

# FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW



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*October, 1926 - July, 1927*

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The Editors.

# FOREIGN AFFAIRS

Vol. 5

OCTOBER, 1926

No. 1

## THE POLICIES OF MEXICO TODAY

*By Plutarco Elias Calles*

TO begin this discussion of the program of work that we are carrying out in Mexico, and of the origin of the domestic and international difficulties which now and then hinder my Government, I wish to quote a paragraph from [an address] delivered by the Viceroy of India, Lord Reading, in March of this year, before the Legislature of that country, a paragraph which I take from the July number of FOREIGN AFFAIRS. Lord Reading said: "The essential principle underlying English institutions is based on a fundamental unity of sentiment and on a general desire in issues of cardinal importance to waive the claims of individual or sectional advantage for the benefit of a common weal."<sup>1</sup>

This is exactly what we are doing or trying to do in Mexico: to waive the claims of individual or sectional advantage for the benefit of a common weal. Of course it is neither easy nor agreeable to develop such a policy truly and with energy in a country where privileges of every kind and what are represented as rights — frequently nothing less than immoral or unjust concessions — have been in the hands of an insignificant minority, native or alien. In any of the problems that revolutionary governments have tried to solve in the past few years there is always found, at the bottom, this struggle between large interests — the real necessities of Mexico as a whole — and small individual interests — small in origin, utility and purpose, though often large if measured in dollars.

Hence the problem of the land in Mexico, the oil problem, the problem of education of the great masses throughout the country, and, finally, once again present, what is nowadays considered the religious problem — which is, as I will explain later on, nothing else but the conflict between the great chiefs of the Catholic

<sup>1</sup> "India in Convalescence." G. Findlay Shirras, FOREIGN AFFAIRS, Vol. IV, No. 4, p. 659.

Church and the constitutional laws of Mexico that these chiefs pretend to ignore.

If one bears in mind that Mexicans possess less than one-third of the total wealth of the country, one can easily understand why so frequently in the resolution of Mexican problems, which of course have always had a marked economic character, we have friction or difficulties either with foreign governments defending the interests of their countrymen who consider themselves affected by our constitutional laws, or with Mexican land owners controlling endless tracts of land. And if one considers, furthermore, that of the third part of the national wealth owned by Mexicans (running surely above 1,500,000,000 pesos) 60 per cent, at least, has been and still is in the hands of Catholic priests or religious institutions or orders of the Catholic Church, one can understand why we always have rebellions on the part of the Catholic clergy who fear at every moment of the struggle to lose their main strength: the millions that they have accumulated against the definite and express provisions of the Fundamental Charter of our country.

The Executive realizes well the difficulties and complications of all kinds that might come to the Government by following a policy directed toward putting our nationality once for all on solid foundations upon which a firm prosperity, certain for the present and future, could be based. We know also that the work of the present Administration could have been entirely simplified and its individual success safely insured by endeavoring to solve only immediate problems and seeking exclusively economic betterment at home, financial stability abroad, and military and political power, thus making the way for the administration smooth and without danger. Nevertheless the Executive, with the coöperation of the other two powers of government, and backed by the great mass of the population, has wished and has partly fulfilled its wishes to formulate and perfect, legally, a system of reforms of a just and advanced social tendency, with a strong nationalistic flavor — reforms which will be in the future sources of general organic peace, collective progress and public wealth, and which mean the adoption of methods and systems designed to secure profit from national resources and to defend equitable national rights. These methods and systems have been adopted and followed with success by the most civilized nations for the purpose of preserving their political and economic inde-

pendence and of assuring their economic prosperity and their total development.

All that has been said clearly shows that in this work of national progress, the Government has not been inspired by selfish motives, pride, or hatred to foreigners. The Government has never refused to accept the benefits of international collaboration for the development of the country. It does not think, either, that the plans of action provided by constitutional law, the product of the free but prudent exercise of its sovereignty, should prevent foreign collaboration, which must be restricted only by respect for our laws and which shall not develop to the point of absorption working harm to our national interests.

Happily in all these frictions provoked by the nationalistic policy I have outlined, the unbiased spirit of the courts, that have studied our laws endeavoring to understand their meaning and real range, and the reason which supports our cause, have paved the way for truth and justice to show themselves.

We have wished, once for all, to organize the statutes of our constitutional laws and enforce them, justly and strictly, in order to be able to develop our national wealth, and to avert, also, perpetual misunderstandings and false interpretations of our legislation and see to it that capital invested in Mexico shall know clearly what it has a right to expect in this country. Internationally the Mexican Revolution "has no axe to grind," but wants to avoid entanglements by adopting clean-cut legislation and by making foreign investors conform to Mexican law.

The domestic policy of the present Government can be summarized in a sentence: we have believed and still believe that this betterment can only be got through a formidable effort in favor of the great masses of the people.

It was essential primarily to establish strict, energetic, honest administration in all departments of the Government, in order to solve the first problem: the balancing of the budget. This was required so that we might resume service on our foreign debt, meet internal obligations in Mexico, properly develop education, agriculture and industry, and solve the difficult question of monetary circulation in Mexico — which was on a purely metallic basis — with the organization of the Bank of Issue. The success of this administrative reorganization and financial rehabilitation was so amazing, that at the end of the first year we had saved 70,000,000 pesos, with which the Bank of Mexico was established

and later the National Bank of Agricultural Credits was opened. Side by side with this financial reorganization the Government has endeavored to establish the basis for a fitting, wise and steady agricultural progress, paying special heed to irrigation, to the construction of a network of highways and country roads, and to an intensive movement in agricultural education. As it was necessary to consolidate the situation which had been created by the restitution of lands to the towns, in the form of *ejidos*,<sup>2</sup> and by the division of large tracts of lands formerly always idle, and in order that production might be stimulated and the sense of responsibility be developed in the new owners of land, the Mexican Congress approved the bill introduced by the Executive creating the ownership of small parcels of land on a homestead basis. This means the vesting of the ownership of lands recovered by the revolution not in persons but in homes, so to speak, the responsibility for neglecting or cultivating these parcels of lands being, however, individual and not collective.

The system of agricultural production, which was irregular, disorganized and unscientific — because irrigation works were lacking and because communication facilities were wanting — was bound to produce disastrous results. It frequently happened that a region having exceptionally abundant crops was without means to transport them to market, wanting communication facilities and capital and credit. In other regions crops of the same produce were lost and had to be replaced by importations from abroad. The result was poverty in the agricultural regions and the upsetting of economic plans. Henceforth the Bank of Mexico and the Agricultural Bank, with their many branches, will contribute definitely towards the improvement of these conditions.

In educational matters Mexico is following the same path recommended by the Bureau of Education of the United States, that is, more instruction every day in agriculture and in problems of rural life, so that teachers and leaders may be developed for a people of whom four-fifths live in the country.

In conclusion I wish to lay stress upon the fact that a real religious problem does not exist in Mexico. I mean that there is no such thing as persecution of a religious character against religious creeds or opposition on the part of the Government to the dogmas or practices of any religion.

It is true that the Constitution of Mexico has provisions that

<sup>2</sup> Lands held in common by the people of an individual town or village.

the Catholic high clergy consider incompatible with their constant and illegitimate intervention in politics and questions of state, or with their holding economic strength as a means of spiritual influence and a principal factor of domination of a material order. So long as the clergy do not obtain through the legal means and methods contained in the Constitution itself, and through an act of Congress approved by at least one-third of the state legislatures, the derogation or amendment of the provisions that aim at crushing the political strength of the clergy by means of making their properties the property of the nation, the Government fulfills an elemental duty in complying with these laws and enforcing a strict obedience to them. So long as the clergy in Mexico fail to win over the confidence of the great liberal majority of my country (a result that can not be attained if the clergy, disregarding their high functions, hold to the methods systematically employed so far to secure advantages of a material and political order, unbecoming to their religious character), I seriously believe that the abolition or amendment of these articles of the Constitution can not be accomplished.



# THE PROSPECTS OF ANGLO-AMERICAN FRIENDSHIP

*By A. G. Gardiner*

AT the present time, the two great English-speaking communities have attained a state of agreement unique in their history. Not one issue of major diplomatic importance exists to mar the harmony obtaining between Washington and London. Nor, so far as it is possible to see into the future, does it seem likely that such an issue will arise. The causes of dispute are all settled, and there is an entire absence of diplomatic friction.

But diplomatic relations, important as they may be, are not everything. At best their value is negative. If the material prosperity and political strength of these two great nations are to be the positive power for good in the world which they undoubtedly could be, it is not sufficient that there should be an absence of friction between their respective foreign offices; there must be that active sympathy and friendship between their common peoples which can give rise to something more fruitful, and provide a basis for the performance of those high duties which their joint efforts alone can fulfil. The resources of the British and American commonwealths are so commanding that if they were applied to a common end they could together give a stability to human society that has never been achieved in the past.

Unfortunately it is the will to coöperate which at present is lacking in the relations between America and England. Our diplomatic intercourse is correct and friendly, but it would be idle to pretend that the more intimate relations between the two nations are all that they might be and ought to be. Cordial personal feelings, of course, exist in abundance. When they are really thrown together few people mix so well as Americans and Englishmen. But, so far as I am able to judge, popular sentiment in England toward America has rarely been less cordial than it is today; and, if the general tone of the press is any indication, things are not much different in America. A spirit of coolness, if not of actual hostility, is abroad which paralyzes full coöperation.

This spirit is all the more surprising in that, in large measure at any rate, it represents a retrogression. Compared with the relations of other powers, no doubt, the relations of America and



England during the century preceding the war present a monument of sanity. To have settled the numerous points of difference arising during all these years without recourse to force is an accomplishment of which both nations may justifiably be proud. But it is notorious that such disputes have often been conducted in a spirit of great acerbity, and that considerable bitterness has remained even when they have passed. One by one, however, the outstanding points at issue were settled. By 1914 most of the immediate causes of diplomatic friction had been removed.

Then came the war and American intervention. And with that intervention the hatchet at last seemed buried and the foundation laid for solid and enduring friendship. On that memorable day in April, 1917, when the American entry into the war was being celebrated in this country, it seemed to those of us who were privileged to hear the Battle Hymn of the Republic sung within the walls of St. Paul's Cathedral that the ancient feud could never again be revived, and that the two peoples, so tragically estranged in the past by despotic folly, were at last free to take up the performance of that task to which their common ancestry and common ideals so obviously predestined them.

Nor did the end of the war immediately dim the new vision that had opened out to us in the resounding aisles of the cathedral. After a brief but disgraceful interregnum of chaos, the Irish question, which had been for half a century a perpetual cause of friction in Anglo-American relations, was settled finally and justly. There is now no Irish question in English politics. With the concession of virtual independence to Southern Ireland, and the settlement of the Ulster boundary dispute, this age-long contest has vanished from the political landscape. It would be true to say that the proposed levy on the Channel Islands occupies a place of far greater importance in the public mind than the Irish question does. Indeed, there is no Irish question. However beneficial the concession, and however questionable the motive, no sensible man can deny today that at last England has closed her long outstanding account with wisdom and justice. Nor, in this, is it denied even by the Irish themselves. A negligible fraction is true, still strive to keep smouldering the ancient fires of discord. But the vast majority are well content with the settlement, and through the mouths of responsible leaders like Mr. Lloyd George have paid ample tribute to the spirit in which England has formed her side of the bargain.

The omens were no less favorable in the sphere of international relations. No Englishman in his senses ever supposed that the Anglo-Japanese Treaty could be used against America. But it is easy to see that to America, whose only possible rival in the Pacific is Japan, the alliance had inimical potentialities. And certainly it must be conceded that American criticism of the attitude which it led us to adopt with regard to the ambitions of Japan in China, were fundamentally sound and justifiable. Largely in deference to American feeling that alliance has now been allowed to lapse, and there is no prospect of its being revived. On the contrary, in all that concerns our policy in the Far East, it seems inevitable that our influence should be increasingly exerted in a direction favorable to American interests and opposed to those of our late allies. Whatever may be thought about the wisdom or unwisdom of the Singapore naval base, it is in Japan and not in America that it is regarded with disquiet.

Similarly with the question of sea-power. Save in the minds of congenital jingoes and chauvinists, there can never have been any question of serious rivalry between the navies of the two nations — at least in the twentieth century. But whatever fear may have been entertained of a possible supremacy of the jingoes and, with that supremacy, an insensate race of armaments, there have been largely set at rest by the agreements signed at Washington. And the history of that memorable conference makes it quite plain that it was not the attitude of the representatives either of America or of England that prevented an even fuller measure of naval disarmament. If it had not been for French opposition, vestiges of this possible source of antagonism would have been totally removed.

It is not, therefore, for lack of favorable circumstances that the seeds of complete friendship and understanding which were planted during the war have failed of full fruition. On the contrary, as I have already remarked, the diplomatic relations between the two nations have seldom, if ever, been more satisfactory. Ancient sources of irritation have been removed. Causes of disputes have been anticipated and destroyed. And it is the memory of a common and glorious participatory struggle to preserve the characteristics and usages of a country dear to both nations. Yet, with all this, the mutual feeling between the two peoples has once more become estranged. The friction which might have been taken place with such infinite

the rest of the world has broken down, and an atmosphere of aloofness and restraint, in which no real understanding can flourish, clouds and embitters our mutual relations.

It is not the purpose here to attempt to assess and distribute the measure of responsibility for the revival of Anglo-American acerbity. That can only be done by one who has a greater degree of impartiality than any present citizen of either nation can lay claim to. We of this generation are too moved by the little eddies of the day to be able correctly to estimate the force and the direction of the main currents.

Partly no doubt it is due to English misdemeanors. There were blunders in policy — to put a charitable name upon some of them — which alienated the sympathies even of the best elements in American public life. It would be useless, for example, to attempt to excuse the folly and the short-sightedness of the step whereby, at the election of 1918, the statesmen in charge of our destinies bound their hands by impossible and unscrupulous pledges, and prevented themselves in advance from affording the representatives of America at the Peace Conference that full measure of open support which should have been rendered. That was a disaster which will be writ large on the annals of history, and whose consequences neither this generation nor the next will cease to expiate.

Partly, no doubt, the irritation is due to the recollection of historic wrongs and ancient grievances. Englishmen, who pride themselves on their sense of the past, will not find it difficult to understand why Americans cannot easily forget the circumstances which gave birth to their independence. Nor will they find it hard to see why it is that the disputes of the nineteenth century, which to them were incidents of minor importance, should appear to Americans in quite another perspective. No doubt the memories of these things, which have become part and parcel of the American tradition, are not to be wiped out by the diplomatic unity of a single generation. Nor is it to be expected that the bitterness which the English treatment of Ireland has introduced into Anglo-American relations should disappear in an instant. Just because many of those who now cherish such feelings are far from the scenes and the incidents round which their resentment lingers, it is perhaps natural that they should remember when others are prepared to forget, and keep alive what others are prepared to let sink into oblivion.

Again, I have no doubt that there is still much in our manners which calls for improvement. The old attitude which treated Americans as colonials who had broken away from the family, and which regarded acquiescence on their part in our point of view as something inherent in the order of nature, was intolerable though not wholly unintelligible. We English have been notoriously lacking in the finer arts of international courtesy in the past, and we have lost not a few friends and made not a few enemies in consequence. But in this respect we are today the victims of the follies of our forefathers rather than of our own. So far as I am able to judge, the old attitude which has made us disliked is fast disappearing, and Americans of today labor under a great misapprehension if they mistake our natural reserve for a pose of superiority.

We were certainly never a less self-satisfied people than we are today. Five years of depression and general stagnation of trade have bred an acute and widespread distrust of our institutions and our methods, and the prevalent tendency is to underestimate rather than to overestimate the relative advantages of our position and America's. The amazing industrial triumphs of American capitalism, the abounding material prosperity and comfort of Americans, have made a deep impression on the minds of a people who — wrongly, as I think — are all too ready to think that their own days of opulence are past. The pendulum has swung right over with a vengeance. Today no praise can be too extravagant for things American. Do our industries languish? It is because they have not adopted American methods. Are industrial relations at all strained? It is for lack of the American spirit. Is our monetary policy vulnerable? We are told to look to American bankers for guidance. America, in short, can do nothing wrong — at least in the sphere of economics! Serried ranks of business men return from America and exhort us to imitate things American. Even the socialists now distinguish between American and other capitalism, and the other day, in the House of Commons, one of them went so far as to suggest that the Government should send an industrial mission to America to see if there, in the Eldorado of the West, were not to be discovered means for the healing of British industry. I am convinced that Americans who still complain of English arrogance are to a very large extent mistaking the sentiment of the past for the present fact. Our state of mind today is very far from being arrogant.

Of course this view may be wrong. It is difficult to see ourselves as others see us, and it may be that to outsiders we are still unregenerate. But even if this were so, even if all the accusations which are brought against us were proved, there would still remain another side to the question which no fair-minded judge could refuse to take into account. We too, on this side of the water, have our grievances, and any view of the general problem of Anglo-American relations which does not take account of these must necessarily be one-sided. It is as important for Americans to understand the causes that make for English irritation with America as it is for us to appreciate the reverse case, and in this article I am mainly concerned to indicate the springs of the resentment which on this side of the Atlantic are contributing to vitiate Anglo-American sentiment.

The chief cause of estrangement is the debt settlement. Wherever one goes there is a deep undercurrent of dissatisfaction with the way we have been handled in this matter. It is not very vocal. It does not get into the papers very often. It is not one of the matters we discuss much in public. But it is there, and careful American observers have remarked it. Partly, no doubt, this is due to mere resentment at having to part with our money. As Jeremy Bentham once remarked, at no time in the history of the world have creditors been popular, and the British taxpayer, burdened as he is with a weight of taxation unprecedented in history, would be more than human if he did not feel some mortification at the fact that for every pound sterling he earns, he has to pay 9d. to a creditor whose economic position he has come to regard as being in almost every respect vastly more comfortable and happy than his own.

But there is more in it than that. The resentment which really counts is based on less ignoble feelings. In the main your Englishman, though like other men he hates parting with his money, is too much of a business man to harbor malice at having to meet an obligation which he has contracted in the course of straight business. He will dislike losing the money, but he will consider himself under a moral obligation to pay, and though he may envy his creditor, he will not like him any the less for it. But the whole point is that, in this case of the war debt, he does not feel that at bottom there does exist the same moral obligation. He cannot persuade himself that it was contracted in the normal course of business. He cannot agree that war debts and debts

contracted in ordinary business are on the same footing. He regards the expenditure on the war as being expenditure incurred for a common object, and he cannot bring himself to believe that the mere bookkeeping entries of such expenditure have the same binding force as they have in the more material relations of commerce.

On an impartial view of the matter, he has some justification for this attitude. If we did wage a common war — and I have yet to hear the man who denies it — is it really possible to allocate the burden on purely commercial principles? No one has attempted to apply such principles to the sacrifice in men. Is there any more justification for applying them to materials? If America sent a detachment of machine-gunners plus equipment for the reinforcement of our defenses no indebtedness of this strictly computable nature was incurred. The sacrifices she made were agreed to be invaluable. But if she sent equipment only, apparently the sacrifice was to be assessed on quite a different basis. Are we wholly without reason if we sometimes find America's present attitude a little materialistic?

It is no answer to this indictment to point out that we, too, are insisting on payment. Again and again we have made it clear that the only ground for our insistence is the necessity of covering, at least in part, our payments to America. We did not incur the debts for ourselves. We financed our efforts with our own sacrifices. England was the one European power which conducted her war finance on rational financial principles. If it had not been for the necessities of our Allies we should not have owed a penny to America. The £33,000,000 which we are now paying annually to America is interest on sums which were borrowed in order to make things easier for France and for Italy. All that we are now saying to these two nations is that if America insists on exacting her bond, they must do something to meet their share of the common obligation. It is notorious that if America had not insisted upon a "business settlement," England would have been quite ready, in the common interest, to cancel all debts due to her. It is no exaggeration to say that America is the real obstacle to complete settlement of the problem of inter-allied indebtedness. Can Englishmen be blamed for resenting it a little?

But putting all this on one side, and accepting the assumption that the debts incurred in the common struggle are appropriate objects for the application of purely business principles, English-



men still feel that they have a grievance in this matter. When they contrast the stern treatment which has been meted out to them with the easy terms which have been accorded to others, it is not unnatural that they should feel that they have been somewhat roughly handled. They cannot but feel it unjust that they should be called upon to pay more than three percent while the Italians, for instance, should pay less than one. Was their conduct of the war less meritorious than that of the Italians, they ask themselves. Were their motives less pure? Were their sacrifices less onerous? What have they done, they say, that they should thus be singled out for specially severe treatment?

Indeed, surveying the course of international relations since the war, the Englishmen sometimes find it hard to avoid the suspicion that they are still the object of peculiar animosity in America. No doubt this is very irrational, but it is not unnatural. They see the mildest complaint on their part treated as if it were a mortal insult. They see, on the other hand, the grossest outrages against the common peace on the part of other nations allowed to pass unnoticed. An Englishman visiting the States today will encounter criticisms of his country in plenty. If he ventures to defend his point of view, he may obtain a hearing, but he will always be regarded as a propagandist. Yet all around him he will find the most blatant French propaganda accepted almost without question. In fact, sometimes he might well ask himself, did we march into the Ruhr, or did the French? Did our Prime Ministers systematically oppose anything which might conduce to the pacification of Europe, or did M. Poincaré? Is it possible that after all we are the villains of the post-war drama, and our late Allies on the other side of the Channel the most injured and the most pacific nation in Europe?

All this may be very superficial, but it does not tend to the establishment of friendly relations. Nor do we find the attitude of certain American journalists and politicians very reassuring. There is a certain game called "Twisting the Lion's tail" which is very popular among certain of your public men. It is a very amusing game no doubt. But it does not conduce to mutual friendship. When I was in America shortly after the war, a Presidential election was in prospect, and Mr. Hiram Johnson of San Francisco was regarded as a possible Republican candidate. It was impossible to avoid observing that Mr. Johnson's first step in his campaign was to go to Boston and make a violent anti-

British oration. I am not sure that Mr. Johnson wanted to do it. But the fact that he did do it is obviously evidence that there is a certain section of the public at any rate to which such demonstrations are welcome. Senator Borah is another devotee of this game of tail-twisting. He does it very effectively, too, on occasion. I do not think any single incident in the relations of the two countries since the war has caused such widespread indignation and feeling of outrage as his recent resolution in the Senate. The Senator may have been misunderstood. The question he raised was highly technical in nature. But certainly to almost everybody over here his resolution read like a deliberate attempt to embitter relations between the two peoples.

No doubt it is possible to overemphasize the significance of all this, but there can be little question that it leads to much ill-feeling. Certainly there are many Englishmen who feel that it considerably mitigates the force of whatever complaints of our tactlessness and lack of consideration for the feelings of other nations may be uttered from time to time by Americans.

Apart from all these sources of local irritation, which after all are largely of the sort that men of long views will find it wise to ignore, apart even from the whole question of debt, there are deeper causes of estrangement. And these causes are none the less serious because it is the more liberal-minded Englishmen, the Englishmen who set most store on complete harmony with America, who are most keenly aware of them.

Frankly we do not feel that America is contributing her share to the comity of nations. We do not feel that she is doing all that we have a right to expect her to do towards the maintenance of western civilization. We cannot forget that in the ultimate analysis, it is America's refusal to participate in the work of European reconstruction which is responsible for our present troubles. It was America's refusal to agree to the Tripartite Treaty and the Covenant of the League of Nations which is the prime cause of the chaos and confusion which have characterized European diplomacy since 1919. And, as we survey the history of the years which have passed since that refusal, we find it hard to withhold from America the condemnation reserved for those who having put their hand to the plow turn away before the furrow is done. Who can believe that if America had been in the League, the French would ever have marched into the Ruhr, that the German mark would have been allowed to collapse, or that



Europe would have become as she is today, the distracted battleground of mutually suspicious powers, not fighting only because they are too exhausted to fight? In the light of the debacle of Geneva, it is hard to refrain from the reflection that if America had been playing her part, these things would never have been.

For this reason it is particularly hard to suffer in silence the reproaches which are periodically hurled at us from across the Atlantic that we are incapable of managing our own affairs, that we have no will to peace, and that therefore reasonable people will have nothing to do with us. Europe is hopeless, say our American censors; it always has been hopeless, and it always will be. But why are we hopeless just now? Is it not just because our critics have themselves let us down, have themselves shirked the business which they had given us to expect they would undertake? It is peculiarly galling for Europeans to be reproached by Americans for complications which would never have arisen had America done what all her actions up to the time of her retirement justified us in expecting of her.

Of course, if it had been anticipated that America would retire at the last minute, the whole structure of alliances and treaties which were built up at Versailles would have been different. The League of Nations, if it had been formed at all, would have been formed on another model. The subsequent history of Europe would have flowed in another channel. I am not here concerned to argue that the ultimate powers for good of the treaty structure which would have grown up would have been greater than those of the structure we know. But that it would have been better suited to suffer the strains and stresses which we now endure is, I think, incontestable. Americans may succeed for a time in avoiding the evil effects of the consequences of their abandonment of Europe, but they cannot evade responsibility for them. They must not be surprised, therefore, if Europeans sometimes take it amiss when they reproach them for these consequences.

Such are our grievances against America. If I have spoken with greater frankness than is customary in dealing with this delicate matter, I can only plead that my subject is of supreme importance and that in all my relations with Americans I have never found anything was lost by plain speaking. And the matter is urgent. It has been the capital theme in world affairs since the signing of the Armistice, and the seven years which have elapsed since then have not diminished its importance. So far as this country is con-

cerned the debt issue, indeed, is likely to become less urgent as time goes on. With the aid of the share which we shall receive as reparations and the payments from France and Italy, the contribution which we ourselves shall be called upon to make will be reduced to more manageable dimensions. As time goes on, and as our industries recover, the dead weight of the burden which we are bearing may be expected to be lightened. And if the Dawes plan continues to work, the same will be true in large measure of France and Italy. It will be for America to decide whether she, who went into the war declaring that she did not want a mile of territory or a cent of reparations, shall become the ultimate recipient of the vast sums which year by year for three generations the German people will be called upon to contribute.

The main problem, the problem of organizing the peace of the world, will remain. And unless and until America decides to abandon her present policy of isolation, it is a problem which must remain unsolved. It is impossible to lay a permanent foundation for peace among nations when the greatest nation of them all—for that is what America has undoubtedly become, at least in point of potentialities—remains distantly aloof. It is a supreme irony of history that the League of Nations, which was a conception born in the minds of American statesmen and brought into being by their fostering care, should today have to work without American coöperation. There is a vacant chair in the Assembly at Geneva, and until its rightful occupant takes her place the proceedings of that body will always have about them something of the atmosphere of a sham.

The extent of her wealth, the quantity and the quality of her population, her superb geographical position and her great pacific traditions, have all conspired to give America a unique position of predominance among nations. That position carries with it great privileges, but it also involves great responsibilities. And in the long run they are responsibilities which cannot be evaded. The doctrine of isolation is not only selfish: it is out of touch with realities. The modern world is a unit, and no single nation, no matter how great its wealth or wide its territories, can afford to remain detached from the other nations without endangering its own interests. It is not, and it cannot be, a matter of indifference to America that Europe should be a political and economic chaos. Americans, too, are damaged, even in a pecuniary sense, if English and German and French conditions are not all they might be.

Even from the narrowest material point of view, America cannot afford to let the rest of the world go without her aid and assistance. Even if the whole structure of reparations and inter-allied debt agreements remains exactly as it is today, America will be forced by the mere aggregation of her claims on Europe to play a bigger and bigger part in the organizing of the European comity. She cannot continue to amass large holdings of property in Europe without becoming vitally interested in the stability of European institutions.

Yet this is not the real question. Even if it were possible for America to remain permanently detached from the affairs of the rest of the world without jeopardizing her own interests, it would still remain questionable whether it was right for her to do so. For any nation which regards its position in the world from any but the lowest standpoint, the question of what is right for it to do is not a question of what it can get out of the world, but what it can do for it. The material greatness of America will avail her little before the great tribunal of history if, when her record comes to be examined, it is discovered that to the healing of nations she contributed nothing but demand notes for debt payments and smug aphorisms on the decadence of Europe. It is not thus that a nation offers proofs of its greatness. And the plain fact is that at the present day America could save the world, and that without her the world will not find salvation.

It is for this reason that the establishment of a real friendship between the two great English-speaking peoples of the world is of such capital importance. Bound together by a common language and a common tradition, by a thousand intimate ties of a common ancestry and a political heritage which we could not repudiate if we would, we have it in our power not only to restore peace to this troubled world, but so to organize it as to remove once and for all the shadow of war and all its barbarous associations which now make civilized existence little short of a nightmare. The one good thing in the history of the post-war period — the Dawes Report and the London Agreements — is the fruit of such coöperation, tentative and hesitant it is true, but abundantly indicative of the immense power for good which could be wielded in closer association. It is to promote that closer association, not merely in the interests of the two commonwealths themselves but in those of the world at large, that I have written with a candor which I trust will not be misunderstood or resented.

# WORLD FOOD RESOURCES

*By Alonzo Englebert Taylor*

FROM the standpoint of recovery from the war, the problem of the food resources of the world is one of special interest. With full recognition of the importance of agricultural raw materials for industrial use, attention is here confined to foodstuffs, feeding stuffs, and farm animals. It seems simplest to proceed with the discussion topically rather than chronologically. Wherever comparisons are made between pre-war and present positions, allowance for change in population has been made in accordance with the somewhat fragmentary data available in official records.

The definition of the food resources of the world must include terms both of statics and dynamics. The food resources are a composite of the goods (the foodstuffs) and the services in commerce and distribution through which these are made available for consumption. It is easy to overemphasize the goods, to undervalue the services. The Great War effected a decline of production in Europe and Russia, a distortion of production elsewhere. The services in commerce were directly perverted in Europe and less directly, though still effectually, elsewhere. Post-war reconstruction includes recovery from direct and indirect effects on production and restoration of the appropriate services in commerce. The purpose of this article is to sketch in broad outlines the war injuries and the post-war recoveries, and to indicate that the processes of production have made relatively more rapid recovery than the processes of commerce.

As the war developed, it affected, to some extent, the forces engaged in *ravitaillement* in practically all countries of the world. The specific injuries may be described and given a qualitative appraisal, but not a quantitative estimation. World statistics on food production, inadequate at the best, fell into disorganization during the war. The forces tending towards recovery are open to qualitative appraisal, but again cannot be stated in quantitative terms, for reasons of deficiencies in statistical data. It is, however, possible to formulate an appropriate statement of the present position, as contrasted with that of 1914.

Agriculture is a complex operation; the results depend not only upon technical considerations but upon the non-agrarian

conditions as well — the monetary situation, fiscal policy, transportation and trade restrictions. Broadly considered, in any decade the position of agricultural production is as much dependent upon external factors as upon the factor of agricultural potential. By the term agricultural potential is meant the productive force corresponding to maximum outturn representative of soil and climate under intensive operation. One may say that agricultural potential is a driving force that is continuously modified by factors outside of climate and agricultural technique. World agriculture is a part of world division of labor; both within countries and between countries, agriculture competes with itself and with urban industries. One must endeavor to appraise both world-wide and local circumstances, but without overemphasis on either.

The first direct war injury to agriculture was the destruction of workers in belligerent countries. We possess no trustworthy tabulation of the proportion of the killed and disabled that belonged to the rural class. Certainly, it was heavy. Indirectly also, the working forces of agriculture were injured by overwork imposed on women and children. The war wastage in horses has imposed hardships on peasants in all countries. The loss of trained farm workers was a serious injury to European agriculture; but the landed population has extraordinary powers of recuperation, and the shortage of workers has found less expression in outturn than was expected. Following demobilization there developed a tendency of country men to remain in the cities, and this attractiveness of urban life seems to have persisted. As against this, however, stands the continued residence in Europe of many of the emigrants who returned to mother countries during and after the war, a point of especial importance in countries like Italy.

Outside of Europe, the working forces of agriculture probably have been relatively increased, not in the United States, of course, but in many other countries. To a considerable extent, however, this finds expression in outturn of industrial materials rather than in production of foods and feeding stuffs. The gross toll of war, as affecting agricultural working forces in the world, has probably been compensated for by increase of population outside of Europe. But the abnormal distribution of farm energy is significant for Europe, because it is more important to Europe to have foodstuffs raised at home than in distant parts

of the globe. It may be years before the pre-war fluidity and adaptability are restored to agricultural labor in Europe, including Russia. And the effectiveness of the restoration of agricultural labor within countries and migration between countries will be dependent upon social developments within the agrarian class that cannot be foreseen.

Farm labor wages are in most countries high compared with the pre-war level, but stand lower than urban wages. Farm workers regard the wages as low in purchasing power; landowners, however, regard them as high in terms of farm prices of agricultural produce. The relations between real wages of city and country workers and real labor costs of landowners seem everywhere to be regarded by agrarians as out of line with pre-war conditions.

The soil of Europe suffered injury during the war. Direct battlefield injury has been almost entirely effaced. But indirect injury to soils occurred through disruption of rotation, lack of chemical fertilizers, subnormal cultivation, deterioration of drainage and terracing, infestation with weeds, and in some regions through abandonment; and this has not been completely made good. Established pastures were lost by being plowed up or injured by overgrazing, and these have not been fully restored. In each country some vestige of soil injury remains, probably not to be entirely repaired for another decade.

Insofar as agriculture depends upon chemical fertilizers, the world is in better position than before the war, since with the perfection of the Haber method for fixation of atmospheric nitrogen, the development of the phosphate deposits of northern Africa, and the widespread testing-out of potash deposits in various parts of the world, the measurable resources of these fertilizers have been materially enlarged. The operations of the Franco-German potash agreement mean expansion in production and distribution. But to date, crop yields in many countries suffer from lack of chemical fertilizers, the prolonged depletion has not yet been made good, and buying facilities are cramped over most of Europe.

Agriculture in Europe, and also elsewhere in the world, was injured through the disruption of established rotations. This was done in order to secure larger immediate returns, but it was to the detriment of later returns. The injury appeared directly in the form of lowered crops, and indirectly through lack of



crops in the period of transition. Grass-lands that went under the plow are now being returned to grass, but for several years will yield little pasturage. In surplus-producing countries established rotations were disrupted in order to expand the cultivation of the crops with premium prices. The post-war reconstruction, the adaptation for current or prospective markets as against the abnormal war market, entails a reversion to the pre-war scheme of rotation or an adaptation of it, and repair of the soil injury due to abnormal rotation.

## II

It is difficult to make comparison of pre-war and post-war production of cereals. In Asia the estimate of cereal crops is very defective. The pre-war estimate of cereal crops in Russia was faulty and is still more defective at present. Changes in boundaries in European countries complicate the situation. Using the latest estimates of the crops, as given in the publications of the International Institute of Agriculture, with full allowance for lack of comparability, one will derive the impression that the cereal crops (including wheat, rye, barley, oats, corn, and rice), taking the average of the crop years 1924 and 1925, are somewhat below the average of five years before the war.

The position of cereals is to be judged by acreage as well as by yields. Surveying the tabulations of acreage in the latest compilations of the International Institute of Agriculture, one draws the inference that cereal culture in the years 1924-25 had regained its pre-war range of dimensions for the world as a whole, but was still somewhat behind in Europe, possibly by as much as twelve million acres, largely in Russia. Yields per acre tend to be lower than before the war, due to poorer cultivation and scarcity of fertilizer. In some European countries, such as the United Kingdom and the neutral countries surrounding Germany, cereal acreage was expanded during the war, but has already receded again. The cereal acreage of the Americas and Australasia is above the pre-war level. India has changed but little.

All in all, the crops of cereals seem restored nearly to pre-war normal, so far as agricultural potential at least is concerned, the remaining abnormalities being due to economic rather than to agricultural limitations. The contractions in Russia have been

partly balanced by expansions overseas. But these expansions mean less to Europe than do the contractions in Russia.

Before the war, oil seeds were becoming increasingly important to Europe. Excepting the flaxseed of Russia and Argentina, the sunflower seed of Russia, and the ground nuts and soya beans of Asia, most of the oil seeds were of tropical origin. The fats were used in Europe as food and for the manufacture of soap and other industrial products; the meal was very important as concentrated fodder for dairies and feeding yards. During the war the neutral and allied countries suffered from enforced deprivation of oil seeds almost as much as the enemy countries. The international trade in oil seeds has recovered slowly, for various reasons, some of which are inherent in the backwardness of the countries of origin. The international statistics of production, distribution, and consumption of oil seeds are very defective; but it seems certain that European consumption of oil seeds is still below the pre-war level.

The acreage and production of potatoes and legumes have been restored. Probably the production of vegetables and fruits has been increased.

The sugar production of the world is now 25,000,000 tons and notably exceeds the pre-war outturn of 19,000,000 tons. Before the war, the outturn of cane sugar (almost wholly outside of Europe) was about 10,000,000 tons, of beet sugar (almost wholly within Europe) 9,000,000 tons; the present outturn of cane sugar is some 16,000,000 tons, while that of beet sugar does not exceed the pre-war figure. The war reduced the acreage of sugar beets, but stimulated the planting of sugar cane. While many of the countries of Europe have recovered their pre-war outturn of beet sugar, Poland, Germany, and Russia are still heavily in arrears. In consequence, the sugar supply of the world has a different complexion and distribution than it had before the war. When the prospective recovery of beet sugar is attained, sugar will be the outstanding example of increased agricultural production achieved as a result of the war.

The war inflicted a heavy reduction in the world herds of domesticated animals. The herds were reduced in Europe in order to supply army rations and to permit of greater efficiency of agriculture in terms of calories, since primary foodstuffs are much more efficiently produced than are secondary foodstuffs. It is impossible to give figures for this reduction in herds, either



in units or in outturn of meat and dairy products. The extent of slaughter was exaggerated during the war, since peasants quite generally concealed animals. For many countries the censuses of domesticated animals are made at infrequent intervals and with little accuracy. The best estimate is of horses and cattle, the poorest is of sheep. The war naturally carried with it a great reduction in the count of horses.

Converting domesticated animals into a common unit, with the use of the figures for pre-war and post-war estimations of livestock contained in the publications of the International Institute of Agriculture, one arrives at the round figures of 1,025,000,000 units for the pre-war estimate and 1,065,000,000 units for the post-war estimate. The pre-war figures date all the way from 1910 to 1914; the post-war figures date all the way from 1921 to 1925. The pre-war figures are more complete, as of 1914, than are the post-war figures, as of 1925. These, however, are not enumerations or even relative estimates; they are "guess-timates." Changes in boundaries introduce uncertainties. Judged as mere numbers, it seems reasonable to conclude that war losses in livestock, outside of horses, have been made good. The average age of the animals is probably lower than it was before the war.

Equally important was the reduction in outturn of edible foodstuffs per head of domestic animals, due to undernutrition of animals in most European countries during the war and to reduction in the average age of slaughter in the surplus-producing countries outside of Europe. This had in Europe the result of making the ration of meat and dairy products relatively lower than the count of animals. This defect has not yet been repaired, since the purchasing power of Europe has not yet recovered to the point of supporting the pre-war level of feeding operations. Europe was a feeding yard, dependent directly and indirectly upon imported feeding stuffs to the extent of 20 to 40 percent of the outturn of meat and dairy products. In some countries importations have been fully restored, in others only to a minimal extent.

Since the agriculture of Europe cannot with domestic feeding stuffs effectively maintain the present count of domesticated animals, the outturn of animal husbandry is directly dependent upon the purchasing power of the continent. Under these circumstances, animal husbandry in Europe stands below the pre-war level in terms of edible outturn, and this may be expected

to continue to a diminishing extent for possibly another decade. The consequent shortage in milk supply naturally causes more apprehension than the reduction in meat.

According to reliable trade statistics, the annual world export of chilled and frozen beef, mutton, and lamb has now risen to over 1,300,000 tons, as against less than 800,000 tons before the war. Until that time the exports of British dominions furnished over 40 percent of the total; at present their export is about the same in tons but is little over 25 percent of the total. The heavy expansion during this interval has occurred in South America. The South American export in 1913 was under 500,000 tons; the average of 1924 and 1925 was over 1,000,000 tons. European imports of lard from the United States are roughly 400,000,000 pounds per year more than before the war.

The heaviest importer is the United Kingdom. During the five years before the war, the average imports of frozen and chilled beef, mutton, and lamb into the United Kingdom were 757,000 tons; at present, imports are a little under 900,000 tons. Using trade estimates for present production of home-grown meats and the estimate of Wood for pre-war production of home-grown meats, it seems clear that the total consumption of beef, mutton, and lamb in the United Kingdom is about 2,000,000 tons. Before the war, it was 100,000 less than that. Home production, however, is smaller and imports are larger.

As to continental Europe, the consumption of animal products in some countries has reached the pre-war level; but in some countries home production still lags behind and consumption is maintained by increased imports. In central European countries, however, the level of consumption of meat and dairy products is below the pre-war normal. The commercial world production of butter and cheese has been more than restored to the pre-war level, mostly due to expansions outside of Europe; it is still below the pre-war level in France, Germany, and Russia. The international movement of butter and cheese, heavily reduced by the war, did not recover the pre-war level until 1924.

The imports of animal products must be paid for either with goods and services or out of capital, except as they may be secured through loans and credits. Since the industrial production and export trade of Europe have not been restored to the pre-war level, the increased importation of animal products may

be reasonably regarded as one expression of European use of American loans. With each year, however, we must expect the feeding yards of Europe to be expanded, so that the continent will import relatively more feeding stuffs and relatively less animal products. The prospect of this readjustment is not attractive to the foreign countries that have expanded the production of animal products, since they will be compelled to retrench, cut prices or develop new markets.

It is approximately correct to state that the food supply of the world has been practically restored, in terms of calories. The distribution, however, is abnormal, in that there is diminished production in Europe and Russia and expanded production in outlying areas of both the northern and southern hemispheres. As a result, there has been increased ocean tonnage of foodstuffs, partly for the purpose of making up the deficit in the domestic supply of Europe and partly for the purpose of making good the lapse of Russia. If Europe and Russia are restored to the relative pre-war outturn of agricultural produce, the agricultural outturn of the world may be somewhat in excess of the per capita level of 1914. Until then the dietary of Europe may be expected to remain more vegetarian and lower in animal products than before the war; neither the agriculture, the food supply, nor the industry of Europe can be expected to recover until Russia is restored to her position in reciprocal production and consumption.

The low standard of living in Russia is part of the agricultural disability of the country, since the inability of the peasant class to come into contact with the goods of western European countries lowers the agricultural outturn of that country. This may look like putting the cart before the horse, since it has been stated that the low agricultural outturn of Russia prevents her from exchanging exportable surpluses of farm produce for manufactured goods. Nevertheless, it is clear that the low standard of living of the Russian peasant, his more or less complacent adaptation to it, and the break-down of trading with Europe, have left exportable surpluses unexported and have dulled the incentive to agricultural production.

It is, of course, not to be inferred, because the food supply of the world is not far below the pre-war normal in relation to population, that this holds for the separate continents in equal proportions. The facts are quite to the contrary. The food supply

of the United States is above the pre-war level; that of Europe, even without including Russia, is below the pre-war level. But within Europe no rule holds. In certain countries in Europe the diet is fully the equal of the pre-war diet; indeed, in some countries, like Italy, it is distinctly superior. In other countries, of which Austria is a pathetic illustration, the food supply is poorer than before the war. Lastly, within any country there are variations within classes. Throughout Europe and Russia the middle class has been grievously dispossessed during the past ten years, both as to fixed investments and emoluments. This finds expression in restriction of the standard of living, including the food supply. Wherever unemployment has long continued, the dietary falls, despite doles and other forms of aid, as has been the case in the United Kingdom. Everywhere it is necessary to guard against generalizations and to particularize the statements applied to the dietary. But signs are not wanting to suggest that during the present season the purchasing power of Europe will be under heavy stress.

## III

The war and post-war political developments brought with them extensive changes in the ownership of land. The war practically completed the defeudalization of Europe, including Russia. Throughout Europe, with the exception of Hungary, a definite scheme of parcellation of land has been undertaken as a policy and to varying extents carried through in practice. In no country has the process been completed, all are in transition of ownership with various degrees of resistance and lag, the otherwise inherent difficulties being exaggerated by scarcity of capital and credit. This defeudalization, the splitting up of ancestral holdings into small parcels for peasants, was accomplished in some countries without compensation to the original holders. In some countries the programs of compensation agreed upon have not been adhered to; in some countries the compensation has been nullified by depreciation of state bonds and currencies.

Parcellation of the land may be expected to carry with it, for a time, reduction in efficiency of cultivation and in outturn of produce. Several factors contribute to this result. The pre-war exportable surplus, especially of Russia, came from the large estates and to a considerable extent represented exploitation of farm labor. A low standard of living in the peasant class ac-

counted for a large part of the produce supplied by the estates. The families of the peasants, taking advantage of ownership of land and control over their own produce, now allot to themselves a better and larger diet than they received as farm workers on the large estates. They cultivate their holdings from the standpoint of family subsistence, rather than from the standpoint of merchandisable surplus, such as the large estates sought for cash crops. When the land is subdivided, the small peasants do not possess the capital and credit facilities formerly available to the large landowner; they are not able rapidly to organize coöperative credit associations to take the place of the banking facilities of the landed proprietor. Following parcellation, therefore, there is decline in cultivation directly due to deterioration of equipment and lessened employment of chemical fertilizers.

Changes in distributions between rural and urban populations find expression in international trade and in the demands made by the urban populations of European countries deficient in production on the exportable supplies of surplus-producing countries. The heavy European importations of bread grains since the war have been necessary in part because the domestic areas have supplied relatively less to the cities and used relatively more in subsistence, either directly or in the form of animal products. In a word, change of type of ownership of land in Europe and Russia has indirectly increased the import requirements of the urban population. One must expect one or more decades to pass before the peasants of central and eastern Europe will operate as efficiently as the peasants of France and Belgium, before the food needs of Europe are again covered domestically to the same relative extent as was the case before the war.

The war entailed a loss of working capital for agriculture in Europe. This did not become apparent early on account of depreciation of currencies and other abnormalities of monetary and fiscal policies. Indeed, for a time the peasants in many countries regarded themselves as enriched because they had paid off their mortgages with depreciated currency. But in every European country that has been able to return to and maintain sound fiscal policies, following deflation and restabilization of currency, a scarcity of capital and credit has developed. And the peasants newly freed from debt have been hit as hard as anyone else. This is now one of the prime difficulties in Germany. Until new capital is in hand and liquid credit available at rates of

interest proportionate to the price level, European agriculture faces difficulty in restoration of effective agricultural practices and in outturn per unit of area or unit of land worker. To some extent (apart from mortgage repayments with depreciated currency), the same thing applies to agriculture outside of Europe. In different classes in many countries, over one or more of the crop years since the war, producers have suffered losses on top of heavy commitments, and find themselves with their properties covered with frozen indebtedness, with scarcity of fresh capital and credit, not because they are unavailable in the countries but because farmers cannot take on additional liabilities. Shortage of working capital means diminished outturn and reduced effectiveness in technical operations.

Not only are capital and credit scarce, but in many countries the fixed charges of agriculture have mounted during the past decade. During the war and directly afterwards landowners in many countries enlarged their holdings at relatively high prices per acre under partial payments. For many surplus-producing countries the volume of farm indebtedness has been heavily expanded. Taxes also have mounted, as the expression of public improvements and war debts, at high rates on high assessment valuations. Thus per-acre fixed charges, inclusive of interest and taxes, are for some countries substantially higher than before the war.

#### IV

The disorganization of markets throughout the world has contributed to reduction in the effective utilization of food resources. The effective division of labor, in terms of agricultural produce, is dependent upon expeditious movement between surplus and deficit areas. This movement occurs through the trading operations of middlemen operating on public markets and trading exchanges. With extreme and abnormal changes in the price level, with losses, exaggeration of risks and continuation of prospective uncertainties, the distributive functions lag, the margins between surplus and deficiency areas widen, and the volumes of goods in process of exchange tend to be less than would be the case if distribution were efficient. This state of affairs exaggerates the export problem in surplus-producing countries and the import problem in deficit countries. It involves producers of primary foodstuffs, feeding stuffs, and raw ma-



terials, and converters of these products, in both exporting and importing countries. It is safe to infer that the agricultural potential of the world, the degree of recovery from the war, and the most favorable revealment of the food resources of the globe will not become apparent until prices have become more representative, trading practices more stabilized, and movements more fairly reflective of supply and demand. A fair interpretation of the circumstances convinces one that the present position of the food resources of the world is determined less by agricultural productive technique than by subsequent factors, and that the trend of development during the next decade will be due to improvement in these factors more than to technical advancement in agriculture.

Agriculture everywhere in the world was hit hard by the heavy decline in prices in 1920-22. Industries were in position rapidly to contract production when necessary and for the most part possessed the capital and resources to enable them to reduce inventories, curtail operations, and write off losses. The facilities possessed by agriculture were circumscribed. Under these circumstances, the world drifted into a position of relative overproduction of agricultural goods and raw materials and relative underproduction of manufactures, and the prices of manufactures were better sustained than those of agricultural products. The colors in the picture were of course not uniform from country to country. Some agricultures sustained themselves better in some countries than in others; in some countries some industries declined more than in others. Even to-day the outturn of agricultural goods, in units, is relatively larger than the outturn of manufactured goods in units. This situation naturally has made for maladjustment of prices, which has reacted back on the conduct of agriculture.

Farmers the world over since 1921 have suffered to greater or less extent from reduction in the buying power of farm products. Increases in price of their products have usually been less than increases in the prices of consumers' goods. Regarding the farmer as landowner, the real earning power of his investment has been for the time being reduced. Regarding him as laborer, for the time being his real wages have been reduced. This is of course not true everywhere for all types of agriculture, but it seems true as a statement applied in a weighted fashion to agriculture, though in granting this one should not exaggerate it. The depriva-

tions resulting from post-war reduction in buying power of produce cannot be balanced against high war prices, since for the most part these were not built into reserves, but were used for expansions or for investments outside of agriculture, or dissipated in speculations.

Viewing the world as a whole, the period since the war has been characterized by some reduction of real income measured in terms of purchasing power. Under these circumstances, it may be inferred that the proportion of income devoted to the food supply is larger than before the war, since demand for foodstuffs is relatively inelastic. Each year, with advancing restoration of production and reconstruction of commerce, real income tends to improve; this has the effect of giving wider choice in the selection of foodstuffs and setting income free for additional goods and services outside of foodstuffs. If statistics were available, the data of the past decade would afford abundant material for testing out Engel's law under modern conditions of living. It will be recalled that Engel's almost forgotten dictum stated that with increases of income the proportion of income required for food declines, that for clothing and for rent remains unchanged, and that for incidentals rises.

If the agriculture of the world becomes restored to the per capita pre-war level (both of production and consumption), does this mean restoration of the *status quo ante bellum*? Certainly not. Many transformations that have developed out of the war are irreversible. Countries refuse to relinquish war-born industries that have made them less dependent on foreign goods. The appeal to self-sufficiency easily becomes translated into uneconomic chauvinism; to beggar your neighbor means to convert trade competitions into political antagonisms. Distribution and trading practices, financing and transportation, are different.

The world relations of creditor and debtor countries have been fundamentally changed, with enormous growth in international obligations. There are heavy indebtednesses from governments to governments, from governments to nationals in foreign countries, and from nationals in some countries to nationals in other countries. War production expansions were financed on foreign loans; war losses, post-war liquidations, and post-war developments have been correspondingly financed. The invisible items in international accounts have been greatly expanded in amounts and widely altered in directions. In many countries expenditures



have been raised to abnormal levels in relation to foreseeable revenues. Thus, the current position of gold reserves and the current invisible items in the international accounts combine to jeopardize the stability of national budgets. This state of affairs is in course of amelioration, but there is still room for improvement. Different groups of producers and consumers are endeavoring to transfer to other groups the abnormal burdens of post-war liquidations and reconstructions. The hand of legislation has grown accustomed to the feel of implements of state control and has lost the sense of distinction between war pressure and political pressure.

Out of war experiences and post-war distresses is growing up a series of artificial controls that give cause for apprehension in respect of their effects on production and distribution of food-stuffs. Looking over the world, we observe a series of controls, somewhat overlapping in application, developing both in number and in regions in excess of those that existed before the war. These may be rather arbitrarily tabulated, as follows:

- (1) Protective tariffs on agricultural products.
- (2) Preferential tariff rates, such as "Empire Preference."
- (3) Production bounties on agricultural products.
- (4) Export subsidies for agricultural products.
- (5) Production restriction, applied to agricultural products.
- (6) Export taxes resting directly or indirectly on agricultural products.
- (7) International cartels, such as the Franco-German potash cartel, and the proposed International Coal Association and the International Steel Association.
- (8) Valorization of agricultural products.
- (9) Double standard of marketing, applied to agricultural products.

For each one of these devices, in each country where it is applied, a plausible case may be made out on paper, as a proper advantage for the producing class or as a defense against foreign aggression. It is, however, necessary to give attention to the broader relations. The reader is invited to envisage the international division of labor as applied to the resources of the world under an accredited system of governmental controls in which all importing and exporting countries employ as many of these devices as possible. Undeterred by any formal theory in favor of unrestricted interstate supply and demand, discarding the long view

for the short view, debtor countries may come to regard it as advantageous, or at least defensible tactics, to facilitate their international payments by using every artificial device to enlarge the volume and enhance the value of their exports and reduce the volume and depress the value of their imports. Perhaps the most disquieting result of debt settlements the world over lies in the impetus that fixed international payments seem to give to the development of offensive and defensive controls of production and commerce.

# OUR FOREIGN LOAN POLICY

*By John Foster Dulles*

THE Department of State issued, on March 3, 1922, a public statement in which, after referring to the increasing number of foreign bond issues being floated in the American market, it requested that American bankers contemplating making foreign loans should inform the Department of State with reference thereto, in order that the Department might advise the bankers as to whether there was or was not objection to any particular issue. The Department of State in its statement frankly recognized that it had no legal power to require American bankers to consult it. The statement was, in form, merely a request that the bankers would "coöperate" with the Department of State in view of the bearing of their operations "upon the proper conduct of affairs" and "in view of the possible national interests involved."

While thus nominally a request, the source from which it emanated was such that the request in fact became a command. Selfish considerations alone rendered compliance virtually obligatory as no banker could afford to contract to purchase a bond issue of important size with the possibility that, before distribution could be completed, the Department of State might publicly indicate its disapproval. This would at once destroy the marketability of the issue. Bankers are but a channel for the distribution of securities and when a contract is made for the purchase of a foreign issue, it is with the expectation that the issue can promptly be distributed to investors. If, before distribution, any official expression of disapproval rendered the issue unmarketable, a substantial part of the banker's capital would be engaged in carrying indefinitely bonds acquired for prompt resale to the investing public. Any banking firm thus involved would be largely disenabled from continuing its normal activities and serious financial loss might result. Such practical considerations are, however, in most cases but secondary. There is, generally speaking, a real willingness on the part of American bankers to subordinate their interest in aid of the attainment of important national objectives in the field of international relations.

Since the issue of the State Department's circular of March 3, 1922, over \$3,000,000,000 of foreign securities have been publicly

issued in the American market. Many millions more have been the subject of negotiation and have been submitted to the Department of State as prospective issues. The magnitude of these operations has correspondingly increased the importance of the control thus assumed by the Department of State. It is, perhaps, inevitable that, with so many transactions, there should be some criticism. In some sections of the country there is doubtless a feeling that the Department of State has acquiesced in too many foreign loans. In other quarters it has been felt that loans have been disapproved which properly should have been allowed. Some are concerned that our officials should have asserted, extra-legally, so great a power over our national economy, fearing lest hereafter the possessors of the power may be tempted into employing it for purposes quite foreign to those which originally led to its assertion.

## II

Before considering matters of substance, there is one aspect of the form in which the exercise of control is sought which deserves mention.

From a technical standpoint, it often proves exceedingly difficult for the bankers to comply literally with the terms of the State Department's request. Loans, foreign as well as domestic, are often concluded with great rapidity. The better the credit of the borrower, the more rapidly is his loan arrangement concluded. In cases where the loan contract can be concluded only after thorough legal accounting, and perhaps engineering investigation, there is ample time for the bankers to obtain an expression of the Department's views before they need to commit themselves to a loan. In other cases the credit of the borrower stands very high and there is no question of his ability to obtain large sums on his unsecured notes. In such cases the decision to borrow is often quickly arrived at. The borrower seeks to take advantage of some technical market situation which, if promptly availed of, will permit him to secure funds on peculiarly favorable terms. He may, by cable, invite bids from several bankers and English, Dutch or other foreign houses may be competitors for the business. Under these circumstances, an American banking firm may be seriously embarrassed. The Department of State in its circular, has stated that "offers of foreign loans should not state or imply that they are contingent upon an expression from

the Department of State regarding them." Thus, unless this injunction be violated, bankers cannot make a bid expressly contingent upon the subsequent approval of the Department of State. Equally it may be impracticable to secure, with the necessary promptness, a prior expression of the Department's attitude. Experience has shown that, at a minimum, about twenty-four hours must elapse, and in some cases several weeks have elapsed, before such an expression can be obtained. This is doubtless due, in considerable part, to the fact that it is the practice of the Department of State to give no expression of its view until it has consulted the Treasury Department and the Department of Commerce. This inevitably takes time and there are doubtless occasions where it is necessary to reconcile divergent views. Even a few days' delay, however, may retard the action of the American bankers to such an extent that a prospective borrower will close with a competitor in the belief that the American bankers are not responding to its invitation for bids with that expedition which is expected. As London regains its position in the field of international finance, these considerations assume greater importance.

### III

Let us, however, now turn from this somewhat technical aspect of the problem of control and consider matters of substance. Here we shall first consider the purposes sought to be achieved by the control. These purposes, as disclosed by the precedents which have so far been established, can be grouped under one or more of the following: (1) To promote the accomplishment of some national objective in the realm of international relations; (2) to emphasize, and perhaps promote the more general acceptance of, some general humanitarian conception which we advocate; (3) to accomplish certain results which, it is considered, will operate to the economic or financial advantage of the American people.

In the field of international relations the most notable use of control of foreign loans has been to exert pressure upon nations which are considered by our government as derelict as regards their debts owing to the United States Treasury. The position of the Administration in this respect has recently been expressed in an article by Secretary Mellon as follows:

"Early in the year 1925, after much consideration, it was decided that it was contrary to the best interests of this country to permit foreign

governments which refused to adjust or make a reasonable effort to adjust their debts to the United States, to finance any portion of their requirements within our borders. States, municipalities and private enterprises within the foreign country concerned were included in the prohibition, and bankers consulting the State Department were notified that this Government objected to such financing.

"While the United States is reluctant to exert pressure by this means on any foreign government to settle its indebtedness, and while this country has every desire to see its surplus resources at work in the economic reconstruction and development of foreign nations, our national interest demands that our resources be not permitted to flow into countries which do not honor their obligations to the United States and to its citizens."

The desirability of exerting pressure upon governments which ignore their debts to the United States readily suggests itself. It may indeed be surmised that the formal assertion by the State Department in 1922 of its desire to control foreign loans had its origin in the anticipation that such measures might prove useful. Without questioning the propriety of the pressure thus sought to be exercised in aid of our Treasury, the true significance of the means should not be ignored. Secretary Mellon refers to the fact that that control of foreign loans was exercised in order that "our resources be not permitted to flow" into certain countries. The "flow of resources" is, of course, nothing other than our export of raw materials and manufactured goods, for the purchase of which dollars are required. The cutting off of these resources, through the vetoing of foreign loans, is in effect the establishment of a partial embargo on our exports to the nations in question. If, in fact, the State Department's disapproval of loans in favor of certain countries has exerted any economic, as distinct from moral pressure, it is because thereby these nations have been embarrassed in buying and importing our products to the extent that they would desire.

This close relationship between exports and foreign investments is strikingly shown by the recent study of the Department of Commerce entitled "The Balance of International Payments of the United States in 1925." The report concludes by pointing out that "the merchandise-export surplus of the United States has approached \$690,000,000 for the last four years, while the corresponding new foreign securities issued, after deducting refunding issues, has been \$680,000,000. From this the inference may be reasonably drawn that we have been putting the money which we got from our export surplus into foreign investments."

Another expression of the conclusions to be drawn from these figures is that foreigners, during the past four years, have annually had to borrow dollars (1) to refund maturing dollar obligations, and (2) to pay for the goods which they purchased from us to the extent that these goods exceeded in value the goods which they sold to us. Thus, in 1925, foreign nations purchased from us goods to the value of \$4,900,000,000. In order to pay for these goods, they were required to procure this amount of dollars. \$4,240,000,000 of the necessary dollars were procured as the proceeds of goods which foreign nations sold us. The balance, or \$660,000,000 had to be borrowed.<sup>1</sup> It was also necessary to borrow several hundred million dollars in addition for "refunding" operations, i.e., payment of maturing debt previously contracted. In other words, our foreign loans primarily operate to provide payments in dollars here to our farmers and manufacturers for goods which they sell abroad, and to pay debts previously contracted for such purposes. Thus, the statement of the Department of Commerce that we have been "putting our money into foreign investments" should not be understood as implying that the dollar proceeds of these loans passed *as money* out of this country. Actually the dollar proceeds of foreign loans stay in the United States and are used here either to pay principal or interest maturing on dollar loans previously contracted or to pay for American goods or services. This is inevitably the case, since it is only here that dollars are legal tender. No foreigner would, of course, ever borrow dollars if it were a condition of the loan that the actual currency resulting from the loan had to be permanently taken from the United States.<sup>2</sup>

Since the economic function of foreign loans is thus to provide foreigners with dollars to be spent by them in the United States it follows that when foreign borrowing is artificially checked, there is a corresponding check to foreign purchases of our goods.

<sup>1</sup> Certain "invisible" items of debit and credit which substantially balance each other are ignored for purposes of simplicity.

<sup>2</sup> The only apparent exception to this general statement is in the case when gold bullion is shipped. Public loans are seldom contracted for such a purpose as it is not an advantageous procedure to incur an interest-bearing debt for the purpose of securing and shipping gold. Gold itself is not productive and is expensive to insure and to ship and such a transaction is indulged in only rarely as when some bank of issue requires gold as a metallic reserve for its currency issue. For example, the proceeds of the German Reparation Loan were primarily used to recreate a gold reserve for the German Reichsbank, as reorganized under the Dawes Plan. Such an operation is, however, quite exceptional and, broadly speaking, it is correct to state, as we have done, that the dollar proceeds of foreign bond issues are employed exclusively in this country to pay dollar debts or to pay for American goods or services supplied to foreigners.



There has, however, been little disposition in any responsible quarter to question the propriety of our Government's action in curtailing financing designed to create dollar purchasing power in favor of those nations regarded as derelict in their payments to our Treasury. Our bankers have readily acquiesced in this policy. This does not, however, mean that there is general acceptance of the view that our bankers and those dependent upon exports should as a matter of routine be singled out to sacrifice their interests to promote the accomplishment of every objective of our Department of State. To embargo foreign loans, and thereby partially embargo exports and embarrass the refunding of maturing debts previously created, is an unusual power which normally should be exercised only with legislative sanction. Its extra-legal adoption should obviously be rarely indulged in, and then only in cases of unusual importance and with the sanction of so strong a public opinion that in fact legislative authority could almost assuredly be obtained if sought.

This seems to have been recognized by the Department of State. The present formal control of foreign loans was established in 1922. It was not until 1925 that it was exercised to promote debt funding. Nearly seven years' time had then been afforded to the debtor nations to take some action and, rightly or wrongly, public opinion clearly favored action to induce those nations which had not funded their debts to evidence their intention to honor their obligations within the limits of their capacity. Legislative action to this end could undoubtedly have been procured. Such formal action would, however, have been obviously undesirable because of the public affront which would thereby have been involved. Under the circumstances, there was a general desire to see effective pressure exercised, but to see this done, at least in the first instance, in an informal manner. The Department's procedure was perhaps also accepted the more readily because responsible bankers generally realized that, under the surrounding credit conditions, there might be some hazard in new loans to nations which were regarded as derelict in their past obligations.

#### IV

As exemplifying control exercised to promote humanitarian conceptions which as a nation we advocate, we may consider the refusal of the Department of State to approve of certain

loans designed to build up armaments. The State Department's expressions on this subject, while couched in somewhat vague language, on their face seem to indicate that the rule thus established is general and based upon moral considerations and a desire to promote disarmament. Closer analysis, however, raises some doubt as to whether the rule thus established against loans for armaments is in fact as general as the State Department's expressions would indicate, and whether the rule is in reality designed to promote some basic humanitarian objective. It has to be borne in mind that, as a matter of national policy, we have consistently advocated the right to traffic in arms as being an aid to peace. The latter point became a matter of serious controversy with Germany and Austria while we were neutral during the late war. In a note to the Austro-Hungarian Government of August 12, 1915, the policy of our Government in this respect was reaffirmed in the following language:

"There is a practical and substantial reason why the Government of the United States has from the foundation of the Republic to the present time advocated and practiced unrestricted trade in arms and military supplies. It has never been the policy of this country to maintain in time of peace a large military establishment or stores of arms and ammunition sufficient to repel invasion by a well-equipped and powerful enemy. It has desired to remain at peace with all nations and to avoid any appearance of menacing such peace by the threat of its armies and navies. In consequence of this standing policy the United States would, in the event of attack by a foreign power, be at the outset of the war seriously if not fatally, embarrassed by the lack of arms and ammunition and by the means to produce them in sufficient quantities to supply the requirements of national defense. The United States has always depended upon the right and power to purchase arms and ammunition from neutral nations in case of foreign attack. This right, which it claims for itself, it can not deny to others."

There would not appear to be any valid basis of distinction between permitting foreign nations to buy armament and permitting them to borrow money to pay for armament. Certainly if, during our period of neutrality, we had refused to permit the Allies to finance their purchase of war material (as by the Anglo-French loan) the principles which were then advocated would, in practice, have been largely nullified.

It is to be assumed that the present attitude of the State Department does not involve any departure from our historic policy in this matter. Probably the control was never designed to do more than to aid in maintaining close contact with policies

and possible revolutionary tendencies within States, like the Caribbean States, which because of geographical proximity or other cause, were already the subject of a special diplomatic policy. If so, this rule of practice established by the Department of State really falls within the first category we have considered, namely, control exercised to promote some national policy in the field of international relations.

A second practice of the Department of State which might be mentioned as perhaps falling into the "moral" category is the control of foreign loans in aid of maintaining the "open door" policy in certain countries where heretofore foreign loans have often been utilized to secure exclusive concessions or exclusive zones of influence in favor of the nationals of one power as against the rest of the world. In the case of China, a plan was conceived for the organization of an international banking consortium, and the principal foreign nations having interests in China undertook to take steps to cause prospective foreign financing by their nationals to be offered to the consortium. It was hoped that in this way exclusive spheres of influence in China would be avoided for the future and the "open door" policy established. In view, however, of the financial and political débâcle which occurred in China immediately following the re-organization of the Chinese consortium after the war, no public Chinese financing of any kind has been practicable and the Department's policy as regards China has, through the course of events, ceased for the time being to have other than academic interest.

## v

We now turn to cases where the control is sought to be exercised to promote what are believed to be the economic and financial interests of the American people. In this field the Department of Commerce rather than the Department of State appears to have assumed the initiative in establishing the policies to be pursued, the Department of State cooperating to carry out the economic theories of the Department of Commerce.

The most notable example of this type of control is that afforded by the refusal of the Department of State to approve of loans in favor of government-sanctioned foreign monopolies. The Secretary of Commerce, while disclaiming any desire to see retaliatory legislation adopted by the United States, has

expressed the view that such foreign monopolies should not be affirmatively aided by loans obtained in the United States and the Department of State has refused to approve loans to be made directly to such monopolies.

In actual operation this action of the Administration has in fact been retaliatory, and has assumed a form closely resembling that of which we complain.

Foreign borrowers have sought to secure money in the American market primarily because, until very recently, the United States has been the only country having surplus capital which could be drawn upon. England, for example, for several years and until quite recently, did no public foreign financing as it was felt that this would militate against the restoration of the pound sterling to its gold parity. Thus, as regards free capital, we have occupied virtually a monopolistic position. Furthermore our Government, through the Department of State, has been controlling that monopoly for national purposes.

Thus, when we denied certain foreign monopolies access to our own monopoly of credit, we in effect pitted one monopoly against another. Such a combat cannot be justified on moral grounds. This is the more true since on the one hand our own legislation specifically authorizes American concerns to combine for sales abroad, and on the other hand because the foreign monopolies, generally speaking, have not been created to mulct American people, but rather because of the prevailing conception in a large part of the world that the "cartel" system, with government supervision of prices, is economically superior to our own conception of competition enforced by law. Thus the fact that, as a matter of principle, we put ourselves in opposition to all foreign government-sanctioned monopolies can be justified only on the ground that some practical gain will result thereby to our own people.

Unfortunately this does not seem likely. The combat is too unequal because our own monopoly is but an accident of the war and is gradually waning. New capital is being gradually created in England, The Netherlands and other financial centers. Long before we produce coffee and potash, London will have reproduced a reservoir of capital in which she will invite the world to participate. Our dependence on certain foreign products is virtually permanent; their dependence on our capital is but fleeting. Already foreign monopolies, denied the right to borrow

money here, have obtained in London the funds which they required. Thus our control has not exerted any appreciable economic pressure upon the foreign monopoly, but has merely diverted certain advantageous financial transactions to our most formidable financial competitor.

Not only do we thus diminish our banking prestige, but our consuming public is more apt to be injured than helped. It is well known that industries desire and need to create a good will where they expect to borrow their money. If any foreign monopoly desires to do its financing in the United States and becomes accustomed to looking to the American market for such financing, it is almost inevitable that it should seek to conduct its relations with the American consuming public in a manner such that goodwill will result. If, on the contrary, it is prohibited from coming into the American market for its financing, it is thereby deprived of all financial incentive to moderate its exactions from the American consumer. Its only interest is to obtain the highest price for its goods.

There may, of course, be cases where the conduct of some particular foreign monopoly involves such a threat to our people that governmental aid is required to free us from a dependence which should not be tolerated. Even retaliatory legislation might be warranted. Such unusual cases should be dealt with on their own facts. But the continental conception of economic stabilization by agreement is not, in itself, so inherently and so universally vicious that our economic resources should be marshaled against it wherever found, particularly if it is probable that the net result will bring us loss rather than gain.

We should perhaps here allude to the possible exercise of control over foreign loans so as to insure that they will operate to stimulate American industry and not aid foreign competitors. There are those who would advocate a requirement that the proceeds of every foreign loan should be specifically earmarked for expenditure in the United States.

The State Department has refrained from adopting any such general policy, which could not but defeat its own purpose. As we have seen, the proceeds of our loans are dollars, which must inevitably be employed in the United States. To require specific earmarking at the time of borrowing would not only be unnecessary, but would probably diminish foreign purchases of American goods. A large part of our exports go to small consumers who

have not themselves the credit position to permit their doing independent dollar financing on their own behalf. They obtain their dollars, by banking transactions, from others who have the credit position to do dollar financing and who do not, themselves, need dollars to buy American goods. For example, the German municipalities which have borrowed here have not, in general, needed any American goods. They sought funds to finance the development of public utilities and municipal improvements which require German, not American, goods and labor. Thus the municipality does not come into our market because it wants dollars, i.e., purchasing power in America, but because American investors put a high value on municipal credit and, in the face of prohibitive domestic money rates in Germany, it has been advantageous to the German municipalities to borrow here. When, however, the dollars are obtained the municipalities in due course exchange them for marks. This they can readily do through the banks because there are many Germans who have marks and who are glad to exchange them for the dollars needed to pay for American products which they require. Thus, even when the borrower himself does not need foreign funds, the existence of such a need in the borrowing country is a prerequisite to the foreign loan, and the dollar proceeds are as surely spent here as though it were the actual consumer of American goods which had become the public borrower.

There has, however, recently been indicated a tendency on the part of our officials to look with disfavor upon loans to foreign manufacturers who are directly competing with our manufacturers for the business of a third country. Here the third country was Russia and the Government's attitude might, perhaps, be explained on the ground that the loan was regarded as, indirectly, a loan in aid of a country (Russia) the government of which we do not recognize and which has failed to seek to fund its debts to our Treasury.

It appears, however, that our Government was also influenced by economic considerations. If so, it would indicate a somewhat questionable judgment on the economic operation of loans to foreign manufacturers. Such a loan would inevitably benefit American producers for, as pointed out, the dollar proceeds would have had to be spent in the United States. Probably the transaction would work somewhat after this fashion: In reliance on the American credit, the foreign banks would finance the



purchase by Russia of their domestic manufactured products. This would create greater local industrial activity and the importation from the United States of more raw material, such as cotton and copper. The dollar proceeds of the loan would thus be spent for American goods which would proceed to Russia via a third country. Such a loan cannot, thus, properly be disapproved on the ground that it operates to benefit foreign manufacturers to the exclusion of American producers.

We should not leave the subject of control for economic and financial purposes without referring to the possibility of the State Department's control of foreign loans being utilized to protect the investing public from offers of securities believed to be unsound and the due payments on which the borrower would be financially unable to maintain. The Department of State has expressly and repeatedly disclaimed any intention to pass upon loans as business propositions, and has pointed out that its approval or disapproval was not to be considered as reflecting upon the merit of the loan as such. In the main the action of the Department of State with reference to loans has been entirely consistent with its policy as thus expressed. In certain instances, however, the Department of State has so far considered the merits of loans as to point out to the bankers certain considerations which might affect the ability of the borrower to repay. On occasions the State Department has suggested to bankers that prospective loans might not be "productive." In other cases it has pointed out that the foreign borrower might have difficulty in hereafter obtaining the foreign exchange (i.e. dollars) necessary to pay interest on the loans. On occasions it has pointed to certain pre-existing debts which might be or become prior charges upon the resources of the prospective borrower.

It may be questioned whether it is sound for the Department of State to go even so far in making suggestions which relate primarily to the merits of loans as business propositions. It is of the utmost importance, as the Department of State itself is the first to recognize, that there should be no popular impression that the State Department, by permitting a foreign loan, assumes any responsibility for its merits as a business proposition. It is the function of the bankers to pass upon these matters and it is they who should be held primarily and exclusively responsible. It could not but be unfortunate if any impression were given that the Department of State, even remotely, was assuming responsi-



bility for investigating the merits of loans or guiding the bankers in such respects.

## VI

Having thus analyzed, in the light of available precedents, the purposes which are sought to be achieved by the control exercised by the Department of State, let us turn in conclusion to certain considerations of a general order.

Control over foreign loans implies, as we have seen, control of the foreign commerce of the United States. Foreign loans are primarily the medium whereby foreigners obtain the dollars requisite to pay for American goods and services to the extent that their value exceeds that of the goods and services which foreigners supply to the United States. Foreign loans are also the medium whereby dollars are procured to repay maturing debts previously created to pay for goods and services.

Thus control of foreign loans involves a vast power over our national economy. A sudden and rigid restriction of foreign loans could not but reflect itself promptly in a curtailment of our export trade and many existing foreign issues might go into default through inability of the debtors to conduct refunding operations. Any body which possesses such power could, by the mere threat of its drastic usage, impose its will to accomplish purposes quite foreign to those which led to the original assertion of the power. It is, therefore, of the utmost importance, particularly during these formative years when our nation first occupies a creditor position, that power to control foreign loans should be exercised only with the utmost conservatism and in such a manner as to establish a strong precedent against the use of this power to carry out disputable and individual economic or political theories. It would obviously be unfortunate if established precedent warranted the use of control over foreign loans as a medium for carrying into effect any economic or financial policies which might happen at the moment to be those of the heads of our executive departments.

Such considerations suggest that control over foreign loans should be limited to cases where such control is necessary to accomplish some objective of the Department of State within the field of public international relations, which is of major importance and which clearly has sufficient popular support so that Congress, if asked, would give legislative approval to the

employment of economic pressure to accomplish such objective.

It would appear to be a doubtful wisdom to exercise control for the purpose of carrying into effect the economic theories of a particular Administration as to what is best for the American people. The economic views of the present Administration may be entirely sound. It is almost certain, however, that in the course of time different economic views will be held by succeeding Administrations. Some of these views, though sincere, may actually be unsound. Our foreign commerce and foreign financing should not be continuously subjected to official interference in aid of all such disputable and variable economic theories.

Even if, however, the actual prohibition of foreign loans were to be resorted to only in the very limited class of cases suggested above, there is of course no objection, but on the contrary a distinct advantage, in the Department of State being kept fully and promptly informed with respect to all foreign loans.

These loans have two aspects, on the one hand the dollars which are thereby made available to foreigners to buy our goods and to pay their debts here, and on the other hand the foreign securities which are received by American investors in exchange for their dollars. The latter involve the acquisition by tens of thousands of individual American investors of interests in foreign enterprises. As these investments grow, in the aggregate, into many billions of dollars, a situation is created which cannot but influence our foreign policy. No foreign policy could be intelligently conceived and carried out by a Department of State which was ignorant of or indifferent to the past and current acquisitions by Americans of interests in foreign lands. It might well be that such a movement with respect to some particular country might attain proportions such that it would tend to deprive our Government of its freedom of action in dealing with certain foreign problems and in carrying out some foreign policy which, from other aspects, would be of major national importance. The Department of State should have such information as would enable it to protect against such a development. Accordingly, it is most appropriate that the Department of State should be fully and promptly informed as to what is going on with reference to foreign loans. This result is substantially achieved by so much of the present practice as requires the bankers to inform the Department of State promptly with respect to all prospective public issues of foreign loans. It may be noted, however, that the

State Department now requires no information with reference to bank credits extended to foreigners, or with reference to foreign stock issues, so that, from the standpoint of securing information, more comprehensive data might well be sought.

Is it, however, necessary to perpetuate indefinitely the present requirement that the bankers, after informing the Department of State of a prospective loan, must take no definitive action until the proposed loan has been formally passed upon by the Department of State? We have already alluded to the practical difficulties which this practice throws in the way of the American bankers and to the disadvantage to which they are thus put in competition with foreign bankers. Obviously, the American bankers should be free from such disadvantage whenever possible. Furthermore, from the standpoint of the Department of State, it would seem desirable to avoid formal action on prospective loans in so far as this is practicable consistently with the accomplishment of the legitimate purposes of control. The reduction to a minimum of formal acquiescence or disapproval would correspondingly diminish the responsibilities of the Department of State and the possibility of misunderstanding with reference thereto.

Avoidance of formal measures of control would appear to be entirely feasible if, as a matter of principle, disapproval of foreign loans were to be limited to situations involving some major policy in the field of international relations. Any such policy, if sufficiently important to warrant resort to economic and financial pressure, will certainly be known to all responsible bankers. If it is not known, and cannot be made known, that in itself should be evidence that the situation is not of a character to warrant so unusual a step as the cutting off of private sources of credit and the imposition of economic pressure incident thereto.

Responsible bankers will always be glad to coöperate with the Department of State in the attainment of major objectives in the field of international relations. Formal control is quite unnecessary to secure this result. With respect to debt funding, this is so nearly attained and our government's policies are so well known that banking compliance therewith can be assumed. The same can equally be said with reference to our national policy toward those countries over which we exercise a special influence which is accentuated by the political implications imputed to the Monroe Doctrine. If new major policies are evolved in consequence of new situations, it would seem that the

bankers can readily be advised in an informal manner. If such informal procedure proved in fact to be ineffective, the present system could at any time be reëstablished either generally or with reference to certain areas. The fact that bankers continued to inform the Government of prospective loans would at all times afford the Department of State an opportunity of promptly intervening in the event of a tendency in foreign loans which ran counter to any major diplomatic objective. If it happened that some banking commitment were made before the State Department could indicate its objection, the harm from such an isolated transaction would scarcely be comparable to the benefit which would result from minimizing formal government participation in matters of private finance.

# ARE AMERICAN LOANS ABROAD SAFE?

*By Henry M. Robinson*

**A**RE our foreign loans safe? Can Germany keep up her increasing reparation payments, maintain her exchange position, and still pay her private loans? These questions become of importance when we consider the extraordinary extent of the public offerings of foreign securities in the United States, with refundings eliminated. Since January 1, 1921 the totals are as follows:

1921.....	\$ 553,000,000
1922.....	734,000,000
1923.....	395,000,000
1924.....	877,000,000
1925.....	1,031,207,200
1926 (first half).....	432,658,200
	<hr/>
	\$4,022,865,400

In the first half of 1926, exclusive of refunding operations, the totals by countries are as follows:

Germany.....	\$159,720,500
Rest of Europe.....	48,882,000
Canada.....	102,715,000
Latin America.....	114,970,000
Far East.....	6,370,700
	<hr/>
	\$432,658,200

Whether the scattering and oftentimes loose comments of bankers and economists to the effect that Germany cannot meet her reparation payments when they reach the standard annual figure amounting approximately to \$625,000,000 may have a definite purpose, is difficult to determine. It is also hard to determine whether these pessimistic predictions are having any result. It may be that financiers, in certain European countries, allow the wish to father the thought so far as German economic instability is concerned. But it is rather surprising that bankers and economists in the United States should be expressing opinions to the effect that there must be a revision of the Dawes Plan when the Agent General's report gives them nothing on which to base such assertions. The present attitude of Germany's business leaders does not afford any ground for doubt concerning the country's

ability to pay. Such apprehension as is being expressed on this score within the borders of Germany seems to come, very largely, from political factions which desire to make the matter a popular issue. It is part of the campaign carried on by the Nationalists against the foreign policy of the Social Democrats and other middle groups. In order to persist, even as a political issue in Germany, this alleged inability to pay must have some basis of fact, or some background of propaganda from outside — propaganda which may lead the German people to believe that an administration contending for payment would not be supported even by the expectations of Germany's creditors.

Curiously enough, all the evidence runs counter to any thought that Germany will be unable to pay. The Dawes Plan contemplates the payment, into a German bank for the credit of the Allies, of annual sums as follows:

First year.....	1,000,000,000	Gold Marks
Second year.....	1,220,000,000	“ “
Third year.....	1,200,000,000	“ “
Fourth year.....	1,750,000,000	“ “
Fifth year.....	2,500,000,000	“ “

and each year thereafter 2,500 million gold marks (about \$625,000,000). This is known as the “standard annual payment,” to be continued at the same rate unless unusual prosperity obtains in Germany, in which case provision is made for an increase.

For the first eighteen months of operation under the Dawes Plan the Agent General's report shows that the reparation payments have been made almost entirely through deliveries in kind and collections under the Recoveries Act, and that the service of the external loan of 1924 — a relatively small item — is the only important one that has had to be met by direct transfer.

The standard annual collection for reparations may seem to constitute a heavy burden, yet a careful examination of the annual pre-war military expenditures in Germany, when all factors are considered, indicates that it is not more burdensome, and is probably less so, than was the cost of maintaining the German military and naval establishments prior to 1914. This surely implies that the reparations burden on German productiveness, even in standard-payment years, will not prove excessive so far as the collection of the money and its deposit in the Reichsbank are concerned. Certain it is, at any rate, that the task of collection and deposit has not encountered thus far any serious difficulties.

Gathering a large sum of money and transferring it out of the country are two very different things, the latter being by far the more difficult problem. Nevertheless the transferring of the payments does not threaten at present to upset the exchange position of Germany. It is to be supposed and expected that the payments can be liquidated to a considerable extent (possibly to the extent of one-half the standard annual payment), through deliveries in kind, without appreciably affecting the normal and satisfactory exchange position. The remaining half of the payments may complicate the problem, but can probably be handled for the most part through the exportation of commodities from Germany, if, as we have every right to expect, there is a continued development of new countries and if the commodities paid for by reparation credit are utilized in this development.

In this connection it should be explained that various plans for the development of projects in the newer and more backward countries of the world have been put forth and in some cases are under way. These have been designated by some as "colonial projects" and by others as "assisted schemes." They may involve economic developments in all the colonies and other outlying parts of the British Empire, and in the colonial possessions in Africa and elsewhere of France, Belgium and Italy, such as Morocco, Congo, Libia, and other regions. This method of using Germany's productive power has two impelling incentives; first, it would facilitate the application of reparation credits (that might otherwise remain in the Reichsbank or be invested or loaned in Germany) to something really valuable and ultimately remunerative to the Allied creditors, and, second, it would hasten the development of the new countries by providing finances for the margin or equity which might not otherwise be easy to procure. These "assisted schemes" will supplement appreciably the normal exports from Germany, and should also be of some benefit with respect to German manufacturing costs, inasmuch as they would help carry the overhead and also tend to diminish the quantity variations in production.

In the final analysis, I believe, the "assisted schemes" method of liquidating the reparation credits may easily prove to be of great importance, especially in its effect on the producers of other countries. If the payments concerned only Germany and her immediate creditors, this would almost inevitably be so, but there is an ultimate creditor, the United States, to be considered as a



factor in the whole situation. Great Britain, France, and Italy are entitled to receive payments from Germany, but when France has funded her debt to us (as Great Britain and Italy already have done), all three countries will become intermediaries between Germany and the United States. On the face of the figures it may easily be that more than half of whatever is paid by Germany will be short-circuited between Germany and the United States.

Germany will be a great surplus exporter of goods and materials as a result of the liquidation of reparations credits. The United States will be facing the forced exportation of German products to the value of something more than half the standard annual payment (possibly \$350,000,000 a year). Apart from the developments in new countries in "colonial enterprises" and "assisted schemes," the way by which other countries can continue to take German goods, and to absorb their share of these large German exportations, will be for America to continue making loans to and investments in these countries. Thus American bankers will have a continuing and probably increasing incentive to handle foreign loans and investments. The question whether these loans are likely to be safe is therefore of no small interest.

More specifically there is the question as to the risk of loans made privately by banks and individuals in the United States to industrial or commercial concerns in the various European countries, or to their political subdivisions. From the standpoint of risk some differentiation should be made between loans made to Germany and those made to the other countries of continental Europe. Apart from the reparations, Germany has no large external obligations. Control over these payments is exercised to a degree by non-nationals, under a contract that is more specific than, and with the security for payment somewhat different from, the usual external obligations of a government. The constitution of the German Reich, moreover, gives the central government what is potentially a large measure of supervision over the finances of the political subdivisions. The exercise of this supervision may well place the Reich in the position of becoming the moral guarantor of foreign loans contracted by the German states and municipalities. In effect, furthermore, the German national government must strongly endeavor to protect the solvency and credit of German industrial and commercial concerns, for it is upon the prosperity of these that the collection of revenues for the reparations account will depend. For these various reasons,

namely, the absence of large foreign obligations (other than reparations), the specific agreements and securities connected with the reparation payments, and with their transfer, and the considerable dependence of these payments upon German industrial solvency, it does not appear that private loans to Germany, or to her political subdivisions, or to German industrial and commercial concerns are an unduly hazardous form of investment.

The chief hazard, in the minds of many, hinges on the question of priority as between reparation payments and payments connected with debts privately contracted by the industries, commercial concerns, and political subdivisions of Germany. This question has been under discussion ever since the Dawes Plan was accepted. Of necessity the members of the Transfer Committee, who are tasked with the work of seeing that reparation payments do not unsettle conditions in Germany, have refused to state their position on this question with any definiteness. This Transfer Committee is composed of six members, namely, the Agent-General for Reparation Payments, as chairman, one other American member, one French member, one English member, one Italian member, and one Belgian member. Of this group, four would appear to be strongly interested in enforcing the payment and transfer of reparations as at present planned. The two American members might alone be expected to harbor a divided fealty as between reparation payments and the payment of private debts.

Yet it should be remembered that any failure in a large way to meet private loans because of the adverse position of exchange — an adverse position resulting from transfers for reparation payments — would so affect the whole German economic structure that subsequent payments on the reparations account would themselves be seriously threatened. From a theoretical standpoint it might be supposed that the Transfer Committee would not hesitate to give governmental payments a priority over private payments if the issue between the two should ever arise. But the two kinds of payments are so closely inter-related that the Committee would be very reluctant to force transfers for reparations if such action would entail a default on private loans.

The only shadow cast on the matter is the possible difficulty of demonstrating that the failure to meet private obligations was the direct result of transfers for reparations. Such relation of cause and effect might exist, and yet be impossible to prove. Nevertheless, I think that the Transfer Committee, composed of

men of experience, training, and ability, will have a broad and detailed understanding of the effects which any transfer of exchange approved by them may produce. It seems certain that they will not be shortsighted in their approval, and that they will not approve any transfers which entail a real danger of default on private obligations contracted in good faith for productive purposes. Evidence of the effects, in the case of improper or excessive transfers, would probably show quite promptly, so that the Transfer Committee need only wait for time to correct the situation.

This whole question of governmental and private payments has an incidental bearing upon the policy of the United States with respect to the funding conditions of the Allied indebtedness. If American banks and investors hold the larger portion of the German external private obligations (as is altogether likely to be the case), and if the continued payment of reparations by Germany should by any chance be made a condition for the payment of the Allied debts to us (as some of our debtors would like to have it), we should then be in a position where our government desired priority for reparations while our banks and investors desired the repayment of their private loans. If, under these conditions, the payment of reparations comes to require the transfer of exchange in amounts so large as to affect adversely the payment of private obligations, we might become a house divided against itself, with our government and our investors each urging claims to preferential treatment. In that event it would seem that any Allied country which had succeeded in predicating its indebtedness to us upon the continued payment of German reparation would be freed from any worry over this problem.

At first glance it might appear that our European debtors would gain advantage in having the payment of their indebtedness to us predicated upon payments by Germany to them. The French Government, in particular, has apparently held this conviction, and has pressed the point. But a shifting of ultimate responsibility from France to Germany could hardly result otherwise than in forcing a virtual partnership between the United States and the latter country, by which Germany would receive from us every financial assistance to the end that she might be enabled to pay both her reparations and her private obligations to us. France could hardly expect to gain an advantage through such a situation.

The possibility may be made clearer, perhaps, by an analogy drawn from private business. Partnerships *in extremis* frequently

arise out of private financial relations, and they have sometimes arisen out of governmental relations as well. A wise creditor does what he can, within reason, to help a debtor into a position where the latter can liquidate his indebtedness, especially if the debtor is showing energy, ability, and thrift. The United States, if an indirect relation of creditor and debtor were established with Germany through the insistence of France on such an arrangement, would be bound to assist and encourage a revival of German economic prosperity in every way. Such assistance would inevitably be at the expense of other European countries and would militate against their *rapprochement* with Germany, which is now making headway. So it would seem on the whole that our Allied debtors would stand to lose considerably were they to make good their insistence that payment of their debts to us be conditioned upon collections from Germany.

One other factor of safety deserves mention. The stabilization of European currencies on a gold basis will make for the safety of private loans to the extent that this stability is achieved. Great Britain and the United States, working together, took a most important step in restoring the pound sterling to parity, thus making it virtually certain that other important commercial countries will be constrained to maintain gold-backed currencies. I believe that the action of our Federal Reserve System, in agreeing to work with the Bank of England in getting the English currency back to a gold-backed basis constituted one of the wisest, most courageous, and most farseeing actions ever taken by a bank of issue. It has been of immeasurable benefit in international trade; it has relieved us from the menace of devaluation of gold, and it has diminished in the United States the danger of inflation. Likewise the stabilization of the German currency on a gold basis was in considerable measure achieved through American constructive effort, inasmuch as more than half of a very considerable loan to Germany, aggregating 800,000,000 marks, was contributed directly by this country.

Today we hold a disproportionately large share of the world's gold reserve, and in the immediate future this position is likely to be maintained. So long as it continues, and so long as we have an excess annual income, we shall loan and invest outside our own borders in close relationship to our excess income from abroad. But because credit is so liquid, one of the effects of the restoration of the gold standard in Europe will doubtless be, in time, to reduce

the quantity of gold held in America. At present the central banks of issue in European countries are backing their currencies to some extent by gold coin but in perhaps a larger degree by what they call "earning gold," that is, by obligations or securities which call for payment in gold. To a considerable extent these obligations are in such form that final payment is in gold coin of the United States; it is not unlikely that at maturity they will be so collected and the gold moved to Europe. Much depends, however, upon the extent to which this "earning gold" in the form of gold obligations can be made to serve as a workable substitute for a reserve in idle specie. At any rate, if our present holding of gold is in time reduced by transfer to Europe, this may eventually, in its turn, somewhat modify the extent of our loaning abroad; but the present outlook, all things considered, is that we shall continue this loaning in substantial amounts for some years.

This discussion relates particularly to the risks, or absence of risk, in loans made by American banks and investors to the German government, to its political subdivisions, and to commercial or industrial concerns in Germany. But are the loans that we make to other continental countries more, or less, hazardous? The answer to that question can not be given in general terms because the factors which make for safety or the reverse are different in each country. France and Italy, for example, have large external obligations apart from their indebtedness to the United States. The burden of carrying these debts, moreover, has not been offset, as in Germany, by reductions in the cost of maintaining the military and naval forces. Again, the methods of collecting revenues for meeting these obligations, and for transferring them to foreign creditors, are not embodied in any definite agreement, nor is the process of transfer placed under the supervision of an international transfer committee. It is quite conceivable, although not at present probable, that the governments of some European countries, by insisting on priority for the payment of their own external obligations and the maintenance of their own credit in foreign money markets, may bring about an exchange situation in which private debtors will have difficulty in paying external creditors.

But this eventuality is not yet in sight, and the dangers which our foreign loans now face are more illusory than real. Economic necessity and the balancing forces that always make for economic stability seem at the present juncture to be strong enough to maintain a sound international credit.

## THE WHITE MAN'S TASK IN TROPICAL AFRICA

*By Sir Frederick D. Lugard*

IN the march of material progress in the nineteenth century probably the most outstanding event was the discovery of the use of steam as a motive power, and it is of interest to note how and why it led inevitably to the development of the tropics and their control by the white races. On the one hand the oceans ceased to be barriers passable only at the cost of long delays and great discomfort. The gateways through which trade gained access to the western half of the continent of Africa were no longer the Mediterranean ports and the camel caravan routes across the Sahara, but the ports on the West Coast, while the construction of the Suez Canal opened new and shorter sea routes to its eastern shores. On the other hand the rapid expansion of every branch of industry under the stimulus of power-driven machinery gave rise to a great demand for raw materials and for markets for the products manufactured from them. These demands were moreover increased by the phenomenal growth of population and the improvement in the standard of living of every class, which was the proximate result of the industrial revolution of the nineteenth century.

The supplies of many of these raw materials — vegetable oils, fibres, cotton, hides and skins, rubber, various minerals, etc. — were wholly insufficient, unless supplemented by the wealth of the tropics, while others were obtainable only from them. Nor was the demand for human food, and the minor luxuries which now for the first time were available to the working classes less insistent — among others sugar, rice, maize, tea, coffee, cocoa, and edible oils.

Of the great white races of the earth, the United States of America alone was for a time self-supporting, but as her population increased she too became a large importer of tropical products, both vegetable and mineral, from Africa and other tropical countries; their volume and diversity, compiled from statistical tables, would probably be a revelation to the average reader. Twenty years ago the trade of the United States with the tropics was shown by Benjamin Kidd to amount to \$346,000,000 (about half that of the United Kingdom) and he sums up with the con-



clusion that "the development of the tropics will beyond doubt be the permanent underlying fact of the twentieth century."

His forecast has proved true, and its truth will be more abundantly proved as the century grows older. "The Control of the Tropics" (as he named his remarkable essay) was probably one of the not remote causes of the Great War, and the future is pregnant with hardly less dangers from the same cause. If this be so — if the essential needs of the white man and the jealousies and misunderstandings to which they give rise, and if the so-called "awakening of the colored races," are indeed matters of such world importance — it goes without the saying that public opinion should be well informed as to the nature of the problem. Its solution rests primarily on the shoulders of those who have assumed the immense responsibility of governing the backward races which people the tropics, nor can it be evaded by those who use the products of the tropics and who exercise influence in the councils of the civilized nations. The nations in control are, as Kidd expressed it, "trustees for civilization" — a phrase which, repeated in the Covenant of the League of Nations, has become a household word throughout the world. In carrying out this trust they exercise a "dual mandate"<sup>1</sup> — as trustees on the one hand for the development of the resources of these lands, on behalf of the congested populations whose lives and industries depend on a share of the bounties with which nature has so abundantly endowed the tropics. On the other hand they exercise a "sacred trust" on behalf of the peoples who inhabit the tropics and who are so pathetically dependent on their guidance.

The fulfilment of the former mandate is for the most part undertaken with avidity by private enterprise, and the function of the Power in control is limited to providing the main essentials, such as railways and harbors, to seeing that the natives have their fair share, and that material development does not injuriously affect the fulfilment of the second mandate — an even more important obligation.

Railways in Africa are generally constructed by the state. Without arterial railways the cost of administration in the interior would be prohibitive and the slave trade and tribal wars could not have been suppressed. Railways increase the mobility of the forces necessary to stamp out these evils and maintain law and order. They render possible the advent of trade and commerce,

<sup>1</sup> "The Dual Mandate in Tropical Africa." By the present writer. Blackwood & Sons, Edinburgh.



from which a considerable revenue is raised for administrative purposes, and they encourage native production by providing a market for native produce in return for imported goods, such as textiles and hardware, and so add to the well being and prosperity of the people. Along the lines they traverse they have superseded human portage, and so set free vast numbers of men for productive work. Their construction, if carried out on right principles, is an educative agency of great importance, teaching tribes hitherto at war the value of coöperation, and the principle of a fair day's wage for a day's labor. Feeder roads, telegraphs and harbors are ancillaries. For such works native labor is required, for the white man cannot, or at any rate will not (except in Queensland) do manual work in the tropics. Private enterprise also requires native labor, and hence the first problem is to decide to what extent and under what conditions it can be employed without injury to the people. On the one hand the withdrawal of too large a percentage of adult males from the village community tends to destroy the social organization — slender at best — and the tribal authority and tribal sanctions. Some of these no doubt are based on superstition and barbarous traditions. In course of time they must disappear and be succeeded by a higher type of social organization, but if they are broken down too rapidly, if whatever is good in them is treated with contempt, and disappears with the bad before something better has been evolved, the result is chaos.

It is perhaps difficult for us to realise how great is the contrast between the communal life of the primitive tribe, hedged round with observances and customary rites, and the life of individualism and license of the labor camp. Much can be done, and is done, to ameliorate these conditions. Units of a tribe may be kept together under their own tribal authority, wives may be induced to accompany their husbands, and if the absence is not too prolonged little harm may be done. Something of good, as has already been said, may also result. The primitive savage in contact with civilization learns the discipline of work, and the result of coöperation. He learns on a plantation new methods of cultivation which he can apply to his own fields. If well fed and housed his physique improves with the regular day's work. New ideas and better standards of life are opened to his mind — in housing, clothing, sanitation, and the utensils for field work.

The old order must change — as it has changed with us — and

the inexorable mandate of civilization forbids to stereotype the conditions of savage life. Whether the primitive African dancing in the moonlight through the livelong night, careless and improvident for the morrow, will be the happier for it, who shall say? Is the villager of England with his wireless set and his trade unions, with motor cycles and cars dashing through the village street and rattling the bones of the elders of the past in the village cemetery, happier than they were?

To return to our subject. Men recruited from distant tribes often suffer from the change of climate, diet and mode of life before they become acclimatized. New diseases against which they have acquired no measure of immunity cause a heavy death rate. In spite of medical care, disease is sometimes carried back to the village. Not only is the mortality high among the laborers, but the birth rate decreases. In many parts of Africa it is estimated that the population since the advent of the white man has been stationary or has decreased, and this in spite of all that has been achieved in the stopping of slave raids and of tribal war, and the conquest of such diseases as smallpox which formerly ravaged Africa unchecked. The security of life which the reign of law and order has introduced is no doubt itself paradoxically in some degree responsible, for the freedom of movement has facilitated the spread of infectious diseases.

From a merely utilitarian point of view, it becomes a matter of the first importance that the demand for labor shall not lay too heavy a burden on the present generation. For essential public works and services even compulsion may in the last resort be justified and is authorized in such cases by the terms of the Mandates in tropical Africa, but "only if adequately remunerated" — important words, which were omitted from the proposed Slavery and Forced Labor Convention which is now under discussion in Geneva.

In regard to forced labor for private profit the "traditional policy of Great Britain" has been very clearly formulated in a state paper, as being "absolutely opposed to compulsory labor for private employment. . . . It is a point of fundamental importance that there is no question of force or compulsion, but only of encouragement and advice through the native chiefs."

"In no British Dominion and in no British Colony," said the Under Secretary lately, "will it ever be tolerated that there should be compulsory labor for private profit." Indirect pressure,

on chiefs by advice which they dare not disregard, by unduly heavy taxation, or by inadequate land allotment, is also reprobated. But voluntary labor is already insufficient to meet the demands of settlers in the sparsely populated highlands, which offer a congenial home for the white man, where by introducing new cultures and improved methods he has increased the material prosperity. What then is to be done? There are three possible courses; first, to reduce the demand by limiting government works to those of essential importance, and restricting European immigration and private enterprise; second, to make the existing supply go further by increasing the efficiency of the laborer and by the use of labor-saving devices; or finally, to import labor from overseas.

Each of these courses deserves brief consideration. The construction of railways may be limited to arterial lines and to such as traverse densely populated regions and therefore afford an outlet for produce, new markets, and a rapid means of transport for labour recruits. It is of no use "opening up" for white plantations sparsely peopled regions, however fertile, if there is no labor for their development. In the second place, wage labor can be made more efficient by good feeding and care of health, by training, by piece-work — which means more European supervision — and by the use of machinery, either to supplement or replace human labor. One illustration will suffice. The use of the ox in agriculture and (on European owned estates) of mechanical plows, etc., and the abolition of human portage by the employment of draught transport and of "road-less" mechanical vehicles, would set free hundreds of thousands of men for productive work, and add an enormous acreage to that which the natives at present cultivate by primitive methods.

Finally there is the question of supplementing African labor by importing workers from overseas. The two sources of supply in the past have been India and China. The importation of Indian labor has raised in Natal and Kenya difficulties greater than those of the problem it was hoped that it would solve. Moreover the Indian Emigration Act of 1922 has prohibited the indenture of Indian coolie labor. There remains China. It is necessary to distinguish between immigrants, whose indenture provides for compulsory repatriation, and those who on the expiration of their contracts are allowed to remain as colonists, bringing their families with them and using their period of indenture as a kind

of apprenticeship, during which they can save a little money and get to know the country. For reasons which cannot be discussed here, the Chinese would no doubt belong to the former category. The cost of recruiting, transporting and repatriating Chinese, and the high wages they demand, would make the experiment a very costly one. The Chinese refuse to bring their wives with them—or the wives refuse, as in Samoa, to come unless paid the same wages as the men; they take back their earnings with them and spend little or nothing in the country; and there is the serious question of racial miscegenation. On the other hand, if the strict supervision exercised by a special official, which is adopted in Malaya, is enforced, there are no grounds for humanitarian objections so far as the Chinese themselves are concerned.

What, it may naturally be asked, in view of the difficulties with which this labor question bristles, is the nature of the demand by private enterprise, and what is the solution which it proposes itself? The demand is mainly either for mining or for European-owned plantations and estates; the requirements of traders and others are comparatively negligible.

The mining companies which export gold, diamonds, tin, copper, manganese, etc., generally make large profits, and are able to offer every attraction possible to wage labor. The extraction of coal, on the other hand, economizes expenditure on railways and steamers, and is therefore of direct benefit to the people of the country. In Nigeria, primarily on account of the labor question, it has so far been retained as a government monopoly. Foreign agricultural enterprise may either consist of plantations of rubber trees or oil-palms, etc., which grow in the lowlands and are supervised by Europeans who relieve each other periodically, or of estates owned by settlers in the highlands, whose altitude renders continued residence possible. If the crops consist of exotic species which require skilled cultivation or technical preparation for the market, such as Arabian coffee, tobacco, sisal, tea and flax, these foreign-owned plantations are a notable contribution to the economic resources of the country, and they also should be able to offer attractive conditions to wage labor, provided that the demand is not too heavy. It is, however, a disadvantage that the heaviest demand is at the season when the natives are most engaged in tending their own food crops.

But if the foreign estate owner does not limit his enterprise to

these cultures, and includes products which are successfully grown by the natives, such as cotton, maize, cocoa, groundnuts etc., it is inevitable that — unless artificially protected — he cannot compete with the native grower who has no “overhead charges” to meet and can work in his own time, in his own way, for his own profit, and with the assistance of his family. Their interests become antagonistic, and if the planter has a powerful share in the legislation and policy of the government, strict impartiality, despite the best of intentions, becomes difficult.

The planter and the settler point to the capital and the efforts expended in converting lands left derelict or used only as grazing areas for nomadic cattle-owners, into estates of great value whose produce forms the bulk of the exports. They hold that the natives can only become good citizens by contact with the Europeans. They would solve the labor problem by inducing the natives to live on their estates as “squatters” or tenants pledged to render service for specified periods. The planters of Virginia solved their labor problems three centuries ago in much the same way, by importing slaves, but what was possible in the early seventeenth century is not possible in the twentieth. The imported slaves resided on their estates, and it was equally to the owners' interest that they should be well-cared for; but in order to maintain the system they wisely made it an offense to teach the slaves to read and write, for education must doom such a system to failure. British settlers in Kenya and Nyasaland, on the contrary, show much enthusiasm for native education. And here I touch a new subject.

The policy and methods hitherto adopted in educational matters in Africa have not produced good results, and the fact has recently received official recognition in England by the appointment by the Secretary of State of a Standing Committee at the Colonial Office consisting of educational experts, representatives of the churches and missions, and others of practical administrative experience, under the presidency of the Under-Secretary. A synopsis of the policy they advocated was published with the approval of Government as a state paper. In this movement the Trustees of the Phelps-Stokes Fund, with their intimate knowledge of the methods by which such great results have been achieved in the United States at Hampton and Tuskegee, lent assistance and coöperated by sending two Missions to Africa and publishing the results of their investigations. It is, however, only just to

add that the principles they so ably advocated had already been demonstrated and an attempt to give them practical effect by legislation had already been made and would have been carried out in detail had not progress been arrested by the war.

The new policy regards the education in the class-room of a comparatively small minority of the youth in the principal centers as only one phase — and that not the most important — of education. The system of set examinations based on curricula more appropriate to pupils in England, and conveyed in text books ill adapted to African experience and mentality, must in future give place to a system which shall reach the heart of the people and influence the village community. Its object will be to retain what is best in African tradition, to make the village agriculturist or craftsman more efficient, to replace superstitious fear by the ethics of a higher religion, to fill in the great hiatus between the illiterate masses and the so-called “educated” minority. Education, it is hoped, will mean the raising of the standard of the people, not the denationalization of the few, making of the African a better and more efficient African and not an imitation white man.

So regarded, the Education Department is but one of many agencies engaged in the work. And not least of the potent agencies which operate outside the class-room is that of the Administrative Officer, whose task it is to train each tribal unit or separate community to conduct its own domestic affairs under the guidance of its own appointed head.

Among the more advanced sections the task is comparatively easy. Habits of obedience to authority on the one hand, and of responsibility and initiative on the other hand, have already been acquired in a greater or lesser degree. But among the more primitive, where as yet no higher authority than the head of the family exists, where impulse to action is dictated by some prompting of superstition, or some motive hard to fathom, the District Officer's task is much harder. He will set up a petty tribunal for the settlement of minor disputes and offenses, but it will arrive at most astonishing decisions or be wholly unable to assert its authority. The very standards of right and wrong will often need to be created. It would be simpler and much more effective to assume all powers himself. The interminable delays, the inability to grasp simple fundamentals, the constant failure of one chief after another in whom he had built hopes of success,



are heartbreaking to the competent energetic officer, and it becomes a chronic temptation to do the thing himself and do it well. It is thus that the proverbial efficiency of the rural administration in British India and elsewhere has been achieved.

But is the white influence as effective as it seems on the surface? No tropical administration has revenues adequate to support the army of officials required thoroughly to administer these vast areas peopled by a mosaic of tribes speaking scores of different languages. Exigencies of climate, necessitating absence on leave, together with the transfers due to departmental promotion, cause frequent changes in personnel. At best the District Officer, who thinks he is "running the show" himself, and with success, is really in the hands of his interpreters, his court messengers and his police. Every now and then a scandal comes to light which reveals the tyranny, bribery and speculation carried on in the white man's name.

Apart from such considerations, what is the ultimate result? Half a century of direct assumption of control by the Administrative Officer finds the community just where it was. The more capable and energetic he has proved himself, the less competent will it be to stand alone. Meanwhile, contact with civilization, and the spread of education, beget as their natural offspring the agitator for "self-determination" and a share in the control of domestic affairs. The tribes are without leaders of influence, for leadership has been at a discount. The only lesson they have been taught is obedience to the will of another. The agitator presses for elected representatives on the Legislative Council, and a widening of the unofficial vote. But the native lawyers, who for the most part constitute the native members of the Council, are not representative of the masses, and know less about them, their language and their needs than the District Officer. Philanthropists at home applaud the extension of "a new measure of self-government."

Better in my judgment all the early mistakes and absurdities of the primitive native tribunals, the incompetence of the petty chiefs, and the slow growth of efficiency, while the chief and his village council acquire with the support of government a steadily increasing authority. If their actions on occasion give cause for protest, they cannot at any rate be laid at the white man's door.

Democracy in the East (perhaps more logically than in the West) begins at the bottom with the village *panchayat* in India



and its counterpart, the *tipao* in China, — generally perhaps with autocracy enthroned as a figure-head at the top, ostensibly omnipotent but in reality with well understood limitations.

From all of these considerations there emerges, as I think, one great lesson for all of those powerful states which have accepted the grave responsibility of controlling and educating — that is to say, “bringing forth” to a higher plane — the backward races who are, in the words of the Covenant of the League of Nations “unable to stand alone in the strenuous conditions of the modern world.” The lesson is this: we should abandon the idea that methods and policies found suitable to ourselves are necessarily the best suited to the ancient civilizations of the East or to the evolution of African tribes. The predominant characteristics of the English-speaking races are individual initiative, willingness to accept responsibility, and belief in the value of compromise in the settlement of affairs without strict adherence to logic. From these characteristics have sprung our system of representative government through parliaments. We are prone to assume that our methods of government, our religious formulæ, our systems of education, the lessons of our history, our appraisal of the degrees of criminality and our code of punishments, because we have proved them best for ourselves, must be best for all the world. It may be so in the far future, but the attempt to bridge the centuries without adequate study of other mentalities, traditions and beliefs, is more likely to lead to failure than to success.

With the realization of the difficulty and of the importance of the work, there has come an increasing recognition of the fact that, as Sir Valentine Chirol puts it, the task demands not the average man but the very best men we have got. When I first went to Africa — and the assertion is obviously not flattering to myself — there was undoubtedly a feeling that anyone was good enough for Africa. Selection of officers was haphazard in the extreme. The Indian Service enjoyed great prestige, and next to it came the Eastern Colonial Cadet Service. To-day neither the one nor the other can boast of better men than those who serve in tropical Africa. And the credit is due to the Service itself — though many, alas! of those who pioneered the way have not lived to see the results.

Conditions in the early days, of housing, food, medical aid, and overwork for the British staff were very bad, especially in

West Africa, and the mortality was dreadful, but as a result of the abounding material prosperity of these dependencies these conditions have now improved beyond comparison. Wives accompany their husbands, and the tone of European society has changed greatly for the better, a change which includes all classes, — missionaries, traders, miners and officials. Its effect is not lost on the black man. I do not refer to British colonies only.

And what are the results on the credit side of the dual task, to compensate for the death roll. In material prosperity they are amazing. Thousands of miles of railways, harbors both on the East and West Coasts constructed at a cost of several millions each, and a trade which now aggregates many scores of millions of pounds sterling. The little colony of the Gold Coast has built a hospital at a cost of a quarter of a million pounds sterling, and is now engaged on school buildings at Achimota estimated to cost double that sum. In non-material matters the progress made cannot be so easily tabulated. I have spoken of education, of methods of rule, and of principles of employing wage labor; in these and in many other spheres there can be no doubt that the white man's standard has been raised. The endeavors of the Mandates Commission to uphold the true principles of Trusteeship on the one hand, and the loyalty of Africa and its white rulers during the war on the other are tangible tokens of progress.

A word in conclusion as to the Mandates. Has the system set up by the Covenant of the League proved useful and effective? The general verdict seems to be in the affirmative. The essential features which distinguish territories held under Mandate from Colonies and Protectorates are, first, that the Mandatory is pledged to administer the country in accordance with certain strict rules laid down in the Mandate — whether those rules are in accordance with the practice in its own colonies or not; second, that it must render an annual account of its stewardship to the Mandates Commission, a body advisory to the League, and that these reports, together with the full minutes of the discussion upon them with the accredited representative of the Mandatory, are made public; and third, that inhabitants have the right to petition the League through the Mandatory, and the world at large has the right to submit any memorial if it is considered that the conditions of the Mandate are not being carried out. Publicity and the expression of public opinion are the only forces which can be brought to bear on a Mandatory, but they are very

powerful forces. Whether the right of petition is sufficiently effective or whether it may be liable to misuse, are matters now engaging the consideration of the Commission.

The Commission consists of ten members of different nationalities nominated by the Council of the League for personal competence. They may not hold any appointment under their governments. The examination of the reports, laws, petitions, and the large volume of press articles, parliamentary debates and other papers circulated by the Secretariat concerning the administration of fourteen separate countries, in addition to two or three sessions each year of some three weeks' duration each at Geneva, is a task so heavy that it is perhaps doubtful whether the system can long be efficiently carried out on its present basis.

Germany, in accordance with the Treaty of Locarno, will before long become a Member of the League. Influential parties in that country have long been engaged in propaganda having for their object the restitution of one or more of her colonies. They claim that until she is adjudged worthy to control a colony she does not sit at the table of the League on a footing of equality with Portugal or Spain, and that her industrial millions need free and assured access to tropical resources. This she enjoys already in all British territories whether under a Mandate or not, and will have as of right in all other mandated areas in Africa when she enters the League. Italy proclaims that if Germany were to obtain a Mandate she would advance a similar claim. On the other hand it is repugnant to right feeling that populations, to whom solemn pledges of protection and of the permanence of the existing arrangements have been made, should be bartered about as mere chattels to suit the convenience or political exigencies of European nations, and that the pledges should be treated as "scraps of paper." Nor can a Mandate be revoked (except in theory for gross maladministration) without the consent of the Mandatory.

I have touched on but two or three of the many problems which tropical Africa presents to the twentieth century for solution, but enough I think has been said to indicate their great interest and the claim they have on the careful attention alike of those who benefit by the products of Africa, and those who acknowledge the obligations which wealth, leisure, civilization, and the ethics of a higher creed impose upon the more favored nations.

# DOUBLE TAXATION

*By George O. May*

DOUBLE taxation is one of many subjects which have assumed much increased importance as a result of the war. Nor is the increased importance due solely to higher rates of taxation, though the imposition of taxes running up to more than 50 percent has created situations in which double taxation of income amounts to practical expropriation. Another serious factor is the change in the fiscal situation of the leading countries which the war has brought about. Countries which before the war were in position to supply their own requirements of capital or even had a surplus for investment abroad, have become borrowers; other countries have found themselves not only in a position to invest abroad but almost compelled to do so. Our own country could hardly maintain its policies of restriction of imports through high tariffs, exportation of surplus food products, collection of foreign government debts and the building up of a merchant marine, without making foreign investments to balance the international account.

Again, lack of confidence in domestic finance and depreciation of currencies have created a demand for foreign investments even in countries whose capital resources are inadequate for their own requirements, and in the most stable European countries anxious investors having seen the disastrous consequences of war on the strongest of states, have felt that it was unwise to put all their eggs in a single basket, and have invested part of their capital abroad.

The setting up as separate nations of what were formerly parts of a single kingdom, which remain more or less economically interdependent, as in the case of the succession states of Austria, is still another of the many contributing influences as a result of which the subject has assumed very real and general significance.

## I

The problem arises mainly in relation to income and inheritance taxes. In its international aspects double taxation of income is by far the most important phase of the question, but in our own country double taxation of inheritances by the States has created a particularly unsatisfactory situation. Attempts to deal with the

problem have been made in domestic legislation in our own and foreign countries, and through international conferences — notably those conducted under the auspices of the League of Nations — which have resulted in a number of international conventions for the mitigation of the burden.

Dealing first with the activities of the League of Nations, since these have included authoritative studies of the theoretical and practical aspects of the problem, the question was discussed at the Brussels conference (1920) and referred to the Provincial Economic and Financial Committee. In accordance with the request of this Committee Sir Basil Blackett, of the British Treasury, submitted two interesting memoranda — one dealing historically with British income tax practice, and the other with the purely economic question of the effects of double taxation on foreign investments. In September, 1921, the Financial Section of the League invited a group of economists consisting of Professors Bruins of Rotterdam, Einaudi of Turin, and Seligman of New York, and Sir Josiah Stamp of London, to prepare a report on the subject. The group made in April, 1923, a full report dealing first with the economic consequences of double taxation on the equitable distribution of burdens and on the flow of capital, and second with the possibility of relieving or mitigating its evil effects either by domestic legislation of states or by international agreements.

The Committee next brought together a group of technical experts, requesting them to examine both this problem and the collateral problem of tax evasion from an administrative point of view. These experts used as a basis the report of the economists, which they characterized as a masterly report of inestimable value to them, and adopted resolutions that embodied the principles which in their judgment should govern the formulation of conventions for relief from double taxation. These resolutions were set forth with extended comments in a report published by the League under date of February 7, 1925. This report was brought to the attention of the International Chamber of Commerce, which had been continuously interested in the subject, and that body after extended examination through a Committee headed by Prof. T. S. Adams expressed its substantial agreement with the experts.

The next step was to ask the same group, enlarged to include representatives of other countries, to draft types of conventions

of either a general or a bilateral character for the purpose of giving effect to the principles agreed on. The enlarged group met in Geneva in May last, but the session then held was occupied largely in securing agreement on principles on the part of the many new members, and it was not found possible at that time to do more than prepare preliminary drafts of conventions which are to be considered at an adjourned session to be held in October.

## II

Double taxation of income arises from the fact that a tax may logically, and can effectively, be levied either where the income arises or where the recipient resides. In our own legislation both these principles are applied, and in addition a tax is levied on our own citizens even if they reside abroad and their income is derived from foreign sources.<sup>1</sup> The English income tax, the oldest of those in existence, though it is in the main a personal tax nevertheless taxes the income of non-residents derived from English sources. As a practical matter, it is hardly conceivable that any state which levies an income tax would wholly relinquish this source of revenue.

The question of the ultimate disposition of the burden of a tax on income from domestic sources, levied upon non-residents, was considered at length by the economists selected by the League. In the case of a country seeking to borrow capital from abroad, a tax levied on the interest from the loan secured is likely to be thrown back either directly or indirectly on the borrowing country. Where, however, foreign capital is seeking to exploit the natural resources or commercial opportunities of a state, the tax on the income which that capital earns is not likely to be passed on.

As a logical consequence countries whose natural resources are relatively large in proportion to the foreign interests of their residents are apt to stress the principle of taxation according to the source of income (especially as there would be strong political objection to the exemption of foreigners from a tax to which citizens engaged in similar enterprises would be subject); while the great capitalist countries are equally insistent on the principle of taxation according to residence.

The technical experts in their resolutions drew a distinction

<sup>1</sup> In the 1926 law exemption was granted to non-resident citizens in respect of earned income from foreign sources.



between taxes which are independent of the status of the taxpayer and those which are determined by such status; between impersonal taxes and personal taxes, or, using the French terms between *impôts réels* and *impôts globaux*. They suggested that the former should be levied only in the country in which is found the source of the income, and the latter only in the country of residence (domicile) of the recipient of the income. The practical value of the distinction has been questioned, and it must be admitted that the modern income tax is usually in some respects a personal and in other respects an impersonal tax.

In applying the distinction the experts laid down the general principle that taxes at progressive rates should be regarded as personal taxes, and should be levied only by the state of domicile. Acceptance of this principle would mean that no state would levy surtaxes on non-resident individuals on income derived from sources within the state either with reference to their total income from all sources or with reference to their total income from sources within the state.

Both the United States and Great Britain at present attempt to levy surtaxes on non-resident aliens on the basis of their total income from sources within the taxing country. There is, however, reason to believe that such attempts are not very productive, and on practical as well as on theoretical grounds the two countries might well, under reciprocal agreements, forego such surtaxes. The administrative difficulties of effecting collection are great, and in any case in which the sums involved are sufficient to warrant the expense the taxpayer can make these difficulties practically insuperable by measures such as the interposition of a foreign corporation under his ownership and control between the source of the income and himself.

Apparently also, though this is not perhaps absolutely clear from the report, the experts considered that no state should levy on the profits of an enterprise owned by non-residents taxes computed at progressive rates even if the scale were established entirely without regard to the status of the owners. This question is one on which American and British practice have differed sharply.

The British laws have proceeded on the principle that the ability to pay, which is the broad justification of the progressive income tax system, is a purely individual matter and while income taxes are collected in Great Britain from corporations



as a matter of administrative convenience, the system of relief is so arranged that if the income of a corporation were wholly distributed and the income of every individual shareholder were nevertheless still below the exemption limit, the shareholders would in the aggregate be entitled to recover an amount of tax equal to the tax payable in the first instance by the corporation. We have adopted the view that not only may corporations properly be subjected to an income tax as separate entities, but the principle of ability to pay may properly be applied to them through a scale of graduated taxes without regard to the status of their shareholders. This was the vital difference between our excess profits tax and the British. Whatever may be said on the question of principle, it is highly improbable that states in which the most important enterprises are being exploited by non-residents will in practice forego the right to levy graduated taxes on such enterprises.

It should be added that the experts clearly recognized that the principles laid down by them were not likely to be immediately and universally adopted, and made suggestions for procedure in cases where the states could not see their way to accept these principles in their entirety.

### III

The experts next proceeded to lay down rules for determining the sources of income. These rules have been approved by the International Chamber of Commerce and are substantially similar to those embodied in our own Federal legislation. Income from real estate (or mortgages thereon) and income from agricultural enterprises are attributed to the country in which the property is situated; earned income to the country in which the services are rendered; income from business to the country where the business is conducted — an apportionment to be made if the business is carried on in more than one country provided that in each there is a real establishment and not a mere agency. Incidentally the experts recommended as a concession to practicability that maritime navigation undertakings should be taxed in only one country, namely that in which the effective control was exercised — a provision similar to that in our own statutes exempting on a basis of reciprocity the earnings from shipping registered under a foreign flag. Some shipping interests have urged that this rule should be accepted as based on principle

rather than on expediency. It is difficult to see how such a contention could be sustained, though the fact that shipping income is earned mainly on the high seas and the extreme difficulty of making any satisfactory apportionment thereof between states seem amply to justify the experts' recommendation.

In regard to interest on bonds, deposits and current accounts the experts suggested that:

The state in which the debtor is domiciled shall, as a rule, be entitled to levy the schedular tax, but the experts recommend the conclusion of agreements whereby (particularly by means of affidavits and subject to proper precautions against fraud) reimbursement of, or exemption from, this tax would be allowed in the case of securities, deposits or current accounts of persons domiciled abroad, or whereby the tax would be levied either wholly or in part by the state in which the creditors are domiciled.

They thus recognized the right of the debtor country to impose the tax and the practical consideration that the tax is likely to be passed back directly or indirectly to the debtor country.

The resolutions of the experts did not deal with inheritance taxes at length, but merely indicated that the rules for income taxes were applicable *mutatis mutandis* to them.

While the theoretical discussion was proceeding, substantial progress was being made in negotiation of treaties for the mitigation of double taxation. In June, 1921, a convention was signed at Rome between Austria, Hungary, Poland, Italy, Yugoslavia and Rumania. A large number of bilateral conventions have been entered into, Germany, Italy, Austria, Switzerland and Sweden being among the parties to them.

The bilateral conventions which have been negotiated have followed generally the lines of the experts' resolutions. An interesting exception, however, is the convention between Great Britain and the Irish Free State, which adopts the principle of residence and ignores the source of income.

#### IV

Turning now to the consideration of internal legislation, the question of double taxation within the Empire appears to have been raised in the British Parliament as early as 1860, but it was not until the heavy war taxes came into effect that an attempt was made, in 1916, to alleviate the hardship. The question was discussed at an Imperial war conference in 1917 and was exhaustively considered by a Royal Commission in 1919, and that

Commission laid down the principles which in its opinion should be the basis of any sound solution of the problem. The Commission also considered the question of double income taxes in relation to foreign countries but did not see its way in the existing circumstances to recommend any change in the British practice. British measures for relief have therefore with minor exceptions been limited to double taxation within the Empire.

In our Federal practice the question of double taxation was dealt with as soon as it became at all serious. The specific provisions enacted have exhibited much the same characteristics as our income tax laws in general. In many cases the spirit of the provisions has been broad, and indeed liberality has at times become prodigality. On the other hand, specific provisions have frequently been arbitrary and impracticable and too often the administration has been productive of irritation and expense to taxpayers, rather than of revenue to the Treasury.

Since 1918 the law has contained provisions under which taxpayers might make a deduction from their United States income taxes in respect of income taxes paid in other countries. Such provisions were the more necessary because of our practice of imposing the tax on citizens irrespective of residence or the source of the income. We could hardly tax our citizens representing American business abroad on their income earned where they were residing, without substantial relief in respect of taxes paid in that country.

The allowances made have not always been based on well established principles of taxation; at times they have been obviously excessive. For instance, under the 1918 law a citizen resident in the United States could deduct from his United States tax all taxes paid to foreign countries on his income from sources therein, even though such taxes exceeded the domestic tax on the foreign income in question. Thus if his American rate were 20 percent and one-third of his income were from foreign sources and subject to a foreign tax of 60 percent, he would pay no American tax at all. A rule involving such sacrifice by our Treasury of taxes on income which was derived from American sources was quite uncalled for and it was changed in 1921.

By a curious oversight an even more anomalous situation existed under the 1918 law, as a result of which a domestic corporation might in effect exclude from its gross income dividends received from a foreign corporation and yet deduct from

its American taxes any taxes levied on those dividends by the foreign country. This error was also corrected in 1921.

The principle of allowing a credit against the American tax for foreign taxes paid has from the first been extended to taxes paid by foreign subsidiaries of a domestic corporation. The rules laid down in the statutes for computing the credit in such cases have however been and still are unsatisfactory and impracticable.

Ever since 1918 any allowance for foreign taxes to a resident alien has been conditional on his own country granting a similar credit to citizens of the United States residing in that country. The general theory of reciprocal exemption is entirely sound, but our form of procedure is open to the objection that it requires foreign countries to conform to a method of exemption which we have devised instead of to a method mutually agreed upon. This objection has particular force in a case such as that under our 1918 law, where our scheme was theoretically unsound and extravagant. It was not reasonable that a resident alien should be denied all relief under that statute because his own country did not grant relief to the same unreasonable extent as ourselves. The law surely might have provided for relief either to the same extent as our citizens were relieved in his country or to the extent of the relief granted by us to residents who were citizens, which ever might be the lower.

In 1921, as already noted, exemption from United States income taxes was granted to foreign shipping on a basis of reciprocity. This broadminded provision, which undoubtedly involved a sacrifice by our Treasury greater than the immediate gain to our shipping interests, has been availed of by the principal maritime countries.

It is probable that any further steps in the direction of relief from double taxation which we may take will be in the same form. With our growing interests in foreign countries it would seem wise to adopt a liberal policy. There are activities other than shipping to which similar treatment might be given and we might be well advised to offer exemption of non-residents from surtaxes on a reciprocal basis.

Incidentally we should assuredly be wise to modify our attitude towards non-residents in the matter of returns, penalties and other matters of procedure. At present we proceed on the theory that it is the duty of every one the wide world over to be familiar with our law and to file a return under it if he has income from

an American source as defined by us, whether he has an agent or office here or not. Our laws levy the taxes on "every individual" and require a return from every individual having net or gross income from American sources in excess of specified limits and our regulations interpret the language literally. Penalties are provided by law and the regulations apply these provisions to residents and non-residents alike. The penalties collected from non-resident aliens must have been trivial, but the trouble, annoyance and expense occasioned by these provisions has been considerable. The English courts, construing provisions which required "every person" chargeable with supertax to make a return and made "every person" failing to make such a return liable to a penalty, held that a non-resident alien was not required to make a return nor liable to the penalty. The Lord Chancellor, Viscount Cave, said (*Whitney v. Commissioners of Inland Revenue*) it was not easy to understand "by what right such a penalty could even in express terms be imposed" and concluded that the provision could not have been intended to apply to such a person. Lord Phillimore said he was sure it was not the duty of a non-resident and undomiciled alien to know English tax law, and Lord Dunedin said:

"The next step lay with the appellant, and he made no return, and I agree that the penalty section is inapplicable. For the appellant is not subject to the jurisdiction of the English Court, nor has the British Parliament power to enjoin him personally to do anything."

These views seem eminently reasonable and it is much to be desired that the Treasury or the courts should interpret our law similarly or that Congress should modify it to the same effect. At present we are merely creating precedents to no profit, which may be followed by other countries to the detriment of our citizens.

v

Our State income tax laws are not — with few exceptions — unduly burdensome, though the methods of apportionment of income are in some cases intricate and unsatisfactory. It is in the field of inheritance taxes that our States have acquired unenviable fame.

The situation can not be better stated than in the language of the President's address to the conference called at his suggestion, which met at Washington on February 19, 1925:

"There is competition between States to reach in inheritance taxes not only the property of its own citizens, but the property of the citizens of

other States which by any construction can be brought within the grasp of the taxgatherer. A share of stock represents a most conspicuous example of multiple inheritance taxation. It is possible that the same share of stock, upon the death of its owner, may be subject to taxation, first, by the Federal Government; then by the State where its owner was domiciled; then by some other State which may also claim him as a citizen; again in the State where the certificate of stock was kept; in the State where the certificate of stock must be transferred on the corporation's books; in the State or States where is organized the corporation whose capital stock is involved; and, finally, in the State or States where this corporation owns property. All this means not only an actual amount of tax which may under particular circumstances exceed 100 percent of the value of the stock, but the expense, delay and inconvenience of getting clearances of the States who claim a right to tax the property is a serious burden to the heir who is to receive the stock. Particularly is this expense disproportionate to a tax paid by a small estate which has but a few shares of stock. In many cases the expense alone must exceed the total value of the shares which it is sought to transfer. Looking at it from the standpoint of State revenue, I am told it is probable that the full cost to executors of ascertaining the tax and obtaining the necessary transfers is in the aggregate nearly as much as the tax received by the States upon this property of non-resident decedents. Here, indeed, is extravagance in taxation."

As the President emphasized, the burden of expense and trouble was in many cases more serious than the tax. By the transfer of personal holdings to a corporation formed for that purpose, and by other means, large taxes outside the State of the residence of the decedent could usually be avoided. The amount of tax thus became dependent on the foresight and ingenuity displayed by the decedent rather than on any ability to pay. Calculations made showing possibilities of taxes amounting to 100, 200 or even 300 percent of the estate were merely mental exercises of the expert.

Since the President's speech was delivered various events have improved the situation. By the Federal Tax Law of 1926 the credit for State taxes against the Federal tax was increased from 25 percent to 80 percent of the latter. Next came the decision of the Supreme Court in the Frick case which declared invalid a tax on tangible personal property without the State and held that the State of residence must allow the tax on corporate stocks owned by the decedent levied by the State of incorporation as a deduction from the value of the gross estate in computing its tax. This was followed by another Supreme Court decision which held invalid a tax on the transfer of stock of a foreign corporation owned by a non-resident based on the ground



that the property of the corporation was mainly within the State.

Important States such as New York, Connecticut, Pennsylvania, and Massachusetts, have enacted laws containing reciprocal exemption clauses, and conferences of the taxing authorities of these States have been held in an effort to make such provisions effective. What the League has been seeking to bring about in the international sphere has thus been happening in our own interstate field.

## VI

In any review of the measures relating to double taxation which have been taken since the war, it must be constantly kept in mind that the period has been one of unexampled difficulties in the field of government finance. Allowing for this fact the progress made cannot be regarded as unsatisfactory. The efforts of the League of Nations have borne and are bearing fruit.

The United States by reason of its prosperity and its increasing foreign investments should be the leader in the adoption of broad and liberal policies in this field. Notwithstanding the amelioration of the situation in the recent past much remains to be done to put our State taxation on a fair and sound basis. There is room for improvement in our Federal law though even more in our methods of Federal tax administration. A Federal inheritance tax, for instance, is still levied on stock of a corporation owned by a non-resident decedent if either the corporation is organized under the laws of one of our States or the stock certificate is physically in the United States at the time of the death. Surely we might, on a basis of reciprocity, grant exemption in such cases; at least we might adopt a single test of liability. The President's criticisms of the States in this respect are justly applicable to the Federal Law.

The United States has hitherto declined to join in the work of the League of Nations, but if our apprehensions preclude us from following the same precise path, we have at least taken some steps along parallel lines. We have the opportunity and it is to our interest to keep pace with, or even move ahead of, other nations and to offer reciprocal relief to any that are prepared to advance with us. The fact that some of the best informed students of the subject are among those whose judgment on tax questions is most highly valued by Congress gives some grounds for hope that we shall not neglect our opportunities and duties.



# RUSSIA AND GREAT BRITAIN IN CHINA

*By Nicholas Roosevelt*

THE chaotic conditions in China during the last few years have obscured the changes that have taken place in the old rivalry between the Russians and the British for power in the Far East. Prior to the Great War, the Russian Imperial Government sought to consolidate its political influence in North China without interfering with British commercial interests. In the background of Russia's China policy, however, was the hope of ultimately displacing British supremacy in Asia. It is not unlikely that the Tsar's ministers thought of him as the logical heir of the Mongol Emperors. Great Britain, confident in her great political and naval strength, was willing to confine herself to extending and consolidating her commercial hold in China, as long as Russia did not interfere with this by bringing political pressure to bear on China. In matters political, Great Britain sought to check Russia only in her attempted advance on India from the north.

The World War temporarily eclipsed Russia in China. She lost all her special privileges and concessions, including the Russian section of the foreign city at Tientsin. She also lost the rights of extra-territoriality throughout the republic. Great Britain's trade in the meantime increased largely, and her principal political concern was to see that Japan did not become too powerful on the Asiatic mainland. This policy, according to some of the British on the China coast, was rendered more difficult by the expiration of the Anglo-Japanese alliance with the signature of the Four-Power Treaty at the Washington Conference. There is a growing opinion among the British in China that Great Britain made a serious error in relinquishing the influence over Japan which the Anglo-Japanese alliance gave her.

Britain has been handicapped in her Far Eastern policy since the war by the internal political conditions in England. It has been clear, for example, that the anti-war reaction following the Peace Treaty, together with the anti-imperialist ideas of the Labor party, have made it difficult for Great Britain to take any action in China that might involve the use of force. This has, of course, been well-known to the Chinese who have

not failed to take advantage of it in order to serve their own interests. The gunboats have been kept on the Chinese rivers, and a small detachment of the British fleet has remained in Chinese waters. These have only been used, however, in rare cases when it was obvious that there would be no opposition to them sufficient to make an actual conflict likely. This new tendency was manifested at the time of the firing on the Island of Shameen at Canton in June, 1925. The British Consul General, Sir James Jamieson, was urged by many of his compatriots on Shameen to use the gunboats to bombard Canton. They felt, even as do many still today, that if this had been done there would have been no further trouble with the Chinese. Sir James, however, not only was wiser in his knowledge of the Chinese than were his critics, but also had to consider home politics. He realized that the temper of the Chinese people was different in June, 1925, from what it had been during the previous decade, and that drastic action might be answered with violence. He knew that sufficient force did not exist to meet this violence, and that unless the Chinese were instantly crushed, it might develop into a new war which most certainly would not have the support of the British Foreign Office. In other words, he perceived that the day of the gunboat policy in China was ended.

Many of the "old China hands" who feel that the gunboat policy is obsolete, as well as those who believe in using force, are secretly resentful of the determination of the British Government to work closely with the American Government. They feel that the United States is not sufficiently well informed about Chinese affairs, and that the State Department is too much under the influence of the missionary element. They resent the fact that the missionaries tend nearly always to accept the suggestions of the Chinese Nationalists, and that on numerous occasions they have unconsciously played the game of Soviet Russia against Great Britain in China.

The first signs that Russia was again looking towards Asia, and that the foreign policy of the Tsars had become the foreign policy of the Commissars, were not apparent till 1922. The old Russian ambition of dominating Manchuria and being the preponderant power in Peking was then again manifested. The Bolshevik leaders, having failed to stir up revolutions against the governments of Europe, decided to try to undermine these governments by striking at them through their colonies. This

meant fomenting trouble in India and the overseas possessions. Two years later, the astute Mr. Joffe, Russia's representative in China, conceived the idea of utilizing the unrest in China for hampering Great Britain's trade in China. He knew that the Chinese markets were one of the most important outlets for British goods, and that an effective blow to British trade in China would surely be felt in England. A situation thus arose in which the interests of the Russians and the new Nationalist group in China coincided. The Russians played their part with considerable skill and vigor, and so long as it was to the interest of the Chinese to help them were successful. Their principal weapon was anti-foreign propaganda, but skillful as they were in using this, they failed to see that in the long run it would become a boomerang and work against them as well as against other foreigners.

The existence in China of a small but loud-mouthed group of young Chinese, imbued with the western conception of nationalism, played into the hands of the Russians. Foreign observers in China differ as to whether or not this nationalism is more than a new form of the age-old contempt for all foreign barbarians. English and Americans — more particularly the missionary elements — have, during the quarter century since the Boxer troubles, been inclined to believe that the modern Chinese are no longer hostile to foreigners as were their ancestors. This impression is due largely to the fact that until a year ago there were few active demonstrations against foreigners. During this period there was a marked tendency on the part of the young Chinese to go to the mission schools, and to study in England and America. This was taken by the complaisant foreigners to mean that the Chinese at last realized that European and American culture was superior to their own. It is undoubtedly true that a small group of Chinese foreign students were convinced that the salvation of China lay in adopting and adapting the culture of Europe. They therefore pretended to ignore and look down upon the old Chinese culture. In the last two years, however, the swing has been in the other direction. A movement is on foot to revive and modernize Chinese culture, and with it has come a new scorn and bitterness towards the western peoples.

This latent hatred which had the sanction of age-old tradition made it easier for the Russians to spread the catchwords of western radicalism among the Chinese. They encouraged the

use of such terms as "foreign imperialism" and "unequal treaties," and did what they could to stimulate bitterness towards the foreigners. It is a safe statement that not one Chinese out of one hundred thousand who rejoices in denouncing "foreign imperialism" has the remotest idea of what he is talking about. Furthermore, when he speaks of "unequal treaties," he imagines that China in some past age had been virtually enslaved by the foreign powers, and that, if the treaties made with these powers are torn up, all of China's troubles will disappear. He ignores the fact that most of the stipulations in these treaties which he has been told are "unequal" were inserted by the European powers as concessions to the policy of the old Imperial Chinese Government of keeping the foreigners out of China. He forgets that the foreign "settlements" were granted to the foreigners in order to isolate them from the rest of China. When the territory of Hongkong was turned over to the British by the Chinese in 1842, it was barren, rugged and inhabited only by a handful of Chinese fishermen. The story is told that the Chinese at the time prided themselves on their cleverness in giving the hated English barbarians this utterly worthless piece of property. In the case of the Shanghai concession, the territory turned over to the British and the other foreign powers was a piece of marsh land which even the poorest Chinese considered unfit to live on. On both these sites thriving cities were built and great sea-ports developed by the foreigners. It is not surprising that the Chinese of today covet these territories and feel that they should be handed over to China. Any Chinese Government that succeeds in getting them back will do a good piece of business for itself.

The Russians wisely sought to guide the anti-foreign propaganda primarily against the British. It was easier to concentrate the hatred of the Chinese on the British, as they had been longer in China than the other Europeans and were there in greater numbers. Furthermore, the British, in their individual relations with many Chinese, had given cause for bitter personal resentment. In some parts of China, notably in Canton, the anti-British sentiment was traditional and had been marked during the previous century by a number of serious clashes. Also, Great Britain was the country which had the largest and most successful foreign concessions within Chinese territory. In urging the Chinese to demand that these be handed over to

China, the Russians were appealing to the natural cupidity of the Chinese.

It would be a mistake to exaggerate the part that Russia has played in the recent attacks on Great Britain in China. It is commonly said on the China coast that she has spent from thirty to one hundred million dollars in propaganda, and that she has thousands of agents throughout the entire country. Although no accurate information is available, there can be no doubt that such figures are recklessly high. A small sum of money goes a long way in China. Furthermore, the Russians have very wisely used the only cohesive organization in China — the student body — to spread their propaganda. Owing to the fact that the schools have been badly paid in recent years, it has not been difficult to enlist the services of teachers, for a very small sum a month, who, in turn, encourage radical groups among the students in their general anti-foreign campaign. A few leaders, here and there, modestly paid, can do and unquestionably have done a great deal to cause trouble throughout all of China. It is doubtful, however, whether this work has cost the Russian Ambassador in Peking more than a few thousand dollars a month. To the credit of Mr. Karakhan, the present Russian Ambassador, and his predecessor, Mr. Joffe, it must be said that their campaign of influencing the students was shrewdly conceived, and for a long time shrewdly executed.

The exact part that the Russians played in engineering the strike in Shanghai in May, 1925, and in the subsequent shooting in Shanghai, and later in Canton, will probably never be accurately known. Circumstantial evidence points to their having been deeply interested in all three affairs. Certainly they used these incidents skilfully to their own advantage in stirring the Chinese against the British.

The Canton incident is probably the best single example of this Russo-English conflict in China and of its results. It will be recalled that following the Shanghai shooting on May 30, 1925, a strike was started in Canton against the British. As feeling was running very high, a parade was organized which was to march past the Island of Shameen, where the foreigners doing business in Canton live. The British Consul General, Sir James Jamieson, an old China hand, thoroughly familiar with the political leaders in Canton, foresaw that there might be trouble and warned the Chinese authorities that the parade should not be permitted to

pass along the Shakee Bund, as the street along the water front is called. His warning was ignored and when the parade took place on June 23, it filed past the Island of Shameen for a number of hours, and as one of the last detachments, including members of the so-called "Whampoa Cadets," which had been trained under Russians, passed the Island, shooting occurred and for about ten minutes the foreigners on the Island and the Chinese fired at each other. The Russians and Chinese insist that the first shots came from Shameen. Reliable British and American observers on the Island of Shameen have stated categorically that the first shots came from the Chinese. Aside from this testimony of men whose integrity and judgment cannot be impugned, the circumstantial evidence all points to the fact that the shooting was started from the Chinese side. The foreigners on the Island had nothing to gain from firing first; the Chinese and in particular their Russian advisers in Canton had a great deal to gain. If the popular ill-will against the British was to be kept alive in Canton, ocular proof must be given to the people of Canton that the British were indeed the harsh imperialists that the Russians had said they were, and that as such they would not hesitate to shoot down Chinese in cold blood.

The result played finely into the hands of the Russians. The Cantonese were greatly enraged, and willingly, and even enthusiastically embarked on the policy of boycotting effectively all British trade in South China. They refused to permit British articles of any kind to be brought into Canton, and forbade any ship which had even stopped at Hongkong, whether or not it was of British ownership, to land in Canton. In order to enforce these regulations, the so-called strikers' committees, which differed only a little from the councils of soldiers, sailors and workingmen of the Russians in Moscow, were armed and examined all goods after they left the Maritime Custom House, and seized those which they suspected of being of British origin. They also watched strictly against smuggling.

So effective was this boycott that a number of years will elapse before the merchants of Hongkong recover their losses. For several months after the boycott was started the business activities of Hongkong were practically paralyzed. The complete trade figures for Hongkong for the year 1925 are not yet available. Only those for the first three quarters of the year have been published. Inasmuch as the boycott did not start till the end of



June, this means that one quarter alone, namely the third quarter, gives any indication of the extent to which trade has fallen off. The drop in exports for this quarter was nearly 50 percent of the corresponding quarter in 1924, and the drop in imports a little more than 40 percent. The losses during the last quarter were estimated in Hongkong last February to be even greater. It was pointed out there at the time that the trade figures by themselves did not tell the whole story, as the losses on insurance, on shipping, and on goods in storage were, and would continue to be, very large. In the face of the obvious difficulties of making a correct estimate, it is impossible to suggest a definite figure to represent the actual money losses to the merchants and bankers of Hongkong. Recent reports from Hongkong indicate a steady return to more normal conditions. According to reliable estimates in Canton, the trade of that city declined only about 20 percent.

The effects of the Hongkong boycott have been felt by British interests throughout the Far East. The checking of importation into South China of cotton and other manufactured goods from England has had a repercussion on industries in the home country. From Borneo, Singapore, and other eastern possessions under the British flag have also come reports of serious curtailment of business owing to the fact that the South Chinese markets have been closed to British goods. Oil and lumber from Borneo were formerly shipped to Hongkong for distribution in the interior of China. The volume of trade in these articles was never very great, but from the point of view of the producing country, was sufficient to cause serious hardships when the South Chinese market was cut off.

The Chinese have resorted to the boycott as a weapon against foreigners in past ages. Only twenty years ago American goods were proscribed in China with serious resultant losses for some of the American concerns that did a large trade in China. Never before, however, has a Chinese boycott done so much damage, nor from the point of view of the Chinese, been so successful as this one. A spread of the boycott movement might do much damage to all foreign business in China. Its effects would probably be felt even by the missionary group.

Experience has shown that the missionaries nearly always have suffered from what may be termed by-products of the boycott. This has been notably true in Canton, where mission schools and



hospitals have been subjected to great inconveniences. The Canton hospital, for example, the oldest American medical mission in South China, was forced to close on March 12, 1926, by the high-handed procedure of the Canton Government. The trouble arose when Chinese agitators sought to force the Chinese employees of the hospital to join the Canton "miscellaneous workers' union." This was followed by a demand for an increase of about 40 percent in wages. Had the matter rested here it might have been peaceably settled. The agitators, however, sought to obtain control over the workers and to exercise the right of approving the employment or dismissal of any employee of the hospital. To this proposal the hospital authorities refused to acquiesce. The hospital management stated that the discharging and employing of workers was in the control of the hospital foreman, and that any protest which a discharged employee wished to make could be addressed to the Arbitration Association of the hospital. This, however, did not satisfy the union agitators, and as a result the Chinese workers of the hospital were urged by them to go out on strike. Pickets were placed at the doors of the hospital and neither persons nor supplies were permitted to be brought in. Shortly afterwards the water and electric connections were cut.

Upon the foreign staff of the hospital thus fell the entire care of the patients. The task was so formidable, and the difficulties of getting food and water past the pickets were so great, that there was no alternative for the hospital authorities but to close down. Inasmuch as this hospital had for nearly a century ministered freely to the needs of the Chinese people, and inasmuch as it was the Chinese patients and not the American and other foreign staff who suffered from the strike and boycott of the hospital, the impression of this incident on American missionaries and others in South China was deplorable. The Canton Hospital incident was followed by the closing down of the Stout Memorial Hospital at Wuchow. Furthermore, pressure was brought to bear on the Canton Christian College to force it to cancel the expulsion of student agitators, and other American schools and hospitals were threatened.

In this Anglo-Russian struggle in China, Great Britain has of course risked the greatest losses. Russia had practically no trade with China and had been forced to give up her territorial concessions and special interests following the war. Great Britain,

on the other hand, had hundreds of millions of dollars invested in China and in the China trade. She therefore suffered heavily when this trade was hampered and these interests paralyzed.

There have been many stories during the past year of Great Britain and Russia using various Chinese war lords for their own purposes. Plausible as are some of these tales, it is safe to discount most of them. The one most commonly repeated is that the British have been back of Marshal Wu Pei Fu and that the Russians have backed the so-called "Christian General" Feng Yu Hsiang. This story has rested on the assumption that Wu, controlling a large part of the great interior basin on the Yangtse in which British economic interests are still paramount, has naturally had financial aid from the British. Whether or not private British financial resources have been put at his disposition is impossible to ascertain. If they have been, it is doubtful whether Great Britain has received a fair return for her investment. Wu helped to drive out Feng, but there is no reason to believe that this could not have been accomplished by Marshal Chang Tso Lin of Manchuria, unaided by the troops furnished by Wu. In other words, although it was clearly to the interest of the British to see Feng driven out of Peking, there is every indication that this objective could have been accomplished without any interference of any sort on their part.

The case of Feng is clearer. The Russians openly boasted that he was "their man," and reliable eye-witnesses reported during the last eighteen months seeing truck trains of ammunition being brought across the Gobi Desert to the neighborhood of Kalgan. As the leader of the Kuominchun party of North China, which is allied with the Kuomintang party of Canton, which in turn is actively supported by the Soviet authorities, Feng had had close relations with the Russian leaders in China. Furthermore, it was his troops, acting under the direct inspiration of Karakhan in Peking, who fortified the Taku forts off Tientsin early in March, 1926, and endeavored to blockade the port of Tientsin in violation of the special stipulations of the treaties made between the foreign powers and China at the close of the Boxer uprising.

The failure of this effort to control the approaches to Tientsin marked at the same time the beginning of the decline of Feng and of the influence of Karakhan and the Russians in North China. The Powers, it will be recalled, issued an ultimatum to

the Chinese Government on March 11, demanding that the troops be withdrawn from the Taku forts and that these be dismantled. The Soviet representatives in Peking sought to stiffen the Peking Government, dominated by Feng, to resist this latest act of "aggression" by the "hated imperialist powers." The crisis, as a matter of fact, was much graver than the outside world has yet realized. Had Feng refused to accede to the demand of the Powers, they would have been put in a most embarrassing position and serious trouble might well have been started. But as Chang Tso Lin's troops were already beginning to advance on Feng's troops, the "Christian General" decided to accede to the demand of the Powers. His supporters not only dismantled the Taku forts but at once started to retreat through Peking to Kalgan. Thence Feng fled across the Gobi Desert to the Trans-Siberian railroad and Moscow.

While the Taku incident was being settled, the Russians sought to encourage the students in Peking to demonstrate against the leaders of the Peking Government. They were met with machine guns, and about forty students lost their lives. The efforts of the Russians to turn the blame upon the "imperialist nations" for this ruthless act of the Chinese authorities did not succeed. Instead, the Chinese papers took the attitude that the student riots had already exceeded the bounds of usefulness and propriety, and blamed the Russian agitators for having incited the students to lawless activities. About two weeks later came the news from Harbin that the Chinese municipal authorities had decided to take over the government of the Russian section, which had retained control of the municipal organization in spite of the relinquishment by Russia of extra-territoriality and other special privileges in China. Coming after the Soviet ultimatum to the Chinese Government demanding the release of the Russian manager of the Chinese Eastern Railway who had been arrested by the Chinese, these incidents seriously damaged Russia's prestige in China. A few weeks later a number of the principal Russian agitators in Canton were expelled, and the general impression throughout China was that the Bolshevik influence, for the moment at least, was failing.

As has already been pointed out, Russia's great weakness in attempting to carry out her China policy is that her only weapon is propaganda. This weapon, to be sure, she has used with exceptional skill. It is not powerful enough, however, to enable

her successfully to combat policies which rest on large trade interests or on strong military power.

Despite the weakened military prestige of Great Britain in China, she derives great strength from the fact that the Chinese need her products. So long as Britain can prevent other nations from winning her markets in China, the Chinese will be compelled to compromise with her. It is the knowledge of this fact which has made the British always so insistent on coöperation between the foreign powers in their attitude towards China. This has been particularly true in the case of the Hongkong boycott. The British have resented bitterly the fact that America and the other nations refused to join her in boycotting Canton in return for the Hongkong boycott. Not only have they felt that this would have ended the trouble immediately, but they have seen the Japanese, the Scandinavians, and nationals of other countries entering markets in Canton and elsewhere in South China where formerly British trade had been supreme. The British do not want to lose any of this trade permanently, not only on account of its inherent value, but because of its importance in Great Britain's political policy in the Far East.

Although in no country is the venture of prophecy so hazardous as in China, yet it may be stated that there are in China today two tendencies — first, the gradual weakening of British economic and political supremacy in China, and the concentration of Great Britain's interests west of Singapore; and second, the advance of Russia on Manchuria and North China, strangely parallel to what was taking place prior to the Russo-Japanese War. Both of these tendencies will be hastened or delayed by the development of the so-called Nationalist movement in China and by the activities of Japan on the Asiatic mainland.

Russia still dreams of dominating North China and of ultimately being able to force the hated British out of Asia. Russia's rôle, therefore, is fundamentally an aggressive one. For Great Britain the great problem is to know how to hold what she already has.

# THE RECONSTRUCTION OF HUNGARY

*By Sir Arthur Salter*

ON June 30th the two tasks of financial reconstruction undertaken by the League of Nations, in Austria and in Hungary, were brought to a successful and simultaneous conclusion. In that month the Council was able to certify in each case the attainment of an assured financial stability, and the appointments of Dr. Zimmerman in Vienna and of Mr. Jeremiah Smith in Budapest came to an end.

Two years ago, in June, 1924, I had the privilege of describing in these pages the task first undertaken, the reconstruction of Austria. The corresponding work in Hungary, though concluded on the same date, was begun eighteen months later.

In this second task of the League the central figures have been those of the Prime Minister, Count Bethlen, and the Commissioner-General, Mr. Jeremiah Smith, Jr., of Boston. The original framing of the scheme on sound lines, and its negotiation through the difficulties which beset its adoption, was a collective work in which the members of the Financial Committee and other organs of the League coöperated. But its successful, and above all frictionless, application is due very largely to the qualities and personality of the Commissioner-General. The Council at its June meeting paid a deserved and appropriate tribute. "At the moment," runs the resolution, "when the Commissioner-General is about to leave his office, on the successful accomplishment of his task, the Council desires to express to Mr. Jeremiah Smith, Jr. its deep appreciation of his work. The rapid completion of his task at the date contemplated in the original programme is due in no small measure to the personal qualities he has shown — to his disinterested devotion and his sound judgment. The Council desires to express to him and to his collaborators its gratitude for the services they have rendered."

The decision to terminate the office of the Commissioner-General in Budapest at the end of June was of special interest for several reasons. Not only did it mark the conclusion of the work at the earliest date contemplated in the original scheme, but it was taken at the height of the political excitement which had been roused by the franc forgeries in Hungary. Doubts have sometimes been expressed as to whether the technical execution of the

League's financial reconstruction schemes might not be interfered with by general political considerations. No severer test could have been found than the submission to the Council of the question of withdrawing the Commissioner-General at the time when the indignation against the franc forgeries was at its height in France and in Czechoslovakia. It is worth recalling, therefore, that the decision to end his control was taken unanimously by the Council (which included French and Czechoslovak members), on the unanimous recommendation both of the Financial Committee (which also included French and Czechoslovak members) and of a political Committee which included representatives of France, Czechoslovakia, Rumania and Jugoslavia.

## II

The importance of extending to Hungary the advantage of stable financial conditions which, by the end of 1923, had already been enjoyed for a year by Austria, needs little emphasis. Experience had shown the political advantages of stability in Austria, and the situation of Hungary is even more vital. Her internal conditions and her relations with her neighbors, especially Czechoslovakia, Rumania and Jugoslavia, are the crucial factor in the political situation of south-eastern Europe.

And in 1923, Hungary was well on the way to the collapse which a year earlier had threatened her neighbor. Her budget was unbalanced. Expenses largely exceeded receipts. The deficit had been met by inflation. Her crown had fallen, was still falling, and indeed ultimately reached an even lower point than the Austrian at its worst. Meantime this diminished value of the crown reduced the value of taxation receipts, and thus increased the budget deficit and the need for new inflation. Her finances proceeded from bad to worse in the vicious circle so familiar in the finances of Europe during the post-war years. And the whole of her economic life, deprived of a sound financial basis, was crumbling and rotting.

The problem was thus, in essentials, the same as that presented a year before by her neighbor and, as we shall see, the solution adopted was in its main features also the same. The similarities must not, however, blind us to some very striking contrasts between the situation and recent history of the two remnants of the old Austro-Hungarian Empire which have been restored by the League.

The new Austria, although with more agriculture and forestry



than is generally recognized, has in her great capital of Vienna a concentration of population dependent upon banking, trade and industry, which were originally adapted to the requirements not of a small country but of a great empire. She is far from self-sufficient, and the bulk of both her food supplies and her raw materials require to be imported from outside her new frontiers. Hungary, on the other hand, is more than self-sufficient in the prime necessities of life. One result was that the fall of the currency which, by depriving Austria of her ability to import, menaced her with imminent starvation, was less catastrophic for Hungary. The fall of the Hungarian crown was less rapid, the immediate consequences less serious. Ultimate disaster was indeed inevitable, if the fall were not arrested, but there was more time to act.

Nor did the structure of the new Hungary cause such peculiar and special difficulties. The new Austria was an amorphous fragment of the older Austria, with a capital including nearly a third of the total population, with frontiers whose new tariffs formed barriers between her urban populations and their food, between her industries and both their raw material and their markets. The new Hungary, though reduced to a third, retained her essential character and configuration. Her population and resources were alike reduced, but she remained capable of much the same economic equilibrium. Partly as a result of this, and partly as a result of a difference in national temperament, Hungary retained a strong sense of nationalism which, if it added to her political difficulties, stiffened her efforts at restoration.

The histories of the two countries in the years succeeding the war reflected these contrasts. Before the social upheaval the more pliant Austria bent; there was no violent clash. The Left, the Social Democrats, for a time assumed power. They were succeeded by the bourgeois party, the Christian Socialists, who for over four years now have governed the country with the aid of small minority parties, the Left Opposition throughout this period comprising nearly half the Chamber.

The history of Hungary, with an intense national feeling and a less pliant population, was very different. The movement of social unrest found its expression not in a political capture of the reins of government, but in revolution. For four and a half months Bela Kun ruled with the methods of Red Terror. The reaction was equally violent. The Rumanian army marched in. The Hungarian Right resumed power; a White Terror succeeded the



Red. When order was restored, Hungary had a strong, competent and drastic Government.

For a time the contrast in the financial history of the two countries was no less striking. Austria's difficulties were from the first obviously too great for her unaided strength. Over \$125,000,000 of public loans, mostly in the form of relief credits, were used on current consumption and no real financial reform had preceded the international action of 1922. Hungary, on the other hand, made a remarkable effort to restore her finances without external aid. Her relief credits were only a fiftieth of the Austrian. Her courageous but misguided Finance Minister, Hegedus, made a really heroic attempt to balance the budget and restore the currency. He failed for three reasons. Hungary had been weakened and disorganized not only by the war but by the subsequent revolution and foreign occupation. She was burdened not only by specific debts but by the weight of an indefinite and unassessed reparation obligation. And, lastly, Hegedus tried not only to stabilize but to increase the value of the crown. No country could have stood the strain of such an impossible and misdirected effort. Failure was inevitable and it made any renewed attempt more difficult. It is my personal conviction that if the reparation charges had, two years earlier, been assessed at the amounts at which, under pressure of the reconstruction scheme, they have now been fixed, and if Hungary had aimed not at the appreciation but at the stabilization of the crown, she would have restored herself. No international action, no external loan, no external control would have been necessary. The incidental results of the reconstruction scheme, however, especially those of a political character, have, as we shall see, been so valuable that it is difficult to regret the past.

### III

The crucial difficulty in the Hungarian case was the political situation. Technically, the task was much easier than the one which Austria presented. There the country was in actual collapse; starvation and dissolution were immediately threatened. There was no confidence in the country or outside in her recuperative power. The scheme produced was an untried experiment; the League itself had no record of achieved success in financial reconstruction. But when the Hungarian task was begun the principles of financial reconstruction were no longer theories;

they had been tried in practice. Those who had applied them enjoyed the credit which Austria's recovery had given them and were able to use it to launch a new scheme.

But there was one obstacle to Hungarian reconstruction which had no analogy in Austria. Towards the latter there had been a genuine and general good-will. No one feared a restored Austria. But several countries speculated with doubt and anxiety as to Hungary's probable attitude when conscious of her new strength. Now the League, by its constitution, can only undertake such work as this if there is unanimous agreement in the part of all the countries specially interested. And in this case these countries included not only Hungary herself and the Great Powers, but Czechoslovakia, Rumania and Jugoslavia. I need not dilate on the long, difficult and intricate negotiations which preceded action. Those who are familiar with the political position in central and south-eastern Europe in 1923 will realize what an achievement in international conciliation was marked by the unanimous adhesion of all the above countries in the winter of that year to a scheme designed to reëstablish and strengthen Hungary. During these earlier negotiations the necessity of securing unanimity was a hard, and it often seemed an impossible, condition. But it proved an extremely valuable one. If the political obstacles to agreement were great, the political fruits of agreement were correspondingly valuable. For years a host of unsettled differences had poisoned the relations between Hungary and her neighbors. The feeling between the countries was such as to make even discussion difficult to arrange. Both Dr. Beneš and Count Bethlen, for example, had long recognized that a personal meeting between them was desirable. But if Dr. Beneš had gone to Budapest, he would have had political difficulty in Prague. If Count Bethlen had gone to Prague, he would have had difficulty in Budapest.

The reconstruction scheme gave just the impetus, the time, and the material opportunities for negotiation that were required. Everyone knew that reconstruction could not begin until every interested country agreed; that this condition could not be realized until the outstanding disputes had been settled; and that it must begin soon, if it was to begin at all, or the confidence on which an external loan depended would be destroyed. Moreover, the meeting of the Assembly afforded the ideal opportunity, and a favorable atmosphere, for the negotiations. Both Dr. Beneš and Count Bethlen, as well as representatives of the other negotiating

powers, were at Geneva for a month as members of the Assembly. Being there for this purpose they had the opportunity of meeting frequently and quietly for long and intimate discussions. The League, as everyone knows, assures the world of publicity for the last stage of negotiations and for all conclusions and decisions. It is not so generally recognized that it also affords new and very valuable opportunities for the confidential conversations which are often the indispensable preliminary to international agreement. With these advantages the negotiations, protracted or renewed throughout the winter of 1923-1924, were at last concluded. Willingness to sign the Protocols was a barometer of good relations; and on March 14th, 1924, when they were ultimately signed, the glass stood higher than at any time since the war. "There were," said Count Bethlen at the Assembly of that year, "at least a hundred questions outstanding between us and . . . there were nearly as many disputes as questions. Most of the questions have been settled and the disputes removed."

## IV

The scheme launched with such difficulty may be briefly described. It is based on the same principles as the Austrian. Inflation was at once stopped. The monopoly of note issue was transferred to an independent Bank of Issue. A scheme of administrative reform designed to give permanent budget equilibrium by June 30, 1926, was enforced. Reparation charges were fixed at a moderate figure. In order to meet budget deficits during the period of reform (since inflation was stopped at once and was no longer available as a means of meeting them) a reconstruction loan was raised. This loan was secured on certain Hungarian revenues (customs, tobacco, salt and sugar) specifically assigned and controlled. The whole scheme was placed under the control of a Commissioner-General appointed by and responsible to the Council of the League. As a basis of confidence the technical Protocol was supplemented by a political Protocol in which all the countries interested undertook to preserve the political independence, territorial integrity and sovereignty of Hungary.

Lastly, the scheme was clearly limited to that of financial reconstruction. "The Financial Committee," so runs their Report, "has no hesitation in recommending that, as in the case of Austria, any financial operations for which the League undertakes any responsibility should be definitely and expressly limited to

remedying the budgetary, and therefore the financial, position. . . . It is true that the Hungarian trade balance needs improving; but the necessary economic adaptation must be effected by Hungary herself. The essential contribution of the proposed scheme is to give a stable basis on which this adaptation can take place."

It is interesting to notice the differences between the two plans. In the first place, Hungary's case was less desperate. The loan required was only 250,000,000 as compared with 650,000,000 gold crowns. Partly for this reason, partly because of her more solid agricultural basis and more stable conditions, partly because of the confidence in the League's methods of reconstruction acquired through the Austrian experience, it was possible to issue the loan without the guarantees of external governments, the obtaining of which had been the most difficult part of the Austrian task. Experience also enabled improvements in detail to be made. It was provided that there should be a Bank Adviser for a limited period; that Trustees of the loan should be appointed; that after the Commissioner-General's office and the control of the budget had been terminated the assigned revenues should be under the control of the Trustees, but that if things went seriously wrong, his office, with his powers over the budget, could be re-established. All these improvements have been introduced into the Austrian scheme by subsequent agreement.

## v

The most interesting difference, however, between the Austrian and Hungarian schemes is to be found in the provisions about reparation, for the arrangement made for Hungary foreshadowed in some important respects the solution of the German problem.

With Austria the position was simple. No one expected, at any rate within any period near enough to be important, that she could pay anything.

The Hungarian position was very different. Disorganized as were the country's finances for the moment, it seemed possible that she would be in a position to pay substantial sums in a few years' time. Not only did her reparation creditors feel this strongly, but some of them were nervous as to the uses to which she might devote her restored finances. Her anxious neighbors felt, not without reason, that it was hard to ask them not only to sacrifice their treaty claims on her but in doing so to make a

possible enemy free at a later date to turn her liberated resources to preparations against themselves. And behind these local considerations was the preoccupation of other reparation countries as to the effect upon the German settlement of another abandonment of reparation. The Dawes Committee was about to meet. Germany's finances too were in disorder. She too would need an external loan and reconstruction. Was the doctrine to grow up that external loans to aid in reconstruction implied an abandonment, or long postponement, of reparation? On the other hand, there was the greatest reluctance on the part of some of those without whose aid a reconstruction loan could not be successfully issued to agree to its being used directly or indirectly for reparation.

This difference of view proved the most difficult part of the negotiations. The solution ultimately gave some satisfaction to both points of view. Reparation payments were not excluded altogether, but were fixed at a most moderate amount. The total demands in respect of treaty payments, including not only reparation but restitution, costs of armies of occupation and armistice obligations, were limited for a period of twenty years to an annual average of 10 million gold crowns. But the most interesting and novel feature is the provision that reparation payments are to be made in Hungarian crowns, and are only to be converted into foreign exchange so far as such conversions are compatible with the maintenance of the exchange value of the crown. This principle, included in the Hungarian scheme published in December, 1923, was the precedent for the famous "Transfer System," technically the most interesting feature of the Dawes Plan.

## VI

The execution of the plan can be rapidly described. It is a tale of rapid and unqualified success. A League delegation went to Budapest in March, 1924. The detailed budget program was agreed. The Bank of Issue was constituted under statutes approved by the delegation. The necessary legislation was passed strictly in accordance with the schedule. The loan was successfully raised. The Commissioner-General, Mr. Jeremiah Smith, Jr., was appointed and began his control on May 1st, with the assistance of a small but most able staff, consisting of Mr. Royall Tyler (American, Deputy-Commissioner-General), Mr. H. A. Siepmann (English, since Bank Adviser to the National Bank), M. Charron (French) and M. Licon (Italian).

The Hungarian crown was at once stabilized, but in relation not to the dollar but to the pound sterling. It has remained stable in relation to the pound throughout the period, has appreciated with the pound, is now on a gold basis and is strongly secured. Confidence in continued stability has been marked by recent legislation for the introduction of a new standard coin, the "pengo" (equivalent to 12,500 paper crowns), directly based on gold, which will come into use at once and will become sole legal tender in 1927. All restrictions on transactions in foreign exchange have now been removed, and a recent law has established the principle that all balance sheets of banks, industrial and commercial enterprises will be shown in terms of the pengo, that is, on a gold basis. The same confidence is reflected in substantially cheaper rates of money. The discount rate of the National Bank, which at the end of 1924 was  $12\frac{1}{2}$  percent, fell to 9 percent in October last and is now 7 percent, and general interest rates show a corresponding reduction.

This monetary position would have been impossible, or precarious, if in the meantime the budget had not been placed on a sound basis. This has been attained solely by an increase in the yield of the revenues. While some economies in expenditure have been made they have been offset by other necessary increases; a net reduction would have been impossible and was never contemplated in the original scheme. The remarkable increase in the receipts may be illustrated by the revenues assigned as security for the loan, which in the last financial year gave, and are still giving, a yield of approximately eight times the amount required for the annual service charge.

The total achievement is astonishing. The budget was in chaos at the beginning of 1924. League control started in May of that year. The loan was drawn on for expenditure in the early months. But the closed accounts of the financial year, July 1, 1924 to June 30, 1925 — for which a deficit of 100,000,000 gold crowns had been provided in the loan — showed instead an actual surplus of 90,200,000 gold crowns. The following financial year, ending in June last, again showed a surplus of about 60,000,000 gold crowns. These surpluses exceed the deficits of the first few months of reconstruction. Thus, taking the period of reconstruction as a whole, we have the astonishing result that the ordinary receipts of the Hungarian budget will have been more than sufficient to meet all its ordinary expenditure, including the service of the loan itself.



The whole of the loan, therefore, designed to meet deficits during this period, will in effect have been available either to increase Hungary's productive resources by capital investment or as a reserve for the future. As the experience in Austria has not been very different, we draw the interesting conclusion that these reconstruction loans, raised specifically for the purpose of meeting budget deficits in the interval between the arrest of inflation and the attainment of budget equilibrium, are scarcely needed for this purpose. They serve the useful, and indeed indispensable, purposes of clearing up the errors of the past, of restoring confidence, of supporting the currency by the influx of foreign exchange, and of increasing the permanent resources of the country by capital investment. But the budget balances itself almost at once, however large the previous deficit, with the aid of restored confidence, of stabilization of currency and the consequent stoppage of the loss to Treasury receipts in the interval between assessment and collection, and of improved administration stiffened by external control. The recuperative effect of stabilization in disorganized countries has largely exceeded the hopes of the most sanguine experts, whose optimism was greeted with general scepticism three years ago.

## VII

A few words will suffice as to the economic position. As I have explained, the League's specific effort has been directed to providing a solid foundation for economic development by the reform of the currency and public finances. It remains true, however, as the Financial Committee recognized, that "Hungary cannot be in a sound position until both her budget and financial position and also her trade position are satisfactory. She must not only meet her public expenditure by taxation but she must produce (and dispose of) as much as she can consume." The economic position has, therefore, been carefully studied in both Hungary and Austria.

Hungary has never suffered from the graver anxieties which have sometimes been felt as to the possibility of economic recovery in Austria. The only question has been, not whether she could live, but at what level of prosperity.

The progress during these last two years is at least encouraging. Agricultural production has not yet reached, but is rapidly approaching, a pre-war level. Foreign trade in 1925 showed a

notable improvement over 1924, imports increasing by 5 percent and exports by 16 percent. The visible adverse balance has fallen during the same period from 98,000,000 to 51,000,000 gold crowns (Hungary has always had an adverse showing on her visible trade balance). Her population is increasing and may sometime cause difficulties, but over-population does not constitute a serious problem either of the present or any calculable future. Taxation is heavy for a country where the population is agricultural, amounting probably to something between 14 percent and 18 percent of the total national income. But this is not an intolerable burden, it can hardly be said to be repressive to economic development, and the budget position indicates a prospect of relief.

It remains true, of course, that the tariff policy of central Europe and of Hungary herself renders her level of prosperity less than the maximum she should attain with her national resources and the capacity of her people. The advice which the Financial Committee gave in their original report they have never ceased to repeat whenever they have since reviewed the situation. In this sphere there is still much room for improvement. The principles advocated are of such importance not only for Hungary but for the whole of Central Europe (and perhaps for other parts of the world, too) that I venture to quote the passage to which I refer.

“The most vital thing for Hungary is that she should achieve the best production of — and find markets for — the products for which her natural resources and her national aptitudes best fit her. To the extent to which she diverts her resources in labor and in capital to producing what can be more cheaply obtained from abroad at the expense of what she can produce better than other countries there must be a net economic loss.

“We notice, for example, that her agricultural production and to some extent the industries based upon it are far from attaining their full development, and that markets for her surplus (particularly of wine) are not available; while, on the other hand, she is developing certain new industries which have no affinity to her natural resources. We wish to point out that, while we realize the many factors involved in the problem, the development of such industries in this way must necessarily have the triple result of diverting capital from her main production (where it is urgently needed), increasing the cost of living (with reactions on the whole of her economic life, includ-

ing the power to export), and increasing the difficulties of negotiating commercial treaties which are needed to secure markets for her most valuable produce.

"So far as Hungary develops a policy of producing (by artificial aids) for her own consumption those goods for the production of which she has no natural advantages, she must necessarily make it more difficult for herself to dispose of the surplus of what she can produce better and more cheaply than her neighbors and with greater advantage to herself."

#### VIII

There are several points of special significance in connection with the two great experiments in international reconstruction in Austria and Hungary.

Excluding Russia, where the conditions are so different as to make comparison difficult, the only countries whose currency fell to less than a thousandth part of its original value were Austria, Poland, Hungary and Germany. None of these has yet succeeded in restoring itself except in conjunction with an international scheme and an external loan. Hungary made an heroic effort and failed. Poland made a much more effective attempt. She followed closely the Austrian model but she had neither the international coöperation, the international loan nor the internal and external confidence which follows from them. And for want of them, though it looked for more than a year that she was achieving her aim, she has not yet succeeded. Austria and Hungary have been restored, as we have seen, through League action. Germany could doubtless have restored herself, had she been relieved of reparation, but with that burden upon her, international action and an international loan, closely following the experience of Austria and Hungary, were essential. For it is evident that the stabilization of the Rentenmark, though achieved for the time before the Dawes settlement, could not have been maintained without it.

Some of the countries, though unhappily as I write some only, whose currencies though depreciated were never disorganized, have achieved a practical stability. But the efforts would have been vain, or at least much more difficult and precarious, if the currencies which had been not merely depreciated but also disorganized had not been restored, and restored as they could only be by international action. And in this action the League took the lead and offered the model in Austria and in Hungary.

## BRITISH POLICY IN THE MEDITERRANEAN

*By Sir Frederick Maurice*

NO discussion upon foreign affairs can be properly staged unless amongst the properties there is a bogie. The wise producer keeps a stock of bogies. Sometimes, just as a fortunate star of musical comedy continues to rule the stage long after voice and figure have lost their first freshness, there is no doubt as to which is the right bogie to have ready for the dénouement; at other times the breeze of public favor changes rapidly. We are for the moment at the latter stage.

For long years the British impresario had no reason to hesitate. Russia was the supreme bogie. Every time that a grey-coated soldier appeared a few miles nearer to the frontier of Afghanistan, there was "an incident." Every time a new scheme for the extension of the Russian railway system into Central Asia was projected ominous conclusions were drawn. Even when the colossus of Europe was checked by Japan in 1904 and 1905, there was but a temporary disappearance of the Russian bogie, for in 1906, when Lord Kitchener was commander-in-chief in India, he based his plan for the reorganization of the Indian army on the probability of a great Russian advance through Afghanistan the details of which were worked out by his staff in an elaborate war game.

Then suddenly the promulgation of the German naval laws changed the situation, though Germany never had, until quite a short period before the outbreak of the Great War, the prestige as a scare-monger which Russia had so long enjoyed, and many who would willingly have voted millions to prepare for a war against Russia hoped to the last that Great Britain would not be involved in a quarrel between France and Germany.

Now after the war the search for the right bogie has become more difficult. Attempts to re-dress the old favorites have not been too successful. Much talk of Germany's secret armies and secret armaments has not been taken seriously by a public which knows that Germany has but an insignificant fleet and no military air force. For a time Russia re-appeared in an entirely new costume, but however seriously her sinister political activities

may be taken, the memory of her lack of military material during the war and the knowledge of the extent of her disorganization has prevented her from holding the front of the stage in the rôle of a military menace to the rest of Europe.

So Germany and Russia were returned to the wardrobe ready to be produced again when wanted, a complete change of scenery was provided, the European and Eastern sets were stored away, and the curtain was rolled up to display the Far West judiciously mingled with a touch of the Far East. Kipling was to be proven to be a false prophet and East and West were to meet in the Pacific. Japan the inscrutable appeared to be well suited to the part of bogie. Then came the Washington Conference and the Pacific pacts. Japan was found to be making serious reductions in her military forces, and it began to be doubtful if she would long hold the public eye. It seemed wise to have another change of scenery ready and to look for another star. So rehearsals for presenting the Mediterranean with an entirely new cast are in active preparation.

The new production promises to present to us many old friends in a new guise. When at the end of the Great War several crowns came toppling down, we were assured that imperialism and autocracy were dead. But autocracy has reappeared in a new form, and nowhere more prominently than on the shores of the Mediterranean. Italy, Spain, Greece and Turkey are dominated by autocrats.

Signor Mussolini's press speaks of *Mare nostrum* in a tone reminiscent of "My German Ocean." There is talk also of an Italian "place in the sun." The African shores of the Mediterranean are indicated as possessing the requisite degree of warmth and light, with Malta as a convenient half-way house to the promised land. Il Duce's visit to Tripoli has reminded more than one observer of the Kaiser's trip to Tangier. The agreements which he has recently concluded with Yugoslavia and Greece have been hailed as a triumph for Italian over French diplomacy, until recently supposed to be dominant in those quarters. Certainly when we remember the bombardment of Corfu and we see that Greece has conferred an important decoration upon Mussolini, we cannot but be aware that remarkable changes are taking place in the Mediterranean. What do they portend?

First let us see what those things are. In the years when Russia was for Great Britain the supreme bogie, the principal British

fleet was stationed in the Mediterranean. The object was to secure communication with India and the Far East, and the apprehension was that Russia issuing through the Dardanelles would attack in flank. It was this apprehension which caused Lord Beaconsfield to send the British fleet to Constantinople in 1878, when Russia after a prolonged struggle had driven the Turkish armies into the lines of Chataldja. He said to Russia "no further," and Russia exhausted by war agreed. It was this same apprehension which caused Beaconsfield to purchase Cyprus from Turkey and Ismail Pasha's shares in the Suez Canal. The former has proved a less fortunate investment than the latter, for war has shown that Cyprus is entirely unsuited for the purpose for which it was acquired, as a base from which to watch the Dardanelles. In those days British policy was directed to encouraging Turkey to keep the Dardanelles closed to war ships, and to prevent Russia from acquiring Constantinople.

"We don't want to fight, but by jingo, if we do,  
We've got the ships, we've got the men, we've  
got the money too.  
The Russians shall not have Constantinople!"

was the popular chorus of the music halls.

The Great War brought a complete reversal of this policy. An agreement was signed with Russia, who had become an ally, that her advance to the Bosphorus and the Dardanelles would be approved. The collapse of Imperial Russia cancelled this agreement but not the reversal of British policy, which directed its efforts in the peace settlements to getting the Dardanelles opened and demilitarized. A Soviet fleet was not regarded as a menace to sea communications.

When in the years preceding the Great War Germany took Russia's place as the bogie, the battle fleets of Great Britain were concentrated in the North Sea. France, having concluded the Entente with Great Britain, then concentrated her fleets in the Mediterranean for the purpose of assuring her communications with North Africa. Now after the war the principal British fleet is once more in the Mediterranean and the disposition of the French fleet has not been materially changed. The consequence is that there is today a greater display of naval strength in the Mediterranean than there has been in all the varied and adventurous history of the sea.



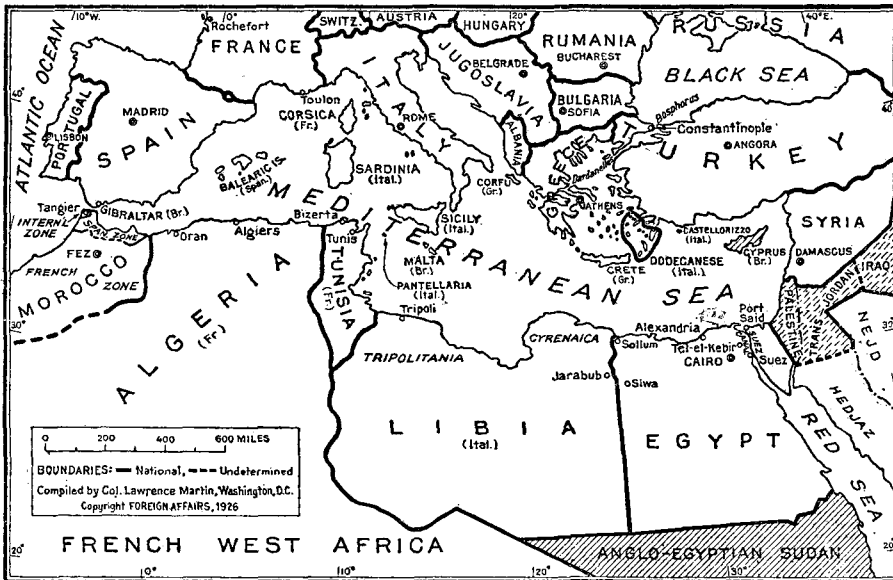
France has enormously increased her possessions in Africa as a consequence of the war, and communication across the Mediterranean has come to be of greater importance to her than ever, therefore the tendency has been to reduce the naval stations on the Atlantic — L'orient and Rochefort — and to develop Toulon and Corsica and those on the north coast of Africa — Bizerta, Oran and Algiers. France's African possessions including Morocco and her mandated territories now comprise an area of more than 3,500,000 square miles, and include a population of 36,000,000, an increase since the war of about 400,000 square miles, and in Syria she has a further addition of 60,000 square miles. She has therefore more than sufficient to occupy her powers of development and the distribution of her fleets connotes no desire for further expansion.

Great Britain's return in strength to the Mediterranean is for the same reason which caused her to be strong there in the years before she withdrew into the North Sea to maintain her communications with the East. When her battleships first re-visited Malta the Allies were in occupation of Constantinople. There followed the rise of Kemal, the ejection of Greece from Asia Minor, and the crises which developed into the deposition of the Sultan and the entry of the Turkish Republic into Europe. The Allies, pre-occupied with the settlement with Germany and unable to agree as to a common policy in the Near East, had let things drift and so lost their opportunity of settling the age-long question of the control of the Bosphorus and Dardanelles. The new Turkey, flushed with victory, was disposed to make extensive claims, and in particular asserted her right to Northern Mesopotamia and Mosul. A conflict between Great Britain and Turkey seemed at one time probable, for Kemal showed little disposition either to recognize the jurisdiction or to abide by the decisions of the League of Nations. That dispute has now been happily settled, and the most difficult and vital problem of the Mediterranean at the moment revolves around the status of Egypt.

Great Britain entered Egypt in 1882 in order to quell a revolt, headed by one Arabi, which involved almost the whole of the Egyptian army and threatened both the security of the Suez Canal and the rights and property of British subjects. France who had also extensive interests in Egypt was invited by Great Britain to intervene with her, but declined. A British expedition quickly quelled the rebellion and occupied Cairo. The British

occupation had been announced as temporary and for the sole object of the restoration of order and the provision of security. Both the Liberal Prime Minister, Mr. Gladstone, during whose administration the first expedition was dispatched, and his Conservative successor, Lord Salisbury, were sincerely anxious to get out of Egypt at the first possible moment, a fact clearly demonstrated by their correspondence, though the foreign critic naturally enough has had his doubts. It is, however, always easier to enter into commitments than it is to get rid of them.

The suppression of Arabi was almost immediately followed by risings in the Sudan, which threatened the safety of the garrisons



#### MEDITERRANEAN SPHERES OF INFLUENCE

Shading indicates territory under British control, and broken shading indicates British mandates. By an Anglo-Italian agreement after the war, the oasis of Jarabub (shown in Libia) was ceded to Italy, but the British Government granted Egypt independence before Parliament ratified the agreement, which Egypt refused to recognize. After long negotiations Egypt ceded Jarabub to Italy on Dec. 7, 1925, in exchange for territory on the coast near Sollum.

of loyal Egyptian troops in that country. Having disrupted the old Egyptian army, Great Britain had clearly assumed responsibility for the security of Egypt and for the safety of Egyptian and other foreign subjects in the Sudan. Hence the dispatch of Gordon to Khartoum and of the expedition which in vain endeavored to relieve him. The failure of that expedition and the subsequent withdrawal of British troops to the frontier of Egypt naturally

resulted in a great increase in the power and prestige of the Mahdi who had led the rising in the Sudan, and a British withdrawal from Egypt in those days would almost certainly have been followed by an influx of Sudanese barbarians into the Nile Delta. It was not until 1898, sixteen years after Lord Wolseley had led the first British expedition into Egypt, that Kitchener overthrew the Mahdi and re-occupied Khartoum, and the chief of the Mahdi's lieutenants, Osman Digna, was not captured until two years later.

There followed the difficult task of establishing stable and just government over the vast area of the Sudan. While all this had been going on, the wise administration of Lord Cromer had resulted in the reconstruction of Egyptian finance, the establishment of a system of justice and the introduction of social reforms, which had produced a steady development of trade and industry and an era of increasing prosperity. This in its turn had caused a great increase in the foreign population of Egypt, particularly of French, Greeks and Italians.

The status of Egypt throughout this period was juridically and officially that of a fief of Turkey. The Khedive, as the ruler of Egypt was termed, was in name a viceroy of the Sultan, though in fact he was a prince independent of Constantinople, and the succession to the Khedival throne had for long gone in the Khedival family. The prime object of the British intervention in 1882 had been the restoration of the Khedive, Tewfik Pasha, and the re-establishment of his government which had been accomplished. The status and rights of foreigners in Egypt had been secured by a whole series of capitulations and treaties, most of which dated from a period long before the British intervention took place. When the event occurred the responsibility for assuring the observance of these treaty rights devolved upon Great Britain.

Such was the position when the Great War broke out and Turkey joined Great Britain's enemies. Egypt could then no longer be regarded as a state subject, even in name, to Turkey, and a new status had to be found for the country. This was done by declaring a British protectorate over Egypt, with a promise that the position of the country would be reconsidered after the war. The negotiations for this end resulted in 1921 in the dispatch of a mission under Lord Milner to Egypt for the purpose of advising upon the new constitution to be given to that country. This mission recommended that Egypt should be given the status of a

kingdom with diplomatic representation abroad, that there should be no British army of occupation save such as was required for the protection of the Suez Canal, and that during the process of reconstruction the financial adviser to the Government and a high official in the Ministry of Justice should be British.

The negotiations were complicated by the rise of an extreme nationalist party under Zaghlul Pasha who demanded the entire independence of Egypt and the return to her unconditionally of the Sudan. Zaghlul was deported to Ceylon and in 1922 Lord Allenby, the conqueror of Palestine, who had become British High Commissioner in Egypt, negotiated a settlement which resulted in the Declaration of Egyptian Independence subject to certain reservations. Fuad, the Khedive, became King of Egypt with Adly Pasha, a liberal who was prepared to negotiate on constitutional lines, as Prime Minister. The questions which were reserved for further negotiation were the protection of Egypt against foreign aggression, the status of the Sudan, the protection of the Suez Canal, and British responsibilities for foreign interests.

At the time of the Declaration of Independence, the British Minister announced that Great Britain would regard any attempt at interference in Egyptian affairs as an unfriendly act, and would consider aggression against Egyptian territory as an act to be repelled by all means. This was in effect declaring a kind of Monroe Doctrine in regard to Egypt, the declaration being accompanied by an assurance that Great Britain held herself responsible for the protection of foreign interests and the due observance of treaties and agreements. On these terms the new Constitution of Egypt was promulgated in 1923 and on the advice of Lord Allenby Zaghlul was released.

There have been many criticisms of the wisdom of the Declaration of Independence accompanied by assertions that Egypt is not yet ripe for self-government. These criticisms are academic. The declaration has been made and Great Britain cannot, and has no intention of going back on it. The question is how the Declaration and the new Constitution can be applied and developed, and this depends mainly upon Egyptians themselves.

So far development has been persistently retarded by the action of the extremists. Zaghlul's release was followed by a renewal of agitation which culminated in November, 1924, in the assassination of Sir Lee Stack, the British commander of the Egyptian army. The Egyptian Parliament was thereupon dissolved and

when, in 1925, new elections were permitted Zaghlul was chosen President of the new chamber. This was clearly a direct challenge, so once more the Egyptian Parliament was dissolved, Lord Allenby resigned his position as High Commissioner, and Lord Lloyd became his successor. Under these auspices new elections have just been held. They have again resulted in the return of a large Zaghlulist majority, but after some straight talk from Lord Lloyd, Zaghlul has wisely refused to form a government, a task which has been undertaken by Adly Pasha, the premier of 1922, who has always advocated constitutional methods.

While Adly is of course aware that he owes his majority to the extremists, there is reasonable ground for supposing that he would not have assumed office without assurance that his method will be given a fair trial. The Zaghlulist majority is largely composed of the ignorant felaheen, who are unaware of the real issues and are easily moved by the cry of "Egypt for the Egyptians," and still more, since they are all cultivators, by the entirely false statement that Great Britain wants the Sudan in order to deprive Egypt of the water of the Nile for the benefit of that province. Adly is, however, assured of the support of the foreign element and of the moderate Egyptians who have achieved prosperity under British management. There are therefore reasonable grounds for hoping that the period of agitation and disorder will be followed by a period of negotiations, and it becomes worth while considering on what lines negotiations may proceed.

Lord Milner's advice, which has been accepted by successive British governments, was that the reserved questions should be settled by a treaty between Great Britain and Egypt. Zaghlul has from the first opposed a treaty and is so deeply committed to that attitude that it is highly improbable that he could change it if he would. It is therefore improbable also that Adly Pasha can at present venture to re-open the question of the treaty. There is thus a tendency for the problem of Egypt to revolve in a vicious circle, for agitation is likely to continue as long as the reserved questions are unsettled and agitation hinders settlement. This being the position, there is little ground for expecting that a permanent and satisfactory arrangement can be speedily concluded. For that we shall probably have to wait until the majority of the extremists realize that there are definite limits to the extent to which their demands can be met.

Of these demands, that which calls for the absolute return of

the Sudan to Egypt has least justification. Egypt had for long years control of the Sudan, with the result that Egyptian Pashas made themselves hated by the Sudanese and the country became a standing menace to Egypt, who had to be protected by British bayonets. After Kitchener's re-conquest of the Sudan the status of that country was determined in 1899 by the Boutros-Cromer convention, which set up what Lord Cromer described as a "hybrid form of government." Both the British and the Egyptian flags fly over the Sudan and if in fact circumstances have made the Government at present entirely British the two flags remain and there is no reason, given Egyptian good will, why concessions should not be made on the lines of the original convention, which would go some way towards satisfying Egyptian *amour propre*. Egypt is entitled to complete guarantees as to the supply of Nile water, upon which her existence depends, but she is not entitled to unrestricted control of a country which she had grossly misgoverned, which she could not have re-entered without British aid, a country against which she could not have defended herself without that aid, and a country the inhabitants of which have not the least desire to be handed back to a purely Egyptian government. That is a matter upon which all political parties in Great Britain are agreed, and Zaghlul received as firm and as decisive an answer from Mr. Ramsay MacDonald as he did from Mr. Lloyd George and Mr. Bonar Law.

The other reserved questions all turn upon the maintenance of a British garrison in Egypt. For the defense of Egypt against foreign aggression no permanent British garrison can now be said to be necessary. Egypt is covered by Palestine on the east, by the desert on the west, and by the Sudan on the south. An attack upon Egypt from outside could only come by sea, and against that the British fleet in the Mediterranean is the guarantee.

There is likewise the reserved question of the Suez Canal. The Canal is commonly called in the British press "the vital artery of the British Empire." That, like most catch phrases, is an exaggeration. The British Empire existed long before the Suez Canal was constructed, and if the Canal were to disappear today the British Empire would not therefore collapse. From a military point of view the position of Great Britain as regards the Suez Canal is not unlike her position in regard to the Dardanelles, when there was danger of a Russian fleet issuing through those straits to make a flank attack upon her communications with the



East. It would be a matter of vital importance to Great Britain if in time of war a hostile fleet could come through the Suez Canal and the Red Sea to attack her communications across the Indian Ocean, but that again would be prevented more certainly by a British fleet based upon Malta and the British possession of Perim and Aden at the southern exit of the Red Sea than by a British garrison in Egypt. If in war with a Mediterranean naval power the Canal were to be closed to both belligerents, either by sabotage or by some other means, the loss to Great Britain would not be great, for with modern large and fast steamers troops and stores could be sent to the East by the Cape route more rapidly than they could have been sent by the Canal route when de Lesseps had completed his great work. Further, in the event of war against a Mediterranean naval power, the submarine, for the employment of which the indented coasts of that sea are admirably adapted, would almost certainly make traffic between Port Said and Gibraltar so precarious that it would have to be abandoned. For this reason we had during the latter part of the Great War to rely more and more upon the Cape route.<sup>1</sup>

The Suez Canal is not therefore vital to the British Empire, because there is an alternative route to the East which in most circumstances can be more easily secured. The Canal is the shortest, cheapest and most convenient route to the East and the Pacific in time of peace, and until conditions in Egypt are more settled than they are today it may be advisable to keep a small garrison to protect the Canal against sabotage. Such a garrison would be much more conveniently placed for this duty elsewhere than in Cairo and Alexandria, and quartered say at Tel-el-Kebir, where it would be equi-distant from Port Said and Suez and in easy communication with both, its presence would be unobtrusive. There are thus grounds for negotiation as to the strength and location of the British garrison, provided that the question of the protection of foreign interests can be settled.

So long as Great Britain declares that no other power shall intervene in Egypt she *ipso facto* makes herself responsible for the protection of the nationals and interests of other powers. Agitation has been followed too frequently by violence, and until Egypt is able herself to assure internal order the maintenance of a garrison in the capital is necessary. Thus the question of a modifi-

<sup>1</sup> From March 7, 1916, the Mediterranean was closed by the British Government to all traffic, which could use another route.

cation of the British occupation resolves itself primarily into whether the Egyptians are prepared to abandon violent methods.

There remains the question of Britain's right to forbid foreign intervention. That right rests upon fifty years of successful tutelage which has brought Egypt from a state of bankruptcy and vassalage to one of financial stability and has placed her on the road to independence. To abandon that work to another power which has not had the long and costly experience of Egyptian administration acquired by Great Britain would be foolish and not in the interests of the country.

There are not wanting signs that others would be prompt to intervene if Great Britain were to resign her trust. Disciples of Signor Mussolini are fond of inveighing against British control of the Mediterranean. Why, they ask, should Britain hold Egypt at one end of the Mediterranean and Gibraltar at the other? Recently one of the leading Italian papers has been pointing out that Italian territory in Africa, Cyrenaica in the northwest and Eritrea in the south, touches two of the frontiers of Egypt and has hinted plainly that in that country is to be found the desirable "place in the sun" which Italy seeks. Signor Mussolini's own pronouncements have been more moderate, it is true, but he is quite aware that few things would increase his popularity more than a declaration of Italian control over Egypt. Were Great Britain to leave Egypt to herself there is little doubt that Italy would not be long in finding a justifiable reason for intervention in a country where there is a large Italian population and extensive Italian business interests.

Such then is the present position in the Mediterranean. It is complicated and difficult, but at present less dangerous than it appeared likely to become a few months ago. The agreement with Turkey over Mosul and the advent of a moderate Prime Minister to power in Egypt have cleared the air. The Italian agreements with Jugoslavia and Greece, while they have increased Italian prestige in the Mediterranean at the expense of that of France, in themselves make for peace, for in the ill-feeling which for long existed between Italy and her western neighbors in the Mediterranean there has been a constant source of anxiety. If the Egyptian question can now be amicably settled by negotiation between the British and Egyptian governments, there will remain no Mediterranean problem which seems likely to disturb the security of Europe.

# THE FUTURE OF THE PHILIPPINES

*By Stephen P. Duggan*

“**I** WOULD rather see the Philippines sunk to the bottom of the sea than have them remain in permanent dependence upon any nation.” These words were uttered in a political speech last year by Manuel Quezon, President of the Philippine Senate and leader of the Nationalista party, the party that demands immediate and unqualified independence for the Islands. Does Mr. Quezon represent the opinion of the majority of the people of the Islands? Or rather, does he represent the opinion of the majority of the politically-minded people of the Islands, — for it cannot be assumed that the common Tao understands the import of the problem any more than, let us say, the ignorant peasant of Poland understands the import of the Polish Corridor or the ignorant peasant of Rumania the meaning of the Bessarabian problem? The opponents of independence say he does not. They hold that the solid Filipinos do not believe in independence but are coerced into professing it for fear of what might happen to them or their property if they openly opposed it and it were nevertheless to come. But it is significant that the old Federal party which stood for the American connection has totally disappeared, and that the other Filipino party, the Democrata, also has an emphatic plank for independence. In this connection it must be remembered that Filipino elections are not like Mexican in which a very small minority of the qualified voters participate. On the contrary, a larger percentage of qualified voters appears at the polls than in the United States, and the voting is by secret ballot. Due to the literacy and other tests for voting, the percentage of qualified voters to the total population is less than in the United States. Incidentally, it should be mentioned that there is apparently a growing independence in voting. Finally, the present writer, who met eminent and solid Filipinos in almost all vocations found few who did not favor independence. Sometimes it was a slightly qualified approval, favoring a little longer delay before the connection should be severed, sometimes the approval was for something less than complete independence, e.g. to allow the United States to retain control over foreign relations and military affairs. But generally it was for complete independence at the earliest possible time.

Who are those in the Islands opposed to independence and why are they opposed?

In the first place, our own military men are opposed for strategic reasons. They maintain that were we to get out of the Islands, we should soon be replaced by some one else — generally Japan is suggested — and that the Filipinos would have a much harsher master. Moreover, they believe that the control of the Islands is necessary to the United States, if it is to be protected in its position as one of the great commercial nations trading with the Far East.

In the second place, the Church is opposed to it. The Church cannot forget what took place in the Revolution of 1896, the expropriation of lands, the expulsion of the friars, the destruction of churches and convents. The Church has prospered greatly under the American régime and believes its prosperity to be inseparably bound up with the continuation of the American occupation.

In the third place, American business interests are opposed to independence. There are some business men in the Philippines who are not only intelligent and well read but who have a sufficient knowledge of the history of political development not to be impatient with the progress already made by the Filipinos in the direction of self-government. But the majority of the business men one meets in the Philippines frankly have no faith in the capacity of the Malay for democratic self-government. They believe he is incapable of conducting a sound business administration of public affairs and is only interested in the political control of the country. They believe he is ignorant of its economic welfare and indifferent to it, whereas they themselves are convinced that this economic development is, at present, the great need of the Islands.

In the fourth place, the foreigners in the Philippines, the thousands of Chinese who control retail trade, the British, the Spaniards and others, are naturally cautious about expressing an opinion on a domestic problem, but there can hardly be any doubt that they are nearly all opposed to independence. The great majority are engaged in business and hold the same view on the independence question as the American business men. In fact, with the exception of a few of the Protestant missionaries, practically everybody in the Philippines, save the Filipinos, is against independence.

## II

Before considering these and other objections more fully, let us ask whether the Filipino, as is sometimes maintained, is ungrateful for what America has done for the Islands and whether he is justified on the grounds of American promises and Filipino accomplishment in demanding independence. Certainly, had the desire for independence never existed in the Philippines previous to the American Occupation, it would have been stimulated by that event. Practically from the day of the Battle of Manila Bay down to the accession of General Wood as Governor-General, every American President and most Americans of high official position in the Philippines have made pronouncements looking forward to the self-government and eventual independence of the Islands. The most important statement with reference to the subject is the preamble to the Jones Law, passed by Congress in 1916, which is practically the Constitution for the government of the Philippines. The preamble reads:

Whereas it is, as it has always been, the purpose of the people of the United States to withdraw their sovereignty over the Philippine Islands and to recognize their independence as soon as a stable government can be established therein; and . . .

The first halt in the record of promises for eventual independence was made by President Harding in 1922, when in answer to a memorial presented by a mission of Filipinos, he stated that he was not ready to recommend to Congress the concession of independence but that "no backward step is contemplated, no diminution of your domestic control is to be sought." But it is difficult in these days of rapid change merely to maintain a *status quo* and there are few instances in history where a dependent people once given increased control of their own affairs have been willing to revert to a former condition of greater dependence. Especially is this true where the rising generation have been taught in school to look forward to and to prepare for independence. In view of all that has been said and done, can the Filipino be blamed for expecting independence?

The question remains then, has their accomplishment justified their request? The accomplishment in the Philippines since the American Occupation has been amazing. Under the Spaniards the Islands were constantly rent by uprisings, and brigandage

flourished in most of the provinces. Today the excellently organized Philippine constabulary maintain a security for life and property equal to that found anywhere in the United States. Under the Spaniards individual rights were constantly suppressed and the judicial administration, like the administration generally, was corrupt. Today there are constitutional guarantees of individual rights guarded by a competent and honest Supreme Court. The Spaniards left Manila a dirty, fever-ridden port. It is today one of the finest cities of the Orient in practically every respect. In 1898 public health and sanitation were unknown in the Islands and personal hygiene not generally practiced. Today the splendid system of medical inspection, the drainage system and the artesian wells that have been so widely installed have practically put an end to the plague, small pox, cholera and other scourges that formerly swept the Islands. The excellent roads, the railways, the irrigation systems, the means of inter-island communication, are all material evidence of this remarkable transformation. So are the stable system of currency on a gold basis, and the figures showing the impressive increase in trade and industry.

Better still is the record in things spiritual. No one knows just how many pupils there were in the schools of the Islands when the Spaniards left, but the highest estimate would not place the number as high as 50,000. Today there exists a system of elementary and secondary schools leading to the University of the Philippines and forming an educational ladder up which 1,300,000 Filipino children are climbing. The Filipino people are devoted to the public schools, and 27½ percent of the Insular revenues are spent upon them. They have brought a new hope to a formerly suppressed people. An entirely different spirit animates the people of the Philippines today from that which prevailed when the Spaniards withdrew.

What part of all this accomplishment is due to the initiative and creative capacity of the Americans and how much may be ascribed to the Filipinos themselves? No finer and more inspiring chapter in American governmental administration will probably ever be written than that which narrates the work of the group of devoted men that surrounded Mr. Taft and his early successors. They and most of the teachers and subordinate officials who accompanied them were filled with a true missionary spirit, a determination to do a great work that would redound to the credit



of America and the welfare of the Filipino people. There is little of value today the foundations of which were not laid by those pioneers. Now the twenty-four years that have elapsed since civil government was established in the Islands are divided into two equal parts by the year 1913, when Burton C. Harrison became Governor-General and introduced what the Filipinos refer to as the New Era, i.e., the period of rapid Filipinization of the administration in all its branches. Up to the year 1913 the Americans commanded the situation and in that year numbered approximately twenty-five percent of the government officials and held most of the positions of influence and importance. Today they hardly number three percent of the personnel of the government. Yet, on the whole, the favorable condition of things described in the previous paragraph remains. Whether as the Filipinos contend it is proof of their capacity to administer their own affairs efficiently, or whether as opponents of independence maintain it is due to the few hundred Americans, some of whom still retain places of influence, and particularly to the capacity of Governor-General Wood and the vigilance of Luke I. Wright, the Auditor of the Islands, is a question.

## III

The most serious indictment which the opponents of independence cite is that the Filipino leaders are only desirous of political control, partly because economic considerations are alien to them, partly because they are not interested in the welfare of the mass of the people, the common Taos. It is true that nowhere has a Malay people shown sufficient business capacity to compete with foreigners even in its own house. In the Philippines, as in the Dutch East Indies and the British Straits Settlements, the Chinese have a practical monopoly of retail trade, and they and other foreigners control the commerce and banking of that country. But the Philippines is a young country with comparatively little native capital. Under the tutelage of the Spaniard nothing was done to encourage habits of thrift. Savings banks were unknown and little incentive existed to save. The natives were not encouraged to enter business enterprises. It is unquestionably true that up to the present the great majority of high school graduates seek white-collar positions, especially in the government service, but within recent years several schools of business and commerce have been established because

of the growth of the interest shown in these pursuits. Their graduates will, no doubt, at first fill only the humbler places in business life, but it may reasonably be expected that in time they will control an increasing share of the country's business.

The most frequently cited illustration of incapacity properly to evaluate economic considerations is the probable loss of the American market in case of the severance of the political tie between the United States and the Philippines. When the Islands were annexed to the United States, the commerce between the two countries was negligible. As the result of the passage of the tariff act of 1909 providing for reciprocal free trade between the United States and the Philippines, the commerce between the two increased by leaps and bounds. Today two-thirds of the entire commerce of the Philippines is with the United States. Fifty-five percent of the hemp, seventy-five percent of the sugar, practically all the tobacco and cocoanut oil raised in the Islands are exported to the United States. With the exception of hemp, of which the Islands have a monopoly, the other products would have to compete upon equal terms with the same products from countries nearer to the United States. Free trade with the United States has induced capitalists to invest millions of dollars in these products, thus giving secure labor to thousands of men and women. Certainly the loss of such a trade and of the income resulting from it is a serious problem to face. But when did any people permit such a consideration to be an obstacle to the realization of its national aspirations?

## IV

It would occupy too much space to consider all the illustrations that the opponents of independence cite as evidence of the incapacity of the Filipino to conduct a sound business administration of public affairs. A few must suffice. The war gave a boom to Philippine industry as it did to the industry of all neutral countries. The price of nearly all its products, especially sugar, rose to hitherto unknown heights. But when the United States went into the war and allocated assistance in finance and shipping primarily to essential industries, the Philippines were hard hit. Mr. Quezon went to the United States to secure the necessary help to keep the sugar centrals going and to move their crops. He was unsuccessful. The Philippine Government then established

the Philippine National Bank, placing its own funds in it and guaranteeing its securities. The Bank certainly saved the sugar situation but later developments showed that this was done at fearful cost. Money was loaned without proper security; it was loaned to directors of the Bank in direct contravention of its charter; it was loaned to friends of the directors without any security at all. And, of course, the Bank went under. Its president and several of its directors were sent to prison. It is a sordid tale and there is no extenuation for the conduct of those concerned. It happened during the boom days of the war when money was easy and things were done in a hurry and without proper governmental supervision.

During the prosperous days of the war the Government organized and engaged in a number of business enterprises which it claimed were of national importance. It bought the Manila railroad from an English company, it chartered and supplied the capital of the National Coal Company, the National Cement Company and the National Development Company, the last to finance isolated commercial and industrial enterprises that the Government thought desirable for the general welfare. Every one of these enterprises has been run at a deficit and has been a burden upon the treasury.

One of the causes of conflict between Governor-General Wood and the Philippine legislature is his insistence that "the Government get out of business" and put business principles into administration. The Philippine Government is not the only one that has found difficulty in administering government enterprises with profit. But that a people who up to twenty-five years ago were utterly devoid of any business experience should think themselves capable suddenly to conduct intricate banking and industrial operations, displays considerable naïveté, to say the least. The most charitable view is that men were led astray by the excitement and loose thinking and acting which characterized the period of the war in nearly all countries.

The opponents of independence make unfavorable comparisons between the action of the Government in the cases mentioned above and its attitude toward the Rural Credit Associations. Ninety percent of the people of the Islands are engaged in agriculture. Many of them are too poor to carry on their farming throughout the year without assistance and they must usually secure this from the *cacique* of the neighborhood. The *cacique*

is the local boss who sometimes because of his power can control the destinies of his district. His power is based upon his ability to lend money to the farmer to enable him to tide over from crop to crop. He charges usurious rates and sometimes is able to retain a family in economic slavery for a long period of time. Caciquism is not unique to the Philippines but is found in practically all Malay countries. About the time the Government was "going into business" in the manner already described, the Rural Credit law was passed, October 19, 1916. Its purpose is to encourage small farmers to coöperate and furnish their own capital by the organization of a local association. The Government does not furnish any financial help except that the organizing staff is paid and maintained by it. Moreover, the municipal treasurer acts as treasurer *ex officio* and government auditors audit the books of the association. Now the trouble with this procedure is that so many of the farmers, especially those who need help most, have no capital with which to coöperate and little or no security.

What the opponents of independence maintain is that a sound economic instinct would have dictated loans to the farmers through the Rural Credit Associations rather than to the industrial associations mentioned above. The security in the one case was as good as in the other. The showing of the Rural Credit Association on paper is certainly good. There are over six hundred in existence with a membership of nearly 100,000. The present writer did not have the time properly to investigate their real status. But in some instances reliable information would seem to indicate that they did not function efficiently and that they rendered but little help to the farmers of the neighborhoods in which they existed. The opponent of independence maintains that they are not intended to function efficiently, for to do so would sound the death-knell of caciquism. He insists that because of his control of the debtor class in his neighborhood the *cacique* can determine who shall represent the neighborhood in the legislature. It is certainly true that large numbers of farmers in the Philippines could not carry on from year to year without the assistance of the *cacique*. It is also true that since the war nearly every government including our own has experienced difficulty in discovering the best way to help the farmer recover from the depression following the war. The Philippines were particularly hard hit by this depression. It is nevertheless true that sound statesmanship would indicate that the Philippine

Government should give preference to measures designed to hasten the development of the chief source of national wealth, agriculture.

## v

The question of national unity is fundamental to independence. Is it true that the Filipinos are divided into irreconcilable groups by differences of language and religion which prevent the organization of a national state? There can be no doubt of their racial unity. They are all Malays with big strains of Chinese and Spanish blood in them. There exist several large dialect groups: the *Tagalogs* in and around Manila, the *Ilocanos* in the northwest of Luzon, the *Bicol*s in the southeast, the *Visayans* occupying the central cluster of islands and the *Moros* of the southernmost islands, as well as other smaller dialect groups. The people of one dialect group do not understand those of another and no dialect has a literature. There is no native national language and under the Spaniards there could have developed no national state. But this is not so today. English is the language of communication in the Islands. All instruction is given in English from the primary school through the University. Business in the large towns is conducted in English. It is still permitted to address the legislature and the courts in either Spanish or English but the latter is rapidly superseding the former in both places. The influence of the public schools in the extension of the use of English is not merely due to its being the language of instruction. The twenty-eight thousand teachers come from all provinces and dialect groups. Promotion may mean transfer to a region of different dialect than that spoken by the teacher. Not only does he teach in English there but he must use it in all his life activities. Already, after but twenty-five years of occupation, twice as many people speak English as speak Spanish. Only last year, one of the last strongholds of Spanish influence, the University of Santo Tomas, decided to give all instruction in English. The best newspapers are in English and most of the Spanish journals have English editions.

No advocate of independence desires to supplant English by either Spanish or a dialect as the language of the State. It will probably take a very long time before English will become the language of the home throughout the Philippines, if it ever does. But because the common people of one region do not understand

those of another is no obstacle to the formation of a national state. France was a national state under Louis XIV but a Breton could not at that time understand a Gascon. Certainly when Italy attained unity in 1870, a Venetian could not converse with a Sicilian. And to this very day there are language groups in Russia wholly unintelligible to one another, a fact which has not prevented the formation of an independent state. But a democratic state, which is the kind of government we have promised the Filipino people, is based upon public opinion. Hardly anyone would maintain that a people half of which is still illiterate, only one-eighth of which understands the language of the government, and which numbers less than two hundred thousand newspaper readers out of a population of eleven millions, can have developed the public opinion necessary for the existence of a really democratic government.

Of the eleven million inhabitants of the Philippines, more than ten million are Christians. The less than a half million Moros of Mindanao and Sulu are Mohammedans, and the similar number of people of the mountain tribes of northern Luzon and some of the other islands are still pagans. The problem of the latter can be dismissed with a few words. With American penetration into their regions have followed all the agencies of modern civilization, especially schools, and the children of the mountain tribes rapidly assimilate the new ideas. Catholic and Protestant missions have been established among them, and it can hardly be doubted that within a reasonable time these people will become assimilated to the mass of the Filipinos in religion as in other things.

The problem of the Moro is far more difficult. He is a fanatical Mohammedan who down into the nineteenth century was a pirate, ravaging the coasts of his Christian neighbors and enslaving his captives. The Spaniards never conquered the Moros. The Americans did so with difficulty but soon won their friendship and confidence. Because of their confidence in the Americans they have been willing to surrender all their arms. They have always regarded the Christian Filipinos as their inferiors. They are opposed to American withdrawal from the Islands and threaten to revolt were that to happen and were they to come under the sole control of the Christian Filipinos. The opponent of independence insists that our withdrawal would be a betrayal of the Moros' confidence. He says, moreover, that a native



Philippine Government would welcome a revolt of the Moros as a pretext for their extermination. The Philippine Government at the present time is trying to deal with the Moro problem tactfully, and it has in recent years adopted a policy which in course of time will go far to help solve the problem. The island of Mindanao, the second largest of the archipelago and inhabited chiefly by Moros, has immense areas of fertile unoccupied lands. Some of the other islands on the contrary have congested populations. The Government has transplanted colonies of settlers from the latter places to Mindanao and the colonies which the writer visited looked very prosperous. There are almost as many Christian Filipinos in Mindanao today as Moros. The Moro, because of his religion and customs, assimilates western methods of living slowly, though even upon him the public school is beginning to have a great influence. Increased contact with the Christian settlers, who are peaceable and industrious, will probably modify his unfriendly attitude. He will learn to live on terms of friendship with those whom he formerly despised, as have the Mohammedans of Bosnia since 1878.

It is obvious from what has just been said why the Filipino leader sees little real justification for the suggestion that in the event of the Philippines becoming independent, American control should be retained over Mindanao, Sulu, and the smaller southern islands inhabited chiefly by Moros. He maintains that the suggestion has but one explanation — rubber. The United States uses more rubber than all the rest of the world together. It must pay an enormous annual tribute to Great Britain and the Netherlands in whose dominions in the East Indies most of the rubber is raised. In those dominions the production of rubber is restricted in order to maintain the price, and the United States is the principal sufferer. Experiment has shown that the soil and climate of Mindanao are peculiarly well adapted to the growth of the rubber tree and some fine rubber plantations already exist. In order to save the public lands of the Philippines for the Filipino people, the United States Government, when it turned them over to the Philippine Government, made provision against their exploitation by concession hunters. An individual may not buy more than two hundred and seven acres and a corporation more than two thousand five hundred and thirty acres. Leases run for twenty-five years, but may be renewed for another period not to exceed twenty-five years.

It is maintained that rubber cannot be raised on the scale necessary to compete with the Anglo-Dutch combine, if a corporation is confined to leasing two thousand five hundred and thirty acres. The Filipino legislators profess to fear that larger plantations would result in corporation interference in Filipino politics and in the importation of foreign laborers. The opponents of independence maintain that the legislators really fear that such plantations would be additional ties binding the Islands to the United States. But there ought to be little difficulty in securing a proper modification of the law which will permit rubber to be planted upon an adequate scale and at the same time will safeguard the interests of the Filipino people in their lands. Moreover, the dearth of labor in Mindanao can be made good by immigration from the more congested islands as has already been done.

## VI

The American in the Philippines considers that the Filipino takes the matter of his military security altogether too lightly. His is a small nation of eleven millions which could not possibly defend itself against a predatory power were the Americans to withdraw. It is the American army and navy which permits him to live and prosper in peace. It must be remembered that the treaties that resulted from the Washington Conference guaranteed the signatory powers in their possessions in the Pacific. Were the United States to withdraw from the Philippines and grant them absolute independence, the Washington treaties would no longer guarantee their security. At any time some incident might happen to serve as an excuse for intervention. No American in the Philippines believes that the Filipinos would be permitted peacefully to go their way were the tie severed that binds the islands to the United States. The archipelago is one of the richest on the earth and is too great a prize to be left unmolested. When pressed for an answer as to the Power that would take the place of the United States, he usually replies that it might be the Dutch or the English but that it would probably be the Japanese.

The Filipino is wholly unaffected by these arguments. He does not believe that the Dutch or the English would attempt to seize the Islands for fear of offending American sentiment. He does not believe that the Japanese would dare to seize them for fear of the Dutch and the English. Japanese possessions are

already strung out along the entire Pacific coast of Asia, which they command. Even as things are now the British are building the Singapore base with an eye to possible trouble with Japan. Were the Japanese to obtain the Philippines, not only would they command the coast of Asia but they would threaten the route from the Pacific to the Indian Ocean, the route to India. The Filipino insists that the British would never stand for such a threat. Moreover, the occupation of the Philippines by the Japanese would bring them a long distance nearer Australia, and the Australians have made a bogey of them as it is. The Dutch hold their rich East Indian possession by sufferance. They would no more be able to protect them against a first class power than would the Filipinos be able to defend their country. The Dutch would unquestionably unite with the English to prevent Japanese occupation of the Philippines, for they know that their turn would come next. Such is the position of the Filipino leaders on the question of security. But they do not stop there. They insist that there would be little difficulty in obtaining an agreement among the Pacific powers guaranteeing the neutrality of the Philippine Islands. Moreover, were the Philippines to become independent, there would be hardly any question that they would join the League of Nations and secure the added protection accruing from such membership.

## VII

The crisis in Philippine affairs came with the appointment of General Leonard Wood as Governor-General in 1921. Unquestionably the intent of the Jones Law was to organize the government of the Philippines upon the model of the federal and state governments of the United States based upon the doctrine of the separation of powers with its accompanying system of checks and balances. As a matter of fact, the executive was granted some powers in addition to the usual American executive powers which placed him in a strong position *vis-à-vis* the Philippine legislature. The Filipino leaders, on the other hand, have deliberately aimed at supplanting the American presidential system of government by the European parliamentary system wherein the executive is subordinate to the legislature in which all power is lodged. This would make the Governor-General a mere figurehead. The skill shown by the Filipino leaders in realizing this aim was quite astonishing. The most important step in the process was the

establishment of the Council of State consisting of the Governor-General, the heads of the six executive departments and the presiding officers of the two legislative bodies who really controlled those bodies. As the theory had been tacitly accepted under Governor-General Harrison that the heads of the departments were responsible to the legislature, it is obvious how little influence would be exerted in the Council by the Governor-General. The next step was so to enact legislation as to entangle the entire routine of administration with the existence of the Council of State, so that to abolish the Council would be to bring government to a standstill. It is to be noted that no place for a Council of State exists in the Organic Act, the Jones Law, and that it has resulted in the formation of a government not contemplated by that law. The Council could not have been established except with the acquiescence of the Governor-General. That was granted. Mr. Harrison, from the moment he arrived in the Philippines as Governor-General in 1913, acted upon the assumption that the way to teach the Filipinos self-government, was to let them govern. By the time the Jones Law was passed in 1916, he had already displaced most Americans who occupied places of power and influence by Filipinos. After the passage of the law, the movement to turn over the Government of the Philippines to the Filipinos was accelerated. In his last message to Congress, December 2, 1920, President Wilson, upon the advice of Mr. Harrison, recommended to Congress that the Philippines be granted independence.

It is obvious why President Harding's promise that "no backward step is contemplated" should have been interpreted in entirely different ways by the new Governor-General and the Philippine legislature. To the latter it meant that legislative control of the Government organized under the Council of State was to be continued. To the former it meant that the system of government formulated in the Jones Law was to be enforced. Either the parliamentary or the presidential system of government was to prevail. The anger of the Filipino leaders as they saw General Wood gradually resuming the powers abdicated by his predecessor may well be understood. It culminated in the resignation of the Council of State in 1923. Since that time, the Governor-General has administered the Government in the spirit of the Jones Law and within the limitations imposed by legislation passed under the Council of State.

No impartial observer can blame the Filipino leaders for their attitude upon the political problem. They were doing only what every dependent people has done throughout history — to use whatever powers it possessed to secure more at the expense of the sovereign state. Moreover, the Filipinos did this with the approval of the representative of the sovereign state. At the same time, no one can condemn General Wood for using the powers granted to him by the Organic Act in attempting to secure good government for the Islands. If the American Occupation is to be continued, the conflict between legislature and executive can be solved only by a greater spirit of coöperation between the two organs of government or by a modification of the Jones Law increasing the powers of the one or of the other.

## VIII

The writer of this article has scant sympathy with the view that the possibility of a people leading an orderly, self-controlled existence is almost entirely a matter of race. He believes that while race is a factor, geographic environment, historical development, and the institutions which arise as the result of their interplay are also factors, and he believes that time is the greatest factor. He has had the opportunity of visiting a large number of countries in various stages of independent self-government and he believes that the Filipinos are already better qualified for independent nationhood than some of the others. He has a real liking for the Filipino people and an admiration for their achievement in the short time of their opportunity. It is because of this sympathy that he should like to add his own view of the situation to what he has attempted objectively to portray as the points of view of the adherents and opponents of Philippine independence. He does not believe in immediate independence, but not for the reasons usually put forward which have been recorded in the foregoing paragraphs.

The United States has conducted an experiment in the Philippines in some respects under almost ideal conditions. The area of the Islands is comparatively small, about the size of the combined areas of New York, New Jersey, Pennsylvania and Delaware. The population is somewhat larger than that of New York State or Argentina or Canada. The Americans, therefore, did not have to cope with a problem of such magnitude as that which confronts the British in India. The people of the Philippines form

an islet of Christianity in a sea of non-Christians, of millions of Buddhists, Mohammedans and pagans. The Americans did not have to struggle with customs and institutions repugnant to the ideals of western civilization such as the British have met in the religions of India. They did not have to combat the degraded position of women and unsanitary and superstitious religious observances. Moreover, after the initial struggle with Aguinaldo and because of the obviously honorable intentions of the Americans, they became popular with the Filipino people who wished to learn their ways and views. Today, despite the intensity of the independence propaganda, there is practically no anti-American feeling in the Islands.

There were, therefore, favorable elements in the situation when the Americans undertook to develop the principles and practices of representative self-government among a people wholly ignorant of them. But there were also unfavorable elements resulting from the evil heritage of the Spanish régime. It is unnecessary to accept the entire picture of society in the Philippines in 1896 portrayed by the Filipino patriot and martyr, José Rizal, in his *Noli Me Tangere* and *Il Filibusterismo*, in order to appreciate its vile nature. The facts of history suffice. It was an eighteenth century tyranny in which there was a denial of all freedom of speech, of the press, of worship; in which men were condemned without being heard; in which violation of domicile and correspondence on mere secret denunciation was an everyday occurrence. The administration of government was inefficient and corrupt. Bribery and peculation prevailed in every part of it. The poor man had small chance even in the courts of justice. It was the spiritual degradation that was the worst feature. Men did not lose social position for accepting bribes, for peculation, for corrupt practice. Particularly unfortunate for future development was the attitude of the Spaniards toward the natives, an attitude of utter contempt. The natives were practically excluded from all participation in the administration of their own affairs. A few of them rose to positions of influence in the community by force of character.

It is a truism to those familiar with life in the Orient that a dependent people adopts the standards and practices of the people of the western nation which is its sovereign. It could not be expected that the Spaniards should have been three hundred and fifty years in the Philippines without influencing the Filipino



people with their attitude towards life. The Revolution of 1896 disclosed that some splendid figures had escaped the contagion. The writer shall never forget, however, the statement made to him by a prominent Filipino that the Filipinos in the early days of the American Occupation were very much surprised when an American official was sentenced to imprisonment for misuse of funds. It takes time for a changed point of view to extend throughout a governmental administration, let alone a nation. Is twenty-five years sufficient time? It would seem that a generation brought up under the influences just mentioned must pass off the scene before the belief that government is really organized for the welfare of the common man and not for the governing class can take hold. Much as the present writer believes that the administration of the Government of the Islands must be turned over to the Filipino people, he thinks Mr. Harrison pushed the Filipinization of the Government too rapidly in 1913. At that time the public schools had been in existence little more than a decade, certainly not a sufficiently long time to train a new generation imbued with the ideas of the true meaning of the public welfare and with adequate experience in administering those ideas even in local government. Unquestionably, that fact explains some of the instances of inefficient administration since 1913 cited by the opponents of independence as evidence of the inherent incapacity of the Filipino for self-government. The present writer is very much in favor of the principle of the bill introduced by Congressman Fairfield in the last session of Congress. The bill provided that at the end of a period of twenty years, the people of the Philippines should vote whether they wish to retain or to sever their connection with the United States. It is a question, of course, whether twenty years would be the proper period.

The problem of our connection with the Philippines ought to receive an early solution. The uncertainty of the future is not conducive to the progress of the Islands. Economic development is retarded because of the unwillingness of capital to invest until it knows what is going to happen. Political development is retarded because the political parties will not divide upon the real issues that confront the people until the independence question is settled. If Congress were to make known its intention progressively to increase the amount of self-government granted to the Filipinos until a status approaching that of Dominion rule were attained, the agitation for immediate independence would prob-

ably cease and the Filipino political parties could turn their attention to the pressing problems that confront the Islands. The solutions they would attempt for these problems would be evidence of their fitness or unfitness for independent self-government.

When the time for the final decision arrives another generation will have taken charge of public affairs, a generation more in sympathy with the real objects of democracy, a generation with more experience in administering public affairs in such a way as to attain those objects. In addition, the American Government, which has now awakened to the importance of the problem, will have had the opportunity to work out alternative plans of action according to the nature of the decision. For whatever the final decision may be, momentous consequences will flow from it.

## JULY, 1914

By Bernadotte E. Schmitt

ISVOLSKY AND THE WORLD WAR. BY FRIEDRICH STIEVE. New York: Knopf, 1926.

AU SERVICE DE LA FRANCE. BY RAYMOND POINCARÉ. Paris: Plon-Nourrit et Cie, 1926. Vols. I-III.

TWENTY-FIVE YEARS, 1892-1916. BY VISCOUNT GREY of Fallodon, K.G. New York: Stokes, 1925. 2 vols.

THE INTERNATIONAL ANARCHY, 1904-1914. BY G. LOWES DICKINSON. New York: Century Co., 1926.

THE SERAJEVO CRIME. BY M. EDITH DURHAM. London: George Allen and Unwin, 1925.

SARAJEVO. BY R. W. SETON-WATSON. London: Hutchinson & Co., 1926.

THE GENESIS OF THE WORLD WAR. BY HARRY ELMER BARNES. New York: Knopf, 1926.

M. POINCARÉ and Dr. Marx have discussed in recent articles the responsibility for the war.<sup>1</sup> From them it might be concluded that the matter, so far from being "*une chose jugée*" (as Mr. Lloyd George informed the Germans in 1921), was more of a question than ever. Such indeed is the case. For whereas at Versailles in May, 1919, the Germans were willing to admit a partial responsibility, the thesis of their more recent writings is that they were not at all responsible.

The present German tactics are to divert attention as far as possible from the policy of their own and the Austro-Hungarian Governments and concentrate upon the activities of their enemies, making use principally of the documents published by the Bolsheviks. A good example of this is Friedrich Stieve's "Isvolsky and the World War." By extensive quotations from the secret correspondence of A. P. Isvolsky, he seeks to prove the now familiar charge that the former Russian Ambassador in Paris and M. Raymond Poincaré engineered the war in order to get Constantinople for Russia and recover Alsace-Lorraine for France. The book is extremely well written; to the uninitiated it will carry conviction, and Professor Barnes swallows it whole. There is reason for thinking that M. Isvolsky was a dangerous intriguer who probably did say, "*C'est ma guerre*," when the crash came;

<sup>1</sup> FOREIGN AFFAIRS, October, 1925, and January, 1926.

but in all his correspondence there is not one document, save a telegram of very doubtful authenticity, in which he speaks of war as meditated or desirable or quotes M. Poincaré on Alsace-Lorraine. Throughout, Herr Stieve carefully ignores any French documents — and there are many — which would invalidate his argument. His remark that “the introduction of three years’ service [in France] gave the Franco-Russian military forces an enormous numerical preponderance over the united German and Austrian forces” (p. 139) is entirely misleading. The effect of that measure was simply to increase the number of men in the standing army, for all men of military age were conscripted in France (as was not the case in Germany or Russia), and the strength of the French army when mobilized was not affected. In general, the method of the book is to insinuate and suggest that because France and Russia were preparing for war they were intending to provoke it. No one who has read the documents will dogmatically assert that Russia had no such intentions, but on Herr Stieve’s own showing, Russian policy down to 1914 was not provocative of the Central Powers; it was, in fact, so conciliatory that in 1914 Russia was not expected to offer serious resistance to Austrian action.

Suspicious that M. Poincaré had worked for war were first voiced in France in 1920, but ventilated as they were by socialists they were little heeded. But at last M. Poincaré has come forward with an elaborate defense which compels attention. As a piece of book-making “*Au Service de la France*” is hardly what might be expected from a member of the French Academy. The style is severely restrained, almost official, seldom relieved by any light touch; French politicians and European diplomatists flit through the pages for the most part like automata; even the author’s own resolute personality is submerged under a record of cabinet-meetings, interviews, despatches and speeches. M. Poincaré lacks imagination and any sense of the dramatic; he has a passion for logic and an intense conviction of his own rightness. He exhibits enthusiasm only when denouncing the critics who have got under his skin. But the substance of the book is extraordinarily interesting and important, for he has attempted to answer each and every charge levelled against him and has drawn freely on unpublished documents of the Quai d’Orsay.

War for the conquest of Alsace-Lorraine was, M. Poincaré asserts, never his aim. Should peace ever be broken, France had “a great duty to fulfil,” to fight until the provinces were recovered

(I, 143), but until peace was broken she would observe towards Germany "*une conduite loyale, conciliante et pacifique*" (I, 120). Then why his incessant concern about the relations of France with Russia and Great Britain? The sub-titles of his volumes provide the answer. "Le Lendemain d'Agadir": "much as France wished for peace, she desired, with equal ardor, that threatening gestures like those of Tangier and Agadir should not be repeated" (III, 128) — and the attitude of Russia had not been unequivocal in 1911 (I, 194 ff.). "Les Balkans en Feu": there anything might happen. To both Austria and Russia, the status quo was "*un pis aller momentané et un expédient provisoire*" (II, 191). Russian recklessness might drag France into war against her interests or convenience, Austrian ambitions might disturb the equilibrium of Europe. "L'Europe sous les Armes": the German army bills of 1911, 1912 and 1913 were so many warnings to France. M. Poincaré states that the decision to restore the three years' service was taken because in October, 1912, Germany ordered the immediate application of the law of 1911 and in January, 1913, the execution of the law of 1912; "at the same time our ministry of war was informed by its secret service that a third military law was to be laid before the Reichstag . . . to increase the superiority of the German *troupes de couverture* to 125,000 men" (III, 145). There was no question of a demand on the part of Russia, who never raised the question (I, 121; II, 78, 112, 138; III, 322).

Imperative, therefore, in the existing European situation, for France to know precisely where she stood with Russia, and hence those repeated assurances that she would fulfil the obligations of the alliance. M. Poincaré's critics regard these promises as a complete restatement of France's obligations; he insists that his aim was to restrict them to the terms of the treaty. "Do not count upon our aiding you in a military way in the Balkans if you are attacked by Austria," he told M. Sazonov the Russian Foreign Minister, (II, 117), and whenever Isvolsky broached the subject, he declared that Russia must be attacked by Germany. But you encouraged Russia to a forward policy in the Balkans, gave her a free hand. Never, replies M. Poincaré. "In my conversations with M. Isvolsky, I always declined to discuss what we should do if the Ottoman Empire were to crash" (I, 336). His policy from March 1912 on (II, 27), and that of his successors, was to demand that Russia should communicate her plans to France beforehand and receive her ally's approval. In November, when Isvolsky tele-

graphed to his government that M. Poincaré had said that "it was for Russia to take the initiative . . . the rôle of France is to lend her the most active assistance," the French Premier protested against this interpretation of his language; in addition he addressed to the Ambassador a note approved by the Cabinet stating that the French Government "could not define its line of action until the Russian Government had indicated its own views," that it "can agree to or discuss amicably measures proposed by Russia only when it knows what they are" (II, 337-338). In particular warnings were repeatedly addressed to St. Petersburg against isolated action at the Straits. Nor was Constantinople promised to the Russians. "Neither in 1912, nor in 1913, nor in 1914 was that promise made by France, nor, to my knowledge, was it ever asked of us" (I, 336).

In general, M. Poincaré protests against the blind acceptance of the reports of an ambassador who "was not ashamed to substitute his own ideas for those of his government." Isvolsky, "the Snob," as he was called in Russian circles, "in his official correspondence gratuitously (*volontiers*) ascribed to his interlocutors the language which it was to his interest that they should hold or ideas which he wished to suggest to his government without himself taking the responsibility for them" (I, 301-2).

The first gun in the campaign against M. Poincaré was fired when he was accused, back in 1920, of having replaced the pacific Georges Louis at the Embassy in St. Petersburg by the bellicose Delcassé. On this matter the Premier establishes his alibi. The recall of Louis was formally requested by Isvolsky, apparently at the order of M. Sazonov. The Ambassador was allowed to come to Paris, where he convinced M. Poincaré that neither the Tsar nor the Russian Premier desired any change; he was therefore kept at his post for another nine months. When the change was finally made, M. Poincaré was not in office, and he shows that M. Briand, the then Premier, and M. Jonnart, the Foreign Minister, acted on their own initiative because they were not satisfied with Louis' reports. M. Poincaré asserts repeatedly that there were no differences on policy between himself and Louis; but as the latter could not get on with the Russian Foreign Minister, his replacement was desirable.

M. Poincaré is less successful in dealing with the corruption of the French press. He says that he did not approve of this and tried to dissuade Isvolsky from it; but finding him determined



to try it, thought it wise to associate the French Minister of Finance with the enterprise in order to exercise some control over it (III, 98 ff). It may be that only insignificant papers were involved. At best, the episode is sorry enough. But it is not for Germans to protest, for in July, 1914, their government was equally anxious to bribe the press in many capitals.

After the Premier became President, he ceased to direct foreign policy. He was consulted, as was proper, but responsibility rested with the Ministry; indeed it is difficult to imagine men like MM. Pichon and Jonnart accepting dictation from the Elysée. The notion that Isvolsky continued to be M. Poincaré's prompter has no foundation, for after January, 1913, the ambassador, whatever he may have expected, rarely saw the President (III, 96).

By and large, the French statesman makes out a strong case for himself, and his next volume, on the year 1914, will be awaited with the greatest eagerness. Unless he is an unconscionable liar, he did not desire war. He did expect it and therefore prepared for it; but he strove to avoid it. He has no difficulty in showing that contemporary European opinion credited him with the best intentions. "Obstinately faithful to the idea of a European understanding" (II, 9), he refrained from setting the Triple Entente in opposition to the Triple Alliance, *pace* Herr Stieve, and worked for the Concert of Europe; at all times he was scrupulously courteous to Germany and co-operated with her when possible, in spite of an incurable suspicion of her intentions. One can fairly acquit M. Poincaré of warlike ambitions; nor can he be blamed for taking every possible precaution against an attack by Germany which, whatever Germans may say, could not, in the light of the events of 1911-1913, be considered by the French as an impossibility.

With the wisdom of hindsight, we can now see that by committing France to an active Balkan policy, M. Poincaré increased the risk of a conflict with Germany, for if France felt it necessary, in order to maintain the balance of power, to support Russia, no matter with how many reservations, Germany was equally bound to stand by Austria. Again, his efforts to strengthen the Triple Entente, however defensive their purpose might seem to him, compelled closer relations between the powers of the Triple Alliance, and helped to intensify the schism of Europe. To put it in another way, M. Poincaré strove simultaneously for peace and for the balance of power, two objects which have been repeatedly shown to be in the long run incompatible. If the issue were large

enough, he was quite disposed to make war to maintain the "honor and dignity" (II, 89) of his country as a Great Power; in which he was at one with the other statesmen of Europe.

Unlike M. Poincaré's book, Lord Grey's "Twenty-Five Years" does not add greatly to our knowledge, and it has been sharply criticized because it does not deal with certain questions raised by post-war discussions. It is none the less indispensable, for Lord Grey lets us see the workings of his mind and explains why he acted as he did. Whether he was always correctly or adequately informed, may be doubted, as for example in the matter of the exact relations obtaining between France and Russia. But if he may be judged by his despatches, he attached less importance to diplomatic technique than to common sense and good will. He aspired to conduct international relations by the same principles that obtain in business, and he had the saving grace of being able to recognize the legitimate interests of other nations and to compromise. Of all the statesmen who have written on the war, Lord Grey most easily and most successfully inspires confidence in his readers. His book, incomplete as it is on many points, will remain the classic exposition of British policy.

He took office in 1905 with "a feeling of simple pleasure and relief" that thanks to the agreement of 1904 "the menace of war with France had disappeared" (I, 49-50). In spite of, or perhaps because of, unpleasant recollections of the diplomatic methods of Germany when he was Under-Secretary (1892-1895), he desired good relations with that country; but "good relations with Germany could not be founded upon bad relations with France" (I, 51). That, right down to 1914, was a cardinal point; that, the Germans long refused to understand, with the result that they converted a tenuous friendship into a diplomatic entente. On the other hand, "the entente with France was not to be used against German policy or German interests" (I, 117). It did not prevent agreements about Africa or the Bagdad Railway. Lord Grey "accepted the Triple Alliance and made no attempt, however covert, to weaken it" (II, 45). The one thing he would not do was to promise Germany unconditional neutrality in the event of a European war.

Neither would he promise France unconditional support. Lord Grey remains convinced that "there was such a thing as Prussian militarism" (II, 278), which in the last analysis controlled German policy and aimed at the domination of Europe. He remarks

that he never used the phrase "balance of power." "I have often deliberately avoided the use of it, and I have never consciously set it before me as something to be pursued, attained or preserved" (I, 5). But unconsciously, one suspects, the idea governed his attitude towards France, for he was firmly persuaded that British interests required the maintenance of France as a Great Power. If German ambition led to an attack on France, Britain must intervene. But no pledge was ever given. The military and naval conversations of the General Staffs were so little binding that he did not keep himself informed of their course; and he states that the Grey-Cambon letters of November, 1912, were exchanged because some members of the Cabinet demanded that "the fact of the military conversations being non-committal should be put in writing" (I, 94). M. Poincaré agrees. "For my part I should have been happy if England were bound. But she was not, and if we hoped that she would assist us in the event of a German aggression, we were not sure of it" ("Au Service de la France," I, 184). Lord Grey, it may be noted, believed that "France dreaded war" ("Twenty-Five Years," II, 22); "the idea of the *revanche* . . . though not publicly disowned, had been tacitly given up" (I, 275).

Passionately and sincerely devoted to peace, Lord Grey hoped to preserve it through the Concert of Europe. "The intention and the hope were that the Entente and the Triple Alliance might go on side by side and preserve peace by settling diplomatically each difficulty as it arose" (II, 45). Vain hope, because the German military party had chosen its time for war (II, 26-27). Lord Grey cannot forgive Germany for wrecking the Concert in 1914. His proposal for a conference was "hopeful and attractive:"

It would be on the lines of the Conference of Ambassadors in 1912-13. That was of good augury, and it could be set to work at a day's notice. The same personnel was still in London; . . . we were all loyal colleagues, who not only knew, but trusted each other. If our respective governments would only use us and trust us and give us the chance, we could keep the peace of Europe in any crisis. And it would be an honourable peace, there would be no diplomatic scares; no vaunting on one side and humiliation on another.

That judgment may be too sanguine, but at least it may be said that a conference was the one expedient for keeping peace which was not tried in July, 1914.

As an antidote to polemics and *apologiae*, Mr. Lowes Dickinson's "The International Anarchy, 1904-1914" may be recommended. According to him, the war was the result not so much

of the policies of individual nations as of the system, or rather the lack of it, by which the affairs of Europe were managed. So long as states armed and independent confront each other, there will be war, for in their lust for territory and their worship of the balance of power, which is not a balance but "a perpetual effort to get the better of the balance" (p. 6), they will be driven sooner or later to resort to arms. It has always been so, he argues, and the catastrophe of 1914 was an unescapable experience. This Mr. Dickinson essays to prove by an analysis of the alliance system and a study of the diplomatic incidents of the decade before the war, and he has produced an admirable piece of historical writing. He has read, and what is more important, digested the voluminous materials published since 1918; he distinguishes unerringly between important facts and irrelevant details; he is not led astray by the propagandists. If allowance is made for the avowed pacifist bias of the author, his book must be voted the best account of pre-war diplomacy yet written.

To Mr. Dickinson the "*Kriegsschuldfrage*," so far as it affects any one nation, is of small consequence, for all were guilty, and he cannot find many shades in the blackness. He thinks, to be sure, that France and Russia were rather more aggressive than Germany and Austria, that the latter were less heavily armed than the former; but he points out that the Austrian plan to absorb Serbia (p. 181) was just as dependent on "European complications" as the Russian designs on the Straits, and he observes that the Kaiser was a "real menace" to peace, "not because he wanted war but because he so constantly thought and spoke in terms of it" (p. 129). "Germany seems to have been as innocent as any Great Power can be in the European anarchy" (p. 255), but she repeatedly made it clear that if the European war broke out, she would support Austria-Hungary. "Her attitude on this point is precisely analogous to M. Poincaré's about Russia, and as much, or as little, blame is to be attached to the one as to the other" (p. 327). Writing before the appearance of M. Poincaré's memoirs, he accepts the case against the French minister.

But we need not make too much of it. For we know that the European anarchy make war inevitable sooner or later, and that the part played by this or that statesman in postponing or accelerating it is a matter of secondary importance (p. 325).

Proof of this he finds in the policy of his own country. England "had a Government and a Foreign Secretary more pacific, per-

haps, than has ever before been vouchsafed to any state in history" (p. 466), but she was dragged into the war as unavoidably as if she had deliberately plotted it.

The weak point in Mr. Dickinson's argument is that the peace of Europe, if Balkan wars be left out, was not disturbed for more than forty years; at least it does not altogether explain why the war which had been avoided in 1905, 1909, 1911, and 1913 should have come in 1914. The immediate explanation is, of course, as he shows, that after the collapse of Turkey the Balkans had acquired a new importance in the European balance, and that in 1914 an issue was raised which gravely affected the balance. It may also be true that certain Powers, France and Russia according to some, Germany and Austria in the opinion of others, had decided the moment at hand for the realization of long-cherished ambitions. But there is something more. Mr. Dickinson mentions from time to time the various irredentist movements but only to condemn them, for he has a bitter hatred of nationalism, and he fails to make clear that at bottom it was the conflict between submerged nationalities and autocratic governments which produced the system of alliances and the rivalry in armaments. Adjustments that had become necessary were postponed, and the longer they were postponed, the greater was the danger of an explosion. Mr. Dickinson has scant patience with Serbia because her aspirations threatened the peace of Europe: he fails to see that it was precisely the refusal of Austria to make concessions to the Yugoslav national movement which made Serbia a danger.

The Austro-Serbian quarrel was brought to a head by the assassination of the Archduke Francis Ferdinand in June, 1914. At the time it was known that the murderers were Austrian subjects of Serb race who secured their arms in Belgrade. Beyond that little could be established, though much was suspected or imagined. Since the war, however, a flood of sensational revelations, chiefly from Serbian sources, has gone far to clarify the mystery. What is now known is put together by Miss Edith Durham in "The Serajevo Crime" and by Professor R. W. Seton-Watson in "Sarajevo."

Miss Durham despises the Serbs. In her eyes the "Great Serbian Idea" was a criminal ambition, for Serbia owed everything to Austria and was too barbarous a country to lead any liberating movement. The crime at Sarajevo was plotted by a secret society called "Union or Death," or in popular parlance

the "Black Hand," a terroristic organization founded by officers who had murdered the Serbian sovereigns in 1903. At its head was a Colonel Dimitrievich, who in 1914 was chief of the Intelligence Section of the Serbian General Staff; he it was who provided the assassins with weapons, from the government arsenal, and arranged for them to be smuggled across the frontier into Bosnia. From evidence that was produced at the trial of Dimitrievich at Salonica in 1917 (on another matter), Miss Durham argues that the Serbian Government was kept informed of the activities of the "Black Hand," and she accepts unreservedly a compromising statement made in 1924 by Ljuba Jovanovich, who was Minister of Education in 1914. According to him, Premier Pashich informed him and the Minister of the Interior several weeks before the tragedy of what was in preparation. As Jovanovich goes on to say that his colleague ordered the conspirators to be stopped at the frontier, Miss Durham does not charge the Serbian Government with arranging the assassination, but she insists that it was guilty of criminal negligence in not warning Austria and in not ordering a thorough investigation and punishment of the guilty persons.

All this has been very uncomfortable for Mr. Seton-Watson, who has long been the exponent of the Yugoslav cause and who during the war championed the view that official Serbia was innocent of the crime. So he recently spent some months in Jugoslavia investigating the problem. He admits that it was Dimitrievich who fitted out the conspirators and sent them on their way, but insists that the "Black Hand" was at daggers drawn with the government and that, as Miss Durham unconsciously admits, its field of activity was primarily Macedonia, not Bosnia. When Dimitrievich informed his associates of what he had arranged, they were aghast and demanded that the enterprise be stopped. In other words, Dimitrievich was acting on his own responsibility and his conduct cannot be held to implicate the Serbian Government, which had every reason for avoiding a conflict with Austria at that time.

On the question whether it knew of the plot before hand, Mr. Seton-Watson thinks that Ljuba Jovanovich "has misrepresented the true facts" (p. 157). The ground for this opinion is the complicated situation of Yugoslav internal politics since the war. M. Jovanovich is catering to the revolutionary element in Bosnia which glorifies the assassins as heroes; M. Pashich, who privately denied the truth of M. Jovanovich's assertion, instead of vindicat-



ing the honor of his country, preferred to use the incident as a means of discrediting his rival. The argument is ingenious, but not altogether convincing. Since Mr. Seton-Watson wrote, M. Pashich has publicly given the lie direct to M. Jovanovich, who replied by reaffirming his original statement and offering to prove it by documents, which the government refused to permit. Since that verbal duel a new version, from other sources, has been aired, according to which M. Pashich spoke about the matter to M. Jovanovich, not in the Cabinet, but privately. At the moment it would be rash to say what the truth is. Mr. Seton-Watson agrees with Miss Durham in condemning the indifference and laxity of the Serbian Government after the crime.

The most important feature of Mr. Seton-Watson's volume is the account of the revolutionary movement in Bosnia, about which little has hitherto been known. This, and not the intrigues of Serbian politicians, he believes, was responsible for the murder of the Archduke. The harsh Austrian régime had bred a feeling of despair among the young generation in Bosnia, who responded readily to agitators who were in touch with Russian revolutionaries. Discipline in the schools was undermined, secret societies were established, plots sketched, attempts made on the lives of government officials. The Austro-Hungarian authorities grew alarmed but were helpless because the dual system of the monarchy prevented any political concessions. In this connection, Mr. Seton-Watson emphasizes that twice, in December, 1912, and again in October, 1913, Serbia made overtures for a *rapprochement* with Austria, only to be met with studied rebuffs.

The revolutionaries were unquestionably in touch with the "Black Hand" at Belgrade; indeed the man who controlled their organization, a school teacher in Sarajevo, took care of the assassins when they arrived from Belgrade. But a number of other youths had prepared, quite independently, to shoot the Archduke, who was regarded as the symbol of the hated Hapsburg rule. Whatever the exact responsibility of the Serbian Government, the inspiration for the crime came from Bosnia, and it was executed by Bosnians. Mr. Seton-Watson proves the negligence of the Austrian authorities in the arrangements for the protection of Francis Ferdinand; he dismisses, however, as absurd the stories once circulated and sometimes believed that they had connived at the murder in order to get rid of its victim. In the handling of the conflicting evidence, Mr. Seton-Watson exhibits far greater skill

than Miss Durham. His book is a real contribution to our knowledge of an obscure subject.

Since the publication of Professor Fay's well-known articles some years ago, no American scholar has attempted to deal on a large scale with the tragic events of July, 1914. There was real need of a book which should take account of the more recent revelations and discussions. If, in the hope of finding balanced judgment and well-ordered presentation of the facts, one turns to Harry Elmer Barnes' "The Genesis of the World War," the result will be grievous disappointment, for Mr. Barnes is nothing if not a controversialist and anything but dispassionate. To say this is not to question either his courage or his sincerity. He seeks the truth and is fearless in stating what he thinks it to be. But if his purpose is highly honorable, his performance leaves much to be desired.

To begin with, Mr. Barnes does not present an orderly account of what happened. After carrying the reader up to July, 1914, in three introductory chapters, he treats the events of that month by country, devoting one chapter to each of the five Great Powers. Such a method makes it impossible to follow the development of the crisis, for the attention is focussed on the conduct of a particular state and diverted from happenings elsewhere which, at a given moment, may be all-important. Foreign offices manoeuvre in the light of information coming in from many sources; the situation is constantly changing; the policy of one day is often overtaken by events before it can be applied. This was never more true than in July, 1914, when Ministers were being almost hourly disconcerted by telegrams from half a dozen capitals. Thus, Mr. Barnes' account of the Russian mobilization does not mention the refusal of Austria to open conversations, her declaration of war against Serbia, or the bombardment of Belgrade; yet it was those events which precipitated the mobilization.

Another serious criticism is that Mr. Barnes too often prefers to rely on the writings of others instead of letting the documents speak for themselves. One cannot avoid the impression that he has not blazed his own trail through the documents, for there are many of great importance to which he does not refer at all. Nor does he apply much critical faculty to his secondary authorities, unless they run counter to his argument. Thus he lays great store by Mathias Morhardt, whose *parti-pris* is evident (see the quotation on pp. 324-6) and by Hon. John S. Ewart, whose reasoning, as it seems to the present writer, is sometimes specious. Similarly he

accepts the story of an Austrian publicist that the Russian Military Attaché in Belgrade was privy to the Sarajevo plot; perhaps he was, but Mr. Barnes does not note that Mr. Seton-Watson has challenged the reliability of the witness. Mr. Barnes follows Miss Durham's version of the plot, and states that Mr. Seton-Watson's review of her book "does not upset or disprove a single vital assertion" (p. 174); he then remarks, "the critical reader will probably conclude that the truth lies in the ground intermediate between the versions of Miss Durham and Seton-Watson" — and lets his own account stand!

Mr. Barnes makes a number of statements for which he does not adduce proof, for instance, "Before June, 1914, it was practically assured that Great Britain would enter any war on the side of France and Russia against Germany" (p. 90). Again: "France had not erected any significant defenses on the Belgian frontier, thus indicating her intention to enter Belgium to meet the German advance" (p. 290). Often he distorts or stretches the evidence. A telegram sent by M. Sazonov to Vienna on the day before the ultimatum was dispatched is represented as a threat (p. 328), whereas by any fair reading it must be construed as a warning. It is stated several times that M. Poincaré gave Russia a blank cheque on the occasion of his visit to St. Petersburg at the beginning of the crisis: all that the evidence warrants is that France agreed to act with Russia in making a strong stand. "The Russian Chief of Staff, Janushkevich, urged Sazonov to promise him at this time that the Russians would make war solely on Austria, and refrain from hostilities against Germany. Sazonov refused" (p. 338). Actually, Janushkevich, who was opposed to a partial mobilization, asked M. Sazonov if he could guarantee that war with Austria would not be followed by war with Germany, and M. Sazonov replied that he could not, for he assumed that Germany stood behind Austria. It is an exaggeration to say that "on August 2nd, long before the German invasion, Grey promised Paul Cambon, the French Ambassador in London, that England would enter the war on the side of France" (p. 288): Sir Edward Grey made the conditional promise that if the German fleet came down the Channel to attack the northern coasts of France, Great Britain would lend assistance. More than once Mr. Barnes alleges that "even before she sent Belgium an ultimatum, Grey refused the German offer to respect Belgian neutrality on condition that England remain neutral" (p. 452). Germany never

made any such offer; the most that can be said is that her Ambassador personally suggested this possibility to Sir Edward Grey.<sup>3</sup>

There are errors of fact. To say that Germany "unwillingly tolerated" Austria's local war against Serbia (p. 220), "did nothing to incite Germany beyond giving her the blank cheque" (p. 251), and "opposed the Austrian declaration of war on Serbia" (p. 223), is simply to fly in the face of documentary evidence to the contrary. To declare that Russia declined Grey's proposal for a conference (pp. 261, 500) is misleading, to say the least; for while M. Sazonov preferred to negotiate directly with Vienna, he did finally accept the proposal. It is incorrect to say that "the French did not of course wait for the German general mobilization, but ordered mobilization as soon as they were informed of the German proclamation of a state of imminent war" (p. 414): the French waited twenty-four hours after learning of the proclamation.

There are serious omissions. In demolishing the myth of the Potsdam conference of July 5, Mr. Barnes fails to mention the conferences of the Kaiser with various officials. Herr von Jagow's lies about his ignorance of the ultimatum are not told, M. Sazonov's "formulae" are ignored. Much is made of M. Sazonov's pressure on the Tsar to secure mobilization, but nothing is said of the false report of a Serbian attack by which Count Berchtold induced Francis Joseph to sign the declaration of war on Serbia. The compromising telegrams of General von Moltke to Field Marshal Conrad are indeed mentioned (pp. 234, 720), but rather casually, without any indication that these telegrams determined Count Berchtold to make no concessions. In harping on the fact that the French decision for war was announced to Isvolsky sixteen hours before the German declaration of war on Russia (pp. 288, 415), Mr. Barnes does not mention that Germany had six hours before presented an ultimatum requiring France to state her intentions in the impending war between Germany and Russia.

This long criticism is not offered in any captious spirit, for mistakes can hardly be avoided in the handling of the voluminous evidence; nor is it intended to whitewash Germany's enemies by implications or insinuations. But the errors of Mr. Barnes are numerous and serious enough to suggest that he has not mastered his sources and that his writing is often highly *tendenziöz*.

Mr. Barnes' point of departure is seen in the title of Chapter III, "The Franco-Russian Plot That Produced the War." His next step is to assert that in July, 1914, M. Poincaré "gave [the

Russian extremists] to understand that the prospective Austro-Serbian crisis would be satisfactory to him as the 'incident in the Balkans' over which the Russians might kindle a European war" (p. 372). Well, there is not a document which warrants any such assertion. Continuing, Mr. Barnes discounts all the peace proposals of M. Sazonov as a "diplomatic barrage" (p. 654) behind which to prepare secretly the measures necessary for war, i.e. mobilization, citing as proof statements of certain Russian officials to the effect that M. Sazonov exclaimed, on hearing of the ultimatum, "*C'est la guerre européenne*," and that the military group likewise assumed the war to be "*on*" (p. 200). It was generally understood, he says, not merely by Germany, but by Russia, France and England (p. 356), that mobilization meant war. Therefore, when Russia resorted to that measure, it was with the deliberate intent of war; the French knew its consequences equally well, yet they urged their ally to proceed secretly to it.

That mobilization was likely to produce war, was indeed generally understood; still, Mr. Barnes might have referred to M. Sazonov's repeated statements that this was not a necessary consequence. It may also be observed that the language of M. Sazonov and the soldiers may be interpreted to signify only their expectation or their conviction that war would come. They were bound to assume that Austria was determined on war and that she was sure of German support; probably they did not expect Russian mobilization to deter Austria and they had been warned that Germany would make it a *casus belli*. But it does not follow that Russia deliberately seized the chance to precipitate war. She waited six days for her mobilization, during which she gave diplomacy every chance. That she might, perhaps should, have waited another day or two, may be granted; but all the German talk about pressure on Austria had produced no results, and we know that Austria intended to yield nothing. That from a strictly military point of view, the German position was sound, may also be conceded. But strategy was not the only factor. Gen. von Moltke and Von Bethmann-Hollweg both declared that it was intolerable to German dignity to have to negotiate under the pressure of Russian mobilization; in other words, they preferred war to the diplomatic defeat which would stare them in the face if they allowed Russia to complete her preparations — just as, one hastens to add, Russia and France preferred war to the diplomatic humiliation of allowing Austria to have her way.

Of course Mr. Barnes contends that Russia had no right, moral or other, to support Serbia, and that Russia should have been satisfied with Austrian promises to respect the integrity and sovereignty of Serbia. Whether these promises were sincere, is more than doubtful; in any case, Count Berchtold refused to give them in binding form. The weakness of the argument is that both Germany and Austria fully expected Russia to object: only they thought that she would not resort to arms. Similarly Mr. Barnes' reiterations that Germany and Austria desired only a local war (which is true) have to be discounted by the admissions of their statesmen that a conflict with Russia might develop. Russia can be fairly criticised for precipitate mobilization, France for undue encouragement of her ally; but the Central Powers must be charged with deliberately and recklessly embarking on a policy which contained the possibility of a European war.

Mr. Barnes rightly emphasizes the efforts of Germany to restrain Austria when she perceived the danger of a general war, but he fails to point out that Von Bethmann-Hollweg's telegrams were concerned as much with throwing upon Russia the responsibility for a rupture as with advising Austria to make concessions. The long chapter on Sir Edward Grey is far from convincing. That "England in 1914 was determined to go to war if France did" (p. 575), is an assertion refuted by what is known of the dissensions in the Cabinet and the uncertainty of public opinion. And one must really protest against the statements that "Grey felt very comfortable" when Germany declined to answer his question about Belgian neutrality (p. 511), and that he "light-heartedly" despatched his ultimatum to Berlin (p. 554).

To sum up, it must be said that Mr. Barnes' book falls far short of being that objective and scientific analysis of the great problem which is so urgently needed. As a protest against the old notion of unique German responsibility for the war, it will be welcomed by all honest men, but as an attempt to set up a new doctrine of unique Franco-Russian responsibility, it must be unhesitatingly rejected. The war was the consequence, perhaps inevitable, of the whole system of alliances and armaments, and in the origin, development and working of that system, the Central Powers, more particularly Germany, played a conspicuous part. Indeed, it was Germany who put the system to the test in July, 1914. Because the test failed, she is not entitled to claim that no responsibility attaches to her.



## BULGARIA AND THE AEGEAN

*By Hamilton Fish Armstrong*

JUST as Yugoslavia presses for a trade outlet southward through Saloniki, so Bulgaria frets at the thin Greek coastal strip — in one place only ten miles wide — that shuts her off from the Ægean and relegates her commerce to the roundabout Black Sea route or the slow passage up the Danube. The Principal Allied Powers, speaking in the Treaty of Neuilly, promised Bulgaria that in view of their decision to turn the northern Ægean seaboard over to Greece they would arrange suitable facilities for the transit of Bulgarian Commerce. But the facilities which they subsequently offered were refused as “psychologically inadmissible” by Bulgaria, who apparently hoped, or thought it worth while to pretend she hoped, that the original undertaking implied something very much like Bulgarian sovereignty over a corridor to the Ægean; Bulgaria’s counter-propositions were rejected absolutely by the Allies; and there, for official purposes, the matter rested. But though no formal negotiations are admitted to be in progress as this is written, the question is continually under discussion in the Bulgarian press and will one day have to be settled. Incidentally, Greece may be presumed to desire a settlement because uncordial relations with Bulgaria might prove disastrous in the event of serious trouble with a third party — with Yugoslavia over Saloniki, with Italy over the Dodecanese, or with Turkey over any one of many possible bones of contention.

Bulgarian aspirations for an outlet on the Ægean received their first impetus from Russia in 1878, at the time of the Treaty of San Stefano. In 1876 the “Bulgarian atrocities” had aroused Europe. The following year Russia declared war, and succeeded in routing the Turks and threatening Constantinople. Her rapid success changed European sentiment overnight. British feeling ran so high that, despite Gladstone’s opposition, a fleet was dispatched to the Straits to show that a Russian seizure of Constantinople would not be tolerated. Russia made peace, but decided to strengthen Bulgaria as much as possible, perhaps with a view to future operations against the Turks. By the Treaty of San Stefano she proposed to create a Greater Bulgaria, to include most of Macedonia and part of the northern Ægean coast. Britain and Austria hastened to reject an arrangement which so greatly increased Russian influence in the Balkans, and at the Congress of Berlin, convoked later in the same year, the Treaty of San Stefano was set aside. Turkey was handed back the bulk of her lost territory, including the Ægean littoral, and Austria was given the mandate to occupy the coveted Slav provinces of Bosnia and Herzegovina. But although the San Stefano arrangement was so swiftly blotted out it was not forgotten in Bulgaria, and the Ægean coast was one of her chief objectives when she joined with the other Balkan states in 1912 in the war against Turkey. Though the First Balkan War gave her much of the desired coast line, the second Balkan War deprived her of it. She lost the port of Kavala and the surrounding region, but retained the stretch between, roughly, the Mesta and Maritza Rivers, including the two ports of Dedeagach and Kara Agach.

It was to recoup the losses suffered as a result of her unwise provocation of

the Second Balkan War that Bulgaria in 1915 decided to gamble again. That her ambitions were far from modest was demonstrated by her reply on September 26, 1917, to the Pope's enquiry regarding her peace aims, as well as by the earlier negotiations in which Tsar Ferdinand and his Cabinet took part before they finally chose the side of the Central Empires. Premier Venizelos stated in a Memorandum to the Peace Conference that in 1915, Greece, Serbia and Rumania had offered to Bulgaria, as the price of her aid in the war, the part of the Dobrudja which she had lost to Rumania in 1913, Thrace to the Sea of Marmora, Kavala, and Serbian Macedonia westward to the Albanian frontier; Bulgaria, he said, had scornfully refused, asking in addition a large slice of southern Serbia and a part of Albania, so that her territories should extend from the Black Sea to the Ægean. It was for such great stakes that Bulgaria played, and losing forfeited also the stretch of Ægean coast that had been hers.



The statistics are so unreliable that it is hardly possible to say whether there is a Greek or Bulgarian majority in Western Thrace as a whole, though it seems to be accepted that the Greeks have the better of it in the coastal strip because of the predominantly Greek character of the sea towns.<sup>1</sup> (It should be noted that as between Greeks and Bulgars, the Turkish section of the population — which really includes many Pomaks, or Mohammedan Bulgarians — would naturally prefer the Bulgars as rulers.) The frontier finally established followed the watershed of the Rhodope Mountains. There seems no doubt, however, that beyond all ethnic arguments the Allies were influenced by the desire to

<sup>1</sup> In Western Thrace, the Bulgarian census of December, 1914, showed: Bulgars, 185,524; Turks, 210,336; Greeks, 32,377; miscellaneous, 6,289; total, 434,526. This census further divided the Bulgars into Christians, 115,509, Pomaks, 70,015. At the Peace Conference in 1919 very contradictory Bulgarian and Greek estimates were submitted. The Bulgarian estimate showed: Bulgars, 235,950; Turks, 197,863; total, 433,813. At the same time M. Venizelos presented an estimate as follows: Bulgars, 59,418; Turks, 285,083; Greeks, 70,558; total, 415,059. He probably counted the Pomaks as Turks, just as the Bulgarians probably counted the Greek-speaking Mohammedans as Turks.

diminish the strategic importance of a state that had cost them so dear by cutting off Russia from her western allies, by bringing Germany to Constantinople, and by all but destroying Serbia by attacking her on a new front.

The disaster of the Greek armies in Asia Minor was the signal for Bulgaria to begin agitation for the fulfilment of the promise contained in the Treaty of Neuilly (Nov. 27, 1919; Art. 48): "The Principal Allied and Associated Powers undertake to ensure the economic outlets of Bulgaria to the Ægean Sea. The conditions of this guarantee will be fixed at a later date." At the beginning, Bulgaria's former Thracian territory had remained under the joint military occupation of the Principal Allied Powers. This had come to an end on August 10, 1920, when they handed it over to Greece by the so-called Thracian Treaty, which, though unratified, entered into effect in that the Allied troops withdrew and left the Greeks in possession. The Thracian Treaty specified that Bulgaria should have free transit over the territories and through the ports involved, with a permanent lease of the port of Dedeagach, and that an international commission should ensure her enjoyment of these rights.

Now, three years later, in view of the changed conditions resulting from the overturn of the Treaty of Sèvres, Bulgaria was invited to come to Lausanne to put forward her case in the Thracian matter. Premier Stambulisky, appearing in person, stated it was essential that the Principal Allied Powers retain ownership of the territory in question, that they neutralize it and allow Bulgaria special facilities for building her own railways and a port at Dedeagach, or nearby at Makri. He reasoned that his government would in any case find difficulty in securing capital for this work and that if Thrace were to be under Greek sovereignty the outlook would be hopeless. A proposition that Dedeagach be equipped as a "free port" and that it and the railway be administered by a joint British, French, Italian, Bulgarian, Greek, Rumanian, Yugoslav and Turk commission was refused by the Bulgarian delegation in a statement which plainly indicated their real objective: "It is only by direct possession of the territory in the neighborhood of the railway and port, or by placing that territory under a completely autonomous régime, economically tied to Bulgaria by special stipulations, that the port of Dedeagach can be constructed, controlled and developed in accordance with the economic interests of Bulgaria." In subsequent discussions M. Venizelos said that if the arrangement in Dedeagach proposed by the Allies were unacceptable, he would gladly set apart a Bulgarian zone in Saloniki similar to that being arranged there for Yugoslav commerce. Replying, M. Stancioff said that one proposition was as unsatisfactory as the other, and ended the matter so far as the Lausanne Conference was concerned by adding that he did not wish to pursue the discussion further.

A word about the ports themselves. Dedeagach, a town of about four thousand inhabitants, is the only Ægean seaport east of Saloniki having a direct railway connection. The railway runs down to the water's edge, and there is a small railway pier. But in its present state the port would be useless to Bulgaria even if it were opened to her commerce freely, as the water inshore is shallow and cargoes must be landed by lighters from vessels anchored over half a mile out. Kavala, further west, likewise has nothing but an exposed roadstead, and in its present state is not really a port. It still has to rely on motor transport for reaching the railway at Drama, some fifteen miles to the

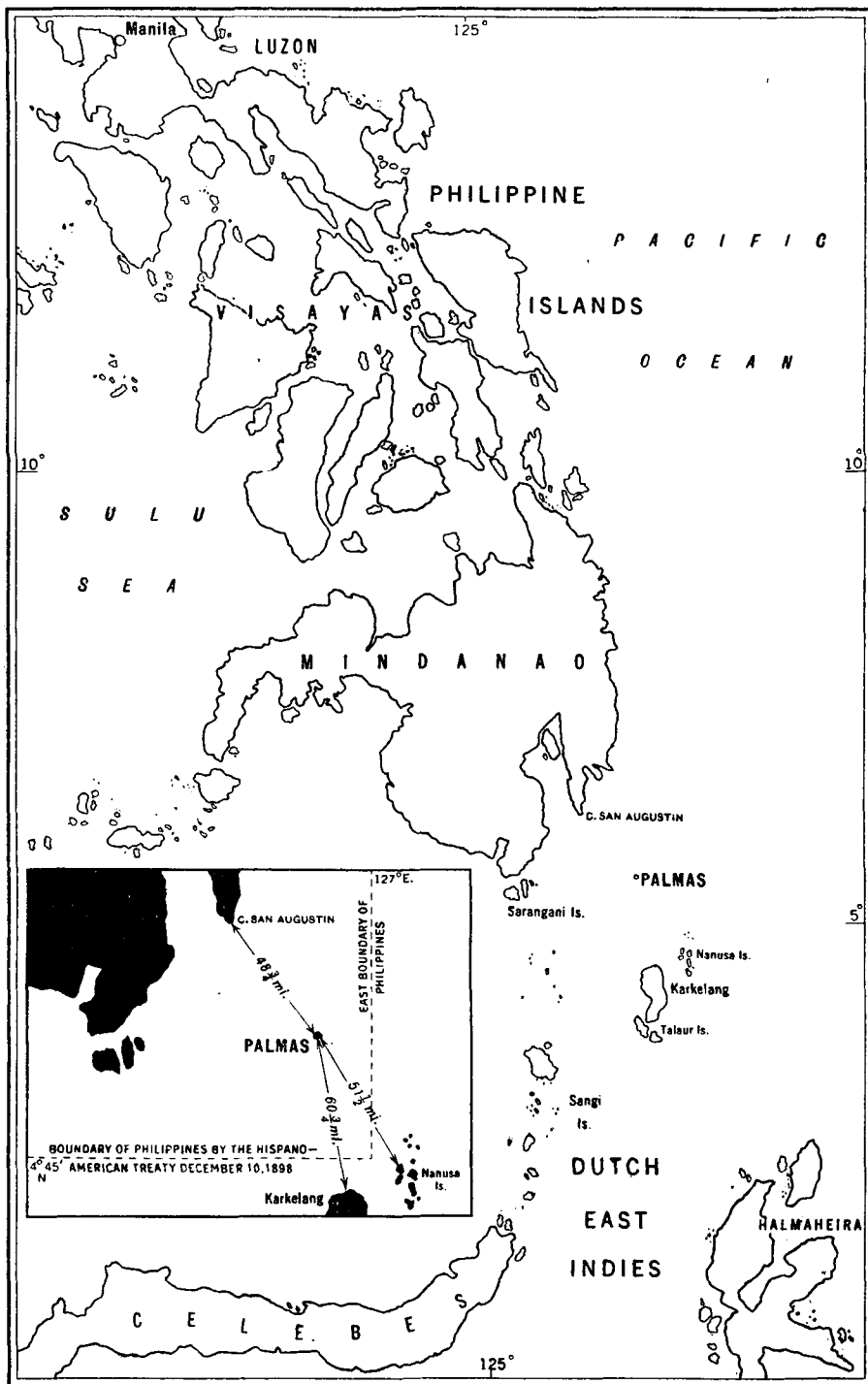
north. Between Kavala and Dedeagach, on the edge of the rich tobacco growing plain of Xanthi, lies Kara Agach, known also as Porto Logos, possessing the only sheltered port on all this coast. The district is marshy and unhealthy, and the town has no railway connection, but it had been chosen by Bulgaria before the Great War for development as a center of export trade.

All three ports would need dredging, Dedeagach or Kavala would need the construction of elaborate breakwaters and moles, and Kavala and Kara Agach would require railway connections. It is quite understandable that Bulgaria does not wish to undertake the financing of any of these operations unless she is sure of profiting permanently. The question as to whether she overplayed her hand at Lausanne need no longer be argued. The Allies felt that they had done their best at Lausanne to fulfill their obligations under the Treaty of Neuilly, and refused to put pressure on Greece to make further concessions. But geography continues to direct Bulgaria's eyes southward to the new ports of Greece.

Any possible solution of the difficulty can now be reached only by direct negotiation between the two countries concerned. On October 19, 1925, the Greek Free Zone was inaugurated at Saloniki for the purpose of giving "the Balkan States, and especially Bulgaria, access to the Ægean Sea, under regulations which will allow any country to use the port for the shipment of goods, incoming or outgoing, without restriction as to duties, right of seizure or right of search." Though Yugoslavia has found that such promises often read better on paper than they prove in practice, and though the facilities offered will hardly satisfy Bulgaria, who once already has rejected such an arrangement as wholly inadequate, Greece probably made the move with a sincere desire of appraising Bulgarian opinion. She remembers, perhaps, how unpleasantly close Yugoslavia and Bulgaria came to achieving coöperation against her in 1922 when Stambulisky, *en route* to Lausanne, stopped off at Belgrade and had long talks with the King and with MM. Pashitch and Nintchitch. Unfortunately on the very day that the Greek Free Zone was inaugurated occurred the Demi Hissar frontier incident, which for a moment threatened to bring the two countries to war. Relations were strained for some time, and it still remains to be seen whether Bulgaria will attempt to make any use of the new arrangement at Saloniki. A necessary preliminary would be the connection of the Greek and Bulgarian railway systems. The easiest way of doing this would be to prolong the Bulgarian line which now ends at Petritch, just short of the Greek frontier, to join the Saloniki-Dedeagach railway at Demi Hisar. Reports from Athens<sup>2</sup> have indicated that the Greek Government favors this step, though in some quarters it is being urged that a better alternative would be for Bulgaria to complete a long projected line southward through the mountains from Karadjin, to be joined by a Greek line pushed northward from Gumuldjina. The construction of either railway link would be an excellent preliminary to the adaptation of one of the Ægean ports to Bulgarian needs.

The Greek suggestion indicates a satisfactory tendency at Athens to settle the question by direct negotiation with Sofia. The result will be awaited with anxiety by those who look forward to the day when it will be possible for Balkan statesmen to turn to the elaboration of a pact of amity and non-aggression.

<sup>2</sup> See *La Bulgarie* (Sofia), Feb. 2, 1926, and *Elefteron Vima* (Athens), Feb. 7, 1926.



## THE PALMAS ISLAND DISPUTE

**P**ALMAS ISLAND, a tiny point of land in the Pacific southeast of Mindanao in the Philippines, has become the subject of international arbitration proceedings between the Netherlands and the United States. The American claim has its origin in the peace settlement which followed the Spanish-American War. The Dutch claim is based on Dutch contact with the island and its natives. Both nations have submitted final briefs and exhibits this year to Dr. Max Huber of Switzerland, one of the panel of judges of the Permanent Court of Arbitration at the Hague, as sole arbitrator in the case.

Palmas Island is about two miles in length and three-quarters of a mile in width, and contains slightly over 1100 acres of land. It produces cocoanuts, oranges, bananas, and other tropical fruits and vegetables, tobacco and hemp, but its only exports are copra and mats. It appears to have little strategic importance or potential value for communications. Its inhabitants, numbering between 650 and 700 persons, are reported to be divided in their preferences as to rulers, between the Netherlands and the United States.

By the Treaty of December 10, 1898, Spain ceded to the United States all islands west of the meridian of 127 degrees east longitude and north of the parallel of 4 degrees 45 minutes north latitude. Palmas Island is near 126 degrees 36 minutes east longitude and 5 degrees 35 minutes north latitude, that is to say, in the southeast corner of the zone ceded by Spain close to the line marking its eastern limit. The map on the opposite page, compiled from the best sources available, indicates that the disputed island is  $48\frac{3}{4}$  miles distant from the nearest point of American territory, Cape San Augustin on Mindanao,  $51\frac{1}{2}$  miles from the small Nanusa Islands, which form part of the Dutch East Indies, and  $60\frac{3}{4}$  miles from Karkelang, the largest adjacent island under Dutch control.

Spain rested her title to Palmas Island upon Spanish explorations and discoveries, upon the Bulls of Pope Alexander VI, issued in 1493, the Treaty of Tordesillas of 1494, the Spanish-Portuguese agreement of 1529 with respect to the possession of the Moluccas, and also upon her assertion of jurisdiction for centuries.

The Netherlands Government asserts that Palmas Island has been Dutch territory since the beginning of the 18th century. The Dutch term for the island is Miangas. Certain of the Nanusa Islands, southeast of Palmas Island, appear to have been called for a long time the Meangis Islands. The Palmas Islanders also are said to have acknowledged that they were tributary to the chiefs of certain tribes in islands some distance southwest of Palmas Island, who made political contracts with officials of the Dutch East India Company and, subsequently, the Netherlands Government.

The main point of the American argument is the cession by Spain in 1898. It is supported by a variety of evidence and many maps. The problem laid before Dr. Huber, the arbitrator, might be considered to fall into two parts: first, to determine whether the island belonged in 1898 to Spain or to the Netherlands, and then on the basis of that decision and of supplementary evidence to award it either to the Netherlands or to the United States.



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*By William L. Langer*

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GROSSE POLITIK. BY FERDINAND LION. Stuttgart: Deutsche Verlagsanstalt, 1926, 221 pp.

An important study of the general principles underlying international relations.

PATHS TO WORLD PEACE. BY BOLTON C. WALLER. London: Allen and Unwin, 1926, 224 pp. 5/.

A thoughtful essay urging the necessity of removing the causes of war before attempting to outlaw it.

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THE ACQUISITION AND GOVERNMENT OF BACKWARD TERRITORIES IN INTERNATIONAL LAW. BY MARK F. LINDLEY. New York: Longmans, 1926, 411 pp. \$7.50.

An exhaustive scholarly treatise.

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An exposition of the economic bases of our foreign relations, aiming to demonstrate the dependence of the nation and the absurdity of a policy of isolation.

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A series of valuable essays setting forth various international questions as they affect the United States.

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A pioneer monographic study in a neglected field.

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The best presentation in English of the extreme revisionist viewpoint.

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An Austrian journalist's interpretation of the Moltke-Conrad military conversations of January, 1908.

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The French Yellow Book revised to include important documents omitted or distorted in the 1914 edition.

MEMOIRS. BY RAYMOND POINCARÉ. London: Heinemann, 1926, 383 pp. 21/.

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CARNETS DE GEORGES LOUIS, 1908-1917. Paris: Rieder, 1926, two volumes, 500 pp. Fr. 18.

The important diaries and notes of the French Ambassador to Russia.

THE PERILS OF AMATEUR STRATEGY. BY LIEUTENANT-GENERAL SIR GERALD ELLISON. New York: Longmans, 1926, 177 pp. \$2.00.

An able indictment of civilian interference with questions of strategy, especially as exemplified by the history of the Dardanelles campaign.

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An excellent brief study from the naval viewpoint.

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The latest contribution to the story of the Jutland battle.

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The famous Italian historian surveys the present-day problems of the world in a series of stimulating essays.

PAN-EUROPE. BY RICHARD N. COUDENHOVE-KALERGI. New York: Knopf, 1926, 234 pp. \$2.50.

The English translation of a well-known German work.

CHANGES ET MONNAIES. BY LOUIS POMMERY. Paris: Giard, 1926, 600 pp.

A useful survey of the monetary situation in the various countries at the present time.

LES PEUPLES EN MARCHÉ. BY MADELEINE DE BRYAS. Paris: Pedone, 1926, 224 pp. Fr. 25.

A much-needed account of the movements of population in Europe since the end of the Great War.

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A history and examination of the present status and probable future of the Union.

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A searching criticism and satire of the French methods in international relations.

LA VIE ET L'OEUVRE DE PAUL DESCHANEL. BY LOUIS SONOLET. Paris: Hachette, 1926, Fr. 15.

The first adequate biography of the late French statesman.

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One of the latest presentations of the French financial embroglio.

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A volume on the financial resources and expenditures of France, invaluable for an understanding of the present crisis.

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Another monograph in the Carnegie series, with important chapters on non-military as well as military expenditure.

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A detailed study in the Carnegie series, containing valuable statistics on incomes and costs of living.

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A much needed investigation of the effects of the war on the institutions of France.

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One of the excellent regional monographs in the Carnegie series.

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An exhaustive account of the part played by foreign labor in France during the war.

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One of the outstanding volumes in the Carnegie series, equipped with valuable documentary material.

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A scientific and exceptionally interesting contribution to the history of the Alsace-Lorraine problem.

**ELSÄSSISCHES LUST UND LEIDBUCH.** By EDMOND HERBER. Strassburg: Vomhoff, 1926, 109 pp. M. 2.40.

A record of the disillusionment of an Alsatian leader since 1918.

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Another volume characteristic of the growing agitation for autonomy.

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A technical treatise of real value.

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An examination of the history and future prospects of the military directorate.

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An investigation of the history of democracy in the 19th century, from the typical Italian view of today.

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A hostile account of Fascism by a special correspondent.

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The story of the rise of Fascism outside the limits of Italy proper.

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An interesting contribution dealing with the revival of Mazzinian ideas in Italy in recent years.

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An enthusiastic exposition of the economic policy and hopes of Fascism.

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An able and scholarly study of the Italian financial problem.

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The latest volumes of the German official history, dealing with the preliminaries and the history of the Battle of the Marne.

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An excellent treatise on the technique and effects of transfers under the Dawes Plan.

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A sympathetic study by one of Helfferich's collaborators. Especially important for the history of the stabilization of the German currency.

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A second series of substantial essays on juridical, political and economic aspects.

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A convenient recapitulation of the Rhine problem as discussed at Paris.

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Perhaps the most satisfactory treatment of the stabilisation of the Germany currency.

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A useful account of the German combinations in big business in the most recent period.

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An admirable brief history of the great coal syndicate, covering the pre-war as well as the post-war period.

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A thorough survey of the economic and financial problems.

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A careful and comprehensive study of present-day problems in the Balkan states.

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One of the better general books on Czechoslovakia.

WETTERLEUCHTEN IM SÜDEN UND OSTEN. BY CONSTANTIN VON ALTROCK. Berlin: Mittler, 1926, 64 pp. M. 2.

An account of the sufferings of the Germans in Carinthia, the Southern Tyrol and Ticino.

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Another cry of anguish from the German minorities.

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A coöperative handbook of considerable value.

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Probably the best account of the problem in English, painstaking, dispassionate and sincere.

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The best one volume history of Russia available in English, written by one of the foremost English authorities.

WHITHER RUSSIA? BY LEON TROTSKY. New York: International Publishers, 1926, 150 pp. \$1.50.

Recent developments as seen by the Bolshevik leader.



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Highly interesting notes written by the former Russian Minister of the Interior just before his death.

RUSSKI FASCIST VLADIMIR PURISHKEVICH. BY S. B. LIOUBOCH. Leningrad: Byloe, 1925, 56 pp.

A brief sketch of the career of the Black Leader and murderer of Rasputin.

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Essays by various Russian emigrés on the Allied policy towards Russia during and after the war.

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A beautifully illustrated account of cultural conditions in Soviet Russia.

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A scholarly study of the federalist system in Soviet Russia.

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A thorough investigation of the developments in trade, industry and finance in the important pre-war period.

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DAS STEUERSYSTEM SOWJETRUSSLANDS. BY PAUL HAENSEL. Berlin: Preiss, 1926, 176 pp. M. 5.75.

An authoritative treatise on the subject.

### *The British Commonwealth of Nations*

HISTORY OF ENGLAND. BY GEORGE MACAULAY TREVELYAN. New York: Longmans, 1926, 743 pp. \$4.25.

A brilliant one volume survey of English history.

ENGLAND TODAY. BY GEORGE A. GREENWOOD. London: Allen and Unwin, 1926, 185 pp. 5/.

An admirable study of social conditions.

POLITICS AND ECONOMICS. BY HERBERT G. WILLIAMS. London: Murray, 1926, 179 pp. 5/.

Really an exposition of the conservative view on present economic problems.

THE RISE AND DECLINE OF SOCIALISM IN GREAT BRITAIN. BY JOSEPH CLAYTON. London: Faber and Gwyer, 1926, 263 pp. 12/6.

A much needed account of the English socialist movement from 1884 to 1924.

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Highly interesting and penetrating sketches of the leaders in contemporary English life.

STURM ÜBER ENGLAND. BY FRITZ CRONER. Berlin: Industrie-Beamten Verlag, 1926, 102 pp. M. 1.80.

An investigation of the English unemployment problem.

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Observations of the editor of the London *Daily Herald*.

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A good conventional account.

THE FINANCIAL SYSTEM OF INDIA. BY GYAN CHAND. London: Kegan Paul, 1926, 464 pp. 10/6.

A scholarly investigation.

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A substantial but ponderous work.

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An exhaustive study of Indian local administration.

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An exemplary study of Canadian constitutional history.

### *The Near East*

L'ENTENTE ET LA GRÈCE PENDANT LA GRANDE GUERRE. BY S. COSMIN. Paris: Société Mutuelle d'Édition, 1926, 900 pp. Fr. 30.

A fundamental study, based upon French, German, Russian and Greek documents.

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A complete though brief survey of the entire economic situation in Greece.

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A summary of the trade situation at Salonica.

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A valuable, though by no means impartial account of happenings, chiefly since the nationalist revival.

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A technical study of some merit.

L'ISLAM SOUS LE JOUG. BY EUGÈNE JUNG. Paris: Jung, 1926, 96 pp. Fr. 5.

A bitter condemnation of the policies of the Great Powers, the Vatican and the Zionists in the Near East.

LA SOCIÉTÉ DES NATIONS ET LES PUISSANCES DEVANT LE PROBLÈME ARMÉNIEN. BY ANDRÉ MANDELSTAM. Paris: Pedone, 1925, 355 pp. Fr. 60.

The first adequate examination of the Armenian question in its later stages.

IM BEFREITEN KAVKASUS. BY CLARA ZETKIN. Berlin: Verlag für Literatur und Politik, 1926, 312 pp. M. 2.50.

A glowing account of the development of the Caucasus under Bolshevik rule.

### *Africa*

THE MAKING OF RHODESIA. BY HUGH M. HOLE. London: Macmillan, 1926, 415 pp. 18/.

The standard work on the subject, and an important contribution to the story of Rhodes' career.

AU MAROC. SOUS LES ORDRES DE LYAUTEY. BY RENÉ VAULANDE. Paris: Peyronnet, 1926, 224 pp. Fr. 9.

Chiefly personal reminiscences.

DEUTSCH-SÜDWEST IM WELTKRIEG. BY RICHARD HENNIG. Leipzig: Brockhaus, 1925, 313 pp. M. 8.

An authoritative account of the war in Southwest Africa.

### *The Far East*

ASIA, A SHORT HISTORY FROM THE EARLIEST TIMES TO THE PRESENT DAY. BY HERBERT H. GOWEN. Boston: Little Brown, 1926, 456 pp. \$3.00.

An excellent introduction to the subject.

THE TRUTH ABOUT THE CHINESE REPUBLIC. BY H. G. W. WOODHEAD. London: Hurst and Blackett, 1926.

A well-documented account of recent developments, by the editor of the China Year Book.

THE AWAKENING OF CHINA. BY JAMES H. DOLSEN. Chicago: Daily Worker Publishing Company, 1926, 267 pp. \$1.00.

The situation of today, as seen from the radical standpoint.

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A complete survey of events since 1911.

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CHINE ET CHINOIS D'AUJOURD'HUI. BY R. D'AUXION DE RUFFÉ. Paris: Berger-Levrault, 1926, 496 pp. Fr. 16.

A warning against the danger of Russian penetration.

LA CHINE EN FACE DES PUISSANCES. BY ANDRÉ DUBOSCQ. Paris: Delagrave, 1926, 125 pp. Fr. 5.

A popular presentation of the changes wrought in China as a result of foreign influence.

GENEVA OPIUM CONFERENCES. BY SAO-KE ALFRED SZE. Baltimore: Johns Hopkins Press, 1926, 163 pp. \$1.50.

The statements of the Chinese delegation to the Conference.

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### *Latin America*

LA DEUDA EXTERIOR DE MEXICO. Mexico: Editorial Cultura, 1926, 341 pp.

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The best general account of the development and present day conditions in Brazil.

BRASILIEN HEUTE UND MORGEN. BY FRITZ KOEHLER. Leipzig: Brockhaus, 1926, 272 pp. M. 7.

A general descriptive work.

THE GOVERNMENTAL SYSTEM OF PERU. BY GRAHAM H. STUART. Washington: The Carnegie Institution, 1926, 160 pp. \$1.00.

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### *Miscellaneous*

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An exhaustive monograph dealing with the history of the theory and submitting a restatement.

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A good essay on the evolution of the world market as a result of the war and the post-war economic legislation.

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An encyclopedic treatise on the petroleum industry and the conditions obtaining in the world today.

# SOURCE MATERIAL

*By Denys P. Myers*

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Documents may be procured from the following. United States: Gov't Printing Office, Washington. Great Britain: P. S. King & Son, 2 Great Smith Street, London, or British Library of Information, 44 Whitehall St., New York. France: Terquem, 1 rue Scribe, Paris. League of Nations, Internat'l Labor Office and Perm. Court of Internat'l Justice: World Peace Foundation, 40 Mt. Vernon St., Boston. Washington imprints are Government Printing Office and London imprints are His Majesty's Stationery Office, unless otherwise noted.

### ABYSSINIA

NOTES exchanged between the United Kingdom and Italy respecting Lake Tsana. Rome, December 14/20, 1925. London, 1926. 11 p. 24 1/2 cm. (Treaty Series No. 16 (1926). Cmd. 2680.) 3d.

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### ARBITRATION

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LEAGUE OF NATIONS. Preparatory Commission for the Disarmament Conference. Report to the Council on the Work of the First Session of the Commission. Geneva, May 26, 1926. London, 1926. 8 p. 24 1/2 cm. (Parl. Pap., Misc. No. 7 (1926). Cmd. 2681). 2d.

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FINANCIAL RECONSTRUCTION of Austria (Fourth Year). Forty-first report by the Commissioner-General of the League of Nations for Austria (Period April 15th to May 15th, 1926. — Fifth month of the sixth stage.) 13 p. 33 1/2 cm. (League of Nations. 1926. II. 17.)

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COMMISSION on Extraterritoriality. Chinese Prisons. Published by the Commission on Extraterritoriality. Peking, 1925. 130 p., tables.

CURRENCY, banking and finance in China; by Frederic E. Lee, with coöperation of other American consular officers in China and adjacent regions. Washington, 1926. x, 220 p. (Trade promotion series 27; Finance and Investment Division). \$.30.

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