nevertheless it was the first of the banking problems that the Fascist Government proposed to solve.

In 1926 the unification of these banks was achieved, and the Bank of Italy remained the only Issuing Bank. It was after this reform that the monetary policy of stabilisation could be undertaken—a policy which we still pursue with the object of maintaining the gold value of our currency, even at the present time, when the situation is extremely difficult for the majority of world currencies.

The second step taken by the State in regard to the banking system was dictated by a desire to safeguard the national savings. In Italy we had too many banks and credit institutions, and the Government thought it necessary, in the interests of the country, to put some restrictions in the way of the establishment of new banks. It was therefore legally decided that the foundation of a credit institution in Italy must be authorised by the Government, after consultation with the Issuing Bank, which was entrusted with the task of making a regular inspection of all the credit institutions and verifying the integral application of the banking law.

This law had two particular objects in view: in the first place, to compel all the banks to possess and maintain a certain proportion between their capital and their total deposits; and in the second place, to oblige the banks to limit the credit given to each debtor to a certain proportion of their total deposits.

These were two prudent measures which the bankers should have taken in their own interest, but which in fact they had not. Hence the necessity for the Government's intervention, which, incidentally, has produced some excellent results.

The Government and the Issuing Bank also brought the Italian banks into collaboration, and ended those rivalries which existed in Italy, as in all other countries, between the large and the smaller banks.

They also assisted, but only with advice, in the concentration of the banks and credit institutions whenever it seemed necessary or useful to do so, either in the interest of the banks themselves, of those who saved, or of the nation as a whole.

Therefore, it is through a system of voluntary intervention that the Italian Fascist Corporative State has acted up to now in the banking business; but it does not, however, intervene in the administration or management of the credit institutions, or of the private banks.

In Italy, as in other countries, we have had interventions which were not at all voluntary and which we would gladly have dispensed with. Some of our large banks and a certain number of our banks of small and average size were in very difficult circumstances as a result of the crisis and the general fall in prices and values. The Government decided (as they have just done in the United States) that it would be in the country's interest to avert a banking crisis which might have very serious consequences; it was considered necessary to act and help certain banks out of their difficulties. At the same time, it took the necessary measures to fill up certain organic lacunae which existed in the Italian banking system.

We did not have, for example, any banking institution for the issue of medium-term credits, for credits of five, ten or fifteen years. Certain special bodies engaged exclusively in granting just that type of credit, which we did not possess, and which, as you know, are of exceptional importance, were therefore created, each with its own special functions: one for the liquidation of real estate, and the others for agricultural, industrial and shipping credits.

With the help of these measures, which I have very briefly outlined, Italy has succeeded not only in avoiding a banking crisis, but also in strengthening and improving the banking system, and in giving production a chance to become financed more adequately according to its needs.

Professor CLARK:

It was apparent even before the World War that the United States was, like other countries, in the grip of a movement away from a system, in which what I may call the "focus of active interest" was free exchange, towards the development of forms of control. I hate to lay any stress on a single phrase, but "focus of active interest"

is important as explaining what is happening. But it does not explain everything. We want a re-definition of the lines between the two principles in which the scope to be allowed to one principle is as important as that allowed to another. I think we may have reached a point at which, in trying to find that line or boundary, scope may remain for private enterprise, and the forces of "economic law" may themselves require the aid of some means of control in order to be effective. In the United States we have gone through two periods, let us say, the post-War period up to the present crisis, and the present crisis. During the post-War period of prosperity there was a retarded development of State control in various directions, but that did not mean that nothing was happening. It is fair to say that along with that there went a development of forms of quasi-governmental organisation within the field of business which were very significant and which may have to be supplemented by new relations between the political State and industry.

Perhaps one of the outstanding characteristics of that period was the development of attention paid to the problem of business fluctuations, a development which subsequent events have proved to be rudimentary and inadequate, a development centering mostly in the partial control of the machinery of banking and credit by the newly developed Federal Reserve System, which, you will probably remember, was put into effect about the time of the outbreak of the World War, and had to work out its policies in that disturbed period. Secondly, there was the period of the present crisis in which our efforts at control have been constantly dominated in all parts by this new danger, and their character has been radically changed.

In the period of post-War prosperity, while refusing direct State control, we were developing other forms of control, such as trade associations which have become practically universal; and these associations were being asked, even by the Government, to do numerous things in the public interest. Among these were the holding of "Trade Practice Conferences" in collaboration with the Federal Trade Commission which attempted to define standards of fair competition. And Mr. Hoover, when Secretary of Commerce, called on them to co-operate in the movement for trade standardisation, reduction of varieties of products and units of goods. That development may furnish one reason for saying that in our country our right hand not only had no information as to what our left hand was doing in the field of control, but our right hand did not always know what it itself was doing. Mr. Hoover might speak and think in terms of individualism, but he was actually moving in a different direction. It might be called associated co-operative activity of a voluntary character, but it involved some tendencies in the direction of the Corporative State.

In the standard field of control—I will not say anything about labour relations or the conservation of natural resources—in the field of public utilities, railroads, industrial combinations, trusts and so on, the general lines of our policy are quite familiar. There have been certain rudimentary developments paralleling the development of the Public Corporation in England, and we may soon see some experiments in the line of control in the field of power by a governmental proprietorship and the use of the machinery of contract to regulate what is done in the stages left in private hands. That, however, is rudimentary.

Our regulation in the field of prices, profits and earning powers has not changed radically, but there have been some interesting developments bearing on the relation between this form of regulation and the industrial fluctuations. In the railroad field there are two outstanding instances in which two opposite answers have been given to the problems raised: the adjustment of railroad rates in the crisis of 1921 and in the present crisis. A crisis results in a reduction of traffic, bringing a reduction of earnings at the existing rate. In 1920–21 the response made was a general 10 per cent. *lowering* of rates; in the present crisis there has been some *raising* of rates. Evidently, the principles involved are not clear. The seriousness and duration of a crisis may make a great difference in the policy followed. If traffic will not bear higher rates and the situation is not too serious, and it is thought that lowering of rates can furnish stimulus to a revival, then the lowering of rates, as in 1921, may be virtually agreed to by the companies concerned. With a more serious and long-enduring crisis the companies are not in a position to stand sacrifices. Many other industries would be glad to be regulated at present by a similar principle.

Also, one of the troubles in a crisis situation lies in the fact that we have different realms of prices in our country, some of which are rigid and some of which are not so rigid, but which are, however, subject to the world-forces of supply and demand. That is one of the extreme difficulties in dealing adequately with the present crisis situation.

With regard to the traditional American policy towards industrial combinations and trusts, I was glad to hear one of the Italian representatives say that the Italians are, in numerous fields, devoting themselves to the maintenance of competition. This consoles me at a time when so many consider that our Anti-Trust Law policy, devoted to the same principle, is obsolete. At present, under the stress of the present crises, we appear to be on the point of altering that policy pretty radically, with the possibility of substituting the limiting of supply, assigning quotas to producers and raising prices. In the meantime, apparently, informal efforts towards common action by the

producers have acquired considerable power to limit supply and maintain prices—sufficient to constitute a considerable resistance to the course of deflation.

In the field of agriculture, just before the present crisis came to its most serious stage, we had entered upon an experiment of valorisation, our first experiment in that difficult and dangerous field, but the experiment was a flat failure. We are on the point of trying another experiment which may be more successful in its immediate aim, because it carries with it more effective methods of limiting production. One can only express a hope that that policy may be temporary, because I hope and believe that there is a vital difference between kinds of control which are in general harmony with those forces which underly the thing we have called "economic law," and kinds of control which run counter to these forces. We cannot understand the kinds of control which have the best prospects of success without recognising that. Methods that run counter to the forces of "economic law" bear a heavy burden of proof which they may not be able to meet.

Professor H. A. INNIS, Canada:

What I have to say more or less refers to developments which relate to external as well as to internal trade. I should, however, like to point out, at the beginning, the radical difference between Canadian development and that of countries of which we have heard—Great Britain, the United States, say the Anglo-Saxon community. We are not following in the Anglo-Saxon tradition, but rather in the direction of countries such as Germany and Italy. This has been partly the result of the impact of industrialism on Canada, which is dependent on raw materials and particularly wheat.

I was impressed by what Dr. WOLFERS has said in regard to the over-production of the wrong things, and wheat is one of the wrong things as far as we are concerned, because of its cheapness and the effect on our industrial life generally. It is important to remember that internal development always stands in relation to external factors, and I should like to link up our State intervention with wheat production. It has meant, in the first place, the extraordinarily rapid extension which has taken place in Government ownership. One sudden development could not have been accomplished by private enterprise, and we were forced to rely on the assistance of the State.

To give you two or three instances. As regards telephones in Western Canada, private enterprise found itself unable to meet the demands of a rapidly increasing rural population and the Government was forced to step in. This is an illustration of a sudden jump in respect of State intervention. Then as to hydro-electric power: in Ontario there has been an enormous increase in the demand for manufactured

products and in turn for hydro-electric power. This development meant a rapid extension, and again the Government stepped in. I shall not go into the arguments as to whether hydro-electric power costs less than it does under private enterprise, because these arguments are by the way. The question of effecting a rapid expansion is at the back of our trend towards State intervention.

With reference to the railroads, which are at the root of the whole trouble, one can say that Government ownership has been most successful in this type of development, as is the case of highly technical and highly capitalised developments and those types of industry which thrive on an abundant supply of natural resources. In these industries we made mistakes, but, having abundant raw material, we managed to pull through, even though it involved a large degree of inefficiency in relation to our Government-owned enterprise.

As to debt guarantees, I would like to point out their connection with Government intervention. The type of growth meant State assistance to private enterprise at first, leading to Government ownership. We have borrowed capital from abroad by virtue of security provided by the State, and in that sense the State in Canada is a credit instrument. It is an instrument which has been used to borrow capital from abroad, and this has involved directly important consequences. Since it is a credit instrument and depends on such raw materials as wheat, we are, for example, subject to violent fluctuations, both as regards the price and yield of this commodity. I do not think I need recall to your minds the experiments in Europe leading to an increased production of wheat, and in turn to refer to the competition with our wheat. The Corporative State in Italy leads toward the Corporative State in Canada. The effects of the business cycle have been at the root of our debt-guarantee problems. Expansion upwards meant that credit has gone on expanding and trade has expanded, leading to a fixed charge bearing with great weight on the community during a depression. We are not in the position of Anglo-Saxon countries like England and the United States, where an industry can go into bankruptcy and the water can be wrung out three or four times; in Canada we have to go on to State ownership, and the water stays in. The taxpayer pays the debt borne by the shareholder in Great Britain and the United States. An enormous increase in debt has been the result of our proximity to the United States. With its enormous speculative expansion we have been able to borrow easily from the United States. Fixed charges have crystallised in the present depression. On the other hand, we must sell our wheat in Great Britain. We are being squeezed between speculation in the United States and currency depreciation in Great Britain.

The problem of debts and the problem of fixed charges have forced us into State intervention. The last stage has come with pressure on

our last great private enterprise, the Canadian Pacific Railway, which has led to the appointment of an Arbitration Board designed to regulate both Government ownership and private ownership. This is an indication of the pressure of our debt situation, which has led towards more and more State intervention. The matter of Government ownership implies, of course, reliance on the tariff as a means of collecting revenue.

I will conclude by relating this to the general philosophy. We are forced to be critical of the Anglo-Saxon point of view, partly because we are being forced to pay for some of the idiosyncrasies of Free Trade and Liberalism. The success of *laisser-faire* has been paid for by the exploited areas, of which we are one. And the necessity of developing nationalisation in Canada to support Liberalism in Great Britain or the United States raises some interesting questions. We are more or less forced into a dilemma. The depression bears with great weight because of the fluctuations of the prices of our principal raw materials, and we are forced into nationalisation in order to meet our fixed charges.

The attempt to meet the difficulties leads to all sorts of proposals. There is, of course, the interesting effect on the political situation, for the rise of a third party can be attributed to these problems. It is based on the principle of extended planning, the idea being that we must go further than we have, primarily in relation to our debt burden. There is a further difficulty in that the rigidity of prices has raised a serious problem. It has introduced greater rigidity in structure and has had serious effects on the burden of the debts in the different areas. But programmes of planning, in so far as they wish to be successful, have to face the question of fluctuations; and success must depend on elasticity and the avoidance of the dangers of rigidity, in view of the fact that we are dependent on world markets. Possible developments seem to be along the lines of using the tariff, banking policy, railroads, etc., as the only methods by which we can hope to maintain Liberalism in England and the United States.

Mr. GEOFFREY C. BILLING, New Zealand:

In introducing some very brief remarks on the subject of State intervention in New Zealand, I would like to refer to a somewhat interesting and amusing experience which befell my colleague Professor Fisher who attended the Copenhagen Conference of this body in 1931. When on his way he passed through China, he was asked to speak to a Chinese body, organised for the study of social and economic conditions, on the question of New Zealand's social and economic legislation. Those who advertised the meeting wished to refer to him as a professor from the Antipodes, but by an amusing mistake he was announced instead as a professor from the Southern Antiquities!

I fear there is an element of ironical truth in that mistake, because New Zealand, the country which was once in the van of social progress, a leader in the development of new forms of State intervention, has of late years fallen back to the rear, and is more or less content to watch the working out of new forms of State intervention in other countries, and because, as I shall show later, there is evidence of at least some definite reaction towards a policy of *laisser-faire*, as far as the organisation of internal affairs is concerned. I wish, therefore, to speak very briefly concerning the New Zealand position under three heads.

In the first place, I shall take the question of State intervention in the past and as it still remains at present. State intervention in New Zealand is, as is well known to all, very far-reaching and in some ways very comprehensive. The railway system of New Zealand is definitely planned and indeed has been, almost from its institution, owned by the State and worked by the State. But there has been, particularly of late years, a definite swing away from direct State control in an attempt to remove the management of the railways from political influence as far as possible. That culminated in a fresh experiment made in 1931, by the appointment of a Railway Board vested with far-reaching powers and with the definite idea of removing the management from political control. That seems to me to be a move, to some extent, in the direction of the British Public Corporation which we have had explained to us. This latter type of development is also illustrated, in New Zealand, in so far as broadcasting is concerned, for from the beginning of 1932 the private organisations were replaced by a governmental Broadcasting Board.

Another interesting development in New Zealand is the hydro-electric power works, which extend now throughout the length and breadth of the two islands. By the Public Works Act, the complete power to control water power in New Zealand is vested in the State, subject to existing private rights when the Act was passed. There is now a system consisting of three large generating units in the north island and four in the south. The three in the north and two in the south are owned directly by the Government, and two in the south are owned by public bodies.

Another interesting form of State intervention is to use the Public Trust Office, which grew up originally to provide some machinery for the administration of smaller states, in connection with rural intermediate credit developments. Since 1927 there has been administered a system modelled partly on the German *Landschaft* and the Rural Credit System of the United States, and the public trustee is the Chairman of the Board which administers public and borrowed funds under their direction.

I hesitate to spend time making further mention of a long list of

ways in which the Government has intervened, either to own directly or to control different schemes, such as irrigation, State coal-mines and the timber resources of the island. The Kauri pine is probably well known throughout the world as an interesting and valuable timber, and the limited supplies of that timber now left are directly under Government control.

The Government is a shareholder in the largest of the six commercial banks, but does not exert much influence on its policy. During the depression, the State has intervened on two occasions in connection with the exchange question. From January 1, 1932, to June 30th, it organised an exchange pool to get first claim on the balances built up in London for Government use, and maintained a rate of 10 per cent., which was raised to 25 per cent. in January of this year, in imitation of the policy of Australia.

Finally, in connection with my first heading, I wish briefly to mention the very comprehensive code of social legislation built up in connection with the Factory Acts, Family Allowances, Old Age Pensions, etc. The industrial conciliation and arbitration court system from 1894 is too well known for me to spend more time in connection with its development and functions.

That leads me to my second heading, the evidence of some reaction towards the policy of *laisser-faire* in internal affairs. The system of Arbitration Courts was revised in 1932 in an interesting manner. Under the amended Act, conciliation in connection with disputes between unions of employers and employees who are registered under the Arbitration Court system has remained compulsory, but the submission of an unsettled dispute to the jurisdiction of the Arbitration Court is now voluntary among registered unions. There is a provision in the new legislation that if no agreement is reached, either privately or in the Conciliation Councils, and the dispute is not referred to the Court, then an award which the Arbitration Court may have made in the past will lapse after a period of thirty days, and the arrangements made will be as a result of private negotiation. The machinery of the Arbitration Court still remains for fixing minimum trade rates for female workers. There is also a review of existing awards at the request of any union which is registered.

The second matter in connection with this possible swing-back in the direction of *laisser-faire* is in connection with the State railways. I have been informed that it is possible that the Government may negotiate for the sale of a section of its railways in one particular tract of country where a railway has been built out in the direction of an isolated pastoral area, while another railway has been developed within part of that area. Now the right of completion is, I understand, open to be sold to a private interest, and there may be a private railway working along with the governmental concern.

There has been a definite swing in the direction of *laisser-faire* in recent years as far as general business and commercial interests are concerned. That has made itself felt in the remodelling of the Arbitration Court system. The opinion is frequently expressed that, if only business could be freed from Export Control Boards and the rest of the Government restrictions imposed, New Zealand business would stand a better chance of getting out of the depression than it does while those restrictions remain.

I would now like to turn your attention to what seem to me to be the possibilities of new forms of State intervention in the future. These remarks are merely tentative and in the way of suggestion only.

First, the wealth of New Zealand is at the present time, as it has been in the past, very largely dependent on the maintenance of a large volume of exports of dairy produce, wool and meat, and on getting good prices for them. If the present import restrictions and quota systems imposed abroad continue, New Zealand may be faced with the necessity for considerable reorganisation of the productive capacity of the country, in the same way as Canada is faced with the possibility. In this regard some steps which have been taken in New Zealand seem to be strongly in conflict with what is probably the trend of events. There seems in New Zealand something inconsistent in the spectacle of a Minister of the Crown attending a conference in the morning to discuss the means of placing, say, 5,000 more farmers on the land, and in the afternoon of the same day attending a conference to consider means of providing relief for the distressed farmers already there.

In connection with the actual industrial system which has been developed in New Zealand, there has been a system of what is described as "moderate Protection" for a little over forty years. My researches have led me to the conclusion that there has not been much change in the proportion of population engaged in the non-manufacturing industries. The chief protected industries have, some of them, made little progress; others have grown—a growth only to be expected with the growth of population. But there does not seem to be evidence of any marked ability to compete with imported goods.

In a statement made by Dr. WOLFERS, in connection with the wrong kind of intervention—the subsidising of a group permanently burdened—he referred to the recent Italian decree that no new factory should be started anywhere without permission of the Government. That does suggest to me, as a result of the work I have been doing lately, important questions to be discussed in connection with a reorganisation of New Zealand industry which may take place. There is evidence in New Zealand of localising industry not in the best places, and of inferior organisation, particularly in connection with a large number of small factories. Those considerations lead me to the conclusion that Pro-

tection by itself is not enough. In cases like that of New Zealand, at any rate, Protection should be supplemented by State intervention to secure a localisation of productive units and organisation of productive technique superior to that which under *laisser-faire* is commonly attained.

Professor S. B. COPLAND, Australia:

I wish to supplement what Mr. BILLING has said in his statement of the situation in New Zealand, particularly in his exposition of the change or changing point of view of public opinion and of the Government towards State-owned enterprise.

We in Australia are passing through a similar phase. Years ago, when we were developing State enterprise, there was much academic interest taken in our experiments from this end of the world. To-day one finds that there is much less interest in the present position and development of State interference in Australia and New Zealand, yet I believe that with our experience of thirty or forty years in those two countries their present revisionist frame of mind ought to be of extraordinary interest to Europe at the present time, and particularly to some countries which seem to be welcoming State interference in industrial matters. Time does not permit me to examine or state fully the sphere of action by the State in Australia. As a matter of fact that would be a very long and arduous task, because in Australia, more than possibly in any country in the world, the State has interfered in every conceivable and possible manner.

I will pass over such things as subsidies, bounties, special local prices, tariffs, social legislation and labour control, which are a very large field, and confine myself entirely to State operation or control of production. I can only sketch for you some of the main lessons which seem to me to be indicated, derived from our own experience.

If you study the experience of a State like Victoria, one of the richest and, I think, one of the best managed States, you will get more information upon what should be avoided than you will if you study all the works and theoretical expositions you might find in other countries. There you have had a series of State enterprises covering a large field of activity and exemplifying every possible means of management: direct State operation, from direct management through a State Department to management by an independent Board. We have one or two very fine examples of management by independent Boards, and I think we are justly proud of the history of those industries.

But we have many examples of management by the State directly by a Government department, leading to all sorts of political difficulties and bringing about a heavy load of debt, but not necessarily a badly run industry. I want to distinguish between the internal running of

these industries and their financial control. On the first point, they frequently are as well run by the department concerned as is any privately owned industry. We have been able to get a number of able men who are not only distinguished by ability but by their devotion to service. They will work unconscionable hours for a relatively small salary and ought to make their industries efficient. Take the State railways of Victoria, or the large State electricity organisation which generates electric power from brown coal deposits of quality inferior to those found anywhere else. The internal management of these industries is quite efficient.

But in regard to a more important point, a number of these industries, such as State railways or concerns like the State rivers and water supply (we have large irrigation works in Australia), or concerns like the roads, or soldier settlements after the War, you will find glaring examples of how not to manage the finances of State enterprise. In all these cases the finances are part of the general State budget. They come under the control of a particular Minister and a particular department, and Ministers have friends who exact promises, and the result is that all these State enterprises, in spite of the earnest endeavours of their managers, have been forced into uneconomic activities, and the consequence is that they have been involved in enormous losses financially.

To quote an example, and here I am taking the State of Victoria with the best Australian reputation in these matters: In Victoria let us take a recent year—1928—which was not distinguished for its serious depression. The deficit in the State Budget that year was £163,000. In 1928 the deficit on the State railways was £900,000; on State rivers and waters £600,000; on State roads £225,000; on soldier settlements £500,000. These enterprises alone represent a deficit of nearly £2½ millions, when the State itself had a deficit only of £163,000.

In some cases we have been successful in getting the State to keep its hands off the industries. The most important development of this is the State Electricity Commission, which is a publicly owned enterprise run by a corporation. There always must be an element of public control because, if you have an enterprise like the State Electricity Commission in Victoria, where the expenditure of capital is £13 millions to £15 millions, someone must accept responsibility. Only the State Government can do so. Someone must accept responsibility for the borrowing powers of the enterprise, and, although the Electricity Commission itself is largely independent of the State, it must nevertheless get the sanction of the Treasury to borrow and to embark on new enterprises. I do not regard that as serious, but what I do regard as serious is the Commission which takes its instructions from the Treasury. The initiative rests with the Commission, so the mistakes rests with them; but in the railways the initiative rests with the

Minister. Time alone prevents me going into these problems more thoroughly.

I want now to comment on another subject. We have been in a revisionist frame of mind for the last five years, and seriously I commend to you, and especially to my Italian friends, our experience. You will find every possible example of State enterprise, of State management, of State error, and, if only for the errors, I commend our experiences to you.

We have in two ways attempted to overcome these errors and to safeguard from errors in future. In both of these methods we have to put a check upon Parliament; we have to ask Parliament to establish checks on its own powers. That is not easy in a democracy. We are still moving in this direction slowly. The first attempt we made was to establish a Development and Migration Commission to which all programmes of loan expenditure from a special British fund of £34 million had to be submitted. It is now unfortunately defunct. The idea was that this Commission should be an outside body independent of Parliament, and Parliament and the Government were required to submit to this Commission any proposition for development work. The Commission examined it and reported whether there was a reasonable chance of the project being successful. That slowed down our expenditure from the special fund.

We now have a Loan Council representative of the seven Governors of Australia, which must sanction all loan expenditure, and we would like to establish a position in which we have to put before that Council estimates of the financial results of all enterprises embarked upon. I am hoping, though I am not particularly sanguine about it, that there is a reasonable chance of that method being successful in limiting the activities of Governments to those projects and enterprises which have a reasonable chance of economic and financial success.

The other thing we are doing is to develop more and more the idea of the Public Corporation with ultimate control by Parliament, but leaving the initiative entirely in the hands of the Corporation. That is most important. The Commission can never be entirely in the background because the responsibility for debt must be taken by Parliament. But, as long as the Commission has the initiative, it has a sense of its responsibility and will want the industry to be a success. We are endeavouring to separate those State enterprises from the Budget, and to keep them away from the annual statements of accounts, so that their position will be exposed to the light of day and the Treasury will not have control by way of increasing loan expenditure or appropriating any surplus.

Professor JOSÉ ANTONIO RUBIO Y SACRISTAN, Spain (*translation*):

Mr. Chairman, I shall give you, very briefly, a few details about the most significant forms of State intervention in Spain, namely, those relating to agrarian reform. State intervention in economic life has now become much more extensive, for it may be said that since 1923 the principles of Free Trade and economic Liberalism have, in our economic life, been almost completely abandoned in favour of State action.

Naturally, the principles which inspire State intervention at the present time are quite different from those which inspired that of Primo de Rivera and the Dictatorship. One of the most important domains of Spanish economic life, the agricultural domain, had in fact been abandoned by the Dictatorship, and it is in this that the Republican State has been most active up to now.

The agrarian reforms which were decided by the law voted last year have quite special characteristics, in that they may be said to combine all the various features of the agrarian reforms introduced more or less everywhere into Europe towards the end of the eighteenth and the beginning of the nineteenth centuries, as well as those introduced in Eastern Europe after the Great War.

The agrarian situation in Spain remained more or less the same throughout the nineteenth century. At the beginning of the twentieth century we had reforms of the type experienced by all European nations: the abolition of the organisation of the land on a feudal basis. But the financial difficulties of the State, for quite half of the nineteenth century, had obliged it to sell the land at such a reduced price that the former proprietors were able to buy it back for very little. Spain thus had until recently an agrarian organisation very much like that of the eighteenth century.

As for the agrarian reforms in general, we have tried to give them a social direction, and expropriation has been carried out in a variety of ways. As regards the big landowners, the old seigneurs, who formed what was called the *Grandeza espagñola*, a law was passed last summer, as a result of an attempt at counter-revolution, which expropriated them without indemnity. Other lands which the former owners had managed to secure by indirect means were expropriated with compensation; but in order that the Budget should not carry the considerable burden which such a heavy money payment would have necessitated, the payment was made half in cash and half in securities.

In this way the Spanish State, which had to face monetary difficulties, and desired, at the same time, to be assured of the maintenance of its capital, managed to fit everything into the national economic plan.

Naturally, the expropriation of lands was only a first step along

the path to agrarian reform. The next question that arose, the more important one, was how to divide the land. Opinions on the subject differed. There was one quite conservative tendency in favour of the distribution of lands in accordance with the communal, agrarian organisation of the rural villages. This tendency favoured the granting of land-concessions for the benefit of rural communes. Then there was the Liberal influence which indicated the partial donation of land to individuals in some cases, and its sale outright in others. Finally, there was the movement, inspired more particularly by the methods applied in Russia, to entrust the State with the administration of all the expropriated lands, the peasants being only workers—proletarians, to be assimilated in every way to the status of industrial workers.

The solution which has been incorporated in the law that is now in the course of being applied is an intermediate solution, which takes account not only of the tendencies to which I have just referred, but equally of the different kinds of cultivation made possible by the soil of Spain.

The large properties of the South where industrial cultivation is practised need to be exploited on a large scale, and according to the law, they will be administered directly by the State. The peasants will be workers and their way of life will remain the same as at present, save that, instead of working for pay of private owners, they will now be employed by the State.

In the Centre, in Castille and in the North, the cultivation is different. There grain and fruit trees grow.

That the State should retain the ownership of all expropriated lands is a principle which is characteristic of the agrarian law; but as far as the cultivators of Central Spain are concerned, we are going to try the application of a juridical constitution deriving from the medieval organisation, according to which the State will be the owner; and the peasant will obtain a long-term lease giving him not only private rights over the land but also public rights, which will enable him to work it as long as he observes the conditions of his contract.

The universal principle is, as you can see, that ownership resides with the State. But the exploitation of the land differs according to the methods of cultivation and the region. In some cases, where we have followed the Russian example, it will be carried out directly by the State, just like an industrial enterprise. In other cases the peasants will till the ground not as owners, but as individuals having private and even public rights in it.

But there was another very important question of which we had to take account in this agrarian reform: the problem of agricultural credit. The partial attempts at agrarian reform had already been made in Spain, but they had all come to grief over this question of agricultural credit. What was the use of giving land to the cultivator, if he had

not enough capital either to start work with or to allow him to cultivate and wait for the three or four necessary years before the results of his work enabled him to exist independently? Without capital with which to carry on, the peasant is forced to sell or mortgage. The organisation of agricultural credit was therefore undertaken from the very first moment that we began to study agrarian reform.

The public service responsible for the entire administration of agrarian reform was entrusted also with the task of creating an organisation for agricultural credit, the *Banco de Credito Agricola*, whose capital is made up of private subscriptions as well as of State subsidies; it will be managed entirely by the State, without any participation by the shareholders. The capital will be 300 million pesetas to begin with. As for the institution itself, it will effect the distribution of credit, on the one hand, to the enterprises in the South of Spain administered by the State, and on the other, to the different peasants of the Centre and North of the Peninsula, who work the land directly.

This bureaucratic organisation will be very complicated, and it is hoped that the special needs of each form of enterprise will be foreseen, so that the distribution of credit may always be as beneficial as possible.

We may thus anticipate that the demand for cereals of Spain, which is not at present covered by our domestic production, will be met within a few years from now. And so that aspect of Spanish economic life, which has always been rather difficult, and which occupied a place somewhat apart in the economic life of the rest of the world, may now take on a more pronounced development.

The Organisation and Representation of Labour

The HON. GIUSEPPE RIGHETTI, Italy (*translation*):

It is impossible for me to make an analysis of the principles which dominate the question of Capital and Labour, and, as far as its spiritual and, if I may say so, logical aspects are concerned, it is equally impossible for me to give you a complete statement on the system of organised relations between Capital and Labour in Italy. I shall refer you to the memorandum presented by Professors Rocco, Asquini and Azzariti,[1] a very precise and very well executed piece of work, which has the advantage of having been revised by the supervisors of our organic laws on the subject. We may consider that this memorandum constitutes a more or less official interpretation of the thought of the legislator. For this reason I shall simply refer you to this particular document for the details of the organisation in question.

I take the point of view of the observer who, after having studied principles, wants to know how they work out in practice. What then are the fundamental principles, the essential principles on which the

[1] See below, p. 377.

new organisation is based? and more important still, has that system a soul, a faith? or is it something purely mechanical which can only respond, at a more or less distant date and over a fairly long period of time, to society's different categories of need?

To finish with the question of organisation, I shall add that the Italian Government has attempted progressively and continuously to regulate the relations between Capital and Labour, first by the law of 1926, and then by the veritable labour charter, which was the law of 1927. We waited finally until 1930 before legally setting up the Corporation Councils. They were already the beginnings of a synthesis. There was also a declaration of the Central Fascist Council pointing towards the constitution of Corporations according to the different categories of workers.

What are the fundamental principles of this legislation? In the first place, no class war and no friction between the categories. Therefore it is taken for granted that the State cannot remain neutral in labour conflicts, for neither individuals nor social groups can administer justice directly unto themselves in modern society. Thus the law of 1926 declares it illegal for social groups, as it is for individuals, to countenance the possibility of regulating their differences by force—that is to say, they must not, in order to safeguard their economic interests, have recourse to those material measures of defence which are forbidden to individuals and which, in collective conflicts, take on a more brutal form.

But it is clear that State intervention is insufficient, if it is not at the same time possible for the various categories and classes of workers to defend themselves individually. From this necessity derives a second principle, according to which the working class, constituting one of the fundamental elements of production and of the nation, must work and collaborate on the same footing as the other social categories within the State, for the good of the State.

The working classes then must be imbued with the spirit that they form part of a whole, that they are participating in the formation of the State, and that they must, like the other social classes—the different parts of the nation—live the life of the State.

The third principle is that State intervention must not, in regulating the relations between Capital and Labour, suppress the free play of individual relations or private enterprise.

And how have we managed to bring about the application of these principles? As you know, it was by the building up of a vertical construction composed of Trade Unions responsible for the interests of their members, and of a horizontal construction alongside of it, by means of which the different categories of workers and employers were put into relationship with each other.

Thus our Corporations, guardians of the interests of all who par-

ticipate in the work of production, effect a liaison and co-ordination between the different activities. The principle on which all that organisation is based is that of the juridical recognition of the Trade Unions, as also the existence of a single Trade Union for each category.

It is there where the revolutionary character of the reform resides. We have autonomous Trade Unions which may organise themselves as they wish, but there can only be one Trade Union for each category of workers—in conformity with the definite conditions of organisation recognised by the State.

Membership of the Trade Unions is free and optional, the workers and employers are represented by their respective Trade Unions in such matters as their relations with the State and with other Trade Unions. I repeat again that only one Trade Union is officially recognised for each category, and that one has the right juridically to represent its members as a whole.

Here the question arises whether it has served any purpose to set up this organisation and impose these limitations by law. Now the experience of several decades has shown us that when there are several Trade Unions for each category of worker, competition arises between them, and this causes them to neglect the interests of their group and the State. It is therefore a question of finding out whether the Italian system has any drawbacks or not. In our opinion it is well-nigh the only means of making the Trade Unions solicitous about the general interest, of inducing them to work quietly, and of making them refrain from competing with other Trade Unions. Besides, the fact of recognising only one Trade Union does not imply that that Trade Union is not a free one.

Another question concerns the collective work-contract. As each Trade Union officially represents its category as a whole, the essential basis, the living basis as one might say, on which the new system rests is the possibility for the Trade Union to make agreements, and it is here that the question of the collective contract arises.

The Trade Unions have a right to negotiate these collective contracts freely; the State does not intervene either directly or indirectly in the negotiations. There are only two limitations to this liberty: on the one hand, if an agreement is not reached the categories concerned cannot declare either a strike or a lock-out, and on the other hand, once an agreement has been made it is submitted to the Government for approval as to its form, registered, and thus acquires the force of law. If either of the parties fails to carry it out, the State intervenes to ensure its performance.

For this very reason we have created those "Labour Courts," whose business it is to interpret contracts in cases where there is dissension between the parties as regards the question of interpretation. And so,

if, as it happens in extreme cases, no agreements can be reached in spite of long negotiations, then the Court itself enforces justice.

Thus we have one Trade Union for each category of workers, collective work contracts, the interdiction of self-imposed justice, and a Labour Court.

How does this Labour Court work? Here, then, is a new principle. Up to now the different countries have permitted compulsory arbitration, but only in quite special cases. We have tried to go farther. We have started from the principle that special questions need special judges, specialised judges. There are of course technicians in the ordinary tribunals, who are not judges but experts. We have decided, then, that in default of an agreement, these judges should, in accordance with the Roman spirit, judge in equity.

Here again a very delicate question arises, but there exists a long and ancient tradition, by virtue of which the judge decides according to his conscience, taking account of all the expert advice necessary and having a general regard for the welfare of the community—a tradition which has given good results, even when there has been the question of organising the Civil Law for the first time and regulating the rights of individuals.

Here I recognise at once that objections to the principle have been raised, and that the judge, it is said, must be incompetent in the absence of experts to interpret the contracts. Obviously it would have been dangerous to create in each particular case a special tribunal, which would not always be immune from external influences. And that is why it was considered preferable to arrange for the specialisation of the ordinary judges, rather than to establish a competent authority, which might be more appropriate, but not always qualified to make decisions in justice and equity.

Our policy has also been reproached for seeking to penetrate into economic life and regulate social phenomena in a more or less mechanical way. Here we touch on the general philosophical principle of the reform: our system does not conceive of economic life as something purely material and beyond the influence of the will of the individual or certain social groups. We believe, on the contrary, that the will of the individual and of the social groups have a considerable influence on economic facts. From this principle we draw the conclusion that if a contract is not respected by the parties to it, the article of our new penal code must be applied, in virtue of which it becomes an offence to abstain from recourse to the juridical bodies.

Allow me, then, to enlighten you as to the results we have obtained. Have the working masses as well as the other categories of workers in fact organised themselves into Trade Unions? We have very reassuring statistics in this connection. In our six confederations of Agriculture, Commerce, Industry, Land Transport, Maritime Trans-

port and Banking (the Confederation of Intellectual Workers having no working-class counterpart), the average number of voluntary members belonging to officially recognised unions varies from 65 per cent to 90 per cent. For the National Confederation of Industrial Unions, the figure at the end of last year had reached an average of 79 per cent. As regards the peasants, the agricultural workers, the figure was 68 per cent. of those inscribed.

We have already furnished some tables relating to the number of collective contracts, but these tables are incomplete. They will be completed in the final edition of our monograph on Labour.[1]

For the six categories there were 586 collective contracts, of which 166 were concluded in 1932 alone. For the most part these contracts have been published, that is to say, recognised formally by the State, the actual proportion of published contracts to total contracts being 4:7. I note that there have been 118 collective contracts in Industry, 15 in Agriculture, 59 in Commerce, 28 in Maritime Transport, 81 in Land Transport, 120 in Banking and 4 in Intellectual Professions. By way of illustration, I might add that by March 31, 1933, we had reached a figure of 10,612 contracts, of which 5,547 were officially published. As for the question of having recourse to the Labour Courts, 50 contracts have already been brought before it.

We may then say that the results of our reforms have been in reality more than satisfactory. The regular functioning of the Labour Court and also the increase in the number of collective contracts show progressive confidence in the new institution on the part of the different categories of producers.

Allow me, then, Gentlemen, to give you some examples relative to salaries and the cost of living. We thought it our duty to reduce salaries, particularly in industry (and it was a very delicate business), rather than devaluate our currency. We lowered salaries, and so effectively was the maximum reduction of 18 per cent. reached in 1928, that the average diminution finally amounted to 24 or 25 per cent. If time permitted, I would show you how the average cost of living has come down to the 1914 level, that is to say, to 366, if we take into account the change in the value of the lira. Taking account of the average consuming capacity of the workers, however, we notice an average increase of about 20 per cent.

There is another side to the question, moreover, which is very important and very interesting. It is a complementary problem, which is not strictly connected with the system of State intervention that we have harmoniously established, but which is nevertheless of primary importance: it is the problem of the mind, of the soul of the reform.

You will remember that in regard to questions of sickness insurance and old age pensions and insurance, we have made a considerable

[1] See below, p. 377.

progress, so considerable that in order to prove it I have only to refer to the last International Labour Congress in 1932, at which it was recognised that Italy was, in fact, giving the workers what has long been desired in other countries.

Allow me to say also that, as regards the spirit of our legislation, we are trying to make our workers understand that they really form part of the nation, and that there is a true and complete fraternity between the different categories of men.

In the matter of assistance (especially winter-assistance), we make a distinction between the temporarily and the permanently unemployed. Assistance to the workless should be considered as State intervention, destined to maintain the noblest instrument of production, the human instrument. There is therefore nothing in the nature of charity about our assistance, nothing that could debase the assisted. That is an important point, especially for a people like ours, which is extremely sensitive. State intervention in this matter is made in the general interests of all, and the assisted worker sees nothing in it beyond an act of pure justice, a duty which society owes him.

I may add that we have also done much in the matter of assisting children. Thus all primary-school children are examined in the Spring with a view to discovering their possibly eventual diseases. And in each province between four and five hundred children are sent to the country annually, without any distinction being made between the social positions of their parents. When working-class families are affected who are fairly comfortably off, the State only pays part of the expenses. Where there is indigence, the State pays all.

We also create, as you know, a spirit of deep solidarity in our population, which is noticed by all foreigners who pass through Italy. We try to create a "faith" in the new organisation, and in truth we are carrying out an experiment which may be very useful not only to Italy but also to other countries.

Thus, to conclude, we manage to organise the relations between Capital and Labour harmoniously, by putting them on the same footing and by making a synthesis of things spiritual and economic.

Once again, you have here an experiment which concerns the whole world—a work carried out during a period of history marked, such as ours is, by complete transformation and social disorder, which cannot but constitute one of the most effective elements for the creation of solidarity between the nations.

Professor BERGSTRÄSSER:

I only want to emphasise some of the statements regarding the relations between Labour and Capital in Germany, contained in Dr. Kimmich's memorandum.[1] There is no doubt that the intensity of

[1] See below, p. 370.

the struggle between these two factors and the consequences of the bad organisation of their relations in the past have caused our social problems to become exaggerated in the last few months. The difficulties of settling these relations between Labour and Capital have been so great that it seemed likely that the German revolution would attempt a general revision of them. It would only be a matter of bringing about a certain transformation of existing relations, as Dr. Kimmich points out.

Certain institutions which have grown up out of efforts to solve that problem will now find their real place in the transformed political structure of the German State; the institutions for conciliation purposes and for the grouping together of professional bodies will now be given much greater scope than before, for, as I have already stated, the abuse of such institutions for foreign political reasons is no longer possible.

The Trade Unions which grew up in pre-War times had really a monopoly in all that concerned the relationship between Labour and Capital, a monopoly which has been transformed since the revolution into a single unity of Trade Unions. There exists now only one Trade Union, which is entirely dominated by the officials and trustees of the National-Socialist Party. On the other hand, there are different professional organisations of the employers which are dominated in exactly the same sense by the officials of the National-Socialist Party, with the result that in these organisations there is always someone who has the task of being a kind of guarantor for the National-Socialist conception of national life.

The monopoly which these different Trade Unions possessed had certain consequences for the non-organised worker. These Trade Unions were always in opposition to the professional organisation of employers, so that negotiations between the employers and workers were often dominated by considerations of prestige. Dr. Kimmich mentions that, in these circumstances, the compulsory power of the State is necessary to make a solution possible; it constitutes a situation which calls for a wise and impartial mediator who possesses the confidence of both sides. But since the mere confidence of both sides was not enough really to promote negotiations, it was found necessary to introduce a declaration that decisions obtained by such means were legally enforceable. The State therefore had to make the arbitration of this mediator obligatory. I think this arbitration procedure will not undergo further change, though in these early months of the new German State, the mediators, now called Labour Trustees, will have more power than before, so as to be able to introduce the new conception of solidarity between Labour and Capital, and to encourage negotiations in the labour market.

The results of the old system have already been described by Dr.

Kimmich, who states that one of its most unfortunate results was inelasticity. He says the standardising of wages stabilised, as a rule, the predominance of the average worker over the less skilled worker, which is a benefit; but it also meant that the wage of the skilled worker was reduced to that of the average one.

And again, it must be remarked that decisions regarding wages were formerly influenced very much by political or social considerations; it is our hope that the recent changes introduced in the system will enable more wage-rate decisions to be made on economic grounds than was possible under the old system. If you compare the wage rates with other prices between 1928 and 1932, you will see that the increase in wages was much greater in that period than was the increase in prices. Prices fall for a long time before wages begin to follow them. I think the ending of the domination of professional organisations by considerations of political prestige will enable the conciliators to impose real economic principles on these negotiations affecting labour.

Moreover, I should like to state that, during the last five years, two classes of workers have been created in Germany: the privileged workers or those who have been in work, and the non-privileged or the unemployed. The difference, however, between the wages of the privileged workers organised in Trade Unions and the payments made to unemployed labourers was too small to be an incentive for the unemployed to seek work. On the other hand, the division of the proletarate into two classes created a kind of class struggle between them; the unemployed labourers were a great and important element in the German revolution.

As regards the technical effects of this revolution in the conditions of the labour market, it is perhaps important to add that the preliminary foundation of small groups and cells prepared the way for the transformation of the labour organisations; in fact, the German newspapers of the National-Socialist State have sometimes come out with the head-line, "No Workshops Without Nazis." These groups constituted in themselves the nucleus of the revolution. The revolutionary act of May 2nd was well prepared in advance by these trustees of the National-Socialist movement, who, being the best pupils of the old conciliators like Dr. Kimmich, were well versed in the economic methods of settling labour questions.

Perhaps it would be useful to say one word about compulsory labour which has been introduced not merely to create occupation for the unemployed, but as an experiment in moral improvement. The first experiment was made in Silesia to bring industrial labourers and students together, not only to discuss intellectual programmes but to toil in common. The German conception of compulsory service has for this fundamental reason become part of the national education of youth, into whom it instils a sense of solidarity by this bringing

together of the classes of the population. At the beginning of this experiment three associations of business workers and students went to camp together in order to work for from six to eight weeks, being assisted by the Labour Office and having the approval of the municipalities who supplied the ground. Now it is being carried on as a means of organising compulsory service on the part of the youth of the nation. Economic efficiency is not the chief point of view; a social and moral aim lies at the bottom of this institution. It must be confessed, however, that the members of these working camps are not always happy about the future; they are happy when at these camps, but they dread leaving them and returning to unemployment.

I would like to refer to the question of international collaboration. Professor BOUGLÉ stated that representatives of labour should be allowed to represent freely the interests of their class in every form of international collaboration. I am of opinion that this method of class representation is very dangerous for the class themselves, not only because the sovereignty of the State is affected by possible misrepresentation, but also because there can be no real representation without the interference of the national Government.

Furthermore, it might be interesting to follow up the history of the international labour conferences, for it is noticeable that in none of them was the national colour of the different representatives lacking. Thus the Socialists have never been able to think away their national origins, or their fundamental and intimate connection with them.

I would like to add a few remarks about the fundamental differences which are encountered in the labour market: the position of the workers differs from country to country, and I somewhat regret that this Conference has not been able to deal with the emigration problem, which would, however, have enlarged our programme to extravagant dimensions. This question directly affects the maintenance of international peace; it is identified with the life of the peoples, whose differences are particularly shown up in the labour market. For the majority of countries have a great number of unemployed whose labour the others might employ, but which they refuse to.

It may be that generations more fortunate than our own will think of setting up an international scheme for redistributing labour by means of organised emigration. Perhaps it will constitute an advantageous solution of the national difficulties of a cultural nature which we now encounter; perhaps it will open up a way to prosperity for the peoples now most severely hit by the world employment crisis.

SIR ANDREW MCFADYEAN:

. . . Our foreign colleagues, if they have read the British papers which were circulated, will be aware that in this country there has

been practically no direct regulation of, or interference with, wages, with one outstanding exception, i.e. the case of the Trade Boards, where there was a special reason, namely, the unorganised situation of the workers in those particular trades and their difficulty in procuring reasonable treatment during a period when they might be organising themselves.

There has, however, been a certain amount of indirect and occasional influence towards organised control. There has clearly been a certain amount of indirect influence exercised on wage rates in the last few years owing to our system of unemployment insurance. There have been a good many critics, even critics from abroad, who pointed out the danger which a high unemployment allowance involved for the total economy of the country. Now it seems that a more systematic procedure, which looks like being followed in certain countries abroad, has some dangers about which I think our Australian and New Zealand friends can give a certain amount of information; but it has one great advantage, that you can have some systematic wage policy if and when you have worked out the proper technique, and if and when all other elements in the economic organisation have reached a similar stage of development. Our own haphazard method has had the decided disadvantage that it has tended to create certain sheltered industries. These sheltered industries are necessarily internal industries, those which are not faced with competition from abroad, and they have set up a number of mal-adjustments which depressed us rather before the rest of the world was depressed, and for some time intensified our depression beyond the degree from which the rest of the world was suffering from it.

I think the Public Corporations we are now setting up perhaps avoid that danger, but I am not quite sure because, although we have removed the wages to be paid by these Public Corporations, just as we have removed the management of these Corporations, from day-to-day interference by Government authority, we have at the same time eliminated profits. Now the Public Corporations are going to be in a position to make what will correspond to profits in the case of private companies, and there may be a struggle as to how that profit is to be distributed; what share shall go to the consumers of the service provided by the Corporation, what share shall go to the tax-payer, and what share to the wage-earners? However, what I want to draw attention to more than to our own internal practices, which are not important to the rest of the world, are certain international implications which seem to me to be worth considering when talking of the regulations of wages.

I do not agree with the remark made by Professor BERGSTRÄSSER to the effect that the interests of labour are strictly national and that you always find labour talking nationally. To my mind, the interests

of labour often cut straight across national lines of division and should be expressed as international interests.

There are two ways in which this wage question is thought of internationally. In the first place, the feeling that wages are being manipulated or maintained at unduly low levels for competitive purposes—purposes of competition in international trade—is in my opinion responsible in some degree, at some places and some times, for the setting up of trade barriers of one kind and another. An interesting subject of enquiry, by this or some similar international body, might be the influence of national wage standards on international trade. In the second place, sensible planning must involve a sensible wage policy, and the latter to my mind means payment to the workers in the industry of what it can bear, or of what it ought to be able to bear. The question of what the industry can bear anywhere in wages depends in a good many industries on the answer to the question, whether you can make sensible arrangements for international co-operation.

To take one instance—coal. The history of the last ten years in coal has been the history of several European countries struggling for export markets by constantly lowering the miners' wages and thereby lowering the standard of living of a very important part of the working population of their country. The effect of this has been that all over the world other workers in Germany, England, Poland, etc., have really been subsidised by the miners, and in some cases countries without coal which have imported coal have in effect been subsidised by cheap coal at the expense of the exporting countries. I maintain that the interest of all coal-owners is substantially identical and the interest of all European coal-miners is also identical. The owners are interested in getting maximum prices for coal after paying a reasonable wage; the miners are interested in getting the largest wage compatible with the interests of the country. Neither is interested in maintaining the sort of rate prevalent in Europe for the last ten years. I suggest that you will not get a sensible wage policy in industries which run through half a dozen European countries unless you have some degree of international co-operation in regulating them.

Planning: Liberalism versus Authoritarianism

Professor MANNING:

I am not sure myself that this Committee is justified in dispersing without giving some further consideration to Professor AMOROSO'S challenging analysis of the essential nature of modern economic society. I do not think a direct answer to that analysis has been given. Professor CLARK contended that from one point of view what we were witnessing was merely a shifting of emphasis as between a Liberalistic and a planned treatment of national problems; but I must say that to me

it still seems to be fundamentally a question of what kind of constitutional framework you have to work in.

Professor BRINKMANN very courteously examined some of the things I had said and reassured me to some extent by suggesting that the phenomena on which I had commented were "transitional." He spoke of "an illusion." I hope I am not misinterpreting him; but if it is indeed a transitional stage, perhaps I am right in saying that he would have us divide countries into those in a normal condition and those in an abnormal stage of transition, in which it is not considered possible to permit the natural swing of the political pendulum. In the world to-day we have many societies where the Government is carried on under the menace of the swing of the pendulum of public confidence away from the Government. The Government is always in danger of being turned out because some particular measure is unpopular. Thus even President Roosevelt seems to have to keep his ear close to the ground! This, it seems to me, tends to prevent our finding even in the United States of to-day that coherent treatment of which Professor MORTARA spoke as characterising the agricultural policy of Italy—a policy which is comprehensive and not a series of piecemeal attempts to deal with particular aspects of the situation. When, therefore, through the forms of a "plebiscitary" democracy public confidence at a particular moment has placed in control a particular group, much depends upon what happens to the pendulum after that. Any interference with complete freedom of thought, freedom of the Press, freedom of criticism of the existing regime, amounts in effect to a pegging of the pendulum to obviate the possibility of its swinging back.

My doubt, which I have already expressed, was as to whether you could count on always finding in someone and the same group of personalities the power of winning that confidence at a given moment and along with it the insight to perceive the desirable solutions and to apply them. In a Liberalistic system you have the free play of popular criticism which provides the possibility of letting in an alternative group. If you exclude that possibility of criticism, you have, in effect, a sort of "interventionism," withholding from the market some of the political wisdom available in the community in order to keep up the nominal value of that portion of wisdom which happens to have found its way into the political shop window at the moment. This seems to me, on the face of it, a wasteful process, especially if you do not suspect that the fundamental trouble of the world to-day is an over-production of political wisdom. I doubt if that is the fundamental trouble.

May I quote a few lines from Professor AMOROSO'S memorandum, where he speaks in praise of private initiative in the economic sphere? He says that private initiative, we find, ensures that "*ceux qui ont les*

qualités nécessaires pour mener l'entreprise au succès parviennent aux postes de commandement." That is the result of private initiative and a certain amount of competition. Correspondingly, I ask, in the political sphere, if you establish a monopoly of political power, is there any assurance that those who "*parviennent aux postes de commandement*" will in all cases be "*ceux qui ont les qualités nécessaires pour mener l'entreprise au succès*"? On this I myself am not at all clear.

Dr. WOLFERS agreed with Professor AMOROSO that what we want is a reconstructed theory. I also agree that that might be helpful, but I suggest again that the theory of Professor AMOROSO has a bearing not only on the particular solutions tried under any given constitution, but also on the kind of constitution that you are working. I believe the question of freedom of criticism is fundamentally a question of a constitutional philosophy.

I do not agree with SIR ANDREW MCFADYEAN when he says that we in England "refuse to be bound by theories." He himself says it is difficult in these discussions to avoid a word such as "trespass." What does this imply? Does not the word itself presuppose a division of spheres of life founded upon a theory of the State? I am not saying at this moment whether my prejudices are in favour of pegging the pendulum. What I suggested previously was that perhaps you could everywhere try these experiments except with the pendulum pegged. Next year or the year after we may accordingly see a little more authority in the hand of Government, whether in the United States or elsewhere. But I do agree with Professor BERGSTRÄSSER that the word "interventionism" presupposes the Liberal conception of society. When we speak of the State "interfering" in the "private economic sphere," we make some implied assumption as to what normally constitutes the "private" sphere.

I agree with Professor CLARK that, if you cannot do pioneering in the Liberally constituted States, you can at any rate follow successful experimentation elsewhere; and that suggests what may be the only result that we can get in such a discussion as this. We can ask what have been the successful experiments, and how far we can try them in societies which still insist on clinging to the old-fashioned luxury of a relatively free and parliamentary democracy.

THE CHAIRMAN:

The Chairman cannot refrain from remembering that the whole history of the gradual development of modern nationalism has been marked in its initial phases by a temporarily stopping pendulum. The English, who developed a strong sense of national security, saw under the Tudors an almost complete stoppage of the pendulum. The

authority of the State had a monopoly. France in the French Revolution did the same thing. At every stage of the advance of nationalism this is the factor which cuts across our economic development walls. That is a phenomenon which the economic historian must remember.

M. VILLARI:

I want to say a few words of explanation arising out of the remarks of Professor MANNING and some other speakers. Although in Italy there is no criticism in the Press or public political meetings owing to the peculiar conditions of the country since the War, yet it does not follow that there is no criticism of the different measures enacted by the Government. Questions are judged to-day more on their own merits than was the case in previous times, because there is not that political preoccupation which inspired all previous discussions. It was said at this meeting that here we are freer to give our opinion because we are not representing Governments and have no political pre-occupations. A similar condition obtains in Italy. In Italy each measure is very carefully debated and discussed in the organisations of technical experts. In the technical committees of the Chamber of Deputies each law is carefully analysed, sifted and criticised. The same thing happens in the Council of Corporations and in the mixed Committees formed by delegates from both the employers' and employees' organisations. The debates in these bodies are often lively, but are all based on technical considerations on the merits of each particular question, and not on the political views of different members of different parties, or on the results that the decision may have on elections. The question is decided on its own particular merits after it has been examined.

Take the case of any law of the Italian Government. From the moment it is first presented to the moment when it receives the King's signature you will find it goes through a series of political transformations. I refer particularly to the new penal code. The first draft of that code was prepared by a small committee of jurists. It was not criticised in the Press, but in the legal bodies and the technical journals. Then it was debated by a larger committee of jurists and considerably amended. It then went up to the Council of Ministers and was amended again. Finally it went to the Chamber of Deputies, was examined by a technical committee and again altered. Thus the final draft was very different from the original one. This happens to all Italian legislation of the present day, particularly legislation of the technical character we have been discussing here.

I wanted to make this explanation in order to show that the absence of criticism in the Italian Press does not imply that there is no criticism at all.

Professor AMOROSO (*translation*):

During our discussion, the Chairman said it would be desirable to explain how far State intervention has been carried and what results have been obtained. Some of our colleagues believed this intervention to have been beneficial, whereas others, and particularly the Australian delegates, have expressed doubts on the matter. For myself, I do not think that we are called upon to discuss the question of the *quantum* of intervention, but rather to mark out lines to guide our judgment —and this makes it all the more necessary to formulate a theory of interventionism.

Dr. WOLFERS has explained with much authority what that means, adding that there are bad as well as good forms of intervention. But what is the criterion by which we can decide whether intervention is good or bad? You can see that it is indispensable to have a theory, a directing line, a conducting wire, in order to form a judgment.

The Liberal theory cannot provide us with such a guiding line, for it condemns intervention, or at least considers that it should be regarded as exceptional. But the facts themselves condemn the Liberal theory. State intervention, avowedly or in disguise, has taken place in every country: in Germany, France, England, Australia and in the United States. All these countries resort to intervention in a greater or lesser degree, and this constitutes, if you will allow me to suggest, a "physical" demonstration of the bankruptcy of the Liberal theory. The metaphysical demonstration of this bankruptcy was given a century ago. Astonishment has been expressed that I could have said that the Liberal theory neglects the link between the present and the past. But I am not the first to say it: the criticism of the Historical School is a hundred years old, and I do not see that it is necessary to repeat what all of us know.

Let us examine the theory of enterprise for example. The Liberal School teaches us that enterprise is regulated by the law of marginal profits. That is all very well, according to the Historical School, but can we really establish a theory on the millions of enterprises which flourished in the course of the centuries? What is this theory of enterprise, which does not, for example, take account of a limited liability company or of a commercial code?

And in another sense—if the Liberal theory were just—each enterprise would remain exactly within the limits laid down by the formula concerning the levelling of marginal costs to prices, and there would be neither losses nor profits, great gains nor crises. But all that—you can see it for yourselves, Gentlemen—is beyond reality, where we do, in fact, see innumerable cases of profits and losses.

The classical theory of enterprise is not then sufficient to explain the facts. Should we draw from it the conclusion which is completely

false? Not at all! It contains, like the historical and every other theory, some element of truth. Consequently, we have to make a synthesis of the different theories and not choose one to the exclusion of the others.

But is such a synthesis possible? Convinced that we should answer the question affirmatively, we have tried in our report to make that synthesis. Apart from "living forces"—that is to say, the forces considered by classical economics—we have recognised two other categories of forces: "forces of inertia" or of history, and "directing" or political forces. The existence of "forces of inertia," which constitute the link between the present and the past, cannot be denied. Neither can we deny the reality of "directing forces," the most important aspect of which is the problem of the relationship between Capital and Labour; monetary questions reflect another fundamental aspect: the others I pass over (the agricultural problem, for example, to which we have already referred) in order to bring out the most important point, so far as the conclusions we envisage are concerned, namely, that we can deny neither the existence of historical nor political forces. In admitting these forces, we do not deny the living forces, or the law of marginal productivity, or the law which equates prices to the cost of production; we merely affirm that these factors are not sufficient to explain economic phenomena and that we must introduce others, which are precisely those I have just indicated.

It is in this sense that politics dominate economics. This particular expression which we employed in our report has been badly interpreted; we did not mean to suggest that the State should regulate all economic questions. On the contrary, we declared that according to our ideas enterprise ought still to constitute the pivot of the economic system. Politics dominate economics because the State holds the directing forces of the system in its grasp. Such a conception is opposed to that of Historic Materialism, according to which political phenomena are a reflection of economic phenomena.

Professor TOYNBEE:

I wanted to raise, towards the end of our discussion, a point which I touched upon in the first of our debates. I rather misunderstood the point made by Professor BRINKMANN. I wrongly supposed, in what he said about a planned national economy, that he was denying the necessity for any international planning. He has explained that that was not so; what he was attacking was not international planning, but international attempts to organise on what he called "Liberal lines," taking as an illustration the League of Nations. That raised in my mind the question: "Here are certain countries which are considering and experimenting and practising forms of planning within the national unit. It seems to be common ground between us that, given the

industrial fabric of the world, given that you want to plan nationally, you cannot get beyond certain points in your national planning without some kind of international setting." I should like further light as to what kind of authoritarian international planning this school of thought envisages.

The League of Nations, and all that goes with it, have the obvious weaknesses of the old Liberal system which we should all condemn, but, on the other hand, it is difficult to see how the authoritarian system can be translated into the international sphere without something in the form of a world State; so that one would seem, on the present authoritarian lines of argument, to be confronted with the dilemma between accepting a destructive chaos and trying to create a world State, which is very difficult against the trend of nationalist opinion. On the other hand there is the alternative I have already put forward, that we must have some kind of international planning as well, or we shall be confronted with national units which are very inelastic, because they are not only based on politics in the Liberal sense, but are also nationalised on intellectual and cultural lines. If that is the present tendency in all parts of the world, it becomes more necessary to find the international planning which corresponds to the national planning in the Italian or German sense. Otherwise we shall be building up order inside our national units at the expense of creating greater and more dangerous anarchy between the nations. It is agreed that what we all want in the present world is order. Most of the survivals of the Liberal School are at present pacifists; they want to abolish war—and war is the supreme expression of free will and *laisser-faire.*

The Liberal School is concentrating on the abolition of war and on restraining the licence of Governments to make war on each other. There is common ground that we want some kind of order, and, in the world as it is, you cannot have a different philosophy for your international order from the philosophy of your national order.

If any speakers on that side can throw light on how the National-Socialist philosophy of Germany, or the Fascist philosophy of Italy, can be translated into the international sphere to create that order which their national planning itself demands, it would be helpful to other discussions, and it might be the most interesting part of the material that comes into the hands of our rapporteur.

Professor BRINKMANN:

I am grateful to Professor TOYNBEE for raising this point; it is very important and has been insufficiently discussed up to now: it is a question which is difficult to understand in the world in which we live, where there has been no adaptation along the lines suggested by Professor TOYNBEE.

Starting with a negative factor, to which I attach much importance, Professor TOYNBEE mentioned the fact that the League of Nations, the great institution on which I mean to cast no disrespect (for indeed we are meeting at present under its auspices), consists, I believe, of sixty or seventy States each possessing equal rights. I must say that this construction has always seemed altogether unreal to me. In the new spirit in which people, thinking as we do, want to organise the world, the fact of assuming that these some seventy Governments command equal power implies so great an insincerity that I think you have to set against this negativism and this insincerity the positive duty incumbent on us to put forward constructive ideas relating not to the future of the League of Nations but to the future organisation of the world.

I agree with Professor AMOROSO when he said that the Liberal assumptions from which Professor TOYNBEE starts mix up what Professor AMOROSO calls "living" forces and "directing" forces. If we distinguish between these two important springs of national life, it would be no longer correct for Professor TOYNBEE to say that war is an imperative thing; it really belongs to "living" forces and has to be suppressed by "directing" forces. And further, it is necessary to distinguish between the two forces so as not to confuse them with economic phenomena and the forces of inertia about which Professor AMOROSO spoke. In affairs, international as well as national, a distinction must be made between what is "living" and what is "directing." It is through the constructive ideas of co-ordination, which are battling with "vital," with "living" forces, that one is able to approach the idea of international order and international construction, which some of our modern thinkers have put forward.

Professor FREDERIK ZEUTHEN, Denmark:

Both sides of the question have been discussed. The first was not so much the interference of States in economic life as the effects of the economic conditions on the State itself; and the second was the external aspect of internal politics.

I would like to make a few remarks upon the first question: the effects of present economic conditions and the crisis on the evolution of States. The first point I wish to stress is the complexity and difficulty of the questions we have dealt with—questions which, we believe, require the attention of experts. Planning is a good thing, but it must not be haphazard. The second point is the desirability of independence for individual or class interests.

We have heard a lot about a certain solution for these two difficulties: the Italian, German and Russian solutions are fundamentally the same, in which one party, one group, assumes control and takes the responsibility for the State and all its actions. That, in some way, is

an old theory. It sets up an aristocracy of service, and many people fear that it might become what other aristocracies have become—an aristocracy of privilege. In the Northern countries it is not so easy for us to adopt the same political methods and ideas, though we are still faced with the same problems.

The question confronting us is this: is it possible and is it in harmony with our constitution to combine unity of will with variety of thought? It is what our French colleague referred to as intellectual Liberalism.[1] We want that same unity of will, but at the same time we want a great variety of thought. We have not the same special political problems as exist in these other countries, though in some ways we understand their difficulties. We realise that in a nation placed under modern conditions, with newspapers, wireless and the present spirit abroad, it might endanger the will of State to permit rebellion; so in some countries there may be a greater reason for having a particular kind of constitution there than in the Western and Northern countries.

Different speakers have mentioned Public Corporations like the London Transport Board. I think they may in some way provide a solution, but even so a danger still exists there. The special corporations for electricity, coal, etc., might have some difficulty in co-operating with each other, and furthermore, it is necessary that the special interests of employers and workers should not become too great. The links between the different corporations must be very strong, and so it is essential to find a form of administration in which that expert, united will of the State is accompanied at the same time by the desired criticism and control. However, this is a question not for economists, but for lawyers and the like, who are interested in constitutional problems.

Then again, I should like to emphasise the external aspect of domestic politics. If you abolish competition within national boundaries and create greater economic units, a difficult problem will arise—the problem of making adjustments between great monopolies. A similar position arises where employers and workers belong to the same union, and I would like to suggest that great difficulties arise here of how to make these great monopolies in the organised States harmonise with each other.

In England, according to the classical theory the solution in cases of this kind is always indeterminate. If there happens to be sufficient elasticity, however, the solution comes by way of a great reduction of production, a harmful and dangerous thing. In other cases, the result is a conflict between the great monopolies. Something must obviously be done to avoid these difficulties.

Finally, I should like to stress the importance of distinguishing

[1] Cf. CÉLESTIN BOUGLÉ, p. 189, et seq.

between the different measures. Some internal political measures make for a reduction of production, which is harmful; others for an extension of production, and this seems even more harmful. There is, however, a third course of action, whereby steps can be taken to stimulate production on co-ordinated lines and in co-operation with the other countries, so as to increase production, abolish obstructive measures, and, in a crisis for example, to expand the construction of Public Works not harmful to other countries, to secure the building of houses, and to effect the maintenance of existing productive capacity rather than the investment of new capital in a non-co-operative way.

Professor ROSBOCH (*translation*):

I would merely add a few words to the statement just made. The question has arisen in this discussion as to whether the material advantages, which seem to accrue to the Corporative State, cannot be too dearly paid for in the intellectual and moral domain.

We have been reproached for having suppressed all individual liberty and intellectual Liberalism in the Corporative State. I obviously cannot embark on a political discussion here, it would carry us too far; but I should like to reassure our eminent colleagues who raised the question. In the Corporative State—that is the Italian Corporative State, for naturally I can only speak of that—no individual liberty has been suppressed: we have merely established a certain discipline. We have merely made all destructive action by the political, economic and social organisations of the nation impossible. Nothing more. We have not abolished Parliament. Our Chamber of Deputies was elected four years ago by a majority which had never been obtained by any party, on any occasion, in any country of the world before. For 92 per cent. of the electors voted and expressed their opinion in favour of the National Panel, against which they were free to express themselves.

The Italian Parliament—the Senate and Chamber of Deputies—functions regularly and exercises control like all the other Parliaments of the world. All the former members of the Senate, many of whom were non-Fascists, retained their seats.

The same is true of the liberty of the Press. Fascism has never suppressed the liberty of the Press; it has merely fastened a certain personal responsibility on the directors and journalists, a responsibility which did not exist before. There was, it is true, on each paper someone responsible for all that was published: it was the editor, and he used to go to prison if his journal was condemned for attacking the honour of any citizen, or for any other crime which he might not even have heard about. But that has all been changed: now it is the director or the author of the article who is personally responsible. It seems a quite reasonable and equitable principle that one should be held

responsible for one's acts and not be able to hide behind a salaried official. At the present time there are journals in Italy which are not at all Fascist: economic and intellectual Liberalism still has its journals, which are sold and read without the slightest opposition from the central authorities or the Fascist party.

And finally, we have complete Trade Union liberty. We have not abolished the non-Fascist Unions. Up to 1925, the majority of our workers were organised in Socialist Corporations affiliated to the General Federation of Labour.

It is the workers who left those Unions, which can still be re-established to-day again, for there is no restriction, I repeat, on the liberty to organise Trade Unions. It is the workers who went over by the million to the Fascist organisations.

Nobody is obliged to be a Fascist in order to join a Trade Union. There are, as a matter of fact, $4\frac{1}{2}$ million workers and labourers in our Trade Unions, whereas there are only $1\frac{1}{2}$ million people altogether in the Fascist Party. Perhaps you are surprised by the conversion *en masse* of millions of workers, who previously had been Socialists and revolutionaries. Perhaps you may also remember that Italy was on the verge of a Communist revolution in 1920, 1921 and in 1922, and that factories had even been occupied by the workers. But they realised that the Corporative State defended their interests much better than the General Federation of Labour and the Socialist Party. They saw that Fascism upheld, as it does to-day, in spite of the economic crisis and distress, the workers' standard of living, that it gave them all kinds of advantages, and, above all, that it put Labour and Capital on a footing of perfect juridical and effective equality.

I do not believe there exists another country to-day where Labour is thus put on the same plane as Capital, and where the worker is on the same level as the employer or factory director. That is something quite new. We are convinced that this equality is just, equitable and necessary. The workers have acknowledged the fact, and that explains why in these last eight years they have entered the Corporative organisations, which they are not bound to join.

A few more words only on the leading ideas of the Corporative State: We believe that the State is a reality, that that State is a synthesis of the social activities of the people, and that if private interests are quite legitimate, they ought to be subordinated to the general interests of the community. We believe also that there is a solidarity between all the elements of the social body, and that this solidarity should be effectively expressed by a collaboration between all classes, and not by the class war as practised under Liberalism and Socialism. Finally, we think that the Corporative organisation of the State has, as its immediate aim, the betterment of the conditions of production, the more equitable distribution of the national income, and lastly, an

increase in the well-being of the community as a whole and of each social class separately.

Dr. WOLFERS (*translation*):

Gentlemen, I merely want to emphasise a few points I have already made and to make a few remarks once more on the question of the authority of the State and State intervention.

First, an observation of a theoretical nature. We here are in rather a peculiar situation: we are discussing, as economists, a realm of economic thought which has been somewhat neglected by the Liberal theory, namely interventionism. This fact in itself constitutes the first move towards establishing or elaborating a theory of State intervention. For this reason it seems to be that we should consider the theoretical ideas which have arisen out of this first discussion.

I would first point out a danger of possible misunderstanding. Professor ZEUTHEN criticised Fascism, saying that it is a monopolistic system, whereas the forms of interventions undertaken by the Fascist regime have not been at all in the direction of monopoly. The truth is that there is interventionism even in the Liberal States, just as there is in the Corporative States, and it assumes various forms.

To re-enforce the action of the State by means of an authority based on dictatorship is not the same thing as establishing an economic system which excludes free competition and is anti-Liberal. On the contrary—and it seems paradoxical—I believe that the Corporative Systems of Germany and Italy have been established not with a view to getting rid of the Capitalist–Liberal regime, but to a certain degree to rescuing it.

In the so-called Liberal countries, and in the Germany up to six months ago, the situation is not, and was not, that of a Liberal regime in the classical sense. Quite the contrary. In Germany there was a considerable degree of intervention. There was as much State intervention in Germany as in Italy. But what did it concern? There was intervention in the sphere of Capital and Labour. But there was something else: the pressure of certain political forces which demanded State intervention in their own interests. In Germany, for example, there was competition between the various groups, which, using the political strength of their organisations, tried to obtain as much State intervention as possible in their own favour. It amounted to a pluralism of organised forces, demanding subsidies and favours from the State. The danger was that one of these forces might one day achieve a definitive preponderance in the direction of Socialism, for example.

If in that pluralist system one of these forces (especially in the realm of Capital and Labour) got the upper hand, the Liberal regime would have suddenly been reversed, and that would have meant Socialism or Communism. We may say then that the idea of making the authority

of the State absolutely preponderant is derived in a certain measure from the desire to enable the State to free itself from this plurality of forces, to make it stronger than these various forces.

England is only at the beginning of this evolution. You have witnessed, for a whole year, intervention in favour of the workers in a way which might possibly have contributed to the crisis of 1931. Consequently an increase in the authority of the State and a "National" Government was called for, to put an end to these pluralist forces.

In Germany we had not only this form of intervention but another one as well—Protectionism. England has only just taken that course, which is of great danger to a Liberal State, for industry plus Protectionism tends towards monopolisation. The latter proceeds, in fact, from intervention in the direction of Protectionism. In this situation, individual atoms no longer exist, but only organised groups which demand privileges from the State. That is the characteristic situation of interventionism in what may be called the Liberal regimes of our time. They are no longer the Liberal regimes of former times.

In this situation there are only two alternatives: either to abandon all intervention, all systems of privilege in favour of workers or anybody else (and perhaps then the parliamentary and individualist regime may be able to survive), or else to do the reverse and make the State stronger than all private groups and give it so much power that its authority can master the party groups, the pluralist forces.

There are different ways of establishing that authority. There is the aristocratic way, whereby authority comes from above; and the more democratic method of the mass movement, which, through a plebiscite, gives formidable power to the chosen leader. I will not say which of the two systems I prefer; I merely indicate the existence of these two tendencies. In Germany we have passed from one to the other. There was a moment when all authority was claimed for the State, and a movement was made to establish it by the aristocratic method. Naturally the democrats criticised this method as not being in conformity with their ideas. But if one wants to re-establish authority, it must be done in one way or the other. A great deal of liberty evidently disappears when the State wants to re-establish authority over monopolistic influences, over the forces of labour and all the influences which we encounter in the Liberal system of intervention.

The problem of intervention which we have been discussing here is necessarily bound up with that of authority. Many of those who criticise Fascism say: "Perhaps there are countries which do prefer authority!" I always have the impression that what they mean is: "Perhaps countries of the curious kind which prefer authority to liberty do exist."

That is not how the question should be put. In the present economic situation it seems that the only alternative to a State deprived of its

power of action and torn between conflicting groups is the re-establishment of its authority by every possible means. It is possible that in establishing this order, the new authority elected will not wish to destroy what is truly essential in the Liberal system, but rather to reconstitute it by giving private initiative greater scope than before, but without creating all over again those private monopolies and those privileges which were the destruction of the Liberal regime.

In the so-called "Liberal" countries, the State is driven by the force of sectional interests to grant privileges, to introduce Customs duties, in fact, everything which corresponds to no programme or general plan.

What I want to throw into relief is that I see the danger in the Anglo-Saxon countries of anarchical intervention, of a programme which has nothing in common with action directed by national authority, but which is, on the other hand, the expression of the preponderating influence of the groups that adopt a deceptive ideology and talk of "planning," when it really amounts to nothing more than privilege. We have seen a great many of these groups in Germany. One word on the question of national and international co-operation. Professor TOYNBEE asks how we are to achieve an international "plan" by instituting a "Super-State." The point is that Professor TOYNBEE used the word "plan" in the sense given it by the Socialists. If you think of a State like the Soviet State, it is evident that its method of "planning," to be universally employed, would need an international authority; and the Socialists are right in insisting that a Socialist or Communist regime is not possible in an isolated country, but must be applied to the whole world.

A State can, by its directing forces, establish an order of things (which may be Capitalistic) in its own area, and co-ordinate it with the rest of the world in every economic sphere. And I do not see why this State should find it so difficult to come to an understanding on matters concerning the general welfare with other governmental authorities. For instance, in all that concerned the discussions of the First Committee, I imagine that States based on authority might more easily practise a reasonable commercial policy than the States without power, because they are superior to, and stand aside from, interested groups which render all commercial policy impossible. I do not see why these States should not work out a Liberal policy in the domain of international commerce.

If the authority of a State is established by forces which are inimical to private monopoly and to all those groups which constantly demand privileges and never agree among themselves, and if the Head of this State takes a reasonable view of what he wants in directing economic action, I do not see why such a State should not be able to come to an agreement with other States.

International Implications of Various Systems and Forms of State Intervention

Professor RICHARDSON *said that there were a few points on which he, as rapporteur, would like further discussion:*

The first point is the question of the international implications of State intervention in national economic affairs. A number of speakers have expressed doubt as to the value of an international economic system based upon *laisser-faire* or Free Trade. They consider it both undesirable and impracticable under present conditions. They also distrust the type of relations which have been attempted during recent years through the medium of the League of Nations. A particular criticism has been that it is unreal to have an organisation with sixty or more members, each of which has more or less equal rights, discussing world economic co-ordination. The position is too unreal to be of practical value. But although questions have been raised by other speakers, asking for a sketch to be given of an international organisation, or an international co-ordination of economic relations, which would be based on the fact of strong State intervention and co-ordination within each country, only the vaguest indications have been given as to the nature of that system. It has merely been suggested that, if you have adequate State control within each country, the representatives of the State or of the different States can, by ordinary common-sense processes of negotiation, reach agreements which will be satisfactory. Other speakers want to have a somewhat fuller indication as to the nature of those relations and the machinery through which they would be rendered effective.

Professor CLARK:

Between the methods of internal control and international control you have a large gradation in the types of measures. One type of measure is pretty clearly internal in character, such as the conservation of national resources, local and regional planning, the control of railways and other internal policies. At the other extreme you have protective tariffs and other trade barriers, export bounties, subsidies to shipping, that is to say, clearly international policies. In between, there is an intermediate class of measures whose character is not so plain—policies of maintaining the prices of goods which may be entering in important ways into international commerce, or general policies resulting in influencing the general price level, which in turn may affect the terms of exchange—the balance of interchange between countries. You have measures in the field of banking and finance which may be mainly internal in their motives but which nevertheless do affect international movements of capital and many other international features. You may have policies of agriculture, self-sufficient

policies, which may be internal in their motives but nevertheless do pretty directly affect the possibility of finding markets in those countries, and conditions that are necessary for the establishment of the necessary balances of exports and imports.

These are simply samples to show what a large and varied problem this is, and how impossible it is to give an answer in terms which say that an increase of social or national control has such and such effects on international relationships and problems. The effect depends on the field in which the control is taking place, on the degree of wisdom in respect of economic forces and on the fundamental spirit which animates those forms of control. One of the things we have learnt in our meetings is the importance of that element of the fundamental spirit, the underlying *esprit* of peoples and nations, in regard to the character and results of the measures that can be employed in economic control.

I cannot help feeling that in this realm of control we have not "abolished economic law," but we have translated it into a new phase. Nevertheless, if we take no account of it we run into disaster in one way or another, directly or indirectly, sooner or later. The degree to which our policy of control is going to have a vicious effect on the relationship between nations depends, among other things, on the extent to which it does violence to the so-called "natural economic" forces, modified as they will have to be, and on the degree to which it accepts or attempts to abolish the thing we have often spoken of as competition, which again is taking new forms and has necessarily outlined forms we were accustomed to see a hundred years ago. The task of developing types of control which do preserve the valuable forces of economic adjustment is a very difficult one.

In construing what we mean by economic law we have to take into account far-reaching changes. The economic laws that we have received apply to a world in which small adjustments are all that are needed to bring about a state of equilibrium. Under such conditions, small gains and small losses are sufficient to produce all the movement necessary without serious consequences. Under the actual and existing conditions, that is not true any longer; large movements are continually called for, and the amount and variety of the gains and losses may become too great to perform a useful function in an orderly movement of economic forces. For that purpose control may be needed, limiting such gains and losses, so that they shall not produce ruin for certain groups. For when that happens, instead of inducing them to move somewhere else where they will be more successful, the result is merely prostration which spreads cumulatively to other groups. You must protect groups sufficiently to avoid that evil, but not protect them in the sense of giving them a permanent berth free from the necessity of making any adjustments at all when economic forces require it. You must not stop the process of economic selection, or the weeding out

of unfit enterprises and the expansion of the more fit ones. This is an extraordinarily difficult line to draw.

My feeling is that a nation which has really learnt how to plan internally in relation to these new and more difficult problems centring around the problem of conjuncture—the problem of business cycles—will of necessity have learnt lessons which may make it a better co-operator in the field of international relations. But I do not think we have in general learnt those lessons as yet; and if economic planning means what, it seems to me, it so often does mean—such things as protecting profit by limiting output—then economic planning will not teach us the necessary lessons. A country which plans on that basis is pursuing a precarious policy, and the more it succeeds the more international depression it will create. One of the chief saving possibilities is that the situation seems to be getting so bad that the impossibility of isolation is forced upon us in a way that we have been able to escape hitherto but can no longer escape.

Professor INNIS:

I think that discussions so far have tended to neglect the importance of far-reaching fundamental technological changes which have been evident in the last decade; for example, a major change has been produced by the Panama Canal. The shift from coal to gasolene and hydro-electric power, and the problems following from it, have not been emphasised adequately to an understanding of the general problem.

To mention certain definite cases in Canada, where State intervention has become important through the pressure of other factors, one could point to the Panama Canal as complicating the railroad problem; the Panama Canal has also contributed to the difficulties of the transport systems in the United States and Canada. In the case of gasolene the same problem has been in evidence. Government ownership of railways has been forced to meet competition from new sources of power in gasolene and the motor transport. The iron and steel industry, which expanded rapidly during the War, has had to contend with great pressure from other factors.

I should like particularly to mention the relation of all this to the wheat question. I hesitate to go back to this commodity again, but there is no doubt that the creation of new countries following the Peace Treaties has provided for an enormous extension of credit, that new credit instruments have been linked with an expansion of capital guaranteed by the State, and that this expansion has meant a high rate of interest in many instances, and high fixed charges, which have in turn increased the rigidity of price machinery for regulating inequality and accentuated the tendency towards self-sufficiency and the trends of those years. The influence of democracy and the effects of democracy have been shown in an attempt to meet the demands

of rural interests and to stimulate wheat production. All this has injured Canada, which is specialising in wheat production.

So the whole trend, as far as these technological changes are concerned, is to establish long-term types of credit, and this, linked with the problem in the iron and steel industry and the enormous changes that have taken place, has complicated the problem. There is great danger of neglecting the real significance of the Peace Treaties as far as they relate to the creation of new States, and of disregarding the significance of these technological changes. The rigidity in price structures breeds inequalities and unfairness within the State, and the lack of machinery for handling these new inequalities leads to general political disturbances.

Professor COPLAND:

One of the points on which I wish to speak relates to some of the economic results of nationalism, and the other to the responsibility that creditor nations should avoid.

With regard to the first point, it is obvious that all forms of economic nationalism are forms of planning. The industries of any country may be divided into two groups. In the first group you have all the industries which do not come into competition with world trade, such as internal transport. On the other hand, you have the exposed or competitive industries.

With regard to the exposed industries in which most action for planning takes place, I need not traverse the field. But in the sheltered industries forms of planning may be carried out which in themselves have an influence on conditions in the exposed industries and therefore do create international complications. Such things as railway subsidies for the carriage of exports, as opposed to the carriage of imported goods, provide an example of the efforts of the State to plan with a view to protecting its own export trade and giving it some competitive advantage over the export trade of its neighbours.

If you go into the whole field of action taken by the several nations to adjust their economic conditions to an economic crisis, you will find quite serious repercussions on international trade arising out of the steps taken which at first sight seem to have no relation whatever to international trade. For example, a heavy Budget deficit requires a country to cut costs in its own State departments and industries, which may not seem to have any relation to international affairs; but obviously, if you look into it closely, you see that these deflationary measures may be as potent a cause of international complications as measures taken specifically to depreciate currency in excess of what would happen if the amount of depreciation were left to free competition. Many people condemn competitive depreciation of currency, but they do not carry their condemnation to its logical conclusion by condemning also competitive deflation costs. These conclusions indicate

that where nations individually plan, even though they seem to be taking action far removed from international affairs, they do set up forces which ultimately have very important reactions on international trade and elsewhere. That needs a great deal of public attention.

I turn to what I regard as a more serious matter. Here I am speaking with the conditions of my own country in mind—Australia; but, after all, with regard to debtors—my own country is a debtor country, but I do not think it is the only one; there may even be some here!—I am speaking as one who has had considerable experience in handling particular problems of Government policy in a debtor country which is pressed very hard to meet its obligations and obviously is actively endeavouring to meet them. This is a thing which has been common to a great many countries in the last three years. I will not say anything about our own efforts, but I will speak about the advice inevitably tendered to such a country from its creditors. This advice is tendered to all the debtor countries.

In the first place, I draw attention to the fact that in the international loan market there are absolutely no forms of planning at all. The international money markets are very badly organised for either or both of two things: (1) for limiting loans during good times, so that the creditors will not be loading up the debtors with an excess of debt, and (2) for collecting or obtaining a collective creditor market in a period of bad times when debts have to be adjusted. It is very difficult to secure an arrangement which will enable you to deal directly with your creditors, especially where the creditors are widely scattered and are holding relatively small portions of debt. That is a position in the international money markets which is due to the lack of planning.

In so far as the creditors have been organised in the present crisis, they have given bad advice to all their debtors. They have given it in watertight compartments. They will give the same advice to each nation, and, if you look at the advice *in toto*, it cancels itself out, impoverishing all the debtors and defeating the object the creditors want to achieve. We are told to increase production and increase exports. We do that and get a surplus of goods. We are told to impose exchange restrictions on imports. We do that and the creditors suffer. All this time the international investment process has stopped, and that adds again to the difficulties of all nations. On the whole, therefore, the advice given by the creditor nations may have no international constructive result, but will rather entail injury both to creditors and to debtors.

Professor TOYNBEE:

Our discussions have covered a wide field. We have had expositions from ideologists, detailed and concrete statements of economic facts from the international and now the national point of view. But after all, underneath our discussion on the State and economic life we are

really discussing something more fundamental—we are discussing whether our civilisation as we know it is to continue. One cannot discuss public affairs nowadays without considering this question, of which all the others are aspects. As an undertone to our discussions, quite distinct from the superficial rhythm, we have all realised that we have been listening to a controversy between the old Liberal standpoint and the new authoritarian one. It is not surprising that those two points of view when they first encounter one another should be antipathetic; the new and the old always are hostile to start with. But I think on that side our discussions will remain more barren than is necessary if we cannot carry our debate on this undercurrent of ideology further. We cannot afford to leave it at that, in the present condition of the world. It is for us Liberals—because we are on the defensive—to make the first advances towards preparing the ground for such a discussion. So I should like to see what the old-fashioned Liberal point of view can make in the way of concessions to the new authoritarian view, if we try to forget its traditional prejudices and our own personal feeling about the world for which we stand and which is on the way to ruin.

The first point I would make is that Liberalism, taken in its widest sense, is a thing of local origin. It is a French–American–British thing, and, being quite frank, there is no reason why a French–American–British way of life should suit the world as a whole. It has suited many countries of the world in which it has taken fresh and independent root, but if there are other countries which have tried it and found it wanting, it is after all no wonder that everybody does not find the perfect way of life in a form invented by ourselves. Nor is it likely that the traditional nineteenth-century Liberal regime will suit permanently even the English-speaking countries and France.

The material inventions which have sprung from human liberty in the economic sphere, which Liberalism has brought with it, now demand authoritarian regulation. There is the railroad, for example. When there was nothing in the transport line except wheelbarrows, donkey carts, or ox-wagons, you did not need traffic regulations or policemen. When Liberalism sets free other inventions, you have to have international policemen to keep the law of the road. So Liberalism is the mother of the authoritarian regime, really. Our present need is for this authoritarianism, which is the offspring of Liberalism, to be worked out; but, as a general rule, the people who have invented the last system are not in a good position to be the pioneers and experimenters of the new system. They have adjusted themselves too perfectly to the old system. By temperament and tradition it is unlikely that they will be the people who make the new inventions which are necessary for us all. We all admit that, and it would be folly if people with the old Liberal tradition should grudge the fact that new inventions are being

tried. If these new things do succeed, they will be of benefit to everybody.

One can go further. I am speaking plainly and frankly. We can still admire the idealism in movements like the National-Socialist revolution in Germany and Fascism in Italy, even though we are shocked at some of the violences that have accompanied this movement. When I say "shocked," you will remember the historic British hypocrisy; but even British hypocrites do sometimes remember the parable of the mote and beam; and people like me, when we see and hear of things that shock us in other parts of the world, do take care to remind ourselves of the last chapter of Irish history, or repeat to ourselves the name of Amritsar, or consider that the Government of which we happen to be "subjects" is holding up the workings of the Disarmament Conference just now by insistence on bombing primitive tribesmen in far parts of the world for police purposes. So, if I mention violence, I am not using names I am not prepared to apply to myself.

The general historic point, which is obvious to everyone who has any acquaintance with the history of mankind, is that Liberalism is the regime of easy times and authoritarianism is the outcome of difficult times. It is an advantage to live in easy times, but whenever times are difficult there arises the necessity of the subordination of the individual to a concentration of authority. In many periods of history that has been so. And we accept the fact that the necessity for authority has arisen again.

Having spoken of the open-eyed concessions that the old-fashioned Liberal should make in presence of the young experimenters, I come back to a question to which I hope for an answer from Professor BRINKMANN. What is to be the framework of the new authoritarian regime if it comes? Is it to be national or international? You can be a nationalist *and* an authoritarian, but being an authoritarian does not necessarily make you a nationalist. I confess that I and many Englishmen have found extreme nationalism hard to appreciate. Englishmen of my age have grown up in a country that has had Free Trade, and that was "the workshop of the world" in our youth, and we have had an education founded on the classics and the Bible, which is an international education. We have been educated in the things of the common heritage, so it is hard for a person with that background to appreciate, or to take pleasure in, nationalism in itself. But that is a prejudice which cannot prevent one from looking at the facts and trying to deal with them as they are, and the fact is that nationalism seems to be a lower-middle-class idea which appeals to the lower middle class all over the world. I don't like that, but I have to accept it.

That places us in an unprecedented situation in our common history. The authoritarian element may be inevitable and necessary and good; but on the other hand the parochial element, placing all your treasure

in the local community instead of in the world community, in the part instead of in the whole, cannot be anything but destructive. That has ever been so in the past of our history. What our civilisation came out of is the bosom of the Catholic Church. I am not a Roman Catholic, but I acknowledge that this is so. And, even when that religious framework broke, we still had the intellectual framework of the eighteenth century and the economic world system of the nineteenth century.

We are grateful to the authoritarians because they seek new spiritual foundations for our civilisation, but I want to ask this very direct and vital question: "Do you think you can find these new spiritual foundations that we all desire on a purely national basis?" I hope we shall get an answer to that question. It seems to me that it can be answered in two ways, from the authoritarian point of view. Take the question of self-interest—an important consideration. We have heard about will—the strength of will in the authoritarian regime. If there is a will to an end, you must will the means. If you will authoritarian national planning and command over the individual life within the frontiers of your local national State, you must will the necessary international framework without which that internal national plan cannot be realised. To carry your national plans through, you must have some kind of world to live in which makes this possible. Even the biggest nations of the world cannot really isolate themselves and act without regard to the rest of the world. The mere fact that war has not been definitely abolished is a sufficient answer to that. But enlightened self-interest is not enough if Nationalism—the new authoritarian Nationalism—is to accept what I consider is the necessary international framework for its own working. It must accept that framework, not merely externally but from the heart, as something which is not just an unfortunate limitation of its own ideals but is actually part and parcel of them. So I would like to ask our colleagues on the authoritarian side if possible to give us light on this matter and to carry away with them this question: "What is to be the spiritual basis for a world society on the rising authoritarian system?"

I have been eagerly searching for any hints to give me an answer to this. I have noticed two hints—or rather one hint made twice over—by Herr Hitler in the last two weeks. In his remarkable speech in the Reichstag, and in the broadcast address on the day of the election at Danzig, the point he made was that any movement like the National-Socialist movement in Germany, which was deeply conscious of its own national life and determined to secure its own national existence, must, *ipso facto*, in human justice, have the same regard for other nationalisms of neighbouring peoples. There, it seems to me, you get not only self-interest but a spiritual and moral foundation, with some kind of understanding, between one nationalism and other nationalisms

on the authoritarian basis. It is very difficult and requires infinite patience, but the moral basis is there and can be worked upon. It is desperately important to work upon it.

If we fail and get back to *Autarkie* or self-sufficiency, as far as England and the United States and Germany are concerned, it would be the death of a large percentage of our industrial population. If we are driven back on that we are all speaking with ropes round our necks. As I watched that magnificent assembly last night,[1] I wondered whether the ribbons were really ropes! It is not only the statesmen who have ropes round their necks. If there is a breakdown, supposing our economic problems remain unsolved, supposing disarmament in the air fails, then all those in authority will be lynched. We need not flatter ourselves that, even if we are only professors, we should escape. I think that the professors and the statesmen have this common interest that they are both in danger of being lynched and do not wish to be lynched, and we may bear that in mind as we watch the fortunes of the Economic Conference.

Professor BRINKMANN:

I would start my reply with a different line of approach from that made by Professor TOYNBEE. I can but think that the more we eschew political catchwords—Liberalism and authoritarianism—and stick to our theoretical problems, the safer we shall be and the nearer we shall approach towards the new solutions which we believe to be necessary. I shall make my remarks in defence, not of the Liberal but of the "automatic" school of economic thought, under three heads.

In the first place, I was impressed by Professor CLARK'S remark that we are no longer able to reckon on the assumption on which our classical theory started, namely, the infinitesimal unit of competition. On the contrary, it is necessary to face up to the fact to-day that just the opposite of this infinitesimal unit obtains. We are confronted with the largest possible units—a fact which must not be neglected. What Professor CLARK said about the losses and profits getting so large that the system can no longer adapt itself to them, and that some force must intervene and prevent them from becoming too great, is the result of the existence of these larger units in our present economic and social system.

Secondly, by the side of these larger units must be reckoned the element of time, which is of course largely studied by theorists, but which needs to be given greater consideration in the field of social and economic problems as a whole. When Professor CLARK spoke of natural selection either being able or not being able to work effectively

[1] Referring to a dinner given by SIR ABE BAILEY, Bart., on behalf of the Royal Institute of International Affairs, London, in honour of the delegates to the Sixth International Studies Conference.

in the economic field, I felt that the element of time was the one thing which thinking along the lines of the automatic theory had neglected during the entire course of the nineteenth century. The element of time teaches us that natural selection cannot work through a single medium. Where human beings are concerned, there must be more than the individual; where the development of the market is concerned, the present moment cannot be considered alone. With the passing of time this second dimension has always to be taken into account. The process of natural selection will have but little effect in determining the physical selection of the most efficient elements or in effecting the economic selection of competitive factors, as long as the situation is considered only as it stands at the moment. But as soon as the stock and the race are taken into account, the nation emerges; and so do those economic factors emerge which, throughout the length of time, have contributed towards the development of the situation as it actually is at the moment. It is one of the greatest discoveries of the twentieth century that the nation is not a momentary concourse of human individuals, but something with a past and a future. This is equally true of the market and of all other situations, whether competitive or non-competitive.

Thirdly, there is situated midway between the two possibilities propounded by the "automatic" theorists, being the competitive, automatic adaptation of social and economic forces, on the one hand, and their conflict, on the other, another factor in the form of the bargaining processes which have come to play a most important part in the modern social and economic system. This method of bargaining—apart from both the automatic self-adjustment of economic forces on the one hand and an overt conflict between them on the other—implies an understanding of the situation, a knowledge not only of one's own situation but that of one's adversary at the same time. The greatest thing is to view the position from your adversary's standpoint. That is what "understanding" in the social and economic sense means. This new principle of bargaining brings us to a new stage which cannot be reached either by the purely competitive or combative systems of the nineteenth century.

THE CHAIRMAN:

Professor TOYNBEE has raised questions which would require another session to discuss in their fullness. But I am bound to observe that Professor BRINKMANN, though he raised interesting considerations, did not answer Professor TOYNBEE directly.

Professor ROSBOCH (*translation*):

Professor TOYNBEE has raised a fundamental question: he wonders if these new systems are developing in the direction of nationalism or

in the opposite direction, that is to say, of economic internationalism. I do not believe that it is a question of choosing between economic nationalism and economic Liberalism, for it has been shown that economic Liberalism has not, in fact, existed anywhere for a long time. I believe, moreover, that economic Liberalism was a system better suited to some countries than others, and that it has, I repeat, been renounced long ago, even in those countries to which Professor TOYNBEE referred—the United States and France. For at least two years Great Britain, the country where it was, at least in part, traditionally respected, has also given it up, following on the introduction of new Customs duties and a few interventions of great importance in the national sphere of economic life.

To-day, it is rather a question of making a choice between haphazard intervention, often dictated by private interests, as Dr. WOLFERS has pointed out, and the regime of systematic and organic intervention, which the Corporative States are trying to put into practice.

This point has been discussed at length, and it may thus be useful to revert to it. We are convinced that the best system, not only in the national interest, but in the interest of all the countries of the world, is that in which State intervention invariably takes account of the welfare of the country as a whole and never succumbs to the influence of a few powerful groups.

It is very difficult to answer Professor TOYNBEE'S question, for though it is possible that there may be new Corporative States in the future, there are some countries which may develop in a different direction. And so I should like to say a few words on the spirit and the leading ideas of the Italian Corporative State in the domain of international economic relations.

Italy has given proof, not only by her declarations, but also in a number of Government enterprises, of her conviction that international relations should be given greater freedom, that the international exchange, not only of merchandise but also of capital, should be developed, and that the workers of one country should be given greater opportunity to move as between countries.

There has been a great deal of discussion about the exchange of goods, and a fair amount about exchange of capital, but there is practically never any mention of the workers' freedom to move about. Now this is, as you know well, one of the great factors in production.

There are countries like ours where the land is not rich, and where an already numerous population increases year by year. There is, in fact, an addition of 400,000 Italians to our population every year. Obviously that is an important factor which must be taken into account, in view of the position it occupies in the realm of production and consumption. If the freedom to exchange goods is admitted, freedom of movement for the worker must also be recognised.

Because we realise the value of private initiative, which is a pillar of our organisation, we believe, as we have always done, that all restrictions on the movement of goods, capital and labour must be abolished as soon as possible. It is in this direction alone that we may find some hope for the world's return to a more healthy condition, for the development of riches and the renewal of prosperity, such as we knew in the past years and which is now no more than a memory and a hope.

Speaking generally, the question of finding out whether the new regimes are developing in one direction or the other is obviously capable of being answered in many ways. There are two possibilities to be considered: does Professor TOYNBEE envisage the world situation as involving a universal system of Corporative States, or as a situation in which there are only two or three such States, the rest of the world adhering to the *status quo*? This second hypothesis will correspond to the situation when the German Corporative State will have developed. There will then be two Corporative States (naturally differing from each other) in a world which is non-Corporative.

In the first case, if the whole world adopts the Corporative system, I think there will be a greater possibility of achieving an understanding between the different States, especially as it will be accompanied by a fundamental change, namely, a diminution in the power of the Capitalist groups, which have less influence in the Corporative than in other States.

You know, in fact, what the influence and the power of certain groups is in some countries. In some cases they dictate the country's policy and invariably tend to demand and obtain favours and privileges. From the moment a Corporative organisation is established the great questions of international economic policy, the right of entry, treaties of commerce, regulation of imports, etc., are discussed in relation to all those affected by them, and not merely by a Government influenced, possibly, by a small minority.

We have noticed that in Italy where all these great questions are examined in the first place by the Central Corporative Committee, an organic body in which all the great interests of production are represented: Capital, Labour, Industry, Agriculture, Banking, Land Transport, Navigation and the Intellectual Professions. As the members of this Council are men of recognised authority, you can see that the examination of the various questions is quite different from that which may take place in a Parliament, which is very often incompetent to deal with the problems it is called upon to judge.

It is very probable also that we shall succeed in establishing a greater liberty in the sphere of international trade.

In fact, the interests of the consumers, which are always more or less in opposition to those of the industrial and agricultural groups, are

officially recognised; the consumers have the right to be heard. Now the consumers, obviously, have every advantage in seeing Customs duties and exchange restrictions reduced. And it is only in the Corporative States that the consumers can claim a certain amount of attention to their interests, which are quite legitimate.

I think then that I can answer the fundamental question which has been raised: it is very probable that, if a Corporative organisation is established either all over the world or over a great part of the world, there will be greater economic liberty than exists to-day. Thus we, who have been accused of being opposed to economic Liberalism, will perhaps be the instigators of an increase, a development, of economic liberty throughout the world.

If, on the contrary, we envisage the present situation—that is to say, that which includes only a few Corporative States in a non-Corporative world—as being the situation of to-morrow also, then I do not think that there will be any change in the present conditions, under which each State has its own commercial policy and its own special economic policy, and that things will go on much as they are now, that is to say, not very well, since there will be no more grounds for agreement than there are to-day or than there were yesterday.

To conclude, and since we are on the eve of the great World Economic Conference, I shall say that we all hope that it will give us greater liberty to exchange goods, capital and labour, all of which is quite indispensable. The economic crisis we are going through has lasted too long. The world has been at war for nearly nineteen years, first in a military way and then economically. It is now time to re-establish economic peace and to restore to private interests, to private initiative, to international trade of every kind, that liberty that we believe to be more than ever necessary and indispensable if we are to improve on the present position of the world, about which we complain so often.

SIR ARTHUR SALTER:

You have touched on that particular aspect of your own subject which most nearly touches the subject of the first Committee, at the point where measures of internal control designed to regulate the internal life of the country involve important external reactions, at the point where we must examine how far the national can be adjusted to international relations.

It seems to me it has been interesting to consider and perhaps classify the different measures taken by one country and another to remedy or relieve the troubles of the last few years, with reference to the criterion of the extent to which these measures either help that country to be a better economic unit of the world system or the opposite; or, to put it another way, the extent to which those measures have beneficial external reactions or the opposite. Secondly, to classify

the extent to which they are essentially temporary in character or are intended to be a permanent new system. Thirdly, their probable reaction on general international relations.

I would like to comment on several classes of measures taken in the last few years as illustrations of national measures which have completely unbalanced external relations. Take, for example, the attempts of America to reform and strengthen her banking system, diminish hoarding and increase public confidence. America is thereby doing something which is not only good for herself but for the world as a whole, and it improves external relations. I should say the same, on balance, of the English conversion operation, followed as it was by the French conversion operation and others elsewhere. I should say the same of the Liberal policy pursued in America to reflate by open market operations. I regret that that process was first arrested and then to some extent reversed. It was starting a movement which helped the situation in America by a process which automatically helped the situation all over the world. In contrast with that course, whatever may be the reasons, possibly necessity, from the moment when you had a process of reflation in America which was associated with the prospective devaluation of the dollar, you had deflation by a process which involved external difficulties rather than benefit.

Among measures which I think personally may be classified as on the whole beneficial to the world point of view is the attempt of the English Equalisation Fund. The purpose of that fund has been much misunderstood. It has not been the securing of trade advantages by pressing the pound down a little below the point at which the ordinary play of economic factors would put it; but its intention has been rather to keep the pound at about the figure which would be reached by the play of normal forces by counteracting the one disturbing element, the impact of temporary short-term capital and frightened capital. The point at which it is desirable that the two currencies should stand is that which represents the relative price structure, the balance of trade and normal balance of rates. But the market rate is left without influence and reflects predominantly, under present conditions, the factor that at one moment people are afraid of the future of the pound and rush away so that it falls below the normal point. In America, if people are afraid of the dollar and throw their money into England, it pushes the pound up. So far as the Equalisation Fund is utilised, it counteracts those temporary factors and leaves the rate where it would be but for the existence of that factor. Its aim is not to give a momentary trade advantage to one particular country, but to be an advantage to all countries concerned in the trade of that particular country. It secures to that country itself and its customers and those who sell to it the advantage of a stable means of exchange. I can conceive nothing of greater advantage, at the present time, than

an Equalisation Fund in different countries addressed to that common purpose of counteracting the impact of temporary movements of capital on the exchange and based upon a concerted monetary policy working to the same goal, and some increase in the general level of prices, arriving, as far as possible, at that goal by the same stages.

Turning to another sphere to illustrate the point of view, take such a system as is being applied in this country in regard to agriculture, the system of protecting and developing the agriculture of the country by means of tariffs and quotas. I need not say that I personally am not in agreement with many aspects of that policy nor the purpose for which it is designed; but I have had occasion to ask myself, what would be my position had I been responsible for the agricultural policy of this country?

I should start with the general point of view that one desires to see world trade developing, to see the agricultural relations between this country and others what they were under a free system. I should like to see my country call on the whole of the earth for the food it desires at terms which make it economical. So I should have thought of a system of maintaining for this country, and the world as a whole, the advantages of that exchange. At the same time I should certainly have said, having that view, "I have got to make my starting-point, but recognise that under a free system there is but a limited place for British agriculture, which has shown that it could maintain itself in certain directions up to a certain limit when food came in freely." I should therefore recognise that it was undesirable that it should remain in the future with the present depression of prices. Owing to the impact of terrific but temporary forces resulting from a world depression, I should recognise that there was a danger that British agriculture could not only *not* expand, but that the equipment and organisation necessary for Great Britain to maintain that part of agricultural production which it ought to maintain would be broken by the impact of those temporary forces. With that in mind, I should be prepared to apply a system of tariffs and quotas up to the point necessary to smash the operation of temporary causes, but I should do it under conditions which would make it easy to return to a freer system directly those temporary causes had gone. I would have had the quota system designed to do more to maintain that production proper to the free exchange of our previous system, but designed also to increase that production, keeping up such a price as would prevent a possible deterioration in that kind of production; but not to lift the prices above the point of encouraging an expansion of production which would leave a true balance when the difficulty was over.

Thirdly, so far as tariff and quotas are used to expand production, you will have a complete change, a substantial change, in the whole character of that country's position in relation to the general economy

of the world. The extent to which countries proceed on the basis of not only maintaining but also increasing a particular form of production by means of quotas, which vary, not in such a way as to prevent expansion being unduly extended, but to enable it to extend through all the sections of external trade, must have an effect in relation to international measures and general political relations.

Of course, every measure, such as a tariff, has some effect upon international relations; but there is a great distinction to be drawn, when speaking of political relations, between tariffs as such, and measures which I think are more dangerous to international relations. The thing that causes trouble is the attempt to seize a share in world trade. In the last resort a country must defend itself. You get disturbances in international relations in the first place, but after a given tariff system has been in existence for some time, the world becomes adjusted to it; if, however, without consultation or delay, you suddenly change your tariff system, you create a further disturbance. From the point of view of international relations, more important than the height of the tariff is a machinery designed to prevent very great and sudden increase of tariffs.

A second thing which is dangerous to international relations, much more so than a tariff which protects an internal market, is an attempt to use the machinery and resources of the State to aid nationalists in their competition for what no nation has a right to—a share in the general world trade. In other words, State subsidies to export trades, or State assistance of any kind to competitors for a share in the world market which belongs to nobody in particular, are more popular but more dangerous than measures designed to deal only with the internal structure of a nation.

The Hon. GIUSEPPE RIGHETTI (*translation*):

I should like to answer two of the questions which have been raised: the first is whether the Corporative system implies a limitation of production, and, by implication, an effect on prices. The Corporative organisation of the State secures, on the contrary, a greater devotion to the interests of the consumer and especially of the working class. It was with this end in view that we gave the greatest possible power to our Corporative organisations.

In a weak State, a democratic State, in the scientific sense of the word, this would not have been possible because the different groups of interests would have neutralised each other, those having the power and money tending to dominate. The Corporative, centralised State, on the other hand, means increased power for the working classes and the consumers.

In the second place, we are asked if we believe that the Corporative organisation of the State is of a temporary nature, or that it should

last for a certain length of time. If I may be permitted, I will review my earlier conclusions again. We believe that profound changes have occurred in the structure of States, changes which the consequences of the World War have only accentuated, but which had already appeared at the end of the nineteenth century as a result of cyclical changes. A century ago similar events, in fact, occurred, for if life does not repeat itself, it does reflect itself.

We are thus at the beginning of a complete change in the system of production. The new systems of production will involve increasingly active intervention on the part of the State. We are of the opinion that the present crisis is a consequence of that need for reconstruction the State and international relations on new bases, the process of whose reorganisation we must try to accelerate. This reorganisation will be the more beneficial as the statesmen learn better how to guide economic forces into new channels, without destroying those spiritual forces on which the welfare of the nations depends.

Finally, we believe, without wishing to enter into the political aspect of the question, that each country has its peculiar national characteristics, and we are convinced that the Corporative system corresponds to a necessity for radically changing the political and economical organisation of the State, in order that new demands of life may be the better fulfilled.

THE CHAIRMAN:

I thank you very much. I have found this meeting profoundly and deeply stimulating, and it is with a regret that I think we shall all share that we bring these discussions to a close.

The proceedings of the Second Committee then terminated.

REPORT ON THE PROCEEDINGS

OF THE

SECOND COMMITTEE ON STATE INTERVENTION IN PRIVATE ECONOMIC ENTERPRISE

LAID BEFORE THE CLOSING PLENARY MEETING OF THE SIXTH INTERNATIONAL STUDIES CONFERENCE

BY

Professor J. H. RICHARDSON,
Rapporteur of the Second Committee.

I. The Philosophical Basis of Intervention.

The discussion of the philosophical basis of intervention arose out of and centred around Professor AMOROSO's memorandum[1] which he supplemented by a statement to the Committee. He dealt with what he considerd to be weak points in the philosophical foundations of traditional Liberalism and of Socialism. He claimed that Liberalism had been a force in the past, but that it had ceased to correspond to realities. The present need was for co-ordination and direction in economic life, and this required a co-ordinating authority. Co-ordination could not be achieved by a system based on Liberal theory. The Liberalistic interpretation of social and economical processes was too deterministic and mechanistic, and took insufficient account of political and historical factors; Socialism was unsatisfactory because it suppressed private ownership and the motive of private profit. In Italy it had been recognised that some new interpretation was necessary, and the Fascist system was based upon a reading of the economic facts which was neither Liberalistic nor Socialistic, but which, as was shown in his memorandum, had endeavoured to avoid the deficiencies of those older interpretations.

An English speaker stated that, in his view, economic Liberalism in Great Britain was the outcome of historical forces existing already in the Middle Ages. That tradition made it all the more difficult for this country to assume a leading rôle in the direction of an intensified interventionism, though experiments in countries where there was greater freedom from tradition were being followed with great interest, and might well be found a source of lessons susceptible of wide application.

The question was raised whether a comparison of different examples of economic intervention could usefully be made without reference to the type of State organisation responsible for the intervention, and

[1] See below, p. 376.

in the ensuing discussion interesting light was thrown upon the concept of the State. Some Italian and German speakers supported an authoritarian concept. They elaborated the view that the State was on a different plane from the individual, that it was an entity and not merely a grouping of individuals and associations in competition or co-operation, with relations determined by abstract laws. It had roots in the past and projected itself into the future. The State, they claimed, provided the political, social and economic authority to hold together the various forces within it. The driving power of the State was essential to secure national unification and co-ordination. They did not, however, consider it desirable to press the authoritarian approach too far, but thought that full account should be taken of economic trends.

In some countries, a German speaker pointed out, unity and cohesion were maintained by social constraint. Where, however, as in Germany, there were greater elements of disunion, rooted in racial and religious differences, class conflict and divergent economic interests, a greater co-ordinating force by the State was necessary. Where there was little social restraint, political constraint was necessary to avoid injury to the community from the conflicting self-interest of individuals and of groups. In periods when the State was in danger of being disintegrated by conflicting forces the exercise of cohesive power was fully justified. The sense of national solidarity must be systematically fostered and greater social and intellectual homogeneity developed. Germany was therefore now in process of establishing a system similar to that of the Corporative State in Italy.

Contrasts were drawn by several speakers between the monopolising of political power in Italy, Germany and Russia by a single party with a single philosophy, and the system under which in many other countries parties of different schools of thought might successively come to assume the tasks of government. In Germany, for example, one party, carried to power by a swing of the pendulum of public confidence, had so greatly transformed the constitutional foundations of the State—especially in the matter of that freedom of political criticism to the exercise of which they owed their own present ascendancy—as virtually to establish themselves in permanent control. That was tantamount in effect to a "pegging of the pendulum," and was a course which, if adopted in all countries, might not in every instance place in positions of governmental responsibility the best abilities available in the community. One speaker, indeed, was of the opinion that no economic system could endure unless it had an infusion of Liberalism, while the Chairman noted that many countries in developing their national unity and integration had found it necessary at some stage in their history to peg the pendulum. However, methods applied in countries where a monopoly of political power had been

established could not be adopted where maximum freedom was preserved for the realisation of the individual will both in economic and political life. Thus there was a clear conflict of schools of thought underlying forms of intervention in economic affairs.

French and other speakers did not wish to see an aggrandisement of the State. In their view the State must serve the individual and respect individual liberty. They asked whether it was necessary to abandon the democratic system in order to find a way out of the economic crisis and to secure economic progress. They agreed that intervention had increased in democratic countries and that social policy had evolved, on the demand of the masses of the community, as a brake upon the power of the Capitalist system. It was difficult, however, to estimate the gains and losses resulting from the new regime in Italy and other countries where opportunities for public criticism of governmental policies were restricted. In France, though some features of the relations between vocational organisations resembled those in the Corporative State, the Parliamentary system, freedom of speech and freedom of the Press had been retained, thus providing full opportunities for criticism. Was it necessary to sacrifice intellectual liberty in order to establish economic and social co-ordination?

On these points German and Italian speakers replied at some length. It was emphasised that, while in these countries an active economic policy was being pursued by the State, private enterprise and initiative continued to fill a large and essential rôle. Sometimes it was assumed that the Corporative State was establishing a fully planned economy and system of State management, but this was quite erroneous. A realistic recognition of the importance of the directing and co-ordinating authority of the State did not involve a denial of the importance of healthy competition. Indeed, it was quite possible that the Italian and German systems would serve in the end not to destroy Liberalism, but to save it.

On the question whether the individual was being called upon to pay too high a moral price for the material advantages of the Corporative State, the Italians replied that intervention was largely disciplinary. Liberty was not abolished, but was restricted or disciplined in the interests of the community as a whole. The franchise was preserved for the election of Parliament. There was freedom of the Press, the only change being that the director of a newspaper was held personally responsible for its conduct, and the comment was made that in so-called Liberal countries the Press was so extensively controlled by capitalists that it was far from being free. The workers were allowed to join a Trade Union or not as they pleased. A main purpose of intervention was to secure solidarity between classes and to promote inter-class collaboration. Criticism of legislative proposals

was possible, not in the Press, but by their submission to technical experts and competent organisations. Indeed, it was claimed that economic and social questions were now judged on their merits more than formerly, largely because political considerations no longer intervened.

Several German speakers claimed that their new system was fundamentally democratic. The present transitional period was misleading, giving the appearance of autocracy. It was asserted that democratic forces would ultimately constitute the basis of the system. In the German concept the nation was founded upon the expression of the common spirit of the people. The basis of the Government was plebiscitary rather than parliamentary; fundamentally it rested upon the will of the people which need not necessarily be expressed through parliamentary forms. These speakers also noted that the parliamentary system had been criticised in various countries as not being fully democratic, and that in the nineteenth century it had conferred political power upon the bourgeois classes.

The Committee was generally agreed that, however different might be the underlying theories, the chief practical question was the degree of intervention. All countries were committed to intervention, but in some intervention was exercised reluctantly and only where the case against non-intervention was overwhelming, while in others there was much greater readiness to intervene. Economic facts were forcing increasing intervention; a system of Liberalism might work reasonably well where productive units were small, but co-ordination was inevitable as large-scale industry developed. The present accelerated pace of economic change and the growing complication and difficulty of economic life increased the necessity for the exercise of directive power. An American speaker endeavoured to bridge the gap between the two systems by advancing the view that in Italy and Germany there might gradually be some relaxation of political control, while in other countries intervention might somewhat increase. There might thus be tendencies for a closer approximation than at present.

II. The Temporary or Permanent Character of the Recent Growth of Intervention.

The question was raised as to how far the present development of interest in and application of State intervention in economic affairs was a crisis phenomenon or a more fundamental change. The Chairman expressed the view, which was widely supported, that the world was now faced with a long-range movement towards social and economic organisation in a large number of countries. The object of this movement was to secure greater stability in economic life, and it should be regarded as a permanent change

marking the beginning of a new historical period. Many countries had experienced a short period of *laisser-faire* never fully applied, following a period in which intervention had been the rule, and they were now entering upon a new period of intervention which was likely to persist for many years. This conclusion involved the adoption of a different attitude from that which would be appropriate if the recent developments of intervention were to be regarded merely as a consequence of the crisis and abandoned when there was a recovery of business activity. The present methods might be regarded as tentative experiments, and it was of interest to study the experiences and the results obtained in different countries.

While agreeing that a long-range change was taking place, the Committee recognised that some of the present measures of intervention were designed to meet situations arising out of the crisis, and that these would be abandoned or modified when economic prosperity returned. Thus a speaker from the United States expressed the view that in his country the recent great increase in intervention was due in considerable measure to the crisis and that there would be relaxation when recovery came. In Australia and New Zealand, where far-reaching measures of State intervention had been applied for many years, there was some tendency to diminish the scope of State intervention, but mainly, on the basis of experience, to change the methods adopted.

Difference of opinion was expressed as to whether the transition to greater and more systematic intervention should be made quickly and drastically or more cautiously and experimentally, but it was recognised that the rate of change would be determined by the special conditions of each country.

III. The Scope of Intervention.

Intervention, according to a classification suggested by a member of the Committee, might apply nationally to separate industries and services, or to the co-ordination of a number of industries and services (national planning) mainly by means of financial control; or planning might be applied internationally. The last, he claimed, was a question for the somewhat distant future, while so far only in Russia had there been adopted a highly co-ordinated system covering all aspects of national economic life. Regret was expressed by several speakers that there was no one present from Russia who could give an account of the experiments undertaken in that country.

In other countries intervention was more limited, being confined to separate industries and services with var ing degrees of co-ordination. In Italy, however, and in Germany sin e the revolution, in virtue of the doctrine of the identity of the State and the community, so-called

"intervention" was not regarded as abnormal. The State claimed the right to intervene, though in practice a large field was left open to private initiative and management. In many other countries this claim was not made, and intervention was often unsystematic.

The question was raised whether it might be possible to determine the industries and services in which intervention was most appropriate. There seemed to be general agreement that some form of intervention was particularly appropriate in railway, telegraph and telephone services, electrical transmission and other systems of communication and transport based upon the use of lines, rails, roads and pipe-lines. In all these branches competition must be restricted; the element of monopoly usually arose, and the State intervened to insure co-ordinated development and the protection of consumers' interests. In certain other undertakings involving large-scale capital developments, where there would be danger of lack of co-ordination in private enterprise, the State also frequently intervened.

Intervention in the field of currency and banking had been general, even in countries where *laisser-faire* had been favoured. The representatives of several new and relatively undeveloped countries were agreed that intervention was valuable in the establishment of new industries and in securing co-ordinated economic development. Often in such countries the State assumed responsibility for directing the modernisation of economic and industrial equipment and organisation because it could borrow on more favourable terms than private undertakings.

Intervention had often been found necessary to secure the provision of services in rural areas which, because of their sparse population, did not offer the promise of profits to private undertakings. Agricultural colonisation, large movements of population and the development of new areas seemed to require intervention. Intervention had also been used with advantage to foster technical invention, to encourage the wider application of scientific methods, and to secure standardisation of products.

Doubt was expressed by various speakers as to the wisdom of considerable State intervention, especially of State management, in manufacturing industries. In many countries when such industries were passing through periods of difficulty, the usual method was to encourage them to work out solutions for their own problems, and intervention was regarded as a last resort.

IV. Methods of Intervention.

On the basis of information submitted in memoranda from different countries the Committee made a survey of the various forms or methods of intervention in operation. Such methods were classified by one of

the speakers, according to the intensity of intervention into the three following categories:

(i) Complete State operation.
(ii) Indirect operation by Public Corporations.
(iii) State regulation of private enterprise.

In most countries a mixed system was found which had grown up as a result of successive experiments made in different economic circumstances and with different underlying philosophies.

The Committee recognised the value, in the present stage of State intervention, of the variety of experiments which were being conducted in different countries, but did not reach more than certain tentative conclusions as to which methods were the most satisfactory.

The Chairman emphasised the danger which resulted from the adoption of wrong methods. He pointed out that in the present period of apparent over-production of certain commodities we could not afford permanently to restrict initiative and technical progress, as this would check expansion of production and would involve waste. There were large numbers of people in Europe and still more in Asia and Africa for whom further expansion of production was necessary to raise their standards of living. Such expansion would be desirable as soon as the dislocations and maladjustments of the present crisis had been overcome.

The General Rapporteur said that in a sense the world was suffering not so much from a lack of intervention as from a crisis of intervention due to the adoption of wrong methods. As he and other speakers stated, many examples could be cited of intervention which had run counter to economic laws and had been responsible for dislocations in the economic system; the methods adopted during recent years for the control of wheat, rubber and other commodities were mentioned as examples where dislocation had been caused. In the United States, efforts made to help agriculture had hitherto failed and new methods were now being introduced; also the attitude towards trusts was being greatly changed as a result of experience.

Efforts to conserve social groups or industries by the method of Protection or subsidy had often proved unsatisfactory; unless carefully organised, such methods tended to support the inefficient, thus throwing a burden upon others. A speaker from New Zealand stated that some of their protected industries had not shown any great evidence of ability to compete on the basis of efficiency. The right method to conserve or develop a social group or branch of industrial activity was by measures which would ensure improved efficiency. Industries receiving tariff Protection should be required to show evidence of maintaining or if possible of improving the efficiency of

their methods. It was recognised that in times of crisis subsidies and Protection might be desirable as temporary measures.

Although some forms of State intervention resulted in the establishment of monopolies, in certain branches of industry the right method of intervention might be to prevent monopoly and to ensure competition.

Accounts were given of the recent development of intervention in Great Britain by the system of Public Corporations, and this method was found to be in operation or to be favoured in a number of other countries, for example, Australia, New Zealand, Canada and France. Although the method had been applied during the course of the nineteenth century for dock control in several British ports, only since the War had its use been extended to other branches of economic activity, particularly the control of broadcasting and of electrical transmission. The main features of this method were the management of an undertaking by a corporation appointed by and responsible to the Government, the broad lines of policy being laid down by legislation; a large measure of freedom of initiative in management was, however, accorded to the corporation. Usually undertakings thus managed were non-profit making, or there was a limitation of profits; often rates of interest on capital were fixed, the capital usually being held by private individuals.

The Public Corporation system was favoured largely because it ensured that management would be free from political interference, while giving an adequate guarantee of efficient business management in the public interest. With the object of ensuring the most efficient management, opinion was tending to favour the appointment of men of wide business and general experience rather than highly specialised experts or the representatives of various interests. The Public Corporation system also represented a compromise between the views of those who desired full public ownership and control and those who wished to retain a measure of private ownership. In Great Britain the Public Corporation method had been applied either in new industries where vested interests had not become fully established or in public services of the monopoly type where co-ordination was necessary, for example, London Passenger Traffic. It had not been applied in branches of activity directly exposed to foreign competition.

One speaker pointed out the danger that if a number of Public Corporations were established within a country conflicts of interest might arise between them. Also the interests of the workers and management of any of these great undertakings might be divergent from those of consumers. Strong pressure by the State might be necessary to secure harmonious relations and the safeguarding of consumers' interests.

A description was given by a French representative of the working of the concession system adopted for electricity development in France.

A defect of this system had been that sparsely populated districts had been badly served, the undertakings concentrating upon the more profitable populous centres, and the State had been compelled to intervene. The concession system was likely to be considerably modified, and the adoption of the method of management by a Public Corporation similar to that in the British electricity scheme was favoured. An Italian speaker, in describing the method of intervention in the banking system, indicated that direct governmental intervention in administration was avoided; in this respect therefore the system was similar to that of a Public Corporation.

The Committee was particularly interested in information communicated by speakers from Australia and New Zealand, based on many years' experience of a variety of methods of State intervention. The following conclusions had been formulated as a result of Australian experience, particularly in the State of Victoria:

(1) Economic State enterprise should not as a rule be managed by a State Department but by a Public Corporation as independent as possible of political control; a similar conclusion applied to the management of municipal undertakings.

(2) The finances of public undertakings should be kept independent of the State or municipal budgets.

(3) There was a danger that schemes of development might be undertaken without due regard to their cost. Often technical organisation and management had been satisfactory, but financial policy had been unsound.

(4) Employees in State undertakings might use political power to advance their interests against those of the community.

A new method had recently been adopted in Australia with a view to safeguarding public economic developments so far as possible from political influence, and to insuring financial soundness. The main feature of the scheme was the setting up of a Loan Council to approve of loan expenditure.

Special attention was drawn by several speakers to agricultural development schemes in different countries. In Italy serious steps had been taken to increase production, especially of wheat, partly by extending the area of cultivation by reclamation schemes, and partly by scientific research and the application of improved methods of cultivation. The object had been to encourage private enterprise, and, in the reclamation schemes, to insure rapid and co-ordinated progress. As a result of these efforts there had been a considerable increase both in output per acre and in total production, so that the country was now almost independent of supplies of imported wheat.

A French speaker considered that the wheat situation was one of the principal causes of the world crisis. Shortly after the War there had been a widespread belief that the world would be likely to suffer

from a shortage of wheat, and a "wheat crusade" had been adopted in France to increase production. France was now able to supply the needs of the home market and might even have a surplus for exportation. He emphasised that these developments in France and in other European countries, together with increase of production Overseas, had resulted in a considerable world excess of supply over demand. Whatever measures might be taken by the World Economic Conference to restore an international monetary system and to reduce tariff barriers and other restrictions to international trade, it would be impossible to establish world economic equilibrium while the production of so important a commodity as wheat was out of adjustment with demand. He considered that the wheat problem should be one of the chief questions considered by the World Economic Conference, and that efforts should be made to secure agreement upon a common policy to be applied in each country.

In memoranda presented to the Conference, descriptions were given of a scheme recently adopted in Great Britain to deal with the wheat production. It had been recognised that under normal conditions in world markets a certain area of British land was suitable for the cultivation of wheat. The scheme was designed to protect wheat producers from the present abnormally low world prices by securing to the farmer a standard price while limiting home cultivation to the amount likely to be produced efficiently in relation to production abroad. There was no intention of providing a subsidy which would result in an extension of cultivation to unsuitable land.

Interesting accounts were given by speakers from Rumania and Spain of recent measures of agrarian reform. In Rumania two million hectares of cultivable land had passed into the hands of the peasants, but the principle had been adopted that such property had social responsibilities, and the State claimed the right to establish a general scheme of cultivation and to control methods of organisation of agricultural undertakings and associations. It also undertook to facilitate the sale of produce and to encourage improvements in the breed of cattle and in quality of crops. In Spain the estates of great landowners had been expropriated. In some parts of the country these estates were now managed by the State. In other areas land was leased to the peasants for long terms, but they were required to observe conditions fixed by the State. An Institute of Agricultural Credit had also been set up which enabled some control of development to be secured.

The Committee considered the subject of intervention in the relations between Capital and Labour, accounts being given of the Italian system, while a German speaker outlined the principles now being introduced in Germany. Time was not, however, available for an examination of the systems and experiments of other countries or for the formulation of conclusions.

In Italy the principle was accepted that the State could not remain neutral in the relations between employers and workers, but in the operation of the machinery of intervention the vocational organisations of employers and workers retained a considerable measure of freedom. The object of State intervention was to secure effective co-operation between the two partners to industry. In each industrial branch one Union only on each side was recognised. Freedom of negotiation was accorded to these Unions, and when agreements were reached these were ratified by the State. In the event of failure to reach an agreement the State arbitrated, and strikes and lockouts were prohibited. The Courts of Arbitration consisted of experts in industrial relations. It was claimed that the system worked smoothly and had contributed to the welfare of the workers. Even general deflations of wages and prices had, during the crisis, been effected with little friction.

In Germany also an attempt was being made by the State to eliminate political elements from the relations between employers and workers, and to base wages and other conditions of work upon economic considerations alone. The structure of the previously existing organisations would, with various modifications, form the basis of the new system. The organisation would be controlled by trustees of the National-Socialist Party, and their policy would be moulded into conformity with the Nationalist conception of social life. An attempt would be made to develop a sense of solidarity between Capital and Labour. The officially appointed conciliators would have more power than before the revolution. Mention was made of the organisation of labour camps for works of public service and for purposes of cultural and moral development.

V. The International Implications of State Intervention.

Several speakers expressed the fear that the co-ordination of economic life on a nationalistic basis would result in an intensification of international conflict and a lowering of standards of living which would be relatively greatest in countries which were least self-sufficient. The more complete the national organisation, the more serious the risk of international conflict. It was unsatisfactory to abandon *laisser-faire* within the State while leaving *laisser-faire* in the relations between States. Italian and German speakers had emphasised the weakness of Liberalism within the State and yet had not seemed willing to extend their new principles of co-ordination into the international field. Mere parochial planning must fail if it did not take world factors into consideration. An English speaker expressed the opinion that, while enlightened self-interest would tend to result in measures of international economic co-operation, the most effective co-operation could only be ensured by the deliberate cultivation of a will to establish

harmonious relations. The representatives of Germany and Italy were asked to indicate what type of international system they contemplated as a supplement to their national systems.

More than one German speaker expressed distrust of international negotiations of the type hitherto conducted in the League of Nations. They considered that an attempt to secure co-ordination through an organisation of sixty or more States with almost equal rights was too remote from reality to give practical results. Nor did the establishment of a world economic system based upon Free Trade seem to be practicable.

The view was advanced that once the State had established its authority over the various interests within the country, international economic relations could be efficiently organised by negotiations between the representatives of the States. It was pointed out that Italy and Germany were not setting up a planned economy on the Russian model, but were leaving considerable freedom to private initiative. Under these conditions the problem of international relations would be much simpler than if the world consisted of States in which the whole of economic life was directly managed by the State.

An Italian speaker indicated that both by her statements of policy and by her actual proposals Italy had shown that she was anxious to pursue a policy of economic internationalism. She advocated greater liberty of international trade, and greater freedom for capital movements and for international migration of labour. At the present time only a very small number of States had established the Corporative system, but he was of opinion that in a world which consisted mainly of Corporative States international economic agreements would be facilitated. The Government of each country would be better informed of its needs and would be in a better position to pursue a consistent policy. This, in his opinion, would lead to greater international economic liberty than at present, and to a diminution of the intensity of economic conflict.

The attention of the Committee was drawn to the danger that certain States, by their control of working conditions, might, in the struggle for export markets, use their power to establish standards which were unfair in competition with those of other countries. This would inevitably disturb international relations and would also lead to the raising of protective tariff barriers and other obstacles to international trade. Indeed, some of the present restrictions might be due to these causes. It was admitted, however, that intervention enabled a co-ordinated wage structure to be established.

A speaker from Australia noted that competitive deflation of costs had been less criticised than monetary depreciation, though this might have equally unfortunate effects upon international competition.

A German speaker advanced the thesis, which was supported by

Italian practice, that national workers' organisations and other bodies within the State should not affiliate with similar organisations in other countries. He considered such affiliations and associations to be dangerous because they tended to undermine the solidarity of the State, and he was of the opinion that the effective representation of interests within a country could only be made in international relations through the intervention of the State. Considerable opposition was shown by French and British and other speakers to this attitude, and the view was expressed that employers, workers and other groups had international interests, that they should have opportunities for international associations independent of State intervention, and that machinery for international labour organisation and agreement was essential. Social progress was retarded in any one country unless other countries were also similarly moving forward.

Coal-mining was cited as an industry in which there were wide common interests between employers and workers in different countries, and these interests provided a basis for securing international agreements for economic and labour regulation. In the present state of overcapacity to produce, purely national action only led to successive reduction in standards of working conditions, which, while subsidising home and foreign consumers of coal, involved loss and hardship to those in the industry. Insufficient account had been taken of the international repercussions of technological changes such as developments of hydro-electric power and the use of oil in place of coal. Shipbuilding was also mentioned as another industry for which international co-operation was specially necessary. National development schemes, particularly if subsidised, must almost inevitably result in over-production. An international agreement upon a programme of shipbuilding adjusted to world needs would be specially valuable.

An Australian speaker drew the attention of the Committee to the lack of effective organisation of the international loan market. In times of prosperity the amount and direction of international loans were not sufficiently co-ordinated internationally, while in periods of depression the multiplicity of advice given by creditor countries to debtor countries struggling to meet their obligations had often merely increased the difficulties of the debtors.

Several speakers laid stress upon the fact that intervention for the purpose of protecting industries by restricting output might aggravate international economic relations. The State was, however, fully justified in protecting its industries from ruin due to temporary dislocations in international competition. The system of quotas, regulation of prices and banking policy, if applied on a national basis, might involve international repercussions and provoke retaliation which could only be described as economic warfare.

In a concluding statement the Chairman of the Conference said that

national economic measures might be judged by the following criteria:

(1) The extent to which they had beneficial or harmful external reactions.

(2) Whether they were permanent or temporary.

(3) Their effect on general political relations.

He indicated recent measures which were of benefit within the country and internationally, for example, the steps taken this year in the United States of America to strengthen its banking system, to prevent hoarding and to restore confidence to depositors. The British, French and other conversion schemes had shown similar beneficial results. The measures taken during 1932 in the United States to secure reflation by open-market operations were, in his opinion, also likely to be beneficial both internally and externally; but the recent reflation policy associated with dollar depreciation had created external difficulties. The operation of the British Exchange Equalisation Fund, the purposes of which had often been misunderstood, was, in his opinion, of benefit to all nations engaged in trade with Great Britain. Its object was not to depress the pound below its economic level, but merely to safeguard it from the disturbing influences of short-term and "fright" movements of capital.

Protection of the home market was less harmful to international political relations than attempts by States to use their machinery and resources to aid their nationals in obtaining an increased share of world trade; purely protective tariffs were commonly regarded as perfectly legitimate. The method of export subsidies and also sudden changes in tariffs involving dislocations in world economic relations were particularly injurious to international political relations. The establishment of efficient machinery for regular international consultation upon tariff adjustments was urgently needed.

VI. Summary.

There was a wide measure of agreement that the trends and pace of economic life were forcing States to greater intervention, though members differed about the philosophies underlying intervention. Growth of intervention should not be regarded merely as a phenomenon of the crisis, but as a more fundamental long-term change.

Intervention was considered particularly appropriate in railway, telegraph and telephone services, electrical transmission and other systems of communication and transport, and also in currency and banking. Opinion was more divided upon the value of intervention, especially by State management, in manufacturing industries. In many countries these industries were encouraged to solve their own problems, and intervention was reserved as a last resort. Intervention was often found necessary in new industrial developments, especially those

requiring co-ordination and capital expenditure on a large scale, and to protect consumers against the exercise of monopoly power.

Forms of intervention should be so devised as to promote efficiency; the protection or subsidising of the inefficient should be avoided. For many kinds of undertakings the Public Corporation method was favoured as giving a guarantee of efficient management and also freedom from political interference.

A policy of economic intervention within States must be supplemented by the efficient organisation of international economic relations, otherwise chaos and conflict would be intensified. In considering international implications of State intervention, emphasis was laid upon the harmful consequences not only of competitive currency depreciation, but also of competitive deflation of production costs, especially by wage reductions. The use of such methods in the struggle for markets intensified economic conflict and led to increased restrictions upon international trade. International co-operation was necessary to bring the production of wheat, coal and other commodities, and the building of ships into reasonable relation with world demand; State action, especially by the use of subsidies, had hitherto often increased economic maladjustment.

National measures in economic affairs should be judged not only by their immediate internal consequences, but also by their effects upon international economic and political relations.

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[1] This memorandum has been printed in full in a brochure entitled *Nation und Wirtschaft*, published by the Hanseatische Verlagsanstalt.
[2] No extracts from this memorandum have been published for the reason that they are concerned entirely with detailing the facts.
[3] Ibid. [4] Ibid. [5] Ibid.
[6] Published in the ninth number of the *Annali di Economia* of the Luigi Bocconi Commercial University of Milan, 1933.

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AMERICAN MEMORANDA

No. 1.

Tariff Policy of the United States of America

by PERCY W. BIDWELL[1]

Section 1. The Most Favoured Nation Clause: The clause in its unconditional form is typical of American trade agreements. In 1931 it was included in eleven agreements covering 12 per cent. of the total American exports and incorporated in its agreements made with 17 States by Exchanges of Notes. In the conditional form it has, however, been incorporated into agreements with 14 States. In the nineteenth century, America stood for the conditional form, for it was looked upon as an extremely effective bargaining factor.

Section 2. Experience in Tariff Bargaining: Difficulties arising out of the American Constitution made the negotiation and the conclusion of such agreements less easy. Under reciprocity agreements were included those by which, in the American view, third States could claim no rights on the basis of the Most Favoured Nation Clause. Such treaties were concluded with Great Britain on behalf of Canada in 1854, with Hawaii in 1875, and with Cuba in 1902. The reciprocity agreement with Hawaii was the prelude to the annexation. The trade between these two countries increased considerably. The absence of duty on Hawaiian sugar was equivalent to an export bounty, since the price in America was fixed by the dutiable sugar imports from other countries.

In regard to the treaty with Cuba, the great advantage which accrued to Cuba as an export country had its counterpart in the advantages which the American creditors enjoyed as a result of the prosperity of that country. As in the case of Hawaii, America also gained political advantages in return for the economic concessions. Cuba became an American protectorate, followed by a one-sided expansion of sugar production and considerable imports of capital, leading to increase in foreign influence and economic instability. From the export figures of the United States to Cuba it is impossible to draw any reliable conclusions as to the economic advantages which America may have gained from the reciprocity treaty.

The policy of the United States Government in 1897 was for regarding reciprocity more as a supplement to, than as a substitute for, Protection. Only in the case of a few articles was it possible to lower tariff rates in return for corresponding concessions. In addition, reprisals were taken against countries which discriminated against the United States. Thus reciprocity agreements became less and less general, for it was considered more advantageous to counter hostile tariffs by price-dumping regulations. The tariff law of 1909 rescinded the bargaining provisions of 1897, and replaced them by a maximum and minimum tariff.

The law of 1909 was cancelled in 1913 by the Democrats, and the former Republican principle of reciprocity was restored; President Wilson, however, did not apply it.

[1] Copies of this book (8vo, 126 pages), bound in paper board covers, may be obtained from the Council on Foreign Relations, New York, $1 post paid.

After the War, during 1921 and 1922, there existed opportunities neither for reciprocity nor for bargaining, but only for penalty duties. It is only now in 1932 that the interest in tariff bargaining has been revived. It is particularly in times of depression that the desire for protective tariffs is strongest. Furthermore there is the added factor of currency dumping from abroad. However, as the American exporters were hard hit at the time, there was demand for negotiations for the purpose of effecting simultaneous and mutual concessions. The failure of many negotiations bears witness to the weaknesses of the system of tariff agreements.

Is bargaining compatible with equality of treatment? In essence, reciprocity is not incompatible with the unconditional form of the Most Favoured Nation Clause. On the contrary, treaties with the unconditional clause would remove any objection on the part of third States. It is more difficult to reconcile bargaining with *cost equalisation*. The value of this formula is in any case doubtful.

Were America under the present circumstances to lower her tariffs in respect of another country on the basis of reciprocity, all the other fourteen countries, which have concluded a treaty including the unconditional clause, would enjoy the same advantages *without the granting of concessions* in return. It would lie in America's interest to cancel all these treaties and then enter upon joint negotiations with all. It is necessary, finally, to emphasise that negotiations for the purposes of effecting a trade agreement do not necessarily result in a lowering of the tariff rates.

Section 3. American Colonial Policy: Officially the United States have no Colonies. Actually they govern a Colonial Empire of 14 million inhabitants. Their foreign trade with these possessions constituted, in 1931, 11 per cent. of the total American foreign trade. The constitutional basis of the control exercised by Congress over the fixing of tariffs in the Colonies dates from the time of the internal colonisation of the American continent.

The war with Spain opened up a new era outside the sphere of Colonial policy. The following interests have now to be considered: the American exporters who demand preferential treatment in Colonial markets; the American investors who demand duty-free or preferentially treated imports into the United States; the American farmers who demand Protection against the competition of Colonial sugar, tobacco, etc.; and the organised workers in America who would countenance no "oriental" wage competition.

The fundamental principle was that of assimilation, which means, in practice, Imperialism or Mercantilism. It prevented the Colonies from having normal relations with other countries. The introduction of the Closed Door policy in the American Colonies themselves weakened the American demand for the Open Door elsewhere in the world.

Hawaii: Annexation and assimilation, 1898. The exemption from duty of sugar from Hawaii led to a somewhat unhealthy and continuous expansion of production.

Porto Rico: The preferential system, which was at first enforced in Porto Rico, was abandoned in 1902. By complete assimilation Porto Rico became a Customs district of the United States. Here too there

resulted a specialisation in sugar production and an expansion of trade with the United States. It is asserted that the development of the sugar industry was paralleled by the concentration of land-holding in large estates, owned by absentee landlords. Porto Rico's dependence on imported foodstuffs increased, and it must now pay the high American tariffs for its imports into America, while its own tariff system has been drawn up to meet the needs of American industry and, recently, of a single section of American agriculture. It is obvious that this tariff system is unsuited to the development of a tropical country.

THE PHILIPPINE ISLANDS: Between the Philippines and the United States there is mutual Free Trade, although the Philippines have their own particular tariffs for imports from other countries; these tariffs are considerably lower than the American ones. Out of consideration for the American farmer, assimilation has not been carried to extremes. America's interest in the Open Door in China was also taken into account. After 1899 the Open Door in the Philippines was abandoned, and the preferential system for American imports was introduced; since 1913 no duties have been levied against imports from the Philippines into America. In the fixing of the Philippine tariffs, which have to be approved by the President of the United States, the following factors have to be taken into account: the need for fiscal revenue for the Philippines; the desire of American exporters to the Philippines for the greatest possible degree of preference; and the desire to further the economic development of the country.

The results of the previous tariff regulations have been high specialisation during certain phases of agricultural production and close commercial relations with the Mother Country. Of the Philippine exports, 80 per cent. went in 1931 to the United States, from which, in turn, 60 per cent. of the imports were derived. The preferential treatment which the Philippine exports enjoyed in the United States is obviously of importance.

The change of policy brought about by the Act granting Philippine Independence in January 1933 constituted a triumph of organised American farm interests. So long as the Philippines remained a Colony, public opinion was unfavourable to the levying of duties on Philippine sugar and cocoanut oil. Hence the granting of independence. After the lapse of ten years the full protective American tariffs are to enter into force against Philippine products. Until then, there is to be limitation of the quantities of duty-free sugar, and in addition an export tax is to be imposed during the second half of the period on all goods which are on the dutiable list of the Hawley-Smoot tariff. During the transition period no restrictions may be placed on American imports into the Islands. It is probable, however, that this law does not constitute the final settlement.

No. 2.

FINANCIAL FOREIGN POLICY OF THE UNITED STATES

by JAMES W. ANGELL[1]

Section 1. THE AMERICAN SPHERE OF SPECIAL INFLUENCE: The United States territories and possessions, together with the six independent

[1] Copies of this book (8vo, 146 pages), bound in paper board covers, may be obtained from the Council on Foreign Relations, New York, $1 post paid.

countries with which they have special treaty or other political relations, can, for some purposes, be treated in combination, and can then be described as constituting the American sphere of special influence abroad. No two of the six latter countries stand on quite the same footing, but in every region of both groups the United States Government is able to exercise a substantial degree of control when it chooses, direct in some cases, though indirect in others, and has actually done so from time to time in the past.

The financial controls which the establishment of these political relations usually entailed have been extremely important instruments for the maintenance of the political controls themselves. The United States has usually not made stipulations giving special treatment to American concession seekers, investors and business men generally; there has been little need for them.

These financial controls are all either based directly on treaties or other contractual relations, or are the outgrowths of such contractual relations. From the strictly legal point of view, the conduct of the American Government in applying them has usually not been open to serious criticism. For it is in the tremendous expansion of American investments and business enterprise, rather than in the commodity trade itself, that the principal material product of its financial foreign policy in these regions is to be found.

Section 2. FINANCIAL POLICIES IN LATIN AMERICA: The policies and actions of the United States Government in the international financial field which have been examined in this regard are chiefly those which, whether by original intention or not, have resulted in a measure of control over the economic and financial life of certain Latin American countries or in which the United States Government has been instrumental in supporting or even creating private economic commitments by United States citizens in these regions, in such a way as to resume, in fact, though not explicitly, preferential treatment for its citizens as against the citizens of other foreign countries.

The Methods principally adopted are as follows: (1) overt or covert use of military force to effect entry into the foreign country, (2) military occupation, consequent on entry, (3) establishment of treaty relations which in themselves give the United States political or financial rights or privileges not extended to other countries, (4) leases or grants of specified areas, with various ancillary privileges, (5) financial supervision, (6) control of the movement of capital from the United States to the country in question, (7) use of recognition or non-recognition accordingly of a foreign Government by the United States Government, (8) control of the shipment of arms from the United States, and sometimes from other countries, (9) promotion of anti-revolutionary attitudes and practices, of efforts to find peaceful solutions for international disputes, and of constitutionality in general, (10) exercise of diplomatic pressure.

Bases in Law: The legal bases on which the American Government has rested its use of these methods of control have of course varied with the particular situation, but they have been few in number. The principal legal bases have been: (*a*) treaty relations, (*b*) the doctrine of protection.

(*a*) The chief practical difficulties, which arise in connection with the

application of protection in general, have been encountered, first, over the question of determining just when a situation justifies one Government in taking measures based on the right of protection against another Government; and second, over the question whether the measures taken by the plaintiff Government are not more extensive and more coercive in character than the actual situation really warrants.

(*b*) It is sufficient to have to call attention to the mere fact that the right of protection has provided the legal basis for many of the actions of the United States Government in Latin America, that the forms which the exercise of this right have taken have frequently produced conflicts, and even deep suspicion as to the motives really in play. Presumably no complete solution of the problems involved can be found, short of machinery for impartial and rapid arbitration, supported when necessary by an international police power. And even this may prove inadequate if the region in question is unable continuously to maintain an effective government. It is noticeable that the attitude of the United States Government itself on the question of protection has changed substantially from time to time.

Bases in Policy: Appeals to legal principles and precepts have not furnished the sole basis on which the actions of the United States Government in foreign financial questions have rested. Nor in a majority of cases have they been the most important bases. Its principal grounds have usually lain rather in an appeal to certain national policies, whose validity and force have been either explicitly admitted or tacitly recognised by other countries. Most of these policies represent a unilateral assertion by the United States, rather than an even informal agreement between the interested nations, and many of them are of such character that they could not be applied successfully between States of equal power. They are so familiar that little more than enumeration is required.

(1) The Monroe Doctrine.

(2) The doctrines of the "sphere of special influence and interest," of "special ties" and "moral responsibility" toward particular regions, and the like.

(3) The doctrine of the international police power, applying primarily in the Caribbean regions, is at once a derivative of the responsibilities which the Monroe Doctrine bestows in conjunction with its privileges, and of our own economic interests in that region.

(4) The right of protection is in the first instance a matter of law, but, as suggested above, it can be treated with perhaps less confusion as an aspect of national policy.

(5) The doctrine of the Open Door, on the contrary, has been applied almost everywhere that opportunity has offered itself *except* in the Caribbean and in Liberia.

Underlying Motives: The motives which animated the inception of the various actions and policies at issue run almost the whole conceivable gamut. Popular Imperialist psychology desirous of territorial expansion was an important motive for some of the steps taken in the 1890's; moral indignation, economic interests and again territorial Imperialism brought on the war with Spain; and in connection with Panama considerations of military strategy, closely supported by long-range commercial motives,

were dominant. A little later, when Knox was Secretary of State, territorial Imperialism dropped into the background, and was replaced by the subtler financial form of Imperialism which is summarised in the phrase "dollar diplomacy." In the general Caribbean area the motive frequently stated by officials for the exercise of this diplomacy was a desire to free the countries concerned from their financial dependence on Europe, which incidentally threatened the Monroe Doctrine. Actually, not only there but also in other parts of the world, the chief motive in those years was the desire to expand the financial influence of the United States, both for the sake of its political consequences in the regions directly affected and elsewhere, and for the sake of business profits as such. Official pronouncements at this time also placed some stress on philanthropic and humanitarian considerations.

Since 1918, and especially in recent years, the general drift of American policy has been largely in the direction of contraction and even withdrawal, where that was judged practicable, rather than the reverse. The motives which have induced the continuance of policies once entered upon, can be placed in the main, especially in the general Caribbean area, under the head of consolidation. The strategic and the economic motivations have been intimately related to one another. In the Caribbean, the motives of economic interest and strategy have formed an indivisible nexus; if strategy came first in time, in recent years economic interests have provided the chief proximate impulse to action.

Summary: One may be tempted to try to present these various motives and their successive expressions as the constituents of a subtle and far-reaching plan of the United States Government for financial, political, and even territorial expansion in the general Caribbean area, and eventually in other parts of South America. But such an interpretation is not borne out by the facts. Once definite political and economic commitments had been made in given regions, the United States Government inevitably found it increasingly difficult to withdraw, and each commitment led to new ones. Despite the lack of any persisting programme of Imperialism, the aggregate structure of territorial acquisitions, political controls, and economic interests which has been the end result of these various and more or less haphazard processes is not unlike the structure which a deliberate long-range policy of expansion might have been expected to produce.

Outside of the general Caribbean area, the policies of the United States Government in Latin America have been exercised less vigorously and with less effect, and their motivations are hence less important. In the main, they have centred around a not very aggressive protection of existing economic commitments, and have not involved active attempts to extend the sphere of political and financial influence of the United States.

General Results: In 1929, the United States had roughly an average of 72 per cent. of the combined foreign trade of those regions and its territories and possessions, as against 65 per cent. in 1913; but the total dollar volume of this trade with these countries increased in this period only a little more rapidly than their trade with the world as a whole. The percentages of increase were, respectively, 137 and 123. The figures of investments are more striking. In 1900, their investments in the Caribbean Islands States (excluding Porto Rico) and in Central America amounted to 70 million

dollars; in 1912 to 268 millions; and in 1930 to 1,395 millions (1,067 millions in Cuba alone). The addition of Bolivia, Colombia, Mexico and the Philippine Islands to the 1930 figure gives a total of 2,700 millions, or 18 per cent. of the total of United States investments in all foreign countries. The absolute dollar volume of increase has been substantially smaller than the increase in other parts of the world. For the total of United States foreign investments, estimated at only 500 million dollars in 1900, at 1,900 millions in 1912, exceeded 15,000 millions in 1930.

One was tempted to infer that the military and political operations of the United States in the northern part of Latin America, and its extensive exercise of political and financial influence, did not yield any very unusual profits or economic advantages. So broad a conclusion, however, would be inaccurate. For only a small part of the American commercial and financial expansion in northern Latin America is traceable to direct solicitation or promotion by the United States Government, but its activities nevertheless created the general political, legal and even military situation which made the bulk of that expansion practically possible. Then again, the United States during the War naturally stepped into the position held by previous European leaders to Latin America.

The results of the activities of the United States Government in northern Latin America, however, cannot all be measured in quantitative terms, nor are they all favourable. In the first place, many of these activities resulted initially in giving small groups of Americans, who were operating under special privileges or protection, abnormally large profits. The extent to which the American people as a whole benefited is not clear, though it was the American people as a whole who paid the cost of the Government's operations. In the second place, these activities of the Government, and the economic possibilities which they created, clearly turned American business enterprise and American capital into large areas where insecurity might otherwise have kept them out. The movement substantially influenced the pattern of American economic life, and, as shown at earlier points, in certain cases it completely revolutionised the social and economic structures of the foreign countries involved.

Section 3. Financial Policies in the Near East and Far East: The American Government has developed vigorous international financial policies of a primarily regional character in certain other important parts of the world. Substantially the same principle has been applied in each region, though with marked differences in motivation. In dealing with the question of the participation of foreign countries in the financial development of China, of the control of Near and Far Eastern Oil, the United States has appeared as a vehement defender of the doctrine of the Open Door. The doctrine obviously has much to commend it, but it stands in interesting contrast to that of the "sphere of special interest and influence," which the United States has defended with even greater insistence against the ambitions of the European countries in the Caribbean.

China: The activities of the American Government in Chinese financial affairs, at least in the present century, have centred around the Chinese Consortiums. The American financial interest in China, as distinct from its commercial interests there, is in any event not great. The direct

American investments in China are estimated at about 130 million dollars, with bond holdings at perhaps 46 millions more, a total of some 176 million dollars.

Near Eastern and Far Eastern Oil: The active interest of the United States Government in Near and Far Eastern Oil dates back to 1908. Its generally stated motive has again usually been the desire to maintain the Open Door, as in China, but here the Open Door doctrine has also frequently operated in conjunction with the doctrine of the protection of the property and the rights of nationals abroad. It is also not inappropriate to point out that the two doctrines, although embodying diametrically opposed principles, have both worked to the advantage of American private financial interests in the regions where they have actually been applied. The special and defensible concern of the United States, however, with respect to threatened encroachments by European Powers in the Caribbean cannot fairly be left wholly out of account.

Section 4. THE DIRECT CONTROL OF AMERICAN CAPITAL EXPORTS: The two principal ranges of phenomena affected by the various measures of control in question have been the exportation of capital from the United States, and the operation of the American currency and banking system.

The Promotion of Capital Exports: Since the War, the instances of the governmental promotion of specific loans have been less numerous, and the attempt to use investments in other countries as the basis for an extension of political influence, which was so important an aspect of our earlier dollar diplomacy, has substantially disappeared. Much more important has been the Government's attitude toward the financial and political reconstruction of Europe. As far back as 1924, President Coolidge explicitly urged the participation of American capital in the forthcoming Dawes Plan Loan, and gave his approval to American loans to foreign (presumably European) Governments in general. In 1925 the Secretary of the Treasury advocated the use of surplus American resources to promote the economic reconstruction of foreign countries, except where unadjusted War Debts interfered.

The American Government has also promoted the exportation of American capital in other ways. Particularly under the influence of Mr. Hoover, it has in recent years flooded the United States with data bearing on the financial and commercial opportunities offered by other countries. In addition, its extensive activities in the field of military and diplomatic protection, already discussed, have themselves played an important rôle in stimulating new foreign investments.

The ultimate effectiveness of the American Government's actions in inducing capital exports to the Caribbean region has been great. Their stimulation was by far the most important result which has ever been obtained by the action of the American Government in its endeavours to control the international movement of capital; its success here makes the effect of the more recent restrictions on capital exports seem insignificant.

Grounds of American Embargoes: The principal grounds on which the American Government has prohibited foreign loans in peace-time, or on which it has contemplated such prohibition, can be summarised as follows:

(1) Non-recognition of the foreign Government by the United States Government.

(2) Failure of the foreign Government to adjust its debts to the United States Government.

(3) Probable use of the proceeds of the proposed loan to violate recognised and persistent national foreign policies, especially in connection with (*a*) countries with which we have special treaty relations, (*b*) the maintenance of the Open Door, outside of Latin America.

(4) Probable use of the proceeds of the proposed loan for specific purposes currently regarded as undesirable, especially to (*a*) promote wars between foreign countries, (*b*) promote foreign revolutions, (*c*) build up foreign armaments, (*d*) effect a financial "exploitation" of the borrowing country, either through excessive interest charges, or the creation of excessive indebtedness, or the payment of commissions to local Government officials, (*e*) promote foreign monopolies in raw materials or foodstuffs, (*f*) promote competition with American manufacturers in foreign markets, (*g*) promote the foreign production of alcoholic beverages.

(5) Failure to adjust debts to United States citizens.

(6) Capacity to pay, either internal or external, whether of the particular prospective borrower or of the country as a whole; under this head are included the questions of "productivity," of "self-supporting objects," and of conflicts with treaties between countries other than the United States.

The result of the Government's embargo has been not so much to reduce the total volume of American foreign investments as to shift it to forms giving rather less security than those originally contemplated, and, incidentally, to arouse a vast amount of unfriendliness abroad.

Criticisms of American Embargoes: The first and most important criticism of the American Government's capital embargoes is simply that they have not produced the anticipated results, except where the United States already had an effective capital monopoly and where the control has reached all the forms of capital exportation actually important in the particular situation. The second is that control over foreign lending necessarily implies some measure of control over the volume, and often even the general direction of American foreign commerce. A third arises from the fact that the requiring of the Department of State's consent to proposed financing entails a delay which may cause loss of the business to foreign competitors. Another, already mentioned, is that restrictions on one kind of financing alone, such as the Department of State has hitherto chiefly engaged in, may force American capital seeking investment within a given foreign country into other less desirable forms of commitment. Another is that discrimination between different classes of American citizens may result. Thus foreign competition with the American manufacturer abroad has been discouraged at least once, but not competition with the American farmer. Still another criticism involves the question of legality.

General Conclusions: Unless the Government will take over the whole business of capital exportation, it would do better to engage in no control at all which is ostensibly based on primarily economic factors. The case is different with restrictions or embargoes designed to support broad national

policies in the field of international relations—policies which are of major importance, which are consistently followed over time, and for which there is wide popular support. Such policies exist in connection with the Monroe Doctrine, special treaty relations, American "spheres of special influence" in Latin America, and, to a less extent, the doctrine of the Open Door in certain other parts of the world.

So far as concerns policies which envisage objectives that are narrower, less well-known, and less generally supported, there is an obvious presumption against trying to enforce them by means of restrictions on the export of capital. As already suggested, the chances are that they are the product of some particular and debatable theory or ambition, or of the self-interest of an aggressive minority; and that if submitted to the generality of the people or their representatives, they would be rejected.

Section 5. POST-WAR FINANCIAL POLICY TOWARD EUROPE: Since the War, the United States Government has adopted a number of other policies which have had powerful effects on the course of post-War international finance. These have concerned chiefly the question of War Debts, the financial and monetary attempts to rehabilitate Europe, and more recently the efforts at relieving the acute financial pressure engendered in Europe by the world depression. Account must also be taken, however, of certain actions of the Federal Reserve Banks which were originally motivated by primarily domestic considerations, but which were of such character that marked international repercussions necessarily ensued.

The Effects: The financial policy of the United States toward Europe after the War was thus built up of elements which were at times mutually contradictory. On the one hand, they actively promoted the general economic rehabilitation of Europe, and especially currency restoration. They did this by officially encouraging the exportation both of private investment and banking capital, by extending Federal Reserve Bank credits, and at times by creating the appropriate money market conditions within the United States. On the other hand, they insisted on the payment of the inter-governmental War Debts to the United States, attempting to treat them on a strictly commercial basis, and officially denying any conditioning dependence of the payments involved on the debtors' own prospective receipts from Reparation. Finally, by their tariff policy, they placed major obstacles in the way of both the War Debt payments themselves, and the receipt of current income from, and amortisation payments on, their foreign investments.

Had the United States adopted a less severe policy in connection with the inter-governmental debts, the occasion for much of their tremendous post-War lending to Europe would probably not have arisen; a substantial part of what they now see to have been the resulting abnormal expansion of American commodity exports would not have taken place; and much of the great movement of gold into America, with its inevitable though indirect inflationary effects, might have been avoided. As things actually were there is evidently substantial ground for asserting that the American financial policies toward Europe which were adopted in the middle of the last decade cast in fatal mould that subsequent flow of events which led with all the inevitability of a Greek tragedy to the present world collapse.

Section 6. A Conspectus of American Financial Foreign Policy:

Summary of Methods: The principal methods which the United States Government has utilised to influence the international movement of American capital in peace-time can be summarised as follows, roughly in the order of their past material importance:

(1) Direct promotion and even solicitation of private capital exports, or their direct discouragement or prohibition. In the United States the so-called "capital embargo" has usually taken the form merely of expressing disapproval, not of explicit prohibition.

(2) Provision of opportunity for investment in particular regions abroad by the prior establishment of military or political controls, and by securing for American capital, through diplomatic or political means, either simple entry into the regions, special rights and concessions, or a quasi-monopolistic position.

(3) Military, political or diplomatic action to provide current protection for existing American economic commitments abroad and to obtain the payment of claims, both private and public (such as, under the latter head, the War Debts). The United States Government, however, has ordinarily not sought to protect private bond claims.

(4) Indirect encouragement to capital exportation by establishment of the precedents of military, political or diplomatic protection just referred to, both in specific regions and as a general principle.

(5) Manipulation of the American money markets and banking system, with a view to promoting the export or import of capital in general or of gold.

(6) Extension of Federal Reserve Bank credits to foreign Governments or Central Banks.

(7) Other less overt forms of co-operation between the Federal Reserve Banks and foreign banks.

Summary of Purposes: The political and economic purposes, for whose achievement these methods of controlling international capital movements have been utilised, can be grouped under the following main heads:

(1) To consolidate and buttress existing American military or political control in foreign countries, or to provide additional grounds for the extension of such control. This motivation was expressed in the "dollar diplomacy" of the pre-War era; since the War it has been unimportant.

(2) To increase the effectiveness of other types of governmental action or policies, aimed at other primarily political objectives. These objectives have been connected chiefly with foreign wars, revolution, armaments or recognition, with the maintenance of the Monroe Doctrine, special United States treaty relations in the Caribbean, United States "spheres of special influence," the "Open Door," and at least once in connection with the maintenance of Liquor Prohibition.

(3) To increase the effectiveness of other types of governmental action or policies aimed at primarily economic objectives, lying in the first instance in the fields of (*a*) Public Finance; for example, in connection with the War Debts due to the United States Government, the "capacity to pay" of Germany, and of the inter-Allied debtors, and the like; or (*b*) Private Finance; for example, in connection with debts due to American citizens, foreign raw material monopolies, competition with American manufacturers

abroad, again the "capacity to pay" of the foreign borrower, and the possible "exploitation" of the foreign borrower.

(4) To increase the opportunity for profit of American business abroad for its own sake, without other ulterior objective; this motive has been especially associated with the activities of Mr. Hoover.

SOME RECOMMENDATIONS:

(1) *The Capital Embargo and General Policy:* The need for it in specific occasional instances provides no adequate ground for insisting, for example, that all foreign loans be submitted to the Government for its approval in advance of issue.

(2) *The Capital Embargo and Special Policy:* There is usually little defence for it on economic grounds, unless as a retaliatory device; and it is unlikely to be effective unless the lending country has a capital monopoly, or can exercise political control within the region affected. Such *ad hoc* measures are also productive of great foreign resentment.

(3) *The Capital Embargo to Preserve Peace:* Such an embargo, however, could presumably succeed only if all the lending nations potentially involved were to co-operate, and, in most cases, only if it were sufficiently well supported by public opinion so that its effects extended to credits as well as security issues.

(4) *The Department of State and Foreign Investment:* In the case of the United States, the Department of State should cease to require that it be permitted to pass on foreign loans in advance of issue; the Department should be disembarrassed of this moral responsibility, and of this implied exercise of business judgment, which it is not equipped to assume. Embargoes to meet specific emergency situations are better left, as in war time, in the hands of the President.

(5) *An Association of Foreign Security Holders:* The Government should encourage the formation of a single broad, representative and authoritative association of American holders of foreign securities as rapidly as possible, on something like the lines of the English Council of Foreign Bondholders. The association should be private in management and financing, but should be of such character that it operates with Government approval, and in close touch with the Department of State. The association would thus take over much of the present activities of the State Department in inspecting public foreign financing in advance of issue, allowing broad business considerations as well as questions of public policy to be introduced; and would in addition assume an important part of those Government activities which, under the heading of "protection," are now so likely to lead to political complication and even abuse.

(6) *The Right of Protection of Lives and Property Abroad:* The right of military or diplomatic protection of lives or property abroad, exercised by a single country on behalf of its nationals, usually gives rise to undesirable results only in the dealings of strong and rich countries with weak and economically backward countries, and particularly when the strong country claims a sphere of special interest or other special influence in its dealings with the weaker one. In such situation, when an overt controversy arises, the resort to pressure by a single State should ideally

be replaced by a resort to impartial and presumably international arbitration, reinforced when necessary by an international police power.

(7) *Foreign Controls:* Wherever the establishment of foreign military, political or financial controls over a given country or region seems necessary, experience seems to indicate that the controls should be multilateral, rather than exercised by a single strong nation acting alone; and that such financing as may be necessary should similarly be multilateral in character. Frequent impartial surveys and reports, with full publicity, should also be prescribed. With respect to existing controls of long standing, such as those of the United States in the Caribbean, no simple and rigid canon can be set up. Nor can any scheme for internationalising these controls be easily conceived which is likely to prove practicable in the near future.

(8) *International Financial Co-operation:* International co-operation between Central Banks and Treasuries should be encouraged in every way possible, both with respect to the stabilisation and protection of currencies, the better ordering of international long- and short-term capital movements, and the reduction of international differences in credit and business movements. Yet it would be idle, in the present state of world financial education, to place too great faith in the probable results. Until and unless the several national Central Banks become both able and willing to exercise far more effective control over the internal economic activities of their respective countries than they have to date, the real contribution of this latter type of international co-operation to the world's general economic life can be but limited. The goal of international financial co-operation for purposes broader than mere currency stabilisation alone is eminently laudable, but the route to its achievement lies over a badly charted sea.

AUSTRIAN MEMORANDA

No. 1.

The Nature and Structure of Contingent Treaties

by RICHARD KERSCHAGL

The two underlying ideas of contingent (quota) agreements are, firstly, the idea of restriction to a definite number or definite quantity; secondly the idea of compensation in the form of fixed quantities. In this memorandum the various forms are enumerated. It is noted that contingents on a value basis are in most cases preferable to those drawn up on a quantity basis.

The Merits and Demerits of Contingents: The main advantage is that it has proved fairly easy to reduce tariffs within the limits of a fixed maximum contingent. Moreover, the dangers to the currency policy are more easily avoided by this method.

The disadvantages up to date cannot, however, be overlooked. If contingents are fixed within too narrow limits, they are not effective. If they are too rigid, some are not taken advantage of. This weakness can be alleviated by the system of sliding and paired contingents. It is said that contingents easily raise the demand for central offices (cf. the various forms of contingents). Another criticism is that it is the clearing stations which are the most urgent in their demand for contingents and that they lead to abuses. The *private* clearing stations, which come nearer to the idea of natural exchange than does the official one, are up to a point in a position to assist mutual exchanges in times of currency difficulties and economic restrictions; but they lead to the system of fixed contingents once the demand is made for practical economic action.

Protectionists also raise objections to the contingent system, for contingents at low rates or free of duty may be a means of abolishing tariffs. Quotas may be a first step towards better economic co-operation.

No. 2.

The Evolution of Austrian Commercial Policy since the War

by RICHARD KERSCHAGL

1. Immediately after the War Austria pursued, for a time, a liberal commercial policy. Her policy was determined partly by the Peace Treaties and partly by the inflationary movement both in Austria and the neighbouring countries.

2. Stabilisation brought about a new situation; Austrian industry could not prosper in the face of the high tariff walls of other countries; in going over to higher tariffs agriculture was also protected.

3. After 1929, there were elaborated many projects which were never realised, such as the Tariff Truce and the Customs Union with Germany. The appearance of the world crisis in 1931 brought about a new situation in commercial relationships.

4. This latest period is characterised by foreign currency controls and clearing agreements. The latter, partially, proved to be a failure. Such clearings showed an ever-increasingly unfavourable balance, due to the import of unimportant articles. To this were added the decrees relating to import prohibitions and other measures which compelled the use of raw materials of domestic origin.

The question of regional agreements and preferences in connection with quotas was not brought any nearer to a solution at the Stresa Conference, nor was anything done to effect a transition from the Most Favoured Nation Clause, then in force, to newer forms of tariff agreements. In the last quarter of 1932 there nevertheless appeared signs of the beginnings of a new commercial policy in the form of quota agreements based on the application of a system of sliding and automatic schedules.

BRITISH MEMORANDA

No. 1.

An Historical Survey of British Commercial Policy

by a study group on "the state and economic life"

1. General Introduction: The report gives a full and detailed account of the development of English commercial policy in the course of the nineteenth century up to the present day. The year 1860 marked the realisation of complete Free Trade, when the last preferences to the Colonies were abolished and the Cobden Treaty with France was concluded. This treaty contained the unconditional Most Favoured Nation Clause, which was successfully developed into a universal principle of European commercial policy. At the same time the principle of the Open Door into the British Colonies was fully recognised.

From 1880 Protectionism spread on the Continent, curtailing certain British markets. The Colonies were uneasy and pressed for Imperial Preferences. Joseph Chamberlain's campaign for Imperial Preference and Protection failed (defeated at the election of 1906). The Imperial Conferences of 1907 and 1911 were prevented from initiating a general system of preferences by Liberal opposition.

The period from 1915 to 1929 was characterised by a series of special measures of Protection—the first ones being directly attributable to wartime exigencies. The year 1924 brought the victory of the Labour Party and, with it, the restoration of the traditional policy. The return of the Conservatives at the end of 1924 led to the reimposition of the McKenna duties and an increase of Imperial Preferences. Nevertheless there was no question of abandoning the principle of Free Trade. The key-industry duties, which were the most important, were only levied on one-tenth per cent. of the total import value. In 1930, 83 per cent. of all goods were allowed in duty free to Great Britain. The English tariff system was too limited to allow of the granting of preferences to the Dominions. The latter demanded the imposition of duties on food with preferences in their favour.

The period 1929 to 1932—in particular, the banking crisis of 1930, the abandonment of the Gold Standard, the return of the National Government at the elections of October 1931—was of decisive importance. The main object was to restore order in the trade balance. The National Government introduced a radical change in the previous commercial policy: first through the "Abnormal Importations Act" of 1931, and secondly by the "Import Duties Act" of March 1932. In addition there was the system of preferences based on the Ottawa Agreements of July 1932.

As a result of these changes Great Britain's attitude to the Most Favoured Nation Clause has become somewhat uncertain. She wishes to maintain the principle in force, but at the same time to get Imperial Preference accepted as a valid exception.

2. The General Structure of the British Tariff System: This section gives an account of various Customs laws and examines the question whether, for instance, the McKenna and other duties have justified themselves. The most important law, namely, the Import Duties Act of 1932,

is carefully examined and the reasons given which Neville Chamberlain brought forward to justify its imposition of the duties. Great importance is attached to the fact that the duties are intended for tariff bargaining purposes.

The Imperial Preference system is justified on the following grounds: (1) the economic crisis which compelled the Dominions and the Colonies to choose new paths; (2) the growth of State intervention in the whole world; (3) the failure of the Tariff Truce Convention. The idea of Free Trade, it was thought, will be kept alive by the free movement of goods within the British Empire.

3. THE MOST FAVOURED NATION CLAUSE: A special study is made of the methods of commercial policy used by the most important nations since 1860, in the matter of the application of the Most Favoured Nation Clause, with special reference to the effects on Great Britain.

England, because of her Free Trade policy, played only a passive rôle in the commercial negotiations at the end of the last century. The leadership in commercial policy passed to Germany when the European countries went over to Protectionism. In most cases England was granted the Most Favoured Nation treatment without any specific reciprocation. But she received only the advantages which indirectly accrued from the negotiations and agreements worked out among the other States between themselves. The application of the clause under increasing specialisation of tariff schedules limited these advantages.

Opposition was roused in the Colonies to agreements concluded by Great Britain with the German Zollverein and Belgium which excluded the possibility of preferential tariffs within the Empire. An eventual result was a seven years' trade war between Canada and Germany.

Between 1919 and 1924 the disadvantages of Great Britain's defenceless position under the low tariff, combined with the unconditioned application of the Most Favoured Nation Clause, began to increase. France and her Continental allies were now the protagonists of reciprocity and a limited application of the Most Favoured Nation Clause. After 1924 the general economic situation improved. The Most Favoured Nation Clause was re-established on a firm basis, particularly after the French and German Trade Agreement was concluded in 1927, which incorporated the unconditional Most Favoured Nation Clause. With the crisis of 1929 the Most Favoured Nation Clause began to lose its value by reason of the increasing resort to one-sided import licences, quotas, clearing arrangements, etc. After the World Economic Conference of 1927 England set her hopes on multilateral agreements and particularly on the Tariff Truce Convention, which was proposed in 1930. The failure of this induced England to adopt a Protectionist policy and a system of preferential tariffs within the Empire.

In spite of the Ottawa Agreements, England still stands for the unconditional application of the Most Favoured Nation Clause, and is opposed to regional agreements. However, Sir ARTHUR SALTER is quoted to the effect that the opposition to regional agreements is regrettable, since they seem to offer the most promising line of progress in the direction of lower tariffs.

4. THE OPEN DOOR IN THE BRITISH EMPIRE: "The Open Door, which signifies equality of opportunity in its application to Colonial possessions and relatively undeveloped countries like Persia and China," seems to be of particular importance in relation, for instance, to the struggle between England and America for the control of the oil resources situated beyond their own territory and in Colonial possessions. The position is roughly true of raw materials in general. Much friction obviously arises in this connection from the fact that the Powers concerned frequently grant to their nationals permanent commercial advantages in the form of special marketing facilities, tariff preferences and monopolies. The main difficulty regarding the maintenance of the Open Door is that there are no effective means of keeping States up to their engagements—with the one exception, perhaps, of the A and B mandates.

Generally speaking, the maintenance of the principle of the Open Door by Great Britain in her Empire from 1860 to 1903 was contrary to the wishes of her Overseas possessions. The year 1894 was decisive in that it marks the date when the right was conceded to the Dominions of granting preferential tariffs to each other. The Crown Colonies were not fiscally independent of the Mother Country, and consequently pursued the same tariff policy as she did.

From 1903 onwards Preferential tendencies come into greater prominence. The Mother Country made an important exception to the previous policy of the absolute Open Door in 1904, when she imposed a preferential duty on the exports of tin-ore from the Malay States.

After 1919, and particularly after 1928, the arguments against Free Trade and the Open Door became more powerful in consequence of the falling off of British foreign trade and the pressure exerted by the Dominions for increased Preference. Both the Dominions and the major Colonies extended extensive Preferences to the Mother Country from 1920 onwards. Certain additional preferences were granted to Empire countries by Great Britain which were connected with the Conservative Party's tenure of office. By 1922 there were already preferential tariffs in operation in twenty-six British Colonies, the Mother Country being the principal beneficiary, although in many cases the preferences were, and are, granted to the Empire as a whole. In a number of Dependencies the principle of the Open Door was in force until the conclusion of the Ottawa Agreements.

Special regulations apply to the British as to other mandated areas of other Powers. Although guarantees of equality were not specified in the terms of the A mandated territories, Great Britain, on the suggestion of the League of Nations, agreed to grant them.

With the supervision of the A and B mandated territories by the Permanent Mandates Commission, an element of neutral international control has been introduced, which has greatly contributed towards the rehabilitation of the Open Door doctrine in many important trading areas of the world. (Cf. official investigations by the Permanent Mandates Commission.)

At the Ottawa Conference Great Britain promised that she would use her influence with the Crown Colonies to secure for India and the Dominions new or additional preferences on specified lists of commodities and at

stipulated rates in favour of Empire goods; great advantages will accrue to Canadian and Australian exporters from this promise.

"The Ottawa Agreements have definitely cut across the Open Door doctrine." It seems probable that the system of reciprocal preferential tariffs will be worked out more and more fully in the future, and that a return to the Open Door can only be achieved by the negotiation of equivalent concessions, either Colonial or otherwise.

The Ottawa Agreements represent, in some ways, "a co-operative attempt to regulate tariff practices on a limited scale." There is, however, a danger of the world being divided up into a small number of groups. The refusal of equality of commercial opportunity will, in the long run, prejudice those nations who do not happen to possess Colonial areas. At the moment this danger is minimised by the fact that there is an over-production of all raw materials.

No. 2

Recent British Measures affecting International Finance

by a study group on the "state and economic life"

1. In Pre-War Times: The economic principle underlying the financial activities of the City was that of *laisser-faire*, and the policy of the British Government one of non-interference. From this, it must not of course be concluded that there were neither communications, consultations nor exchanges of opinion between the Government of the day and the financial institutions of the City in connection with the issue of important foreign loans and other similar operations.

The general attitude of the British Government towards the activities of the City was clearly described by Lord (then Sir Edward) Grey, Secretary of State for Foreign Affairs, in 1914, thus: "British financiers run their business quite independent of politics, and, if we attempt to interfere, they naturally consider that we come under some obligation."

But it must again be emphasised that there was at no time any statutory form of control over the issue of foreign loans or the export of capital in other forms. Either as a matter of political principle, or as a result of established practice, the granting of loans to foreign Governments or the provision of capital resources for Overseas enterprise was not regarded—as it was in several Continental countries—as a normal instrument of Imperial and foreign policy.

It is interesting to contrast with the above statement by Lord Grey the contemporary utterances of responsible French statesmen like Monsieur Poincaré, who as Prime Minister in 1912 insisted before the Chamber of Deputies on the close connection between French military and naval policy and her financial power. Monsieur Caillaux, as Minister of Finance, spoke in similar terms. The French commercial banks shared in this outlook, as may be seen in the Annual Report of the *Comptoir National d'Escompte* for 1910.

The issue of foreign loans on the London market not subject to control or sanction by any public authority. London has therefore been an essentially free capital market. Freedom of capital movement has, more-

over, generally been regarded as fitting in appropriately with the Free Trade commercial policy of Great Britain.

There were, of course, occasional exceptions to this policy, the most notable of which was the attitude of the Government in regard to certain Chinese loans. On two occasions, at least, official pressure was directed against the activities of certain banks which were prepared to float loans in London for the Chinese Government, without insisting upon certain political and commercial advantages and concessions regarded by the British Government as indispensable to the maintenance and development of British interests in China, *vis-à-vis* the rival interests of the other Great Powers.

2. THE POST-WAR PERIOD: In this period there has not been any deliberate modification of the British Government's policy regarding the financial operations of its subjects in the international sphere. But changes have taken place in its practice which are hardly less conspicuous in this than in many other fields of economic activity.

The granting of loans to foreign Governments or other bodies, however, has not been regarded as one of the normal instruments to be employed in the conduct of Britain's foreign relations, either from a purely political or commercial point of view. There has grown up a distinct movement in the direction of a planned economy, and consequently of a managed currency. Broadly speaking, the action of the State will be seen to fall under two principal headings: firstly, measures taken for the direct improvement or maintenance of domestic economic conditions, of which such examples may be cited as the Trade Facilities Act, the Export Credits Guarantee Scheme, on the one hand, and the intermittent *de facto* embargo on foreign loans, on the other. Secondly, come the measures taken by the State to promote the immediate economic welfare and stability of other countries (including Colonies and mandated territories), in the hope of thereby indirectly promoting the prosperity of the United Kingdom. Examples of this are the guarantees given for a number of Overseas loans, and the official support given, through the intermediary of the League of Nations, to the flotation of reconstructon and stabilisation loans, principally for the impoverished countries of Central Europe.

Foreign Governments, however, continue to arrange the flotation of loans in England with their London bankers purely as a matter of business, without being subject either to political or other censorship by the State. The Bank of England, acting in the interests of the country as a whole, and executing a duty which in most other centres devolved directly on the Government, has on occasions placed an embargo on foreign lending. Thus, without specific legislation or State action, the Bank of England has in fact, though not in law, been the arbiter and controller of the foreign lending activities of the City (it does not, be it noted, concern itself with the nominally short-term operations of the banks). For the clearly expressed disapproval of a particular operation by the Bank of England is invariably respected by the rest of the English financial community.

However, in 1925, the year of the restoration of the Gold Standard in England, an embargo was put on foreign lending lest the stability of the pound might otherwise have been endangered.

The supervision of foreign loans described above, exercised quite leniently, on the whole, by the Bank of England, for economic and not political reasons, is really all that there is to be recorded in respect of Government control or, as it may perhaps be called, negative intervention by the State during the post-War decade. Concurrently, however, the Government has undertaken some positive measures calculated to influence both the direction and the volume of foreign lending and foreign trade; the following are the principal measures:

(*a*) *Direct Loans by the British Government to foreign Governments:* These have been a very rare occurrence except in time of war; and in the post-War period they play a very small part.

(*b*) *Loan Guarantees by the British Government:* Since the War, the Government has in one instance departed conspicuously from its earlier practice of undertaking to protect only the loans of Colonial Governments, by giving a guarantee for a substantial proportion of a loan to the Government of a foreign country, namely, Austria. The total amount of these guarantees is, however, a very modest one, some £24 million for the post-War period. That is less than 3 per cent. of the post-War borrowings in London of the Dominions, Colonies and India.

(*c*) *Official encouragement of Reconstruction Loans issued under League of Nations auspices:* The action of the State constituted a contribution to the general problem of restoring and rebuilding those countries whose protracted inability to extricate themselves from post-War economic distress was exceedingly dangerous.

These loans, now commonly known as League of Nations loans, were a complete innovation; they were arranged in every case by co-operation between the Governments of a number of different countries acting through their representatives on the League of Nations Finance Committee, and, in some instances, through special Commissions, composed as a rule of Treasury or Central Bank officials or economists delegated by the interested Governments. The position of the borrowing country was thoroughly examined before any loan was floated.

The simple, if somewhat regrettable, fact that some of the loans granted under the above procedure are already in default can hardly be accepted as conclusive proof that the loans were from the first unjustified, financially or economically. It is rather surprising that so many countries are still able to meet their foreign liabilities, than that a few of the weakest, which had scarcely emerged from the chaos of War, should have failed to do so.

It has been observed that many of the loans arranged through the international co-operation of Governments (among which the Dawes Loan may, with propriety, be included) were almost too successful in their object of restoring confidence in the capacity of certain borrowers. This led to a lavish extension of further credit which masked the real situation, and tended to retard the adjustment of an adverse balance of payments, and gave a deceptive appearance of strength to Central Banks. The conclusion has sometimes been drawn that the State should in appropriate cases intervene more actively to control the inflow of capital and the uses to which it is put.

(*d*) *Guarantees under the Trade Facilities Acts:* Under the Trade Facilities Act of 1921, the Treasury was given power to issue its guarantee for loans

raised by borrowers at home and abroad, provided that the proceeds of such loans raised were to be applied to the creation of fixed capital of a kind calculated to promote employment and were to be spent in Great Britain. A sub-section of the Trade Facilities Act of 1924 gave further powers to the Treasury.

From the present point of view, interest attaches principally to the fact that useful assistance was rendered to British export industries by these Acts. Financial support for Overseas ventures was for the first time made explicitly contingent upon tangible benefits accruing to the home industry.

(*e*) *The Export Credits Guarantee Department:* another instance during this period of Government action of a financial nature taken with the object of assisting the depressed export trades and industries of the country. Hitherto British exporters found themselves placed at a serious disadvantage in competition with their foreign rivals, as a result of their inexperience of large-scale foreign trade operations financed by middle-term credits. Here the Export Credits Guarantee Department has filled a gap and rendered conspicuous service. In addition to arranging such credits, it holds at the disposal of British exporting industry a vast store of information on all the principal countries trading with Great Britain, which is derived not only from a study of general economic conditions, but also from contacts, often of a private and confidential nature, with all types of financial and commercial organisations.

(*f*) *The Trustee Acts* (*Colonial Stock Act, 1900*): Owing to the operation of these Acts which confer Trustee Status on Colonial bonds, the market for such bonds is infinitely greater than that for, say, ordinary foreign bonds; furthermore, it is likely to be a much more stable one. Since 1900 there has been an unmistakable tendency for Dominion and Colonial loans to form an increasingly large proportion of the annual new Overseas investment.

Regarded from the point of view of the borrower, it need only be said that the exceptional financial facilities afforded have contributed very substantially to the provision of better conditions of life, better technical equipment, in the form of good communications, transport, harbours, bridges, etc., in the Colonies and Dominions. On the other hand, they appear to have encouraged investment at a rate which appears to have been excessively rapid and somewhat undesirable on economic grounds. With borrowing rendered easy, both private and public bodies, particularly the latter, have felt impelled to make the fullest use of the existing financial opportunities. The result is that the Dominions, which contain comparatively small and stationary populations, are, by a considerable margin, more heavily indebted at the present time than any other countries in the world, not excluding such an ancient and wealthy country as France.

No. 3.

Agricultural Marketing

written by E. T. THORNTON-SMITH
on behalf of the British National Co-ordinating Committee

From the repeal of the Corn Laws in 1846 until comparatively recently, the economic policy of Britain was one of *laisser-faire*, and the functions

of the State towards agriculture were almost entirely regulatory. During the present century the functions of the State have gained more and more in importance and have aimed at stimulating the development of the industry.

1. REGULATORY FUNCTIONS: These consist chiefly for the maintenance of equity, the control of diseases and pests, the protection of the worker (a more recent development of State interference).

2. AGRICULTURAL DEVELOPMENT: There are broadly two methods by which Governments can stimulate the development of agriculture; firstly, by creating an artificially favourable environment, in which the industry can flourish, by such means as tariff protection, subsidies and so on; and secondly, by making agriculture more efficient.

(*a*) *Artificial Assistance:* Until the present National Government assumed office, the general policy of Great Britain differed fundamentally from that of most other countries, which endeavoured to build up or maintain their agriculture by such measures as protective duties and subsidies. Such encouragement as was given by the State mainly took the form of measures aimed at "helping the industry to help itself." The two chief examples of assisted production in agriculture in the post-War period are wheat and sugar, but here there were special arguments for artificial aid.

By the Import Duties Act, 1932, the United Kingdom abandoned its long-accepted Free Trade policy, and most branches of agriculture, in common with other industries, have received Customs Protection under this Act. Of the three products not protected by tariffs, viz. wool, wheat and meat, the Government has, as regards meat (including bacon), committed itself, by the Ottawa Agreements, especially to the principle of quantitative regulation of imports.

(*b*) "*Efficiency*" *Measures:* The danger that Protection, by tariffs or otherwise, may tend to bolster up the inefficient is generally recognised. The customary work of the State in endeavouring to raise the level of efficiency in agriculture has therefore been rendered more, rather than less, important by the adoption of a protective policy. It has actively encouraged more extensive agricultural education and research; it has taken important measures to further improvements and increase the number of small-holdings; it has endeavoured to reorganise the marketing of agricultural products and gone a long way towards standardising such products.

The National Mark: In 1928 the Agricultural Produce (Grading and Marking) Act was passed, which empowered the Minister of Agriculture to formulate statutory grades and grade-marks for any kind of agricultural produce. Grades have been defined under this Act for a wide range of commodities and a common distinguishing mark has been prescribed, the National Mark, which may be applied only to goods of home origin graded in accordance with these definitions. Use of the statutory grades is voluntary, but any person who sells goods under a grade-name thereby gives a warranty that those goods accord with the grade definition employed. Moreover, the National Mark as distinct from a grade-name may only be applied by authorised persons who, as a condition of authorisation,

undertake to maintain a certain standard of efficiency in the preparation of their goods for market and to submit to Government supervision.

Compulsory and Voluntary Standards: There thus exist in Great Britain to-day two kinds of statutory food standards. There are those, such as the preservation of a given standard of purity in the product, the non-observance of which constitutes a criminal offence. Then there are these new voluntary standards which enable the producer, in his own business interest, to give buyers a guarantee of the commercial quality of his wares.

The Agricultural Marketing Act, 1931: The first essential of a planned system of marketing in Great Britain was the bestowal upon the producers of any given commodity statutory power to organise themselves comprehensively with a view to controlling the marketing of their output of that commodity. Voluntary co-operation was quite inadequate for this purpose. The Agricultural Marketing Act of 1931 gave the agricultural industry the powers of self-discipline which it required. Once producers are ready for group action, they can mobilise the powers of the Act to prevent the policy of the majority from being "scotched" by a minority of individualists.

It has to be emphasised that, in putting the Agricultural Marketing Act upon the Statute Book, the State has not assumed any power of control over agricultural marketing. The Act does, however, permit the State to assist agriculture to organise its marketing both financially and, indirectly, in an advisory capacity. It is entirely in the hands of producers whether they adopt any such schemes or not.

Home Organisation and Import Control: The farmers themselves pointed out, when the Marketing Act was passed, that as a means of building up a rational marketing system for home agriculture its scope was seriously limited by the existing freedom of importation. The abandonment of Free Trade by the present National Government, however, and particularly the proposed use of the quantitative method of import control, have greatly increased the potentialities of producer-organisation in this country as a basis for enhanced efficiency.

Import duties, the older method of restriction, are aimed solely at "Protection" and the accumulation of revenue. But it is now becoming evident that the quota system can do more than this. It can also be used as a means of assisting agriculture in putting its house in order. Its primary aim may be, not the *restriction* of imports, but the *regulation* of imports in such a way as to make possible, in conjunction with organised marketing in the home industry, an orderly feeding of the home market as a whole.

Looking beyond the problem of the control of meat imports, which this Government has already undertaken, and indeed beyond home agriculture, it is at least possible to envisage the wide extension of this principle of voluntary international agreements among producing and trade interests, with the approval and support of the Governments of the main consuming countries. This would be a very real help in removing the chronic instability and uncertainty which at present afflict producers of all agricultural commodities and a permanent contribution to agricultural prosperity.

No. 4.

The British Trade Board System

written by J. J. MALLON,
on behalf of the British National Co-ordinating Committee

Historical Development: The establishment of Trade Boards arose through the direction of public attention to the evil of "Sweating" in certain industries. The 1909 Act provided for the establishment of Trade Boards for the Tailoring, Paper Box, Lace Finishing and Chain Making trades, and it could be extended to cover other trades in which wages were exceptionally low by special "Provisional Orders." The Act charged Trade Boards with the duty of fixing minimum time-rates for their trades, and also empowered them to fix general minimum piece-rates.

Recommendations for Extension of Trade Boards: Following the experience gained during the War, amendments of the 1909 Act were proposed which were largely embodied in the subsequent Act of 1918, and a large number of new Trade Boards were set up. And although the Minister is still to have regard to the rates of wages prevailing, the main test for establishing a Trade Board is whether or not adequate machinery exists for the effective regulation of wages throughout the trade.

Constitution and Proceedings of Trade Boards: While each Trade Board consists of an equal number of representatives of employers and representatives of workers, there is, on every Board, a neutral element in the persons of the Appointed Members, who are both conciliators and final arbiters. The rate-fixing powers of Trade Boards were extended in important respects in the 1918 Act. The Trade Boards Acts as a whole do not lay down any criterion on the basis of which minimum rates shall be fixed. For the system of establishing a separate Trade Board for each trade to which the Acts are applied enables the Trade Board scheme to work with considerable elasticity. Notice of proposed rates is always given, and any objections considered, before the rates are finally fixed. The Minister of Labour is responsible for the enforcement of all rates fixed by Trade Boards, and for this purpose employs a staff of inspectors.

The Cave Committee: Following much criticism of Trade Boards by employers in 1921, the Minister of Labour appointed a Departmental Committee (the Cave Committee) to enquire into the working and effects of the Trade Boards Acts. In 1923 the Government of the day introduced a Trade Boards Bill broadly embodying the recommendations of the Cave Committee, but when that Government fell the Bill lapsed, and has not since been proceeded with.

Trade Union Enquiry: In 1931 a Committee of the Trade Boards Advisory Council of the Trades Union Congress made its own enquiry into Trade Boards. The principal immediate cause of this enquiry was the criticism made by a number of Trade Unions that the existence of a Trade Board in any trade was a handicap to the Unions in their efforts to organise the workers, who, it was said, took the line that as their wages were protected by the Boards there was not need for them to join a Trade Union. Indeed,

in the course of the enquiry the Committee learnt that already in twenty-three of the existing Trade Board trades Trade Union agreements were in operation for the payment of rates above the minima fixed by the Board.

The Committee concluded that all the existing Boards must, for the time being, continue, but that new Boards should only be established where the Unions were satisfied that the rates of wages prevailing were unduly low and where circumstances were such that it was not reasonable to expect that Trade Unions organisation would be established.

Trade Boards and Industrial Relations: In one or two cases Trade Union organisation developed in Trade Board trades to the point where it was possible to negotiate a national agreement with the employers' organisation outside the Trade Board, the agreement being given legal effect through the Board afterwards. In some of the trades in which wages have fallen below the level upheld by many of the Trade Boards, cases have arisen in which employers have compared, adversely from their point of view, Trade Board rates with those negotiated with Trade Unions.

Trade Boards and Unemployment: Unemployment figures are not available for all Trade Board trades, for the reason that most of these trades are merged for the purpose of statistical returns in larger groups. In so far as they are distinguishable, however, the figures suggest that Trade Board trades are no worse off so far as unemployment is concerned than is industry as a whole. And there is evidence that the effect of Trade Boards on industrial efficiency has been all to the good.

The Rate Achievements: The best picture of the achievement of the Boards may be obtained by a comparison of pre-Board rates with those fixed by the Boards. For instance: in the tailoring trade, the *average* wage of women of 18 years and over was shown to be 13s. for a week of 52 hours. The *minimum* rate immediately fixed by the Trade Board was 14s. 1d. a week. Thus the Trade Board *minimum* exceeded by 1s. 1d. the *average* rate previously paid by employers making returns for the Census. A weekly increase of over 4s. resulted in the case of 25 per cent. of women in the trade who were receiving less than 10s. for a full week. To-day, the Trade Board *minimum* time rate for the lowest grade of woman worker in the trade is 28s. for a week of 48 hours, with special overtime rates, and the *minimum* piece rate is 32s. a week.

CZECHOSLOVAKIAN MEMORANDUM

The Exchange System in Central Europe, and in particular in Czechoslovakia

by A. BASCH

The States of Central Europe and Eastern Europe form a *bloc* of debtor States of varying degrees of indebtedness. During recent years Czechoslovakia has reduced her foreign debts systematically. The fall of prices in the world market, especially of agricultural prices, has, however, seriously affected the balance of payments of these countries. In addition, the withdrawal of credit resources has forced them to adopt measures for the protection of their currency, the aim being to reduce imports and to prevent the export of capital, etc.

Most of these countries have applied various methods of controlling transactions in foreign bills. Some regulate the assignment of foreign bills against all imports; some establish quotas; some divide the imports according to the available quantity of foreign bills, etc. Czechoslovakia allows for the punctual payment of all the imports that are officially permitted. Germany fixes by quota the payment of 50 per cent. of her total imports.

All these countries prohibit the flight of capital and arbitrage transactions. Travellers' needs are met on a basis of reciprocity. Germany, Hungary and Austria have declared a moratorium on foreign short-term debts in the form of a "standstill" agreement. Hungary, Yugoslavia and Bulgaria have either suspended or restricted all transfer transactions, even for the payment of interest on long-term foreign debts.

In Central Europe a special system of clearing agreements has been widely developed. This has brought about a certain regularity of payments abroad by countries struggling with currency difficulties, but it has not made any effective contribution to the solution of the transfer problem as a whole. For only payments which cancel each other out can be effected in this way. Moreover, it has led to a double currency standard for these countries. The high, artificial rate injures the exporters of these countries and increases imports and, consequently, the difficulties of payment. This system is rounded off by a system of private compensation or clearing agreements.

It is impossible at the present moment to calculate the results of the Central European control of the settlement of foreign bills. The protection of the currency has perceptibly led to other protectionistic tendencies. Each country paralyses the other's export trade. The international capital market is closed to these countries. Unscrupulous debtors avoid paying their debts. The legal position of indebtedness has become uncertain. The export trade is driven into uneconomic channels; the clearing agreements lead to unnecessary imports. The problem of the unfavourable balance of payments is not solved by these means, but merely postponed.

It has been maintained that the control of foreign currency leads to the planning of production, and that eventually is a useful means of

building up a planned economy. This assertion ignores the fact that this has not been obtained by international co-operation but by economic sacrifice only. The States of Central Europe are gradually coming to realise the disadvantages of the control of foreign currency and are trying slowly to break it up. The abandonment of this system, however, presupposes the solution of the problem of international indebtedness, which does not actually concern Czechoslovakia. With the attainment of an equilibrium in the balance of payments the necessity for the control of foreign currency will vanish. Czechoslovakia has, for her part, fulfilled all her obligations.

DANISH MEMORANDUM

The Danish Import Restriction Scheme

by JØRGEN PEDERSEN

Denmark pursued a liberal policy up to the crisis, until England and other countries, with devastating effects on Denmark, abandoned the Gold Standard and went in for quotas. For the purpose of defending herself against the measures of other countries Denmark adopted the system of import restrictions in 1932, so as, firstly, to restrict imports, and, secondly, to regulate imports. About 15 per cent. of the total imports to Denmark were subjected to a system of licences.

The main difficulty in putting the system into practice, particularly at first, was due to the fact that the importers demanded much higher quantities than were previously imported. It is not possible to draw an exact distinction between justified demands and others, though the generally expected shortage of goods did not result, which was, perhaps, a proof that the law did not restrict imports as effectively as was anticipated.

The motives for supporting the introduction of the system varied in the various political parties. The Left parties, who were then in power, wished to prevent a depreciation of the currency, inflation and protective tariffs. The Conservatives, in opposition, finally voted for the system also, partly from fear of inflation, and partly to maintain parity with the pound sterling, and partly out of reaction to the German measures against Danish butter imports.

The effects of the import restriction scheme: it appears that the statistics do not provide sufficient basis for precisely determining results. It is impossible to prove that imports would not in any case have decreased to the same extent as a result of diminished incomes. In other Northern countries the decrease in imports is not much less. The trade balance improved in 1932; but whether the restriction of imports was the cause, it is not possible to state. The same is true with regard to the improvement in the employment figures.

It is certainly true that there has been during this period a change in the volume of imports from various countries. The imports from Great Britain, for instance, rose by 16·5 per cent., while those from Germany and the United States fell by 40 per cent. and 43 per cent., respectively. The depreciation of the pound sterling was partly the cause. It is, however, noteworthy that Norway's and Sweden's imports from Great Britain fell off during the same period. The law regarding import restrictions improved perhaps the Danish position in regard to negotiations with Great Britain and Germany. In any case such a measure, even when applied by a small country, cannot fail to injure international trade. Nevertheless Denmark acted in self-defence after the other countries had already introduced restrictions on trade.

FRENCH MEMORANDA

No. 1.

French Commercial Policy since the War[1]

by JEAN NAUDIN

1. Prior to 1914: French commercial policy was based mainly on the law of January, 1892, which established minimum and general tariffs; the former being reserved for States with whom trade agreements had been signed. The Most Favoured Nation Clause was an essential clause of such agreements whereby the minimum tariff became the guaranteed maximum concession.

2. 1914 to 1928: After the War the whole system of agreements had to be revised, and by the tariff law of July, 1919, a temporary measure was introduced to enable the French to obtain greater reciprocity. It was now no longer possible to guarantee the minimum tariff by treaty to all countries. Further, the Most Favoured Nation Clause was no longer effective because of currency fluctuations, embargoes, etc. Long-term agreements were no longer entered into on account of the uncertainty of the international economic and political situation.

With a gradual improvement of affairs after 1926, conditions of commerce became more stable. Later in 1927 the Franco-German Trade Agreement was signed, which was of special importance; it restored the Most Favoured Nation Clause in Franco-German commercial relations. The law of March, 1928, subsequently formed the basis of France's commercial policy.

3. 1928 to 1933: Since 1928 fifty laws and decrees have been passed, in most cases for the purpose of raising protective duties (1) on agricultural produce as against countries in need of capital or with particularly low export prices, (2) in respect of various branches of industry threatened with unemployment and which felt themselves unable to meet foreign competition.

In the first place Protection was resorted to to counteract the effects of the world crisis in other countries. France herself was not directly affected till after 1930. The principal method applied was the quota system, which affects more than 1,100 tariff items to-day, i.e. more than one-seventh of the total number of dutiable goods. The reason for this lies, firstly, in the increasingly unfavourable balance of trade; secondly, in the actual or asserted dumping of other countries, i.e. importing at very low prices; and thirdly, in the increase in the amount of certain foreign imports.

The quotas thus introduced were sometimes fixed autonomously and sometimes by agreement. Of particular importance were the Franco-German agrements in the winter of 1931–32. In addition, France increased her Protection by a variety of other methods, such as import duties, pledges

[1] This memorandum is complementary to that on "The Protection of the Domestic Market in France," presented by Professor Roger Picard to the Milan Conference, which outlined the principles of French commercial policy; it has been reprinted in *The State and Economic Life*, 1932, op. cit., p. 137.

for compensation, etc. The application of the Most Favoured Nation Clause was thus, in practice, severely restricted.

The Prevailing Tendencies: State intervention has led to an increase in Protectionism, the diverting of trade from its normal channels, the maintenance of high agricultural prices, and the falling off of exports by reason of high costs of production and foreign reprisals. These reprisals have not been resorted to in any great measure, it is true, because other countries also have obviously wished to reserve for themselves the freedom to act in defiance of signed agreements, and have thus acted in a similar way to France. This constitutes on the whole an essentially opportunistic trade policy.

The general increase in Customs Protection, the maintenance of foodstuffs at artificially high prices, the decline in exports handicapped from the start by high cost prices and countered at their destination by reprisals —such are the general effects of the recent measures of State intervention.

By denouncing many of the previous treaties of commerce, however, and by proscribing the unconditional Most Favoured Nation Clause, the French Government has completely gained its independence as regards the tariff. In 1930 it thus accentuated the movement towards freeing the tariff from external commitments when it negotiated with the Italian and German Governments for the following purposes: (1) the cancellation of previous tariff agreements, (2) the restriction of the application of the Most Favoured Nation Clause, (3) the replacing of the principle of equality by that of reciprocity.

The increase in German imports and the falling off of exports to Germany were attributed to the trade agreement of 1927, although a number of other important causes also played a part. Actually the Franco-German agreement still includes the Most Favoured Nation Clause, in spite of the new negotiations. A few limitations of its application were included, as, for instance, that in favour of the Danubian countries and multilateral agreements under the auspices of the League. The Governments concerned have thus recovered their freedom of action in respect of a number of tariff positions, and Germany was the first to announce her intention of taking advantage of this freedom. France has freed herself from the long-term agreements, rather for the sake of freedom of action than in order to pursue a preferential policy. The protection of agriculture has been in the forefront of her programme.

No. 2.

The Customs Regime in the French Colonies and Protectorates

by M. HOFFHERR

A distinction must be made between the assimilated territories and the non-assimilated; and again under the latter category, between those with preferential regimes and those which maintain the Open Door. The Colonies with preferential regimes grant preferential treatment to goods of French origin; in return, their exports are admitted into France either duty-free or at a lower rate than the normal tariff.

The Open Door is established in most cases through international agreement, though it is evident that the treatment granted therein is very elastic and varies according to the possibilities which the agreements themselves have provided.

THE PROTECTORATE OF MOROCCO: In contrast to most other territories, Morocco provides an instance of a land where the Open Door has been enforced without exception for twenty years. Neither by agreement, nor on a basis of mutuality, nor even by decree has there been any wavering from the fixed principle. The system of fiscal taxes levied *ad valorem* is not far removed from Free Trade. Economic progress under this system has been most favourable. It is true that the trade balance has become more and more unfavourable—probably on account of the increase of capital imports, coming for the most part from France. This, in turn, has led to an inflow of French imports, to such an extent as to overweigh the scale of imports as against exports. The continued import of capital only became possible as a result of the continued rise in prices.

When the financial crisis occurred in 1930 the situation changed. While all the other countries raised their tariffs, Morocco was powerless to prevent them from dumping their goods across her frontiers. French imports diminished in consequence of the relatively higher price-level in France. Its other exports fell just at the moment when the repayment of loans became due. And in the absence of any effective protection from tariffs, resort was had to measures of indirect protection, among which were the exemption from duty of a large contingent of wheat from France, and State intervention in the industrial as well as the agricultural sphere for the purpose of encouraging domestic production (reduced railway charges, State credits, etc.).

Mention should also be made of a plan by M. Jussiaume for closer co-operation between France and North Africa, particularly with regard to the possibilities of linking it up with joint European action in Africa as a whole. This would involve an obligation on France's part to take fixed quantities of Moroccan commodities at preferential tariff rates or duty free, at previously stipulated prices and with actual guarantees of purchase.

CONCLUSION: (1) The report observes that the Open Door regime has worked in Morocco for twenty years without any injury to its finances or the economic system, or, on the other hand, to that of the Mother Country. (2) The sudden universal raising of tariffs and the system of dumping make the maintenance of the principles of economic Liberalism in Morocco appear somewhat paradoxical. (3) In the absence of other expedients in the field of Customs policy, Morocco had to resort to intervention in private enterprise, which might be completed by an organisation "*disciplinée et complémentaire*" of the exchange of commodities between Morocco and the Mother Country.

No. 3.

State Intervention in Banking

by ROGER ALHEINC

A distinction is made between voluntary intervention and compulsory intervention; the former type affects the Bank of France, the Colonial Banks, the *Crédit National*, and the so-called banks of "*inspiration officielle*," and the latter, the Bank of Alsace-Lorraine and the *Banque Nationale de Crédit*.

Voluntary Intervention.

The Constitution of the Bank of France: An important point is the advantages which are reserved for the State. Its right to issue money is a partial delegation of the sovereign power of the State; as a holder of this delegated power the Bank therefore is backed by the authority of the State: for example, the Bank suspended payments in gold in 1914 at the command of the State. Further, the Bank must assume, without any compensation, the rôle of banker to the State. On numerous occasions it has had to grant credit to the State for very considerable amounts. It must, however, be emphasized that the State has no powers of compulsion over the Bank.

The Colonial Issuing Banks are graded into four groups: (1) the group of banks of the Antilles, Guiana and Réunion, (2) the group consisting of the Bank of Indo-China and French West Africa, (3) the Bank of Madagascar, (4) the Bank of Algeria—all of which are described in detail.

The *Crédit National* was founded immediately after the War for the purpose of rebuilding the devastated areas; its first task was to mobilise the annuities for those devastated areas; the second was the granting of long-term credit. Since the State guaranteed the issues of this institute, the State was justified in exerting the right of control and of participation in the profits.

The banks of "*inspiration officielle*" are the *Crédit Foncier de France*, the *Banques Populaires*, the *Crédit Agricole*, and the *Banque Nationale française du Commerce Extérieur*.

The *Crédit Foncier de France* was founded in 1852, and from a juridical standpoint it enjoys special advantages. It issues securities on land against mortgages and communal bonds, in return for loans to the Communes or Departments. State control is exercised through a Governor and two Assistant-Governors appointed by decree. In addition, the State is represented on the administrative board and at the shareholders' meetings. The final supervision lies with the Minister of Finance; there is also a final checking up by the Inspectors of Finance. The Institute has practically, though not legally, a monopoly in this field. The benefits of its monopolistic position are, however, limited by regulations regarding the rate of interest.

The *Banques Populaires* were founded under the laws of March 13, 1917, August 7, 1920, and July 26, 1929, with special privileges in order to secure to the small trader and artisan class the necessary credit which it would not normally have interested the private banks to grant. Without such facilities as this, the small trader and the artisan would otherwise

have fallen into the hands of the unscrupulous moneylender. These banks therefore undertake, in a certain sense, the duties of the State in its social capacity. In 1929 the *Chambre Syndicale des Banques Populaires* was founded as a central organ of State control to supervise the advances made by the State; it is administered by a *Conseil Syndical.* A Government commissioner is attached to the *Chambre,* who is responsible for seeing that it functions according to the legal regulations and uses the State advances for legitimate purposes. It does not, however, interfere in the management, though it has wide powers of investigation.

The *Crédit Agricole* has developed considerably during the last ten years. The State grants the Institute a number of advantages: exemption from taxes, endowments, and advances considerable amounts.

The *Banque Nationale française du Commerce Extérieur* gives import and export credits and receives State subsidies.

COMPULSORY INTERVENTION.

This refers to cases in which, during the present crisis, the State has, in the interests of the public, been obliged to support the script issued by certain banking institutions, which would otherwise have collapsed. In each case the State first appealed to the corporate sense of the other big banks, and in the case of the *Banque Adam* this support was sufficient to avert a collapse.

In the case of the *Banque d'Alsace Lorraine* and that of the *Banque Nationale de Crédit.* however, the situation was different, for their difficulties occurred at a time of severe crisis when a general panic might easily have arisen. In the case of the former, a Treasury grant of 900 million francs prevented the bank from having to close its doors; in the case of the latter, the other banking institutions subscribed together a guarantee fund of 250 million francs in order to secure the Bank of France against losses which it might have suffered by having to rediscount the Government stock of the *Banque Nationale de Crédit.* Moreover, the State undertook to satisfy all demands of depositors (the transactions finally amounted to rather more than two milliard francs). Then soon after the *Bank Nationale de Crédit* was liquidated and the business continued by the newly founded *Banque Nationale pour le Commerce et l'Industrie.* By a secret clause a subsidy is to be granted to the bank if necessary, in the event of it doing insufficient business in the first years.

CONCLUSIONS: Where State intervention has been necessary, it has taken the form during the last century of tactful control. Its unavoidable intervention during the present period of crisis is of quite a different character. For it has now become a question of "defending the public credit." The expression is very vague, but the object is unavowedly to protect the money issued by the banks. It ultimately concerns the issue of script by the banks, which has been carried so far that there is a danger, in a crisis of the entire mechanism, of re-discounting breaking down. A mere revision of the statutes of the Issuing Bank is not sufficient; the rigid carrying out of regulations with regard to the issue of notes is a pre-requisite condition of a gold currency. The technique of the banks

must be developed with a view to seeking in a system of assurance credits the means of establishing the necessary guarantees for developing the issue of banking script. The problem is, finally, how to adapt the technique of credit to the needs of to-day.

No. 4.

State Intervention in the Management of the French Railways

by ANDRÉ JANET

1. *The Main Forms of State Intervention:* Those which have been present from the outset and which characterise the system to-day consist in (*a*) intervention in the construction of the railway lines and the granting of concessions, (*b*) influence on their operation through regulations regarding conditions of purchase, order and public safety, (*c*) financial intervention resulting from the effects of the operation of the railway system on the State Budget. In later years, however, when the social rôle of the State became more clearly defined, it became the business of the State to intervene on behalf of the railway employees.

2. *The State and Railway Concessions:* The French system is to-day, in spite of appearance to the contrary, practically homogeneous. It consists of a monopoly of a small number of autonomous organisations combined with a large measure of State control, which, as has been remarked, is in conformity with modern social evolution. As regards the construction of railway lines, which have always been built with the help of large State contributions, the systems show a wide variation.

3. *The State and the Operation of the Railways:* On the technical side the principle followed is evidently that the Minister of Public Works possesses absolute powers in the matter of public safety. This has never been contested, even by the companies. However, although the principle may be simple, its application is made complicated by the fact that the State, in its relations with the railway systems, is bound by contracts, conventions and conditions of purchase which it is not in its power to alter one-sidedly. The result is that the Minister is constantly limited in his actions by the possibility that the companies may appeal to the Council of State. It is also true, on the other hand, that the Ministers have often been inclined to impose on the railway system inventions of doubtful value, and it is fortunate that the companies have had the powers to resist such demands. The French trains are the most rapid on the Continent in spite of the strict speed limits imposed by the State control, yet the percentage of delays is very low and the number of accidents negligible.

On the commercial side, the rights of the Minister, where neither sovereign rights nor the necessities of public order play any part, are much weaker than on the technical side. The conditions of purchase laid down the maximum rates that could be charged, but until 1921 the railway systems were not expected to agree to any lowering of rates except in case of famine—now a thing of the past. The right of initiative in fixing

rates belongs to the companies, but the rates have to receive the approval of the Minister, which is here given the name of *homologation.*

As regards the personnel of the railways, the employees, even those of the State railways, are not civil servants. However, as would be expected under a democratic system, the conditions of work of the railway employees is one of the fields in which State legislation has been particularly active, with the praiseworthy object of improving the moral and material position of the workers.

The State has, in particular, intervened in the matter of pensions. As far as the hours of work are concerned, the railways are subject to the eight-hour day regulation, like every other industry in France. The improvement in the standard of living of the railway employees since the War has been at least equal to, if not greater than, that of the civil servants.

4. *Financial Relations between the State and the Railway Companies:* As has been stated, the State takes over a share of the costs of the construction of the railway lines; actually, the major share. Moreover, as the receipts have not always been sufficient to cover working expenses and increasing capital charges, the State has been obliged to intervene to cover deficits, at first in the shape of guaranteeing the interest on the capital invested, and later in the form of advances to the common fund under the agreement of 1921. Hence the double necessity for State control of the accounts of the companies.

In the matter of the working costs, it is evident that the necessity for having all expenditure authorised beforehand would involve a risk of crippling the services. Nevertheless, in view of the effects which such expenditure has on the financial situation of the railway systems in which the State has an interest, it would be desirable for the more important items of expense to be submitted for authorisation.

The War naturally produced a considerable deficit in the budgets of all the railway systems, by reason of the low military transport rates and the increase of the working costs, which were not offset by any increase in the rates charged. The War revealed the disadvantages of the excessive particularism of the various systems; but, on the other hand, it has also produced a current of public opinion hostile to State enterprise and desirous of avoiding the consequences of railway deficits in the National Budget.

The agreement of 1921 thus established a financial solidarity between the systems by the institution of a common fund into which the companies with profits paid, and out of which the companies with deficits could draw. From 1927 onwards the working of the railway system became independent, the State only intervening to make short-term loans to the common fund to be repaid within a period of two years.

The agreement of 1921 was based on the assumption that, under normal economic conditions, the receipts could be made to cover working expenses and capital charges. The convention had expected this stable situation to be reached in 1927. The recovery of the franc at the end of 1926 resulted in a contraction of business, which prevented the budget from being balanced in 1927. A further rise in the railway rates in 1928, accompanied by a diminution in the restrictive effects of the stabilisation, made it possible to rather more than balance the budget once again. In 1929

expenses were increased by rises in the salaries of the personnel, as a result of the rise in the salaries of civil servants, in correspondence with the new position of the franc. Railway salaries and wages were raised before those of civil servants, so that there was again a slight deficit. The deficit increased in 1930 and 1931, and in 1932 it reached impressive proportions in consequence of the economic crisis. There is actually a railway deficit of about 10 milliards, consisting of State advances, which is still increasing, and no serious attempt has been made to stop it. In short, until 1929 the convention worked under fairly simple conditions. But when at this date the deficit began once more to appear dangerous, the railway proposed a further rise in rates, which, however, was not put into force. The State had the right to demand of the companies, apart from increases in railway rates, that they should prepare a reorganisation scheme which would at the same time result in economies and also increase receipts.

5. *Conclusions:* The present regime secures the advantages of an industrial management free from political preoccupations, while protecting at the same time the interests of the public. On these grounds, it appears to us the most reasonable of all, and, in any case, the one most in harmony with French institutions.

The first necessity is that the parties in association should have equal power, so as to assure an equilibrium between the two interests which they represent, namely, the industrial interests of the railway systems, the interests of the public, which the State represents.

A regime of complete independence by the railways cannot be maintained in any country, in view of the importance of transport to the life of the modern State. Direct exploitation by the State is hardly even considered, even by those who would wish to make the most radical changes in the present system. At the most it would be a question of forming a national company to absorb the seven existing systems and giving it a certain autonomy in its relations with the State. This concentration must not, however, be carried out without a large measure of decentralisation, which unfortunately appears rather incompatible with the tendency of our administration. It is to be noticed that a national company would imply autonomy with regard to the State; that is in short the same kind of system as we have to-day.

No. 5.

State Intervention in the Operation of the Shipping Companies

by J. H. RICARD

1. Introduction: The intervention of the State in this field is of particular interest to France, because French shipping companies have been severely affected by the economic crisis of 1932, in a way which will perhaps necessitate a change in the policy which has been pursued since 1919. No State has refrained from exerting an influence on shipping in view of its paramount importance for foreign trade; on the other

hand, the State has been made responsible for the difficulties with which shipping is faced to-day.

From the days of Cromwell until 1850, England gave the utmost protection to her navigation, only to give it up when the English marine had secured for itself indisputable advantages over that of other nations. With 1850 begins the period of State conventions with the private French shipping companies. When England went over to the system of Free Trade and to free navigation under conditions of reciprocity, France made reciprocal agreements with her in the sixties as regards shipping and granted her equality of treatment in the French Colonial trade, with disastrous effects on French shipping. As these trade agreements made a return to preferential treatment impossible, France passed in 1881 the first Act to legalise the subsidising of French shipbuilding and French navigation by means of bounties. And one wonders to-day whether this system has not shown itself, after all, to be the least of the evils.

2. THE PRESENT SITUATION: The agreements relating to the maritime services are similar to those governing postal distribution in country districts. The regularity of the services and the stability of their prices has to be assured in the interests of the public, and not of the concession holders.

The Eastern Section, the Far East, the Pacific and the Indian Ocean: In these parts of the world Colonial considerations play a part in determining the policy. There was a desire here for a reliable and regular service of passenger boats, which involved, of course, a considerable expenditure. Without a contribution from the State, the private companies could not have borne the considerable deficits on their working. Actually these deficits were very much greater even than was anticipated, due not only to the running of the boats, but also to the cost even of constructing the boats put into service to replace those sunk during the War.

North American Section: The Company concerned here is the *Compagnie Générale Transatlantique*; its field is one of active international competition. All States intervene more or less directly in the management of the companies serving the North Atlantic route. Since the War competition has become even more severe on account of the appearance of American shipping in the field. The French Government compelled the above-mentioned Company to build two fast passenger boats, and in return has guaranteed the Company's payment of the interest on capital borrowed and the redemption of its loans. The State is not responsible for losses incurred by the Company, but on the other hand it claims a certain proportion of the profits. The sums of money given by the State to this Company are relatively small, and merely cover the services which the Company has performed for the State.

The *Compagnie Générale Transatlantique* became involved in financial difficulties as a result of the crisis, for it had expended large sums in the construction of expensive ships shortly before. The French Government at once stepped in to ensure the carrying on of certain important postal services and to prevent an increase of the unemployment in the shipbuilding trades. A final arrangement has not yet been made.

The Antilles-Central America Section: In this case also there are agreements between the State and the companies, from which both parties hoped that the contributions in the former would be counterbalanced by services rendered by the latter. The crisis, however, has dashed this hope.

3. PAYMENTS IN KIND: This part of the report refers to the German ships handed over under the Treaty of Versailles.

4. SHIPPING CREDITS: The State has been obliged to intervene in order to secure the necessary credits for shipping enterprises. It has guaranteed the payment of the interest in certain cases up to certain limits. In the case of ships of superior speed, the guarantee is correspondingly higher. Preferential treatment in instances of ships constructed in national shipbuilding yards has been introduced. The French assistance in the matter of shipbuilding credits was given comparatively late, when a crisis was already at hand, and so the problem was rather that of using the available tonnage than of embarking on new construction. The result was that the credits provided by the State could not be used to the fullest advantage.

5. THE PETROL FLEET SUBSIDIES: The subsidising of the ships which carry petrol is part of the petroleum policy of France, the intention being to provide France with a fleet of modern oil-burning vessels.

6. CONCLUSIONS: The State may intervene either from political and Imperialistic motives, or from economic and commercial considerations. The French intervention has been of the latter type. The great part of French shipping is unaffected by State intervention—no less than 2 million tons of shipping is maintained on the basis of strictly commercial activity. Out of a total National Budget of 53,467 million francs, France only spends 573 millions on its merchant fleet, of which 290 millions go for administrative services and pensions. Moreover, the contributions never exceed the value of the services which the shipping companies are obliged to render to the State. France is still a very good customer for the great foreign merchant services, for not more than 35 to 40 per cent. of her foreign trade is carried under the French flag. Statistics show in fact that French navigation has been most severely hit of all by the world crisis and the depreciation of currencies. The French methods, particularly the laws concerning maritime credits, are modelled on the foreign ones. Subsidies will have to be continued. The French merchant service is, moreover, at a disadvantage as compared with its competitors, particularly in view of her application of the eight-hour day, which other merchant services have refused to apply.

No. 6.

THE PUBLIC AUTHORITIES AND THE ELECTRICAL INDUSTRY

by PHILIPPE SCHWOB

The Problem of Distribution: At first the regime of exclusively private production and consumption was in force. Permission had only to be obtained for the use of roads for laying down cables. But with this per-

mission to use the roads, the private company or individual received, in fact, if not in law, a privilege, if not a monopoly. Then it proved more convenient to use what is known as the system of concessions. The State and the municipalities co-operate in this respect, and though the character of certain concessions may differ, in every case the concession-holder, in contrast to the permit-holder, has the sole right to use the public ways. The concession has a time limit. The advantage which accrues to the State is that it puts obligations on the concession-holder, either in the matter of organising the distribution or the fixing of rates, and also the treating of all consumers equally. It was feared that this principle would lead to a veritable host of concession-holders. However, in the last years especially, a very considerable concentration has taken place.

Side by side with the indispensable geographical concentration there arose a financial concentration of doubtful benefit. The main factor here was the size of the profits, not rationalisation. The greatest companies of all (less than half a dozen) serve two-thirds of the population. The rivalry between the groups resulted in the very wasteful distribution of concessions, which were acquired here, there, and everywhere at high prices. In the course of time, however, the different groups ended by predominating in certain districts. Then the State intervened to bring about an exchange of the smaller exclaves. Each group has acquired a kind of centre of attraction, and actually a great homogeneous network of mains is in process of being created. The question is still open as to whether this can finally be achieved without State intervention. At the present moment the disadvantages of extreme concentration are not being offset by the advantages which a homogeneous and national network would offer. And one wonders whether it would not have been better to have begun by making a plan for the electrification of the whole of France, whether in fact the concession-holders ought not to have been prevented from concentrating on the best districts which promised high profits and leaving the State responsible for the districts which could only be served at a loss.

Production: Most of the production of electricity goes to meet the agricultural and industrial needs of the country. In this respect it is in a comparable position to that of the coal-mines. With the appearance after the War of the idea of economic planning, in which the State not only superintended but also directed, the question of State intervention in the production of electricity was considered. For it was estimated that a considerable saving would be effected by a more rational organisation. The law of 1919 made the use of water power dependent on a State authorisation or concession. A system was worked out for using the available water-power; but the expected transition to a more extensive use of water-power has not, however, taken place. The actual course of development therefore ran counter to the idea that the State should intervene in the production of electricity only in order to encourage the use of water-power. Nevertheless this form of partial intervention as it actually exists, and which affects but certain parts of the country, runs the risk of worsening the situation in the other parts, namely, in the outlying districts.

Transmission: The question of long-distance transmission of high voltage electric power led to the creation of very powerful mains. But to ensure regularity of supply, a system of long-distance transmission on not less than a national basis is advisable. The necessity, however, for developing such a network of mains as rationally as possible excluded the idea of competition and suggests the advisability of State control. The State can demand from those concerned that under its direction and, if necessary, with its financial assistance, such a transmission system should be constructed. The law gives the State the necessary means of compulsion. If the State preferred not to construct the system of mains itself, it could organise their construction. Actually it has not directed the development; it has contented itself with following up the initiative of the contractor. The result has been a system of subsidies to private enterprise. The subsidies were justified in so far as the concession-holders were obliged to lay down more powerful cables than those warranted by present economic development and the probable consumption, and also in so far as these were obliged to penetrate into districts which were in themselves unprofitable. But instead of skeleton framework being created, which could be gradually filled in, what actually exists is a system of closely developed islands, which an attempt is now being made to link up. In some places one even finds parallel competing lines.

As in the case of the production of current the State has failed to take upon itself the rôle of chief director. Mighty groups have come into being for the transmission of the current which are financially connected with the companies undertaking distribution and production, or even branches of the same enterprise. In this way a kind of private ownership of public services has developed which is open to grave criticism.

Conclusions: The State has been compelled to intervene, and the tardy intervention has not produced the expected results. The system of concessions was chosen, but this has not proved a sufficiently effective form of control. The easily comprehensible desire of the concession-holders for the greatest profits is incompatible with the idea of service. Concentration has been achieved more quickly than in the case of the railways, but it is a concentration of power in the hands of a small number of persons. The State is obliged to negotiate with these powerful groups on terms of equality instead of on a footing of master and servant. It is regrettable that the State did not have in the first place a firm intention and a carefully worked out plan, which it could have insisted on carrying out.

No. 7.

The Juridical Rôle of Trade Unionism

by WILLIAM OUALID

I. Parliamentary legislators seek a way of dividing the work of legislation into two parts: they retain for themselves, as their particular function, the more general, the abstract part; after themselves fixing the limits of the delegated functions, they hand over the details of the application of a project either to the regular administrative authorities or, as has happened in more recent times, to the interested parties themselves, thus

investing the latter with a kind of autonomous legislative power. Especially in the matter of labour legislation the tendency of the legislators is to be satisfied with affirming a principle; the remainder of the legislative work being referred to common deliberations, to be carried out by collective agreements between the authorised representatives of the organisations concerned, namely, the associations of employers and workers, aided by the wisdom and skill of the leaders, officials and jurists, who prepare, discuss and sign regulations for future public administration. It is as though the legislators divested themselves of their exclusive power, by dismembering themselves as a body, in favour of the corporate groups and of the administrative bodies.

The officially constituted legislators, namely Parliament, continue to be sovereign in the matter of labour legislation, and no one dreams of denying their competency in this respect. They preserve the essential rôle which belongs to them alone under representative government. Nevertheless, even within these set limits, the field of what is called *autonomous labour legislation*, which tends in its early stages to take on the character of a platform for expressing the vocal or imaginary will of the majority of those concerned, still remains vast.

II. For the purpose of removing the abuses of the sweating system and the exploitation of female home-workers, the law of the 10th of July, 1915 (extended later to apply to workers of both sexes), lays down the principle of minimum wages for women of average skill, working at home on work forming part of the ready-made clothing industry (wearing apparel, hats, shoes, embroidery, lace, artificial feathers). This wage is to be equal in principle to the daily wage usually paid in the district to women of the same profession and of average skill, working in workrooms by the hour or the day, carrying out the various processes connected with the industry (Article 33, C.T. Liv. I). Now the law lays down that the ascertaining of this wage must be undertaken by the Works Councils, or, in their absence, special departmental Wage Committees, composed of a Justice of the Peace acting as president and four workers and four employers of the industry in question, selected by the president of the Arbitration Board or the president of the Civil Court, assisted at the same time by the committee of specialists. Thus it is the parties concerned themselves through their chosen representatives who lay down the legally binding regulations which the judge has to apply. They thus share in the work of legislation. The law of June 11, 1917, is even more explicit.

Contrary to the popular idea, the French Parliament did not suddenly introduce in 1919 a universally applied eight-hour day into all industries and trades. It did not go further than laying down the principle that: "The working time is not to exceed 8 hours per day, or 48 hours per week, or a corresponding limit calculated for a period other than the week." This permits the taking into account of the needs and the special circumstances of the various industries. . . .

In short, the opinion and the wishes of the interested parties when it comes to be expressed by legislative measures becomes incorporated in two juridical procedures: that of the legislator in his function of laying down a general legal principle to be applied to the individual cases, and

that of the administrative authority which lays down a regulation for public administration, but in such a way that the second has the special function of authenticating, legalising and investing with public authority the decisions or the views of the interested parties.

Thus the characteristic of this legislation is its elasticity, at least in theory, and its power of adapting itself to special needs and special situations. Whenever it is a question of putting into practice a general regulation, it becomes possible to diminish the inevitable inconveniences and smooth over the passage from one regime to another; and if some claim that the adaptability is more apparent than real, and if they maintain that behind the theoretic variation there is practical uniformity which in practice turns the autonomous legislation into an instrument as rigid and as open to criticism, from the point of view of its social effects, as the uniform parliamentary system, we would offer two observations to disprove this statement. First, the simple examples which we have quoted are sufficient to show that, in practice, the freedom of action left to the parties concerned is by no means ignored; on the contrary, it is constantly made use of. Secondly, if it is true that the tendency is to standardise the conditions of work, the blame must be laid, not on legislation, but on the powerful law of imitation. If all categories of workers strive to obtain the same number of working hours per day, the same day for rest, the same wages, that is not due to legislation, but is the result of a coherent labour action, powerful and organised, to which the law merely lends its sanction and the force of legal validity.

We are here dealing with a legislation which we might call experimental and relative. Experimental, not only because it must often take untried paths without being able to calculate, at first, all the repercussions of a measure which appears excellent in itself, but also because one cannot always rely on the unsupported, partisan, and often violent, contradictory statements of the parties concerned as to the probable results to be expected. It is relative, too; for labour legislation and regulations are intimately connected with the technique of production and the organisation of labour, and they must take into account certain factors of economic organisation, such as modifications in the market demands, etc.

In short, thanks to the simple application and procedure and possibility of revision laid down in the original texts, or thanks to a broad and contractual interpretation of these texts, which, however, do not introduce any change in the original regulation, it has proved possible to meet a number of problems and situations requiring adjustment. The legislative technique of labour law in France is characterised by the fact that it raises to the status of secondary laws, previously accepted, autonomous labour regulations, at first unilateral and then contractual. Not only does this progress constitute a peculiarly French innovation which has been imitated by other legislations, especially those which have incorporated Trade Unionism within the State, but, as we think, it is capable of application and extension into other domains than labour matters; above all it is applicable to all the economic questions where too uniform a legislation is more likely to hold up, than to further, progress. It is a modern form, an adaptable, democratic form of constructive Unionism which, within the framework of society as it is to-day and without under-

mining the existing order, makes it possible for individuals and social groups through their direct, competent and qualified representatives to secure the highest degree of protection for their corporate interests in the widest sense.

No. 8.

The Co-operative Associations, the State and the Consumer

by GEORGES GAUSSEL

The more the State increases its restrictions on individual initiative in the economic field, the closer do mutual relationships become and the stronger grow common interests. The co-operative movement combines the advantage of a State system with those of a Liberal regime and should therefore be extended.

The State intervenes in the movement through its legislative powers. French legislation in this respect is not organic. The agrarian co-operative movement is particularly hampered. On the other hand, the State gives help in the form of relief from certain obligations under Common Law, subsidies, credits at low interest rates, and tax-relief.

Contrary to a widespread belief the co-operative associations only rarely receive subsidies; more important to them is the lowering of the normal rate of interest. The agrarian co-operative associations have received considerable help from the State; the co-operative stores and the associations of workers only very little. The co-operative stores do not receive any fiscal privileges. Every form of State "encouragement" is given in return for services to the community, or special assistance to the more needy social classes.

The co-operative associations for production have not fulfilled their expectations, but have been important training-grounds for mutual help and the development of the corporate spirit. The French Parliament set particularly high hopes in the agrarian co-operative associations. The organisation of agrarian credit has, however, achieved admirable results and been widely imitated. But if these results are compared with the very considerable help which the State has granted to the rural co-operative movement, they appear disappointing. In many cases the State has done much to destroy the spirit of self-reliance.

The reverse is found in the consumers' associations. With their two million associated families, their nine thousand stores and a turnover of more than four milliard francs, they have become a power which should not be under-estimated. At the same time they have remained true to their original idea of solidarity. This conclusion emerges from a consideration of their social work.

The question is being examined to-day as to how the various co-operators, both individuals and groups, can best be organised within the State. One advantage of the co-operative organisation is that it makes such co-operation possible. Even to-day, the delegates of the co-operative associations attend the meetings of various official organisations as representatives

of the consumers with deliberative voice. Still more significant is the attempt to give to the Public Utilities an organisation similar to that of the co-operative associations. But there is also the possibility of extending the co-operative principle much further to include the organisations of international trade.

No. 1.

The Most Favoured Nation Clause and Customs Quotas

by CARL BRINKMANN

1. The memorandum explains how the use of self-contradictory arguments in commercial law tends to give the widest possible interpretation to the Most Favoured Nation Clause. This attitude is evidently based on the assumption that the contracting parties desire this extremely wide interpretation. But economic theory, in so far as it starts from fixed conceptions of equilibria, is unable to see in State intervention any constructive idea; therefore it attaches more importance to the "negative side" of the clause; it is little concerned with the geographical, political, or other close links between individual States, which require special consideration and which usually cut across the usual interpretation of the Most Favoured Nation Clause. There is an inherent inconsistency when "specialisation" is recommended as a method of mitigating the effects of the unconditional application of the clause.

Both juridically and economically an exact interpretation is badly needed which will allow of greater regard being paid to particular and special interests. Collective or multilateral agreements are recommended as a means of linking together economically the separate parts of what are essential geographical units.

2. While multilateral treaties and rights of neighbouring States find support in exceptional cases, quotas and contingents are regarded by those holding the doctrinaire view of the Most Favoured Nation Clause as the black sheep in the fold of international commercial policies.

It must be borne in mind, however, that the control of competition by means of fixing, not prices, but quantities, by private agreements and particularly by cartels, is now universally accepted. The fixing of quotas is the same kind of act carried out by the Governments, either by decree or by agreement.

The evidence is not clear as to whether quotas contribute more than tariffs to the expansion of domestic production. Much of the opposition to the quotas is due to the way these are imposed unilaterally by one party. But the principal objection to quotas is that they constitute a break in the system of the Most Favoured Nation Clause.

The reason is not clear as to why the objection to quotas fixed by agreement should be any less than that to quotas which are fixed by one-sided decrees, or even to those agreed upon with a single other country. According to the general opinion of the Most Favoured Nation Clause, it lies with the State in question to apply it fairly by granting the same treatment to third States. It is unfair to assert, without any proof, that a country concludes a quota agreement with the least interested second country for the purpose of harming other countries. The difficulty of fixing proportionate quotas is recognised by the Economic Committee of the League of Nations.

No. 2.

The Influence of the State on the Labour Market

by DR. KIMMICH

Probably in no other land is the influence of the State on the character and course of economic life, and incidentally the labour market, so powerful and so disputed as in post-War Germany. The various measures taken by the State in this respect can be divided into two main groups: firstly, those concerning the economic demobilisation after the War, and secondly, the laws and ordinances in the nature of permanent social measures.

The State measures, in so far as they belong to the second group, i.e. constitute regulations which are intended for normal economic life, can again be divided into regulations and ordinances concerned with:

1. *The terms and manner of concluding labour agreements.* As regards this, collective agreements and conciliation are the pivotal factors. The collective agreement became the general rule through the ordinances affecting wage agreements of December 23, 1918, and March 1, 1928. By reason of the binding nature of their terms, they received the force of legally enforceable standards. Separate agreements with regard to the conditions of work which cut across the generally accepted norm were only legally binding in so far as they conceded to the worker more favourable terms than the general rates. The wage agreement contained, it is true, the lowest rates for the workman of average skill. Variations from the minimum rates might be agreed upon for the workman of subnormal capacity, as most of the wage agreements contained general regulations for the extra payment of specially skilled workers. All the same, this standardising of wages has established the predominance of the average. Thus the less skilled worker will, as a rule, enjoy the benefit of the average wage, while the particularly skilled worker is reduced to the average. This is the point where the counter-movement of the employers and the inelasticity of the wage agreement comes in.

This development is intensified by the fact that the wage agreements comprise, as a rule, a great variety of factories and industrial concerns. A separate wage agreement for the industrial firm is the exception. The general rule is the district agreement which comprises most of the factories of a particular trade within a fairly large area. A number of the agreements apply to the factories of the whole of Germany (*Reichstarifsverträge*). As the terms of the agreement represent also the minimum wages for factories working under specially unfavourable local conditions or under difficulties with regard to capital, an excess of supply over demand on the labour market, that is, in times of falling prices, will inevitably lead to the elimination of factories working at subnormal profits. This situation equally gives rise to criticism of the wage agreements on account of their inelasticity.

Further, it must be remembered that the Trade Unions, by concluding agreements, also determined the fate of non-organised employers and workers. The wage-agreement which, like every other contract, is only binding on the contracting parties, can nevertheless be declared by the Labour Court to be legally binding, if it is already valid, on the great

majority within the area where it applies. It will then include all the non-Trade Union workers.

The State puts at the disposal of the parties to the agreement certain officials to assist in bringing about the agreement (a general agreement), namely, the Conciliators and Conciliation Boards. The conciliators are officials of the Reich. The conciliation boards must act if requested only by one party. Only parties capable of entering into wage-agreements have the right to appeal to the boards; on the employers' side both the employers' industrial associations and the separate employers are capable in this sense; on the workers' side only the industrial Trade Unions of workers are recognised as authorised to enter into agreements, and in this respect the so-called "fighting" Trade Unions have a monopoly position.

The chairman of the board first tries to bring about an agreement between the parties in a preliminary, informal discussion. If this fails to produce a settlement, the dispute comes before a conciliation board assisted by expert advisers. Here again an attempt is made to reach a settlement. If, however, the board also fails to bring about an agreement between the parties, it makes a proposal which the chairman of the board announces in the form of an arbitral award, fixing a suitable limit of time within which the parties shall announce their acceptance or rejection of the award. If the award is accepted it takes on, with the declaration of acceptance, the nature of a legally binding rate agreement. If one party rejects it, the party accepting it can apply, in the case of an adjustment board, to the mediator (when the award is made by a mediator), and to the Minister of Labour for a declaration of binding validity. A second attempt must then be made to bring about a settlement between the parties through the prescribed oral negotiations. If this fails, the award may be declared binding if, after due consideration of the interests of both parties, it appears to satisfy the demands of fairness and to be advisable on economic and social grounds. The declaration of its binding nature is then a substitute for the acceptance of the award.

While it is true that the original purpose of the adjustment boards was to assist in finding the fair wage at the fair "market" rate, the intention has changed, and to-day, especially in industries in which the workers usually find themselves on the losing side in industrial disputes, the State fixes, instead of the "market" wage, a rate according to its own wishes. This purpose is achieved by a triple procedure: (*a*) the Reich Minister for Labour has the right to give directions to the mediators. (*b*) The State has in post-War years so influenced public opinion that it at once sided against the party to the strike, so that resort was made by the workers to aggressive action without first attempting peaceful settlement by arbitration and making full use of the adjustment boards, whether constituted under the act or under the wage agreements. (*c*) By declaring the arbitral award to be a legally enforcible obligation. This declaration of legal enforcibility has itself had disastrous effects on the sense of responsibility of both parties.

This whole behaviour resulted in bringing the State systems of conciliation into serious disrepute. The workers got used to regarding the State as a wage-raising machine. But as soon as a reverse movement set in in the economic and employment markets, they at once resisted this

dynamic principle for fixing wages. So the State brought about a speedy adaptation of wages to the altered economic situation by passing a law authorising modifications in the wage agreements. In wide circles of public opinion it is believed that this element of inelasticity introduced into wage rates has increased unemployment in Germany to an extent which bears no relation to the world economic crisis.

The emergency decree of September 5, 1932, for increasing and maintaining employment, already attempted to legalise modifications of the wage agreements. The declaration of legal validity has, if not legally, at least actually ceased to exist. Since June 15, 1932, only three awards in Germany have been declared legally binding.

2. *The right of the workers to a share in determining the course of the industry.* This concerns the regulations regarding the participation of the workers in the running of the factories. The legal basis is laid down in the Works' Councils Act of 1920. This Act laid down the regulations with regard to factories; the authorised spokesmen of the workers are the foremen elected by the workers in factories where not more than 20 are employed. For larger factories there are Workers' Councils. Practical experience has shown that, with good will on both sides, the functioning of the Workers' Councils may be extremely beneficial.

3. *The safeguarding and juridical vindication of the rights of workers established under agreements.* These rights secured by agreement are comprised in the Labour Court Act of December 23, 1926.

4. *Hours of work.* This question is part of the problem of the rights of the workers in their work. In Germany public opinion expected the shortening of the working time to result in an easing of the pressure on the labour market.

5. *Stoppages and closing down.* Of very decisive importance for the labour market situation are the regulations affecting the engagement and dismissal of workers which are still in force in cases of stoppages and shutting down. These date from December 8, 1920, to October 15, 1923. This general compulsion to "stretch" work available before resorting to dismissals was the subject of bitter opposition. Nevertheless, even to-day, public opinion demands that the employer shall shorten the hours of work rather than dismiss workers.

6. *The public placing of workers, the giving of vocational advice and occupational training—all in connection with employment insurance.* The regulations in force are all comprised in the law of July 16, 1927, concerning the placing of workers and unemployment insurance. The placing of unemployed workers privately is not allowed; the placing through the official exchanges is gratuitous.

With a view to preventing young workers going into the wrong trades and so losing touch with their employment later, the labour exchanges work hand in hand with committees, advising as to the choice of occupation, though indeed the main function of the thirteen State Unemployment

Exchanges and the 361 local exchanges is to find work for unemployed workers. As it is, above all, the young workers who have to bear the burden of unemployment with its morally devastating results, the movement for voluntary "work duty" arose. In consequence workers are accommodated in open or closed camps. The further development of this voluntary service for young people is a problem which belongs to the future.

No. 3.

State Intervention in International, Commercial, Monetary and Credit Policy

by HERBERT VON BECKERATH

This memorandum, a continuation of that presented by the author to the Milan Conference,[1] deals with State intervention in international trade and finance in relation to the problem of State intervention as a whole. The problem is that of re-establishing a "disturbed and half-destroyed world economic order"; State intervention and common international action are regarded as essential for its solution.

Quotas, foreign exchange restrictions, etc., are inevitable and necessary for the separate States during the collapse of free competition, but they are useless as a basis of a new world order. They may, perhaps, create small enclaves of regulated exchanges, but only at the expense of other members of the world economic system. What is needed is a common commercial policy, for which the pre-requisite condition is the settlement of international political conflicts and international indebtedness.

We then have to consider the question, by what method shall the very closely interwoven economic phenomena, international commerce, capital movements, currency, all in turn, be co-ordinated within a new compact and unified system. The perpetual fear of new trade restrictions checks the flow of capital, and leads to a withdrawal of credit and possibly a panic. Currency fluctuations, inflationary and deflationary price movements, alter the relative costs of production and make anti-dumping measures, etc., inevitable.

Many people are of the opinion that the first step should be to relieve the excessive burden of indebtedness as a preliminary to lowering tariffs. Others, like many Anglo-Saxon economists, would prefer to see an internationally controlled inflation take place, in the belief that a rise in prices would reduce the burden of indebtedness and assist the removal of trade restrictions. The principal objection to this method, however, lies in the fact that the adoption and use of this additional capital cannot be enforced; the danger of hoarding is unavoidable. Furthermore, it may be difficult, if not impossible, to bring about a parallel inflation in all countries and to maintain complete inter-dependence of exchange parities. The possibility that a limited and controlled inflation in the principal countries will gradually extend to the rest of the world must be acknowledged.

The safer method would be to depreciate the currency of certain countries with, as yet, unbalanced economic systems, for the purpose of discovering a new level of a general stabilisation. The object should be to establish

[1] *The State and Economic Life*, op. cit., p. 148.

the universal Gold Standard. As regards commercial policy the object aimed at should still be the unconditional Most Favoured Nation Clause, subject only to clearly defined limitations and exceptions in favour of Customs Unions. It is possible also for Tariff Unions to be regarded legitimate in respect only of certain categories of goods, such as wheat, for example. Only when the limits are clearly defined can such a system as that erected by the Ottawa Agreements be regarded as compatible with a stable system of international commercial policy.

No. 4.

The State and Economic Life after the German Revolution of 1933

by ARNOLD BERGSTRÄSSER[1]

The German National Revolution must be interpreted as a fundamental reorganisation of the relations between State and social life in its totality. The Revolution of 1933 is partly the result of a number of phenomena which caused widespread unrest among the people, and which are the outcome of the historical developments of the last fifteen years. Like the peasant and the artisan, the university student sees only very small possibilities for the application of his learning and his national zeal. The union of these three groups in the revolution was the result of continued unemployment, as well as of the political uncertainty of Germany's internal and external position in the post-War period. Karl Marx's idea was that Society would replace the State. The anti-Marxist idea of the German revolution widens the notion of State to such an extent that it includes Society.

In Germany the economic groups were well organised and will be easily incorporated into a Corporative state. The peasant and the lower middle classes during the last years lost their confidence in Capitalistic progress. The economic class in its self-consciousness was a chief element in the Socialistic theory of historical evolution. In opposition to this system is the new conception of an economic constitution based upon the idea of the professional group.

The idea of solidarity is the main point of the National-Socialist programme: the common interest has taken precedence over private interests. Politically, this general principle neither means the socialisation of private industries nor the mere maintenance of the private system of Capitalism. An energetic and intelligent Government will be able to avoid State control through the police, and will be in a position to replace it by the working of the disciplined professional group. The transformation of the professional associations is leading to a system of guilds, which, from certain points of view, may be considered as the condition for a general system of planning.

The new State met with certain other important problems usually encountered in economic systems of the highly capitalised type, the solution of which will probably entail the preservation, and even the

[1] Published in *Nation und Wirtschaft*, Hanseatische Verlagsanstalt.

reinforcement, of the State's influence, together with self-government in the industries concerned, by means of their compulsory partnership with, and control by, the State.

The relations between Capital and Labour constitute the sphere in which the Corporative ideas have proceeded farthest. The institution of Labour Trustees will develop and change the system of arbitration, and transform the functions of the former arbitration bodies, influenced by political considerations, to a mere economic activity on the part of the trustees.

The new economic policy envisages, first of all, the position of the lower middle classes. These chief bearers of the revolution represent the conservative element in society. The industrial proletariate and the lower middle classes now feel that what they have in common as regards their economic conditions and ideals unites them to a greater degree than their political antipathies divide them.

The third class which will be a principal subject of the new economic policy is the German peasantry. The chief idea of National-Socialism is the consolidation of a peasantry and of its settlement in regions which are politically or economically endangered. The landed peasantry will be the centre of this agricultural policy. The new State at the moment is starting its economic policy. It wants to realise the idea of *Volkegemeinschaft* (national unity) through the construction of the Corporative State.

ITALIAN MEMORANDA

No. 1.

THE PRINCIPLES OF THE CORPORATIVE SYSTEM

by ALBERTO DE' STEFANI *and* LUIGI AMOROSO[1]

Introduction: At the Milan Conference the Corporative system was presented under its political and moral aspects,[2] i.e. viewed from the practical side. This report takes as its starting-point its logical aspect and presents the system in the light of pure reason. The first chapter thus presents the logical aspect of the classical theory, of which the basis is the striking of a balance between marginal utilities and marginal productivity, the automatic attainment of an equilibrium and the maximum welfare.

Inherent Contradictions of the Classical Doctrine: To these belong the "scandal of Ricardian rent," industrial concentration, the predominance of a plutocracy, the contradiction between fairness and the mechanistic and deterministic nature of the classical theory, which leaves no place for creative, that is to say, free, acts in human life.

The Formulation of Theoretical Rules: The forces of inertia, which have the effect of creating a tendency to maintain existing situations, must be taken into account. The incorporation of these forces into a theory is dealt with in the report according to the formulae of the mathematical economists. The taking into account of these forces of inertia, or the influence of the historical past, replaces the static conception of Archimedes by the dynamic one of Lagrange. But even so, that does not correspond with the realities of economic life, for it leaves certain dark patches—not only on the edges of the picture, but in the centre itself. In the economic field the future depends on what men expect it to bring; one only needs to take the example of the Stock Exchange crises. What must be taken into account therefore are the *forces directrices* or directing impulses, that is, those which are expressed in the human capacity to prophesy and to determine the future trend of events. To this category belong speculation and, above all, political action.

Corporative Organisation as a Logical System: The Corporative organisation takes into account all three forms of power: the natural forces of the classical theory, historical forces, and the political forces represented by Mercantilism, Protectionism and Socialism in their different forms. Even from the point of view of pure Protectionism, which appeals for State intervention under the pressure of hostile interests, such State intervention has no inward meaning and is carried out in a chaotic and fragmentary fashion. It is true that Socialism calls for political action because it refuses to look upon the dominance of natural forces as an inescapable fate; but

[1] This and the following Italian memoranda have been published in the ninth number of the *Annali di Economia* of the Luigi Bocconi Commercial University of Milan, 1933.

[2] *The State and Economic Life*, 1932, op. cit., p. 163.

it demands revolutionary action; its aspirations are in the abstract noble; in practice they represent a Utopia; they are consequently a fruitful source of revolutionary change and an alarming danger to civilisation.

Fascism has performed a valuable service in opposing these false ideas, and solemnly proclaiming that the motive of profit must continue to be the pivot of all economic activity. That is the meaning of the seventh proposition, the *Carta del Lavoro*. The directing of production is the function of Capital, for Capital bears the risks. Thus the Corporative system does not signify the negation of the classical economic theory. Private property remains, but only in so far as it is a necessary condition of production. The State has the right to step in where private enterprise is unable to meet the situation or is in opposition to the common interest. The State has to decide when that is the case. Fascism is opposed to every form of monopoly and to the abuse of power by economic groups, whether by the workers or by industry and finance.

No. 2.

The Relations between Capital and Labour

by ALFREDO ROCCO, ALBERTO ASQUINI *and* GAETANO AZZARITI

The problem of the relations between Capital and Labour constitutes the primordial question of modern life. But the doctrine of Fascism, which is an eminently social doctrine, condemns absenteeism on the part of the State in any problem affecting national life. For the State should dominate all the forces existing in the country; it should direct and organise them for the historical and immanent destinies of the nation. The solution ought to be organic and complete. That solution, which the law of 1926 gave, is founded on the juridical recognition of Trade Unions and their incorporation within the framework of the State, on the regulation of collective working contracts, and on the substitution of State justice for the disorder of the legitimised defence of the classes, the one against the other—that is to say, the prohibition of strikes and lock-outs.

By the law of 1926 the Trade Unions were brought within the orbit of the State and juridically recognised. They have taken on the character of public organisations within the State, thus being transformed from pure instruments of a class and group—which is what they were—into organisations which exercise, under State control, a whole series of .public functions.

In the first place, an organisation is formed on the one hand for the employers, and on the other for the workers in each category. The principal elements in this organisation are the unitary associations of the first degree, several of which form a federation, and thus are included all the employers or all the workers of one category either in a certain area (departmental, provincial, or regional Federation), or all over Italy (national Federation). Several Federations form a Confederation, which includes one or more categories of enterprise or even a whole branch of industry. This organisation is clearly syndicalist in character. In addition there exists another organisation which may more particularly be described as Corporative, seeing that the guardianship of the interests of each branch of

production is reserved to it. Its duty is to carry out liaison and co-ordination between the various activities of the category associations.

A Trade Union cannot, however, be legally recognised if it does not conform to certain conditions; in the first place, it must possess a minimum number of adherents; and secondly, it must agree to pursue not only economic ends but also to give material and moral assistance, instruction and education. Only one syndicate or Trade Union can be recognised for each category of employers, of workers, of artists, or of the liberal professions. Thus the corollary to the unity of the Trade Union is, that it must represent, in the area of the territorial circumscription where it operates, all the members belonging to the category for which it was constituted. Though adherence to the Trade Union is voluntary, the representation includes even the non-adherents. State control fetters in no way the free development of the interior and exterior life of the Trade Unions. It is the right of the legally recognised Trade Union to lay down the conditions of collective work contracts which, when duly published, have the binding force of law for employers and workers in the category to which it refers. The conditions of work are thus freely established between the representatives of the two categories without any intervention from governmental bodies. But an agreement between Trade Unions representing employers and workers in a given category may not always be possible: the opposed interests may not be able to come to a friendly understanding, which is the basis of the collective contract.

Furthermore, in Italian law it has been thought necessary to abandon the intermediate and imperfect stage of arbitration and to establish a complete and more precise form—which is that of jurisdiction. Naturally, it is not forbidden to the Trade Unions to choose the way of arbitration if they prefer to do so.

The Labour Magistrates constituted by the Court of Appeal, when they have to judge collective work controversies, are joined by a few technical experts, so as not to be without such technical knowledge as the nature of each controversy demands when judgment has to be pronounced.

The criterion according to which the Labour Magistrates judge on working conditions is, according to the law, the law of equity, which tempers both the interests of the employers and of the workers, and safeguards, in all cases, the higher interests of production. In estimating the capacity of an industry to pay a certain salary, and also the relation of this salary to the current value of work, the magistrates must never neglect the public interest, for the discussions between employers and workers also interest the State. Real solidarity in the State cannot exist unless it succeeds in completely suppressing resistance by the individual and by the group and substituting for it the justice of the State alone. Consequently it was logical that on the institution of the Labour Courts, lock-outs and strikes should be forbidden and punished as offences.

There is now not a sector which remains outside this Trade Union organisation—the advantages of which are very strongly felt by employers and workers, who are, in greater and greater numbers, formally adhering to the associations of their different categories. The contractual negotiations between the Trade Unions nearly always end in an equitable solution that surmounts obstacles and differences of view. The unsuccessful cases up to

the present are few. The Trade Union associations do not limit themselves merely to narrow Union activities. They have intensified their work of assisting their members in all domains in conformity with the precepts of the law of 1926, which entrusts the guardianship of moral interests to the associations; and contained in the Labour Charter is a law which proclaims that "assistance to those they represent, whether members or non-members, is a law and a duty of the professional associations." The result of all this is that in Italy one can no longer talk of the class war.

The Corporative organisations, for their part, safeguard the interests of all the Labour Corporations as stated in the Charter, and constitute the unitary organisation for the forces of production, whose interests they integrally represent. The National Council of Corporations in its turn effects the liaison between the different Corporations, thus representing the unitary synthesis of the productive activities of the nation.

No. 3.

The Italian Economic System and Agriculture

by arrigo serpieri *and* giorgio mortara

1. A rapidly growing population within narrow geographical limits is the decisive factor in this problem. It has become important to maintain a balance between the urban and rural population; in the words of the *Duce* "Italy must be ruralised," both for racial and moral reasons as well as to prevent an excessive dependence for food supplies on foreign countries.

2. As regards the rehabilitation of agriculture, a whole system of institutes and organisations has been created, which are described in detail in the report. In this connection the introduction of the Corporative constitution has played a most important part since 1926. The unions of employers and workers form, in the first place, the cells; vertically, when ranged territorially and according to their economic categories, they constitute the higher Federal organs; when organised horizontally they form Corporations; all combined together, they form the National Council.

3. We can distinguish two periods in agrarian policy: before and after the years 1925 and 1926. During the first period, the Fascist regime was devoted principally to restoring the authority of the State. In 1921 a tariff system of industrial Protection had been introduced. The Fascist Government then took steps to lower the duties by means of commercial agreements, with the object of assisting agricultural exports and cheapening the necessities of agricultural production. The continued inflation brought a certain degree of profit to agriculture, and led, in consequence, to unwise indebtedness.

4. The Fascist policy was aimed at raising the level of production. There was a reorganisation of the agricultural colleges and of agricultural research, a reorganisation of the credit system, and the creation of the first system of bonuses.

5. Until 1925 everything was in a state of transition. In 1925 there was a breach between the Fascist party and all other parties; then the period of the real Corporative Fascist State began. Though Fascism recognises the advantages of private initiative, it refuses to allow the unmitigated play of economic forces; it demands, therefore, that private enterprise shall be directed in accordance with the higher aims of the nation as a whole. It aims at co-operation between the occupationally organised producers, employers and workers, under the control of the State. To accomplish this, it works by intellectual methods (education, etc.) and also in a material way by rewards (the raising of prices, etc.).

The agricultural situation during the ten years of the Fascist regime was fairly good; but its prosperity was not altogether well founded, since it was partly due to the inflation. The stabilisation of the lira had serious consequences. In addition, came the world economic crisis and the collapse of prices.

6. The "wheat battle" forms an important episode in the comprehensive agricultural programme of the Government. In the period 1921–24 Italy produced 51 million quintals of wheat (1 quintal = 100 kgs.) for a population of between 38 and 39 millions. Imports rose to 26 million quintals. The Government then decided to raise the level of production. Between 4·7 million and 4·8 million hectares were already under wheat; during the War there had been 5 million. With the same yield per hectare, the area under wheat would have had to be increased by 8 million hectares if the country was to be independent of imported wheat. The Government was determined not to choose this path; it decided not to use more than 5 million hectares for wheat cultivation; the yield per hectare was therefore to be raised by technical improvements. Every available organisation was yoked in to help: research was developed, knowledge diffused, and slackness overcome. In addition, material rewards were distributed and appropriate honours conferred. Tariffs were used as a subsidiary aid only in the last resort. By its policy and intention, the Government deemed tariffs to be only a temporary, defensive expedient: the level of the tariff was, until the crisis, lower than it was before the War. The object was not to extend the area under wheat in order to avoid using less fertile soil. The tariffs applied during the crisis were intended to serve as a brake on the decline in prices.

The area under cultivation has remained fairly stationary without reaching 5 million hectares. But the yield rose from 51 million quintals in 1924 to 66 in 1931, and 75 in 1932. The average yield per hectare to 14·5 quintals shows an increase on the average figure for 1909–13 of 4 quintals per hectare. At the same time there has been a considerable decrease in the cost of production per unit. Thus the methods used clearly represent an important economic advance; the main object now is to maintain the standard reached and to continue the progress made.

7. The scheme of "integral rehabilitation" is concerned with making the rural domains fertile through intensive capital investment—the State being financially associated in various ways with the effort. Large schemes for Public Works have become necessary to prepare the way for private work

on the separate estates. Public Works are undertaken directly by the State, or by a syndicate working under a State concession. Private work is undertaken by the owners themselves, either under compulsion or under threat of confiscation. The State and the owners contribute their part of the costs in thirty annual instalments, which are discounted either by big insurance companies or by credit institutes, which issue bonds for the equivalent amount. Three and a half million hectares are being worked to-day by this method. (The campaign against malaria is included in this.)

8. The methods by which this "integral rehabilitation" is carried out throws light on the Italian policy regarding land ownership. Fascism respects the rights of private property, including large estates, and therefore tries to avoid violent changes. But it insists that certain obligations with regard to methods of cultivation be fulfilled, and expropriates in cases where such obligations are not fulfilled. Compulsory expropriation is also exercised on behalf of the *Opera nazionale dei combattenti*. Normally the owners themselves are obliged to pay the compensation; and if they cannot pay in cash, they must dispose of part of their land. In this way the large estates are being divided up, a fact which in itself is a natural symptom of the rapid development of agriculture. Finally, a special commission has been appointed for internal migration and colonisation. The agricultural labourer is to disappear and give place to the colonist.

9. Other measures are also worthy of mention, as for instance the development of the semi-State, National Institute of Sericulture, for the development of the silkworm, and the National Export Institute which, among other things, is developing national brands of such commodities as wines, etc.; it is also encouraging the development of the co-operative movement.

An important, even decisive, part is played by education, by the influencing of minds. The Fascist agricultural policy is incomprehensible unless one knows how effectively information, from every word spoken by the Head of the Government down to the publication of the details concerning the smallest legislative measure, penetrates throughout the entire hierarchy to the furthest corners of the land.

10. The agricultural crisis policy deserves special mention. The Government has rejected every form of monopoly. Even in face of the pressure of vested interests it has striven to pursue a moderate commercial policy. Salaries and wages have sunk by some 20 per cent. The burden of debts and interest has been reduced, without, however, resorting to universal compulsory conversion schemes. Some tax relief has been granted. Special measures have been necessary to safeguard the production of rice and silk.

No. 4.

Some Facts About Italian Industry

by GIUSEPPE RIGHETTI

Though it is not possible to describe in detail what the Government did after 1922 to re-establish and develop Italian industry, or to give a full

view of the results obtained, a few rapid indications may, however, give some idea of the conceptions that inspired this complex effort by the Government.

The Fascist regime made its very first decisive contribution to the economic reconstruction of the country and industrial revival by re-establishing political and social order. The principal manifestation of the new conception is constituted by the Law of April 3, 1926, No. 565, on the juridical discipline of collective labour activities. Certain questions of great economic importance to the country were subjected to examination and study by Corporative bodies, such as the causes of the decline of the Italian silk industry and the possible remedies, the crisis in the white glass industry, the cinematograph industry, etc. As the study is limited to a simple synthesis of the main developments in this sphere, a few typical examples only have been indicated.

Special mention should be made, but as an example only, of certain measures concerning the institution of bodies for economic development, such as Industrial Experimental Stations, the National Institute of Sericulture, the National Institute for Preserved Foods, the National Institute for the Tourist Industries, the Committee on the Optical Industry, and the Chemical Industries Commission. We may recall amongst other measures the legal decree of December 27, 1930, No. 1835, which, for a period of five years, authorised the Minister of Corporations, in concert with the Minister of Finance, to grant exemption from Customs duties to machines, apparatus and special materials which cannot be produced by national industries and which need to be used in order to obtain new products not hitherto manufactured in the kingdom, or to carry out new industrial processes of great importance to the economic life of the country.

As for the stabilisation of the lira, it is evident that within the genera framework of the national economic life it occupies a primary place in industrial reconstruction. In the matter of Trade Union and Corporative organisation it has allowed salaries to be placed once more on the level to which prices had fallen, without shock or disturbance to production.

With regard to the legislative measures first discussed, the very important law is that of June 16, 1932, No. 834, which authorises the Government to promote the constitution of compulsory consortiums between those who exercise the same branch of economic activity. There are no compulsory industrial consortiums in Italy at the moment. The law is in reality considered as a reserve instrument for exceptional cases. The law of January 12, 1933, No. 141, on the regulation of new industrial installations, is still more significant. With a view to adapting the Italian industrial structure to general economic conditions, this law forbids all construction of new equipments or additions to the existing industrial equipment without preliminary authorisation from the Government. Nevertheless, the Government has no wish to crystallise the positions already established or to hinder the founding of new enterprises when their development might serve the general interests of the country.

Mention must also be made of the Institute of Industrial Reconstruction, which was created by a legal decree of January 23, 1933, No. 5, and includes sections dealing with industrial subsidies and an industrial demobilisation.

The section for subsidies aims at granting loans to private enterprises of Italian nationality, against corresponding guarantees, with a view to their technical improvement and the bettering of their technical and financial organisation. The Demobilisation Section has taken the place of the now suppressed Institute of Liquidation.

No. 5.

The Fascist Policy of Public Works From October 28, 1922, to October 29, 1932

by ARNALDO DI CROLLALANZA

Along with the demographic policy of the Fascist Government, solicitous on the one hand about the development of the birth-rate, and on the other hand about reducing the stream of emigration, must be considered its policy of Public Works as embodied in the two great principles which it has attempted to apply during the last ten years: firstly, the economic development and social regeneration of the South, and secondly, the improvement and transformation, into zones of intensive cultivation, of lands still marshy and uncultivated in numerous regions of the Peninsula. To these two programmes has been added during the last five years a third principle, the adaptation of the important main roads to modern traffic conditions (now classified as State roads). Apart from the beneficial effect which these works have already begun to produce in regard to the intensification of economic relations and the transformation and development of the main Italian industries, particularly agriculture, it must also be recognised that they have the merit of having brought about a marked diminution of unemployment, which the crisis had increased in Italy as elsewhere.

The work of improving the marsh lands which the Fascist Government has undertaken is yet another facet of its policy.

The hydrographical configuration of Italy brings the regulation of watercourses into the forefront of Public Works. Simultaneously with their regulation, the watercourses have been utilised for the purposes of irrigation and energy production. It is shown in the statistics of the Hydrographical Service relating to the production of electrical energy in Italy, that whereas in 1922 the hydro-electric production was 3,652 million KW., in 1931 it reached 9,665 million KW.

Important works of extension and improvement have been undertaken and carried out in those ports with the greatest amount of international traffic. The impulse given by the Fascist Government to the construction of aqueducts, sewers and other public health works has been most active.

Whereas one may say that in Venice and the new provinces all traces of the War have disappeared, the lamentable frequency of great earthquakes has continued to exact heavy expenditure for the work of reparation and reconstruction, whether directly executed or subsidised by the State.

The law of May 17, 1928, No. 1094, provided for the establishment of a system of State main roads, which has been entrusted, as far as general work and administration are concerned, to a kind of autonomous administration.

If the problem of the main roads is rapidly reaching a definite solution, the problem of classifying, organising and administering those roads which are not State roads will be the object of certain measures which are at present under consideration. The enterprises for the construction of special motor roads (*Autostrade*) have likewise multiplied

The Fascist Government, at the suggestion of the Grand Fascist Council, set aside for important Public Works a considerable part of the loan subscribed, with a patriotic gesture, by the Italian holders of savings. The extraordinary sum of one million lire was supplemented by other expenditure-permits during the financial year 1932–3. Thanks to this group of special measures, intended for the Budget of 1932–3, some 1,331 million have been added to the other 1,350 million lire for extraordinary works, which have an immediate productive and social purpose.

No. 6.

The Fascist Mining Policy

by ARNALDO PETRETTI

The mining policy carried out in Italy during the first ten years of Fascism is only a particular side of the economic and legislative policy adopted by the Fascist regime, which has been organic in its conception, continuous and progressive in its development, integral in its aims, and fairly favourable to State intervention.

The Fascist Government started its activity in this field by abolishing the system of ties and encumbrances imposed by the necessities of war, and promptly entered the reconstruction stage. The reconstruction, planned and carried out with unity of conception and aim, proved able to give the country the technical and practical organisation which it needed in the geological and mining field, in the mineral trades and industries, and in the scientific and legislative field. The Fascist Government avowedly pursued military and political objects with regard to its mining policy. The mining problems are now not only to be examined from the economic aspect, for the *Comitato di Mobilitazione Civile* (Committee for Civil Mobilisation) and the *Commissione Suprema di Difesa* (Supreme Commission for National Defence) are to collaborate with the *Consiglio Superiore delle Miniere* (Higher Council of Mines) in the study and solution of the most serious questions relating to the exploitation of mines and the utilisation of raw materials.

The characteristic feature of the Fascist mining policy is that of the harmony of State intervention with the principles laid down in the *Carta del Lavoro*, along the clear and bold lines determined by the Head of the Government. The methods of the intervention have differed, as they still do, according to the kind of production, the quota system, etc.

The Fascist doctrine regards private initiative as the most effective instrument for serving the interests of the nation. The State is only to intervene either where private initiative is insufficient or where political interests enter in. This is the case of mining activities; the power stored in the mineral wealth is to be developed to the full, and the State will play a decisive part.

Consequently existing private property rights and the grants by the Government to mines belonging to the public estate were converted into permanent concessions. State intervention has accordingly taken three main forms:

(1) *Direct management* by the State was applied in many cases and under very different conditions. It is worth mentioning the case of the *Società Anonima Nazionale Cogne* for the exploitation of the iron mines of Cogne and the production of steel; the case of the *Raffineria Olii Minerali S.A.* in Fiume; and that of the *Azienda Generale Italiana Petroli*, which was entrusted with the search for oil in the Italian soil and with many other tasks relating to the industry and trade in petroleum and benzine; and so forth. In all of these enterprises excellent results have either been achieved or may confidently be anticipated.

(2) *Encouragement or support*, both in the form of contributions and participation by the State, was intended to promote, by means of the granting of favourable credit conditions, the transformation of Italian mining industry, particularly as regards the adoption of modern machinery, appliances and technical systems. Mining credits were then established; contributions by the State to the payment of interest on loans contracted with credit institutions for the construction of plant and the purchase of machinery were authorised; special annual contributions for varying periods were granted to certain mining companies. In order to foster the establishment of plant tending to secure the full utilisation of the mineral oils produced in Italy and those bought in ever-growing quantity in the foreign markets, special Custom facilities were granted to oil refineries; and because these facilities failed to create an Italian oil refining industry, other important facilities, involving a control by the competent Ministries and the participation by the State in the profits, were granted under specified conditions to certain undertakings devoted to the utilisation of the by-products of oil refining. These provisions led to the establishment of three great crushing factories and gave rise to an Italian petroleum industry, the importance of which, from the standpoint of national defence, can scarcely be over-estimated.

Other particular forms of the State intervention, having very much the same characteristics, were adopted in order to secure the complete and rational utilisation of mineral springs (Montecatini, Salsomaggiore, etc.).

(3) *Supervision and Control:* The third form of State intervention was concerned with the control of fuel consumption and with the reform and unification of mining rights, the policy of the Government being to diminish the wastage of combustible fuels. The control is exercised by means of the *Associazione Nazionale per il controllo della combustione* (National Combustibles Association), a compulsory syndicate of the owners of steam plant, gas works and, in general, of combustion appliances, which was created with the double object of preventing accidents and of exercising a control in the direction indicated. In particular, it may be remarked that used appliances may only be reinstalled with the permission of the Technical Council of the National Combustibles Association; all appliances, generators or motors which, in the opinion of the same Technical Council, are more than 15 per cent. less effective than the most

modern apparatus must be replaced within a period of ten years; all appliances utilising combustibles, and those producing power, must be replaced by hydro-electrical appliances in so far as the replacement appears to be advantageous from the economic and technical standpoint; special regulations are laid down for new machinery to be erected. All these arrangements have proved extremely satisfactory and meet with unconditional approval of the industrial organisations themselves.

On the other side, the Technical Council makes enquiries and experiments, which have resulted in very interesting results, in accordance with which many valuable suggestions have been put forward.

The unification and amendment of mining legislation was carried out by means of a Royal Decree in 1927, inspired with the fundamental political and economic conceptions of Fascism and having the following as basic principles: that the subsoil belongs to the public estate; that the Government is to be empowered in this field with full authority. Although the exploitation of mines and mining industry is left for the most part to private initiative, the new rules assure the possibility of prompt State intervention.

No. 7.

The Italian Railways and the State

by CONSTANZO CIANO

When Fascism came into power the Italian railways were completely disorganised. The rolling-stock and equipment had deteriorated as a result of the War; there was a complete lack of discipline among the personnel; and railway rates bore no relation to actual material costs and salaries.

The first task of the Fascist Government was to restore discipline. The number of employees was reduced from 241,000 to 176,000. The eight-hour day, but with eight hours' actual work, was introduced. On the other hand, a great number of measures were introduced in favour of the employees, by the direct provision of food through the *Provvida*, the institution of the *Dopolavoro*, provision of dwelling-houses, etc.

On improvements a total of 3,200 million lire was expended. The national industries reaped the benefit. Next came electrification of the railway tracks; then the stations were considerably improved. A further 1,300 km. were electrified, and an additional 1,600 are to be completed within the next four years. In the year 1936 Italy will be foremost among the nations in this respect, with 3,000 km. of electrified railways. The expenditure for this purpose during the last ten years has totalled 1 milliard lire; by 1936 a further 1,200 million lire will have been expended.

The keeping up to scheduled time by the railways is looked upon as a question of national pride and is daily tested. The speeds have been considerably increased; a special point has been made of express passenger trains on the main lines. The traffic increased between 1922 and 1926 by 50 per cent., both for passengers and for goods. The increase was maintained till 1929. Since the period 1924–5, in spite of increasing burdens, the railways have produced for the State a clear profit, amounting in the best year to 350 million lire.

After 1929–30 the crisis began to make itself felt. In addition, there came competition from the motor-car, particularly as a result of the development of the Italian motor industry and the improvement of the main roads. In consequence it became difficult for the railways to balance their budget. But the State proved equal to the difficulties; it improved the services in order to increase the traffic; it was in a position further to reduce the personnel in consequence of rationalisation. Now only 139,000 employees are required, i.e. 8 men per kilometre of track as compared with 10·7 in 1914 (before the introduction of the eight-hour day). Wages have been reduced by some 14 per cent. The reduction in costs since the beginning of the crisis has been 24·1 per cent., while in the same period the takings have fallen 28 per cent.

No. 8.

THE *ISTITUTO NAZIONALE DELLE ASSICURAZIONI*

by GIUSEPPE BEVIONE

The *Istituto Nazionale delle Assicurazioni* (National Assurance Institute) was established in 1913, in compliance with the provisions of the Act of April 4, 1912, setting up, in Italy, a State life-assurance monopoly, to be exercised by the said Institution. The latter commenced business on January 1, 1913, having about 120,000 life policies, amounting to 763,000,000 lire of existing assurance, which were derived from the portfolios handed over by twenty-five foreign and domestic companies, who thereupon, by submitting to the law, ceased to operate. Its administrative and technical organisation was modelled on industrial standards, and approximated closely, in form, to a private company.

The *Istituto Nazionale delle Assicurazioni* succeeded very well in overcoming the difficulties of the War and post-War period right up to the advent of Fascism, when the question of life assurance in Italy was seriously examined from a fresh standpoint, and, by the Act of April 29, 1923, the provisions then in force were radically changed. This Insurance Act abolished the State monopoly, put the Government life-assurance institution into free competition with private companies and altered in some way its structure and organisation.

This law was really beneficial in its effects on the National Assurance Institute and, in general, on Italian life assurance. In the ten years since its enactment, the assurances taken up by the Institute have increased in value from 4,000 to 11,500 million lire; the mathematical reserves have risen from 731 to 3,167 million lire, and total assets from 961 to 3,722 million lire. If, moreover, one considers the increase in the value of Italian currency in this period, one must reach the conclusion that the greatest development of the Institution took place entirely during the Fascist era.

The National Assurance Institute is a State institution, its policies being guaranteed by the Italian Treasury; it is perfectly autonomous, however, in its management, and, as regards State control and supervision, it is in much the same condition as the private companies. These latter are bound by a provision of the Assurance Act of 1923 to cede to the State Institution

a share (gradually decreasing from 40 to 10 per cent.) of each assurance underwritten—a kind of obligatory reinsurance which allows the Institute to act as the governor-wheel in the machinery of Italian assurance; the shares ceded by private companies represent now less than a one-fifth of the total assurance undertaken by the State Institution.

In 1925 the underwriting of industrial policies was started in Italy, a kind of assurance almost unknown in this country at the time, and whose progress and success have therefore been relatively slow. But at the end of 1932 industrial policies to the value of more than 500 million lire were in force, and this figure—though very small in comparison with corresponding figures for other countries—must be considered very satisfactory and promising.

Because of the greatness of its funds and assets, the National Assurance Institute is to-day a very important and valuable financial force, standing at the exclusive service of the State and the national welfare. This is clear from the nature of its investments: State bonds, loans to public bodies, public utility bonds and real-estate investment constitute its most important assets.

The rates and premiums of the National Assurance Institute are very low, and the terms of its policies are usually quite liberal and generous; but thanks to the soundness of its investments and its economical management, the annual profits have gradually and rapidly increased, and since 1930 they have exceeded 50 million lire. Not having to consider the remuneration of its share capital—as all of its profits belong to the State—the Institute therefore took the step in 1930 of allowing the policy holders to participate in the profits, even though its premiums are on a non-profit basis. The bonus granted was 3 per cent. of the insured sum in 1930, 3·5 per cent. in 1931, and 4 per cent. in 1932.

No. 9.

Monetary and Credit Policy

by GIUSEPPE BOTTAI *and* FELICE GUARNERI

The State reserves for itself the important right of intervention in the sphere of finance and credit; it also exerts at least an indirect influence on the discount rate; and thirdly, it directs the use to which savings are put. This intervention is one of the most important means of influencing the Italian economic structure, the production and the distribution of the income of the country, and also the relative position of the various social groups. The question is that of harmonising the sectional interests with the interests of the whole. That is the fundamental principle of Fascist policy and doctrine.

The development of the Italian currency after 1922 is explained. The inflation worked out differently for the different groups: the industrialists and merchants found some compensation in the reduction of their debt burdens; the most hard hit were those with savings; the workers suffered, at least temporarily, a reduction in wages. The Fascist State unhesitatingly exerted its influence to prevent further depreciation, especially in the interests of the savers of income and the workers. Consideration for the

Budget, which would have profited by a depreciation, became a secondary factor; nevertheless the Budget was balanced.

It was possible also in 1923 and 1924 to keep the lira fairly steady at a point which stood, from the second half of 1923, at about 23 to the dollar. But in the summer of 1925 there was a fresh speculative assault on the lira, when the dollar rose to 31·6. The speech of the *Duce* in Pessaro in 1926 was the turning-point; the dollar sank to 18·15, so that the problem finally presented itself as to whether to stabilise at so high a point. In spite of conflicting interests, the Government decided to stabilise at 19 to the dollar, i.e. at 40 per cent. higher than the lowest point of the lira.

In order to maintain this position, there had to be a corresponding rise in the internal purchasing power of the lira. In spite of the difficulties entailed the Government persevered in its line of policy and achieved success. Among the most important measures in this connection was the keeping up of real wages, i.e. the lowering of the cost of living in proportion to the fall of wages and salaries. Real wages stand to-day at 21·5 per cent. above the 1914 level, and about 5 per cent. above the level of 1923 (the first year of the Fascist regime).

In credit policy it was impossible to avoid certain inflationary tendencies, but they were successfully kept within bounds. Above all, the Government has avoided incurring much short-termed indebtedness abroad.

The Bank Law of 1926 was intended to strengthen the organisation of the banks. All credit institutions were put under the control of the Bank of Italy. There were in Italy no banking institutions for the financing of industry, unless deposits could be used for this purpose. Special banking institutions were therefore founded for the financing of labour services, agriculture, commerce and, finally, industry.

For industry, two public loan institutions were founded, the one for medium and the other for long-term credits; they now issue securities, which the State undertakes to guarantee, for the public prefers State securities, or bonds with a State guarantee. Hand-in-hand with this banking law goes the regulation to the effect that the founding of new industrial undertakings, or even the enlargements of the existing ones, must have a previous, special authorisation from the State.

No. 10.

The Petroleum Policy: The A.G.I.P.

by ALESSANDRO MARTELLI

When Fascism came into power Italy had no petroleum policy. Of a domestic consumption of a million tons, only 5,000 were produced within the country. Important steps were then taken (*a*) to discover whether there were any considerable oil sources in Italy, (*b*) to secure for Italy possibilities of oil supplies from abroad, (*c*) to arrange for cheap distribution to consumers, (*d*) to set up for this purpose a complete organisation covering the transport, reception, storage, refining and distribution of petroleum.

The expense of boring for oil could not be borne by private capital on account of the risks entailed. This was clearly a case in which the State should step in in place of private initiative. The *Azienda Generale Italiana*

Petroli (A.G.I.P.) was founded with State capital in 1926. The results of the borings have so far been small, though it was decided to continue them a further five years.

The A.G.I.P. does not have a monopoly in the matter of boring. On the contrary, the pioneer work of the State is only intended to prepare the way for, and give a stimulus to, private enterprise. The industrial and commercial aspects of the industry are not being neglected, but are being linked up in an organic programme, which deals with the whole question of combustible oils, together with the mining policy in general. The State oil refining company in Fiume (Romsa) also plays an important part; it has lately acquired a refinery for benzine and the very latest distilling equipment.

Although the A.G.I.P. has no monopoly (for it has to meet the competition of importers), it has a certain regulating influence on the fixing of prices. This it possesses by reason of participation agreements with the companies of Iraq and of contracts with the Soviet Union and Rumania, and also by reason of the increase in the number of domestic automobile distributors, which has risen from 200 in 1926 to 5,000 in 1932.

The price of petrol which stood at 2·74 lire in 1926 had fallen by 1931 to 1·72 lire, thanks to the intervention of the A.G.I.P. on behalf of the consumers. Agriculture has also reaped the principal benefit of the price reduction.

A special protective duty was unavoidable; that meant loss of duties to the State, which has received, however, a certain compensation as shareholder in the industry.

The A.G.I.P. has also, by its policy of keeping down expenses, even during the most difficult period, succeeded in declaring a dividend after making adequate allowance for redemption and for the building up of reserves. The interest of the State in the development of this industry is based first and foremost on the necessity for national defence.

No 11.

THE *Banco di Napoli*

by GIUSEPPE FRIGNANI

By the Royal Decree of July 23, 1926, No. 1298, the *Banco di Napoli* was definitely set up as a credit organisation by public law, having a juridical personality and an autonomous administration, which was confirmed by the organic statute approved by the Royal Decree of June 2, 1927, No. 829.

These measures had the effect of substantially changing the character of the *Banco di Napoli*. The new statute conferred on the Bank the character of a single institute, resulting from the co-existence and co-ordination of various establishments, each of which had its particular attributes, but which now, taken together, form so many departments of the Bank itself: the Savings Bank Section, which collects and looks after the savings deposits and offers facilities for loans to local public administrations and agricultural credits; the Agricultural Credit Section, which, by means of a vast network of offices and intermediary organisations,

grants credit for the financial year and for improvements in the provinces of the southern mainland; the Mortgage Loan Section, which, by long-term operations, looks after the values of patrimonial institutions, and the need for improvements and building developments, etc., in the South, thus continuing the work of the national mortgage loan institutions; the Pawn Department fulfils a traditional rôle of affording assistance and defence to the less fortunate classes; the Emigrants Remittances Section collects, transfers and invests savings of emigrants. All the administrative organs of the *Banco di Napoli*, the General Council, the Board of Governors and the General Management, are nominated by the Government.

The new statute has confirmed the powers of vigilance exercised by the State over the institute. It exercises them through the Ministry of Finance by means of a Treasury Inspector, permanently attached to the Bank, who participates in the meetings of the Board of Governors and who may suspend any decision of the Board if he judges it to be contrary to the law, to the statute, or to the rules.

Six years after the new organisation was set up, one can state, if one examines the balance sheet for any year, that the transformation and development of the activities of the Bank of Naples, on the lines laid down by the Fascist Government, constitute an achievement which is not unworthy to figure amongst the works of reorganisation and rehabilitation accomplished by the regime in the realm of economics and finance.

No. 12.

Italian Tariff Policy Since the War

by GIORGIO MORTARA

During the pre-War period, Italy required protective tariffs in order (1) to effect the transition to a unified tariff system, (2) to develop young industries, (3) to maintain agriculture in the face of Overseas competition, (4) to balance the budget.

Tariff walls were gradually lowered by trade agreements. The average height sank during the period 1891–5 to 1909–13 from 19·06 lire to 9·81 on an import value percentage. Other restrictions on imports were not introduced, and imports rose. The deficit in the trade balance was made good by the remittances of Italian emigrants and by tourist receipts.

The War showed the extent to which Italy was dependent on foreign countries, nevertheless the Government did not cherish the impossible ideal of economic independence, but merely desired to produce, at home, certain essential foodstuffs. As this required time, a sudden modification of the trade policy or a restriction of foreign trade was not attempted; on the contrary, from the year 1921 till the world crisis, Italy was concerned with the development of world trade, in particular by means of trade agreements, which in each case embodied the Most Favoured Nation Clause.

However, the problem of the balancing of the Budget became every year increasingly difficult: instead of having a favourable import of capital as formerly, Italy is at present under the necessity of finding the means

to pay increased rates of interest and amortisation payments. The lira, above all, has to be protected.

The crisis from 1930 to 1932 changed the course of the international exchange of goods. The collapse of prices in the world market was followed by the collapse of several currencies. Nevertheless Italy has not, on the whole, followed the example of other countries in resorting to import prohibitions and quotas (the two exceptions affecting milled wheat and cattle).

On the other hand, tariffs have been raised everywhere, and their incidence has become heavier in consequence of the fall in prices. Italy has not been able to refrain from resorting to such measures as the restriction of imports, although it is realised that an all-round increase in tariffs is, in itself, an expression of excessive economic nationalism, which constitutes one of the main causes of the general crisis. Italy has therefore tried not to raise the absolute level of her tariffs, although the fall in prices has, of course, produced a considerable increase in the actual percentages levied. In so far as other trade restrictions have been introduced in exceptional cases, they have been imposed in part under the terms of international agreements.

No. 13.

Restrictive Measures applied in Italy to the Movement of Currency and Capital immediately before and after the War, and during the Crisis

by RENATO SPAVENTA

1. Many war-time measures for currency protection were introduced. These were, in particular, decrees prohibiting the export of securities, foreign bills and Letters of Credit. Even after the War the restrictions on the traffic in foreign bills and the export of capital were still maintained.

2. The period immediately after the War was characterised by the depreciation of the lira. All restrictive measures proved ineffective. Import restriction on luxury articles were imposed; financial participation in foreign concerns and the purchase of foreign securities required an official permit. The exchange was subjected to fresh regulations; heavy penalties were enforced; and yet the flight of capital could not be checked. The balance of payments did not improve as a stop was put to the depreciation of the currency. In 1921 the measures were intensified, but in the same year restrictions on the traffic in foreign bills were removed. In 1922 the situation began to improve.

3. *From 1923–9*: Up till the second half of 1925 the traffic in foreign bills was not subjected to any restrictions; there was also complete freedom of action with regard to capital movements. The Fascist Government soon balanced its budget, coaxed back Italian capital from its exodus, and even attracted new foreign capital; it reduced the internal debt and so created necessary conditions for putting the currency once more on a sound basis.

In the summer of 1925 there was a new, successful attack of speculators on the lira, the dollar rose from 18 to 39; in 1926 it was successfully brought down again to 23, and in 1927 it was stabilised at 19 to the dollar. During this last currency crisis, before the stabilisation, measures were taken once more against the export of capital and restrictions put on the use of foreign bills. After the stabilisation these restrictions were gradually withdrawn, until, by the decree of 1930, complete freedom of action was finally restored.

4. *The World Economic Crisis*: No legislative measures have been taken to restrict the traffic in foreign bills and the transfer of capital, but their control has been handed over to certain syndicates, such as the Credit and Assurance Federation and the Technical Banking Association. The Union of Corporations has made it possible to replace the previous troublesome and rigid regulations by an elastic but effective system. The measures taken by the Federation were not very different from those taken by the former Government, namely, the limitation of foreign bills to the authentic requirements of industry, trade and travelling, and the prohibition of long-term business directed against the lira, etc.

During this time the Government pursued a policy of maintaining the Gold Standard, and gold parity based on a moderate deflation; it aimed at increasing the gold reserves, putting restrictions on credit, and protecting domestic production.

In addition there were measures for minimising the detrimental effect on Italy of foreign currency restrictions enforced by other Governments. For instance, the sending of money from Italy to individuals or organisations in countries which had stopped the transfer of payments to Italy was forbidden. With some countries compensation agreements were concluded, that is, arrangements between the Governments or banks in the form of general or special clearing arrangements.

NETHERLANDS MEMORANDUM

The State and Economic Life in the Netherlands during the Crisis

submitted by

THE NEDERLÄNDISCH ECONOMISCH INSTITUT

Agriculture has been the principal field of intervention by the Government of the Netherlands during the crisis. The customary Free Trade policy of the Netherlands has greatly influenced the development of agricultural productive capacity. Dutch agriculture has, for this reason, developed itself by its own strength. It is self-evident that Dutch agriculture got into serious difficulties on account of the intensification of the crisis. In the first place, it was severely injured by protective measures on the part of its most important customers, such as by increases in import duties, quota systems, etc. The difficulties of Dutch agriculture increased when several European countries depreciated their currencies and, as a result, obtained an advantage in the world market. Germany and England are the largest buyers of Dutch agricultural produce.

Not before the beginning of 1932, more than two years after the outbreak of the crisis, did the Dutch Government embark on a policy giving general support to agriculture. By means of a consumer's and dealer's tax, the Government has lent financial support to three branches of agriculture, viz. wheat-growing, cattle-breeding and pig-raising.

Wheat-growing.

The price of Dutch wheat was fixed at 12 florins per 100 kilos, whereas the world-market price at the same time amounted to 5. This enormous protection caused considerable extension of wheat cultivation; for the prices of all other agricultural produce, unless artificially supported, were rapidly dropping.

Cattle-breeding.

In cattle-breeding the development shows a similar trend. A large proportion of the butter and cheese production is exported, especially to Germany. The obstacles which the latter country has put in the way of butter exports were to a great extent the cause of the serious difficulties with which the cattle-breeding industry was faced in the beginning of 1932. The Government thereupon decided to assist this group of producers by making an extra grant for all milk used for industrial purposes, and in so doing tried to give the producers a guaranteed price of 5 cents a litre.

On account of the sharp fall in the world price of butter, in March and April, 1933, and of the steady increase of excise duty early in April, 1933, the domestic butter price was about three times as high as the world

price. In this sphere it has become evident that the consequences of certain protective measures could not possibly have been foreseen.

The artificial increase in the price of butter after July, 1932, during a period of decreasing purchasing power in this country, thus resulted in a diminished butter consumption. The percentage mixture of butter in margarine, which was stipulated in the above-mentioned Act, was therefore raised to 40 per cent. It is questionable, however, whether this obligatory increase of the percentage of butter in margarine will produce any effect. For as the price of margarine is being raised in this way, so the consumption of margarine is also diminishing.

PIG-BREEDING.

The system of supporting the pig-breeders was much more radical than any other act in this sphere, and is to be considered as the result of special circumstances. A rise in domestic prices without a restriction of production would have created new difficulties. Under these circumstances the Government set up, together with the creation of a stabilisation fund out of which the pig-breeders were paid, an organisation with the object of restricting the production of hogs to certain limits. As a matter of fact, this tax is in the end paid by the consumers, so that the domestic price of pork is higher than the world market price.

Pork is sold in other countries at prices lower than the domestic price in Holland. The foreign selling prices are also lower than the Dutch cost prices, as otherwise it would not be necessary to support Dutch pig-breeding. This price policy can therefore be regarded as a kind of dumping. However, it must be recognised that the very low prices in the world market, which are below the costs of production in Holland, are largely the result of the depreciation of several foreign currencies.

As a result of this policy it became necessary to apply a quota system to certain agricultural products such as butter, animal fat, wheaten bread, pigs and pork, as otherwise the policy would not have brought about the necessary effect.

A method to which the Government has rarely resorted in support of agriculture is that of granting subsidies. The majority of such subsidies have to be considered as a kind of indirect "dole." Another method of relief to agriculture is the granting of credits by the Government on a limited scale. And finally by the act of June, 1932, it was provided that tenants could apply to Court for total or partial remission of rent.

Since the measures of relief for agricultural produce were taken, the cost of living has remained pretty constant.

HORTICULTURE.

The minimum price of the different horticultural products which the Government guarantees is fixed below the cost of production. Consequently any stimulus to increase the production of vegetables has been carefully avoided.

SHIPPING.

Dutch shipping has always been in an exceptional position in that it has never received any form of protection or support, whereas nearly all

the other foreign steamship companies have received subsidies. As the steamship companies are experiencing difficulties in obtaining credit, the Government has founded a Finance Corporation, of which a little more than half of the shares is in its possession. It should be noted that these credits are in no way to be considered as subsidies, for the Government emphatically refused to adopt this system of aid for shipping.

INDUSTRY.

Up till a short time ago the Dutch industries were practically without any safeguard. At the end of 1931 a Crisis Import Act was passed by means of which the Government obtained the power to regulate, by decree, the import of special goods. Quotas were introduced only in those cases where imports has increased *excessively*. It has to be remembered, however, that an "excess" of imports was interpreted in its broadest sense. Not only were the figures of import themselves taken into account, but also the changes in the proportion between imports and exports and between productive capacity and marketing possibilities. And so the quota system has been introduced to a large extent for manufactured products, primary raw materials not being affected.

A Government report on the quota system in November, 1932, stated that the results of the measures hitherto taken have been satisfactory. In all these cases imports have noticeably declined, whereas the share of the domestic market by home-producers has sometimes risen considerably. The restrictions have not led to a rise in prices.

The position of the Dutch industries, however, is extremely precarious, for they must sell a large part of their products in world markets, in competition with industries which have the advantage of a depreciated currency or are supported by Governments. It remains to be seen whether State intervention in Holland will restrict itself to its present compass. Probably the economic situation will compel the Government to intervene more drastically in future. The process of reducing wages and fixed charges by mutual arrangement does not progress with the necessary speed in Holland. Therefore the Government will have to choose in the future between reducing wages and fixed charges by emergency acts, or by abandoning the Gold Standard and adopting a policy of reflation.

No. 1.

Measures affecting International Trade in Poland

by the

Central Committee of Polish Institutions of Political Science

1. *The Most Favoured Nation Clause:* Poland has stood for the principle of the unconditional Most Favoured Nation Clause for two different reasons: her principal need was the development of her export trade, for the conduct of which the Most Favoured Nation Clause offered the best chances of stability; and secondly, the clause gave the best opportunities to countries whose economic situation was not strong.

France did not grant to Poland the advantages of the Most Favoured Nation Clause until 1929. In the Polish-German commercial treaty, which has not yet been ratified by Germany, the Most Favoured Nation Clause will be included.

In consequence of the economic war with Germany, Poland was obliged to take special measures against German imports. In so far as Poland has fixed quotas, every country to which she grants Most Favoured Nation treatment has the right to a quota similar to that which may be granted to any other country.

During the crisis Poland has favoured agreements for preferential treatment in favour of the grain-importing countries of Europe. She has also concluded a treaty with Austria granting preferential rates to certain industrial export articles.

The Open Door: Poland, possessing neither Colonies nor mandated territories, has only an indirect interest in the maintenance of the Open Door policy, especially as her Overseas trade represents only a relatively small part of her total foreign trade. But it is nevertheless true that this question is gradually gaining more and more importance with the gradual penetration of Polish goods into the Overseas markets. The principles of Polish commercial policy in this field are:

(1) That Polish goods shall not be subjected to higher duties in Colonies than those applied to the Most Favoured third countries. If the Colony is what is called an "assimilated" one, its goods shall enjoy the same privileges in Poland as those accorded to the Mother Country. Any breaches of this principle must be incorporated in a clause of the trade agreement.

(2) The goods of mandated territories shall as a general rule enjoy in Poland the lowest duties applied to any third States.

(3) Poland does not claim the preferential treatment which a Mother Country accords to its Colonies, Protectorates and mandated territories, nor that which Mother Countries and Protectorates accord to other Colonies, Protectorates, Mother Countries, or mandated territories dependent on the latter.

No. 2.

State Intervention in Private Economic Affairs in Poland

by the

Central Committee of Polish Institutions of Political Science

State Intervention regarding Industry, Commerce, Agriculture and Finance: Reduced railway rates constitute the most frequent form of direct

subsidising. For industry in normal times, and for agriculture since the crisis, protective tariffs have been an additional method of State assistance. Another takes the form of credit facilities; since the crisis, these facilities have tended to be replaced by a reduction of the rate of interest on former credits. In 1923 and 1925, in particular, the State gave subsidies for the purpose of helping the banks to recover financial stability.

The State also exercises control over the Polish petroleum industry and certain branches of agriculture exports.

The Polish State has, from its inception, possessed a considerable amount of economic property, especially in forests. The State lands have been considerably reduced by their parcelling out in the form of allotments. By way of compensation it has increased its holdings of mining property. It also possesses a number of factories, tobacco and match monopolies, a monopoly of the distribution of alcohol, and two banking institutions.

State Intervention in regard to Labour: The most developed form of State intervention is the regulation of conditions of work, including social insurance. A minimum wage is not prescribed by law.

State Action in regard to General Economic Conditions: While during the inflation the object was to lower prices, the most important task of the Government to-day is to bring about a rise in prices. However, the rigid prices maintained by cartellised industries are in striking contrast to the general fall of prices elsewhere. The State has also concerned itself with bringing about a reduction in the rates of interest.

Many Polish economists and politicians, without being *étatists* in principle, are of the opinion that the State should contribute towards organising private initiative, for the reason that Polish economic progress has been for long retarded. Furthermore, private enterprise, both in industry and commerce, would be faced with a difficult task had it not been helped by the State. It would seem that the political subjugation of Poland has prevented the framework of Polish society from being entirely dependent on private initiative, in the absence of all State assistance. The attitude held is that interventionism is only of transitory and educational value for the purpose of developing the spirit of private initiative. On the other hand, interventionism in Polish agriculture is exclusively and definitely of ideological and social character.

The ideological and social motives are in evidence in the tendency to create peasant-owned farms, economically independent of each other, and in the movement to strengthen the size and importance of the rural class, while diminishing, though not suppressing, private land ownership on a large scale.

Industrial workers, and especially their Socialist leaders, played a great part in the Polish struggle for independence, therefore Labour legislation bears traces of their influence. The nearness of Soviet Russia induced the political opponents of the Socialists to allow labour legislation to be developed on a large scale, on a basis of outright interventionism.

RUMANIAN MEMORANDUM

State Intervention in Private Economic Affairs

by G. VLADESCO-RACOASSA

The economic policy of Rumania up to the time of the World War was Protectionist rather than interventionist; it was confined to furthering private production. The tariff law of 1875 showed a stronger Protectionist tendency than did its predecessors. In 1887 a new law was put into force with the intention of aiding industry. During the time that this law was in force, namely, from 1881 to 1911, Rumanian industry made great advances.

The creation of Chambers of Commerce, and a note-issuing institution, etc., indicate the efforts made by the State for the advancement of economic progress. The State and the municipalities possessed considerable property, including railways, harbours, docks, etc.

Already during the War the question of agrarian reform had sprung into importance. In 1917 the Constitution was altered so as to permit the appropriation of landed property for national purposes. After the conclusion of Peace, practical steps were taken in this direction. The object of the reform was first of all to abolish the unequal distribution of land and to get rid of an antiquated system of tenure. Emigration was to be diminished and the peasants satisfied. The whole of the Crown lands suitable for cultivation, the lands belonging to public institutions, foreigners and absentee landlords were taken over, as were all the large estates from the largest down to those of 100 hectares. A fixed expropriation price was laid down. Peasants were settled on a piece of land large enough to secure an independent existence for themselves and their families. Many interventionist regulations laid down in the law could not be carried out for political reasons. Obligations were to be laid on the small landowners to cultivate their land under penalty of dispossession.

Nor was the State idle in the industrial field. Protective tariffs were introduced for industry. At the end of the War, Rumania was under a regime of a general tariff and commercial agreements; in 1920 measures for restricting imports and exports were put into effect; the new law of 1924 imposed an autonomous tariff which was to apply to all States which gave Rumania reciprocal treatment; against all other States the previous rates were raised by 300 per cent.

The mining law of 1924 was intended to give the State considerable control. The principle of nationalising all mineral wealth was put into the foreground; national and foreign capital were to be treated alike. The State is now in a position to prevent the creation of a monopoly in the home market.

The production, transmission and distribution of electric power have also been put under State control.

During the crisis, new measures of commercial policy became necessary. For instance, quotas were imposed in 1932. To this were added the restrictions on transaction in foreign currencies. An advisory committee

for the procuring of foreign bills and for supervising imports was created, with the eventual purpose of laying down the rules according to which the National Bank should assign foreign currency. Measures became especially necessary to assist exports, especially cereals. Export taxes were abolished, and export premiums at the rate of 10,000 lei per truck of exported grain or flour were granted. A special national institute for assisting exports was created.

As regards the financial policy of the Rumanian Government, the currency was stabilised in February, 1929. Subscriptions to foreign loans and the incurring of long-term indebtedness abroad was subjected to the control of the State and the National Bank. The National Bank possessed the right to give its sanction before loans could be raised. After the granting of a large French credit in 1931 a programme for the reorganising of private credit was effected.

The burden of interest payments constitutes a particularly important problem for agriculture. By the law of 1931 a maximum rate of interest was fixed in such a way that no rate fixed by agreement might exceed the official discount rate by more than 6 per cent. Very stringent measures were laid down against an infringement of this nature, for the law was to be retrospective. The owners of small, middle-sized and large landed property benefited by these terms. A further law made forced sales of cultivated land and the harvest illegal. In March, 1933, a new bill was laid before Parliament which provided for the conversion of all agricultural and municipal debts.

As regards transactions in foreign bills, compensatory methods were adopted with foreign countries, all such transactions being centralised at the National Bank.

The methods of organising and administering public enterprises are particularly interesting. After various trials, an effort was made in 1929 to put all State and municipal undertakings on a commercial basis. All measures which had previously been introduced with regard to foreign capital were rescinded. A Supreme Council was created for the administration of all public undertakings and all public property. This form of the public economic policy proved the most successful.

The intervention of the State in the field of labour was already considerable even before the War. The law of 1912 brought into existence a system of organisation graded according to occupations and providing for compulsory membership. At the same time the law created compulsory insurance against sickness, disablement and accidents. The Constitution of 1923 provides, under Article 22, for social insurance. Noteworthy is a pension fund for journalists which is subsidised by the State. The report describes the separate laws for the protection of workers, miners, women, etc.

Social reform was systematised after the War through the creation of a Ministry of Labour and Social Protection and the passing of a series of important social laws. For instance, a collective laying down of tools for economic or occupational reasons was declared legal. Before declaring a strike, however, recourse has to be had to the procedure of conciliation. For State undertakings, obligatory arbitration was introduced; for other factories the appeal to arbitration remained optional.

During the crisis new measures became necessary. A National Economic Council, for example, was created in order to decide the general lines of the State's economic policy and to draw up laws of an economic or financial character. The Economic Council was replaced, later, under a resolution of the Ministry by the economic delegation of the Government, which functions under the title of the "Interministerial Economic Commission."

GENEVA SCHOOL OF INTERNATIONAL STUDIES MEMORANDA
No. 1.

The Open Door and Reciprocity
with special reference to the British Empire

by ALFRED ZIMMERN

The Open Door may refer to (1) areas where tariff autonomy is limited by treaties which throw open the trade of the area on equal terms to the signatories. Such treaties often contain regulations for a low range of Customs duties on an *ad valorem* basis, or (2) to Colonial areas under the control of Powers who, though under no contractual obligation to do so, make no discrimination between the goods of their own nationals and the nationals of any other State. The authorities of the United States Tariff Commission prefer this latter definition.

Among territories which are Open Door areas by reason of a treaty, the following types can be distinguished:

(*a*) The so-called "old Open Door areas," where a settled, if backward, Government has become party to Open Door arrangements on its own account, thus limiting its fiscal autonomy.

(*b*) The so-called "new Open Door areas," i.e. regions forming part of the Colonial area of some outside Power and subjected to a special Open Door regime by international treaty.

The first form is felt to be humiliating and is gradually giving place to tariff autonomy. With regard to the second case, i.e. territories in which the Open Door has been maintained through a free act of policy, the following paragraphs deal only with those which form part of the British Empire:

The distinction must be made between the self-governing Dominions (to which now, technically speaking, Great Britain also belongs), India, and lastly the Colonies and Protectorates. The boundary between them is fluid and there are many between stages. Everywhere the Colonial system is guided by the aim of awakening the civic spirit in the local population. That means, above all, that the local legislature is invited to discuss the Budget, and that effort is made to avoid acting, in budgetary questions, counter to the wishes of the local legislature. For instance, in 1917 the British Government agreed to the duty on cotton goods coming into India without imposing a counteracting Excise duty. This policy has been strictly adhered to since that date.

British Colonial Policy and the Open Door: The conflict with regard to the right of the Dominions to grant Great Britain preferential tariffs was decided in 1897, when England terminated the treaties with Belgium and Germany, which had stood in the way of the granting of such preferences. From then onwards, Great British considered the "internal fiscal arrangements of the various parts of the British Empire" as "a domestic matter." Preferences within the Empire were claimed to be not incompatible with the Most Favoured Nation system.

Nevertheless, during the period between 1897 and 1914 the Open Door remained the general practice of British Governments of both political

parties. It was not, however, carried out to its extreme limits. The two notable exceptions were the preferential duties on the export of tin ore from Malaya in 1904, and the preferential import duties granted to Empire products by certain West India Islands in 1913.

During the War, the feelings on the subject changed in Great Britain. The idea of a "self-sufficient Empire" gained ground (cf. the difference in view between the Royal Commissions' reports of 1905 and 1917 respectively). For the first time since 1860 a demand was made for the abandonment of the Open Door in the interests of the Mother Country. It resulted in two cases in a temporary preferential agreement; in both cases German competition influenced the decisions.

After the War, there came a more far-reaching change. Great Britain adopted the policy of granting preferential rates in her domestic tariff in favour of the products both of the Dominions and the rest of the Empire.

Moreover Great Britain pursued, through the Colonial Office, a policy of granting, in the tariffs of non-self-governing Colonies, preferential rates to goods from Great Britain. Thus there arose, without any formal declaration, a system of reciprocity. The Ottawa Conference resulted in a more systematic abandonment of the policy of the Open Door and to a considerable extension of the system of reciprocity, both geographically and as regards the range of commodities affected. At the Conference the Colonial Secretary used the bargaining power of the British delegation in favour of the wishes of the Colonies, and achieved more than the Colonies could, each by separate representation, have achieved.

No. 2.

State Intervention in Private Economic Enterprise in Great Britain[1]

by J. H. RICHARDSON

There has been a considerable increase during recent years in State intervention in private economic enterprise in Great Britain. This has been due mainly to the opportunities for greater national co-ordination in consequence of progress in transportation and communication, the depressed condition of certain industries, the need to readjust the balance of the British industrial structure in view of the changed conditions of trade in the post-War world, and the desire to avoid duplication and the wastes of unregulated competition especially in newly developed industries of national importance.

Many of the forms of intervention reviewed are of interest in being, in varying degrees, intermediate between *laisser-faire* and full public ownership and management.

[1] In the preparation of his memorandum on this subject, Professor Richardson used data based on researches of the following students of the Economics Department of Leeds University: Messrs. F. S. Crossley, L. C. King, S. Salik, N. Hamid, M. Ibyari, R. Bainbridge, F. H. Eastwood, C. S. K. Leonard, and H. M. Lawson, Miss M. W. Westgarth and Miss F. A. Bever.

Methods of Intervention

(1) Full public ownership and management by a Government Department or local authority: The chief example of State ownership and management in Great Britain is the Post, Telegraph and Telephone Services. Occasional proposals that these services should be transferred to private management have received little support. In the field of local government many public utility services are owned and managed by the municipalities and other local bodies.

(2) Partial public ownership by the method of shareholding with varying degrees of public control.

(3) Subsidies to private industry: Public intervention either by the methods of shareholding, subsidies, a guaranteed selling price or a guarantee of the capital and interest of an undertaking, has sometimes been adopted as a convenient method of securing partial control, of helping an industry of national importance, but hitherto undeveloped, to become established, or of giving temporary assistance to some industry during a period of difficulty. A considerable subsidy of £23 million was, for example, granted to the coal-mining industry for some months in 1925–6.

On social grounds other large subsidies have been paid by the Government in recent years for housing, and by way of unemployment grants to assist local authorities and public utility companies to carry out approved schemes of work for the relief of unemployment.

(4) Management by Public Corporation: This method has been used for the administration of certain ports, for example, the Port of London, and of the London Passenger Traffic system. It is also used for the control of the British Broadcasting Corporation, and for the construction and operation of the main transmission lines, interconnecting the principal generating stations, of the electricity system of the country. It is a method which is being increasingly employed.

The work of these various public authorities has been generally effective, and, although criticisms are sometimes made, there is widespread support for continuation of the system.

State Regulation of Private Industry

The chief examples are the systems introduced by the Railways Act, 1921, and by the Coal Mines Act, 1930. Banking and currency are subject to statutory regulation. Since 1931 the Government has operated an Exchange Equalisation Fund to prevent undue fluctuations in the foreign exchange rates of the pound sterling, and especially to restrict speculative movements. During 1932 the Chancellor of the Exchequer asked for a cessation of new capital issues in order to give the Government a clear field for the War Loan Conversion; after the conversion operation was completed the restrictions have been largely withdrawn except for foreign loans. The Government maintains the Department of Overseas Trade to furnish exporters of British goods with information regarding Overseas markets and to further their interests abroad.

Notes are given below about some of the chief schemes of State intervention.

Electricity

The Electricity (Supply) Act, 1926: The scheme adopted is of great interest quite apart from technical considerations, for it created a new type of public co-ordinating board, the Central Electricity Board, which resembles only superficially such bodies as the Port of London Authority or the Metropolitan Water Board. Indeed, the Act is a landmark in the evolution of Government participation in the economic life of Great Britain.

The Central Electricity Board consists of a public body created by statute. The scheme is financed by the issue of stock which carries no voting rights. Principal and interest on the stock may be guaranteed by the Treasury, but such guarantee does not give power to the Treasury to supervise the work of the Central Electricity Board.

The Board's function is to make production more efficient through concentration and co-ordination, the instrument of co-ordination being represented by the main transmission system. It has power to compel owners of generating stations to enter into the national scheme.

Operation of the Scheme: Progress in the development of the electrical "Grid" or transmission system has been rapid, and if the present rate of construction is maintained it should be completed by the middle of 1933.

From each Grid point, which in the complete scheme will number more than 250, authorised distributors will be able to obtain supplies of electricity. The Grid carries out one-half of the process from the production of electricity to its consumption by the public, the remaining half being carried out by distributing companies, local authorities and municipalities.

The Board does not deal with the consumer direct, no matter how important the latter may be; whether it be a railway company, industrial concern or a public utility, the Board must work through a supply undertaking owning distributing rights in the area where the railway, industrial concern or public utility is located.

The following main results may be expected: a reduction of the average cost of output; a highly developed system of distribution and hence a reduced price to the ultimate consumer; a more generally reliable supply; and, in particular, a supply to the less accessible areas. Through the pooling of energy supplies, the Grid makes it certain that the economies which have hitherto been confined to very large centres of demand will be spread over the whole country, and this, of course, must lead ultimately to better territorial distribution of economic activity.

Broadcasting

For several years after the War, broadcasting was operated by the British Broadcasting Company, which, however, was required to observe various regulations in the public interest. Some years ago a Committee, appointed by the Government, reported that "broadcasting has become so widespread, concerns so many people, and is fraught with such far-reaching possibilities, that the organisation laid down for the British Broadcasting Company no longer corresponds to national requirements or responsibility."

Shortly after the Committee had reported, broadcasting was brought

under full public control by Royal Charter. The Charter provides that the broadcasting service shall be conducted by a Public Corporation acting as Trustees for the national interest. In view of the widespread interest taken in, and the great value of, the service as a means of education and entertainment, it was deemed desirable that the service should be developed and exploited to the best advantage and in the national interest.

Any Government Department may require the Corporation to broadcast any matter which such Department may require, while the Postmaster-General may require the Corporation to refrain from sending any matter which he may specify. It was intended, however, that these powers, and also certain emergency powers, should be used only exceptionally, and, in practice, there is general agreement that the Corporation has been left free in the exercise of its functions. Opportunities have been given for most varied expressions of opinion, and each political party is watchful to ensure that it has equality of opportunity to put its case before the public.

There is general agreement in Great Britain that broadcasting must be conducted as a monopoly. The method of private enterprise has been rejected, and instead a public system has been set up with considerable freedom of management, but responsible in the last resort to Parliament, and a Parliamentary Committee has been established which the Corporation may consult.

The Coal Industry

Production, supply and sale of coal: By an Act passed in 1930 provision was made for the immediate establishment of a Central Scheme, administered by a Central Council, to regulate the production, supply and sale of coal by the owners of coal-mines in Great Britain. The Act also provides that each district shall determine from time to time the standard tonnage of every coal-mine in the district, having regard to the special circumstances of each coal-mine. Each district scheme shall also provide for the determination from time to time of the proportion or quota of the standard tonnage which each of the coal-mines in the district is to be allowed to produce during specified periods.

There are arrangements whereby mines can exceed their quota in order to make up the deficiency created by other mines which do not produce the quota fixed for them. The Act also provides for the fixing by the district scheme of the minimum price below which every class of coal produced in the district may not be supplied or sold by owners of coal-mines in the district.

With a view to the purposes of reorganisation of the coal-mining industry the Act provides for the establishment of a Coal Mines Reorganisation Commission, consisting of five commissioners appointed by the Board of Trade. In the operation of the Act, Scotland alone, of the twenty-one districts defined, failed to agree upon a voluntary marketing scheme, and for this area the Board of Trade formulated a scheme, which the coal-owners agreed to endeavour to operate successfully. No major difficulties have been encountered in the working of the quota system, although some complaints have been made that it has resulted in undue restriction of output, with consequent loss of trade and injury to consumers. In most

districts the standard tonnages which were fixed soon after the scheme came into force have not given rise to many complaints. It may be added that before the introduction of the Act no progress could be made towards international agreements on production or marketing of coal because there was no organisation in Great Britain which could speak for the whole industry.

While regulation of output, on the whole, has proceeded satisfactorily, this cannot be said of price regulation, which continues to present difficulties, and charges of evasion are not infrequent. Criticism has also been made that minimum prices are inelastic and that, in consequence, loss of trade results.

The Coal Mines Reorganisation Commission has not succeeded in persuading the owners themselves to propose schemes of reorganisation, and the Commission is (in 1933) putting into operation the compulsory powers with which Parliament endowed it.

The Railway Act, 1921

By this Act, the railways, which had been taken over by the Government during the War, were returned to the companies, which were, however, required to comply with various regulations. The Act provides for the amalgamation of numerous independent companies into four main groups, as a measure of reorganisation and for greater efficiency. Also compensation was to be paid by the Government to the companies for deficiencies in net receipts and in respect of repairs and renewals consequent upon war control.

The net revenue which the companies are permitted to retain is determined and a method of calculation given for reckoning additions to net revenue on account of new capital improvements. If there is in any year a surplus over this standard revenue, 80 per cent. of the surplus is to go in the reduction of charges and 20 per cent. to the companies.

The Act also provides for the setting up of an elaborate system of wage councils and conciliation boards to deal with labour conditions.[1]

There are also other forms of State intervention in the operation of the railways, including especially various safety requirements and the prohibition of discriminations and unfair contracts.

Wheat Control

The Government control of wheat is based on the Wheat Act passed in May, 1932, which states as its aim "to secure to growers of home-grown millable wheat a standard price and a market thereof."

The method adopted is to attempt to organise the wheat market through a price guaranteed to the farmer through a quota paid by the miller or importer on home-grown or imported wheat. The chief purpose of the scheme is to ensure that the farmer will have a reasonable prospect of profit as a result of controlling the production of corn.

An important question involved is whether it is desirable to encourage

[1] These systems are outlined in the note on "State Intervention in regard to Labour," see below, p. 409.

by a nationalist policy of Protection the further production of wheat in a world already glutted. The reply to this is that under ordinary conditions this would be false policy, but when the world's wheat market is completely disorganised and this is spreading ruin in this country there seems to be a case for attempting to organise our own wheat market and allotting a share to home producers who prove themselves able to produce.

If the measure remains in force for a few years vested interests will make a very strong barrier against repeal, and farmers, who might be more suitably employed in dairy farming, pig-breeding, etc., may be tempted to remain in wheat-growing to get the subsidy. The subsidy is of course borne by the consumer in the price of bread.

The British Beet Sugar Industry

Early independent schemes for the production of beet sugar were not successful largely because of the difficulty experienced in inducing capital to enter into an untried trade, while farmers would not undertake the growing of a large enough beet crop without guarantee that it would be taken off their hands.

The Government has been sympathetic to the establishment of a new agricultural industry and its policy has been directed mainly to helping the industry in its initial stages. The purpose of the Government's aid in 1913 was chiefly educational.

Since the War the policy of the Government has been directed towards the establishment of the home industry by the method of subsidy; this is in conformity with its general policy of endeavouring to diminish the dependence of the country on foreign food supplies by stimulating home and Empire production.

There is the further object of increasing employment. The attempt made, by means of subsidising the industry, to promote its prosperity and establish it firmly, denotes a desire to help a new industry calculated to give employment, and especially agricultural employment.

Effect of Beet Subsidy: Whereas 16,000 acres of sugar beet were grown in 1923, 349,000 acres were grown in 1930 by 40,000 growers. While two factories existed in 1923, eighteen were operating in 1930. The production of sugar increased from 13,000 tons in 1923 to 290,000 in 1929, and to 420,000 tons in 1930, but there was a fall to 250,000 tons in 1931. Costs, however, compare unfavourably with those of continental countries. Indeed, the cost to the State appears to have been wholly disproportionate to the result.

Since the British sugar production is still only 16 per cent. of the total world production, it can exercise little influence upon world prices. The industry's income, in fact, is largely governed by the rates of subsidy and tariff, and this income in turn governs the beet price. Empire sugar-cane producers are complaining about over-production of sugar and the collapse of market prices. It seems that the industry is dependent upon the present costly system of subsidising being continued.

No. 3.

State Intervention in Great Britain in Regard to Labour

by J. H. RICHARDSON

The policy adopted hitherto by successive British Governments has been for the State to fix certain minimum standards for the protection of labour, but to leave the main field open for voluntary regulation by collective bargaining. By contrast, however, with the limited intervention in fixing working conditions a very comprehensive system of social insurance has been developed during the last twenty-five years.

Regulation of Minimum Wages: Minimum wages are mainly fixed by Trade Boards set up under Acts passed in 1909 and 1915. A Trade Board consists of representatives in equal numbers of employers and workers in the trade, with the addition of a number of impartial persons who are described as "appointed" members. In trades where there is some degree of organisation of employers and workers, even though the organisations are weak, the Minister of Labour invites them to nominate representatives.

For time-workers, each Trade Board is required to fix a time-rate of wages. For piece-workers, the Boards may make provisions, either by fixing a guaranteed time-rate, or by fixing a general minimum piece-rate (which may be accompanied by a guaranteed time-rate), so as to ensure piece-workers a minimum rate of remuneration on a time basis.

Rates which have been confirmed by the Minister of Labour become legally binding, and employers paying lower rates are liable to fine or imprisonment as well as to payment of arrears of wages due to the workers.

There is a wide measure of agreement that the Trade Board system has succeeded in abolishing the grosser forms of underpayment; it has regularised wage conditions; it has protected the good employer against sweated wages paid by his less scrupulous rivals; it has led to an improvement in industrial relations and has provided a stimulus to improvements in working methods. During recent years, indeed, the minimum rates of wages fixed by various Trade Boards have been higher than those fixed by collective bargaining in some of the highly organised unsheltered trades. This has been possible to a large extent as a result of relatively more favourable economic conditions in the Trade Board trades.

Certain criticisms have been directed against the Trade Board system, especially during the period of industrial depression with rapidly falling prices in 1921. As a consequence of the complaints, a Government Committee was appointed in 1922 to enquire into the working of the system. The Committee formed the opinion that the system was beneficial, but suggested that certain defects should be remedied. Some of the Committee's recommendations have been applied by administrative regulations, but the more fundamental proposals would have required amendment of the legislation, and, although a bill was introduced into Parliament in 1923, it was not proceeded with.

Minimum Wage Regulation in Agriculture: The war-time system of regulation, which was closely associated with State control of cultivation during the War, came to an end in 1921, its place being taken by a voluntary system. In 1924, however, the present system was introduced

by the Agricultural Wages (Regulation) Act, which restored the method of compulsory wage regulation.

The Act provides for the setting up of Wages Committees in each country or group of countries in England and Wales. It also attempts to give some guidance, though vague, to the committees in fixing minimum rates, the living-wage principle being adopted.

There is a resemblance between the adoption of wage regulation in agriculture and the Trade Boards system in that both agriculture and in the trades in which Trade Boards have been set up are weak in organisation and have low levels of wages.

Employers who pay wages at rates below those fixed by the committees are liable to fine and to payment of arrears of wages. A staff of inspectors has been appointed under the Ministry of Agriculture and Fisheries to ensure the observance of the legislation.

Minimum Wage Regulation in Coal-mining: A system for fixing minimum wages in coal-mining by boards in each district was introduced by the Coal Mines (Minimum Wages) Act of 1912. During the early years of the operation of the Act the district boards were instrumental in raising the wages of numbers of workpeople, chiefly unskilled time-workers and also individual piece-workers. Subsequently, however, the minimum rates fixed by collective agreements have been higher in most districts than those fixed by boards under the Act, and the statutory system has been largely neglected.

Industrial Welfare Regulations: State intervention in industrial welfare is designed to secure minimum standards for the health, safety and well-being of workers.

In addition to previous legislation on health and safety, an Act passed in 1920 (The Employment of Women, Young Persons and Children Act) applies the provisions of the International Labour Conventions on night-work of women and young persons, and minimum age (fourteen years) for admission of children to industrial employment.

The Workmen's Compensation Act, 1923, amended the law on compensation for victims of industrial accidents or disease, and required the provision in all factories of adequately stocked and readily available first-aid boxes or cupboards with a responsible person in charge.

In the coal-mining industry, in addition to the general requirements under some of the above Acts, special welfare arrangements have been made under the Mining Industry Acts of 1920 and 1926. A Miners' Welfare Fund, based upon a levy on tonnage of coal produced, is used for the provision of sports grounds, indoor social and recreation facilities, hospital accommodation, education and other measures for the welfare of workers in the industry. The Mining Industry Act, 1926, provides that the proceeds of a special levy, called the Royalties Welfare Levy, of 5 per cent. of the rental value of rights to work coal and of mineral way-leaves, should be used for the present to establish pit-head baths and facilities for drying clothes.

Conciliation and Arbitration: State intervention to deal with industrial disputes is restricted to voluntary conciliation and arbitration and to the conducting of investigations into the causes of disputes. Compulsory arbitration was applied temporarily in munition work during the War.

Apart from this exception the principle adopted by the State has been to leave Trade Unions and employers' organisations to reach agreements by indirect negotiations, but to offer assistance if a breakdown occurs or appears imminent. By legislative enactments the Ministry of Labour has power: to take such steps as may seem expedient for bringing the parties in dispute together under an impartial chairman with a view to amicable settlement; to appoint a conciliator on the application of either employers or workmen; to appoint an arbitrator on the application of both parties; to inquire into the causes and circumstances of a dispute.

The Industrial Courts Act, 1919, provides for the establishment of a permanent Industrial Court and a system of Courts of Enquiry. The fullest opportunity must have been given to any existing joint machinery in organised industries before a dispute is referred to arbitration whether by the Industrial Court or otherwise. In the event of failure to effect a settlement by direct negotiation, the Minister of Labour may, with the consent of both parties, refer a dispute to arbitration by the Industrial Court, or by one or more arbitrators, or by a Board of Arbitration consisting of employers and workpeople with an independent chairman. There is thus wide scope for selecting the most appropriate method according to the circumstances of each dispute. Awards by the Court are not compulsory. They are subject to acceptance by the parties, but are rarely rejected.

The 1919 Act also provides that the Minister of Labour may on his own initiative appoint a Court of Enquiry to make an investigation and report upon matters connected with the dispute. The power to set up Courts of Enquiry has been sparingly used, only seventeen enquiries having been conducted during the years 1920–31.

It is appropriate to mention here systems of negotiation established by Acts of Parliament for the railway and coal-mining industries.

Social Insurance: The British system of social insurance is a comparatively recent development. It dates from the years immediately preceding the War. Since then there has been a remarkable extension of the scope of social insurance and increase in the amount of benefits paid. The chief forms of social insurance are unemployment insurance, health insurance, a system of widows', orphans' and old-age contributory pensions, and a system of old-age non-contributary pensions. There is also a system of workmen's compensation for industrial accidents and diseases under the Act of 1923.

Hours of Work: State intervention in regulating hours of labour is not extensive in Great Britain. The hours of work of women and young persons are limited by legislation, while the hours of work of underground miners are also fixed by Parliamentary enactment. It may be noted that in practice the normal hours of work in nearly all organised industries in Great Britain have been fixed by collective agreement at forty-eight hours per week or less.

APPENDIX

SIXTH INTERNATIONAL STUDIES CONFERENCE

LONDON, MAY 29TH TO JUNE 2ND, 1933

LIST OF PARTICIPANTS

President of the Conference :
SIR ARTHUR SALTER, K.C.B.,
Chairman of the British Co-ordinating Committee for International Studies.

General Rapporteur on "The State and Economic Life":
ARNOLD WOLFERS, Dr.Jur., Dr.Phil.

International Institutions:

Academy of International Law, *The Hague*	Dr. LOUIS MAZEL, Secretary of the Administrative Council of the Academy. E. N. VAN KLEFFENS, Director at the Netherlands Ministry of Foreign Affairs; Deputy Secretary-General of the Academy.
European Centre of the Carnegie Endowment for International Peace; Division of Intercourse and Education, *Paris*	EARLE B. BABCOCK, Ph.D., Deputy Director of the Centre.
GENEVA School of International Studies	ALFRED ZIMMERN, M.A., Montague Burton Professor of International Relations, University of Oxford; Director of the School. Mrs. ALFRED ZIMMERN, Assistant Director of the School. J. H. RICHARDSON, M.A., Ph.D., Professor of Industrial Relations, University of Leeds.
Graduate Institute of International Studies, *Geneva*	PAUL MANTOUX, Docteur ès-Lettres, Director of the Institute; formerly Director of the Political Section of the Secretariat of the League of Nations WILLIAM RAPPARD, Professor of Public Finance, University of Geneva; Member of the Permanent Mandates Commission of the League of Nations; Director of the Institute.
Institute of Pacific Relations, *Honolulu*	W. L. HOLLAND, Research Secretary of the Institute CHARLES G. RHOADS, of the staff of

	the American Council of the Institute, formerly in the United States Department of the Interior. WILLIAM D. CARTER. CHARLOTTE TYLER.
	National Institutions:
AUSTRIA: Konsularakademie, *Vienna*	RICHARD KERSCHAGL, Dr.Jur., Dr.Rer. Pol., Professor of Economics and Political Science at the Konsularakademie, Vienna, and at the Handelshochschule, Vienna; Legal Adviser to the Oesterreichische Nationalbank.
CANADA: Canadian Institute of International Affairs, *Toronto*	H. A. INNIS, M.A. (McMaster), Ph.D. (Chicago), Associate Professor of Economic Geography, University of Toronto.
CZECHOSLOVAKIA: Svobodnà Skola Politickych v Praze (*Prague* School of Political Science)	ZIKMUND KONEČNY, Czechoslovak Vice-Consul in London. VLADIMIR RENEŠ, Secretary of the School.
DENMARK: Institutet for Historie og Samfundsøkonomie (Institute of Economics and History), *Copenhagen*	JØRGEN PEDERSEN, Ph.D.(Econ.), Secretary and Director of Research of the Institute. F. ZEUTHEN, Professor of Economics, University of Copenhagen
FRANCE: Commission Française de Coordination des Hautes Études Internationales, *Paris*	S. CHARLÉTY, Member of the Institut de France; Rector of the Academy of Paris; President of the Council of the University of Paris; President of the Commission. CÉLESTIN BOUGLÉ, Professor at the Faculty of Letters, University of Paris; Deputy Director of the École Normale Supérieure, Paris; Delegate of the French Government to the International Institute of Intellectual Co-operation. LOUIS EISENMANN, Professor at the Faculty of Letters, University of Paris; Secretary of the Commission. HENRI HAUSER, Professor of Economic History at the Faculty of Letters, University of Paris; Professor of Commercial and Industrial Geography at the Conservatoire National des Arts et Métiers. LOUIS JOXE, Agrégé of the University of Paris; Deputy-Secretary of the Commission.

	J. H. RICARD, Agricultural Engineer; Member of the Académie d'Agriculture, former Minister. PHILIPPE SCHWOB, Agrégé of the University of Paris; Assistant to the Director of the Centre de Documentation Sociale, University of Paris.
GERMANY: Ausschuss für Auswärtige Angelegenheiten, *Berlin*	OTTO HOETZSCH, Dr.Phil., Professor of East European History and Foreign Politics, University of Berlin; President of the Ausschuss. HERBERT VON BECKERATH, Professor of Economics and Political Science, University of Bonn. ARNOLD BERGSTRÄSSER, Dr.Phil., Professor of Economics and Political Science, University of Heidelberg. CARL BRINKMANN, Dr.Phil., B.Litt., Professor of Economics and Political Science, University of Heidelberg. ERNST JAECKH, Dr.Phil., Professor.
ITALY: Centro Italiano delle Istituzioni per lo Studio scientifico delle questioni aventi carattere internazionale, *Rome*	ETTORE ROSBOCH, Member of the Chamber of Deputies; formerly Under-Secretary of State at the Ministry of Finance GIUSEPPE RIGHETTI, Member of the Chamber of Deputies; Counsellor at the Court of Appeal; Secretary-General of the Italian National Committee of Intellectual Co-operation. GIORGIO MORTARA, Professor of Statistics at the Royal University of Milan. LUIGI AMOROSO, Professor of Economic Theory at the Royal University of Rome. GIANNINO FERRARI, Rector of the Royal University of Padua. G. B. CECCATO, Commercial Counsellor at the Royal Italian Embassy, London. LUIGI VILLARI, of the Ministry of Foreign Affairs.
NEW ZEALAND: Institute of Pacific Relations: New Zealand Branch, *Wellington*	GEOFFREY C. BILLING, B.A., Lecturer in Economics, University of Otago, Dunedin.
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