

# FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW



JANUARY 1945

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## CONTRIBUTORS TO THIS ISSUE

*HANSON W. BALDWIN*, military and naval correspondent of the *New York Times*; author of "The Caissons Roll," "Strategy for Victory" and other works \* \* \* *HENRY MORGENTHAU, JR.*, Secretary of the Treasury \* \* \* *H. D. WHITE*, Assistant to the Secretary of the Treasury \* \* \* *LUIGI STURZO*, founder in 1919 of the Italian Popular Party; author of "Italy and Fascism," "Church and State" and other political and sociological works \* \* \* *H. H. KUNG*, Vice-President of the Executive Yuan, National Government of China; chief of the Chinese Delegation at the Bretton Woods Conference; former Minister of Finance \* \* \* *PHILIP C. JESSUP*, Professor of International Law at Columbia University; now Assistant Director of the Naval School of Military Government of Columbia University; author of "The United States and the World Court" and other works \* \* \* *W. MANNING DACEY*, editor of *The Banker* and financial editor of the *London Observer* \* \* \* *ANDRÉ GÉRAUD*, for many years political commentator of the *Echo de Paris* under the nom-de-plume "Pertinax;" later editor of *Europe Nouvelle*; author of "The Gravediggers of France" \* \* \* *FRANK TANNENBAUM*, Associate Professor of Latin American History at Columbia University; author of "The Mexican Agrarian Revolution," "Whither Latin America?" and other works \* \* \* *KARL BRANDT*, economist and Professor of Agricultural Economics at the Food Research Institute, Stanford University, California; formerly Professor of Agricultural Economics, University of Berlin \* \* \* *H. G. W. WOODHEAD*, long resident in China; formerly editor of the *Peking-Tientsin Times* and the "China Year Book" \* \* \* *ERIC WILLIAMS*, Assistant Professor of Social and Political Science at Howard University; Secretary, Agricultural Committee of the Caribbean Research Council of the Anglo-American Caribbean Commission; author of "The Negro in the Caribbean" and other works \* \* \* *SIR FREDERICK PUCKLE*, since 1939 Director-General, Central Board of Information, Government of India \* \* \* *JOACHIM JOESTEN*, formerly correspondent in Scandinavia of several European newspapers and periodicals; author of "Rats in the Larder" and "Stalwart Sweden."

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The Editors.

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# FOREIGN AFFAIRS

Vol. 23

JANUARY 1945

No. 2

## AMERICA AT WAR

### THE END IN SIGHT

*By Hanson W. Baldwin*

**A**MERICA'S third year of war closed with United States troops fighting in the Philippine Islands and along the borders of Germany. The fourth year opens with the end of the war in sight.

During the three years of global conflict the United States has transported 5,000,000 armed men overseas (up to November 1944), and has suffered 528,795 casualties.<sup>1</sup> We have lost a minimum of 3,750,000 gross tons of merchant shipping, but have built 45,000,000 deadweight tons; we have lost two battleships, nine carriers, nine cruisers, 50 destroyers and 32 submarines, but since 1938 we have built a fleet many times the size of the prewar Navy and larger than the combined navies of the world. We have lost 14,600 planes in combat and 17,500 through accidents in this country, but built about 232,403 planes between July 1, 1940, and September 30, 1944. Up to the end of the current fiscal year, the war will have cost the United States about 400 billion dollars in appropriations and contract authorizations.

At this great price — and an intangible cost which is incalculable — the United States, fighting as part of the greatest coalition in history, has achieved battle results which are still short of complete triumph but which have decided the outcome of the war. The United States has experienced great defeats but has won through to great victories. Yet the end will be as costly as the beginning, in effort and probably in lives. The campaigns may be long drawn out. The battles of ultimate decision remain to be fought.

The American armies that flowed like a surging tide across

<sup>1</sup> Army: killed, 88,245; wounded, 254,283; missing, 56,442; prisoners, 55,210. Navy: killed, 29,208; wounded, 31,574; missing, 9,347; prisoners, 4,486 (all figures to November 7, 1944).

France met stiffened defenses along the German frontier during the fall months of 1944 and were handicapped by problems of supply and bad weather. The war of movement gave way to the war of position. Just as these lines are written, the difficult, bitter business of a winter offensive in western Europe is being undertaken. But in the tropical Pacific, favored by the bright suns and smiling weather of the equatorial latitudes, we have dealt heavy blows to the enemy. General Douglas MacArthur returned to the Philippines, and in the Second Battle of the Philippine Sea the Navy won a great but costly victory.

## II

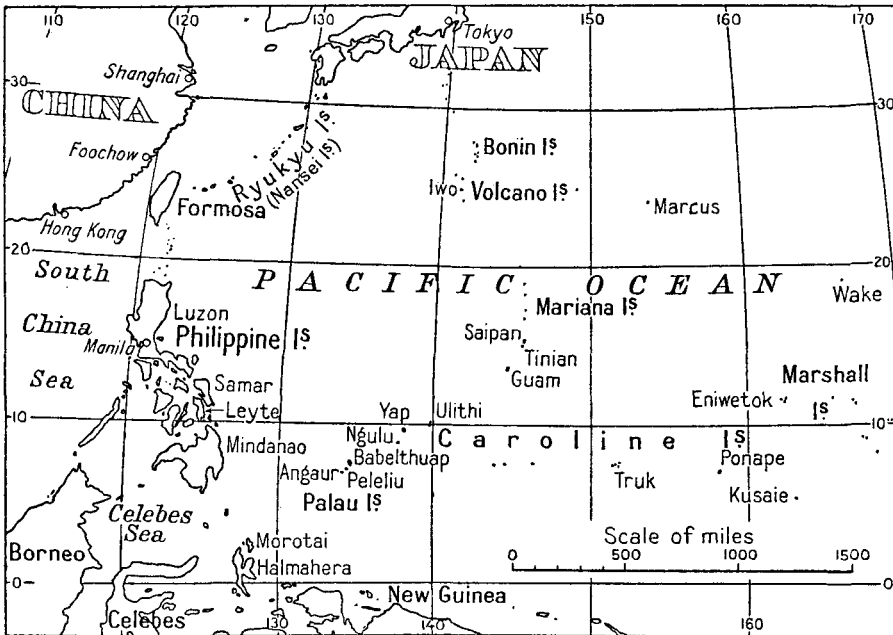
Our capture of Guam, Saipan and Tinian — the greatest amphibious operation in the Pacific up to that time — gave us bases for an approach to the main Japanese islands, and the strategic bombing of Japan's homeland from those bases has now begun. The seizure of the southern Marianas blocked Japan from effectively reënforcing such of the Marshalls and Carolines as still remained in her hands, and also advanced our bases of operations several thousand miles. The importance of this factor of bases cannot be overestimated. In the early days of the war Pearl Harbor was our only Pacific base beyond our own shores; it still is the only base for major repairs. But the great expansion of the fleet service forces, and the speed and efficiency with which advanced bases are constructed, now enable most of the units of our fleet to operate far west of Pearl Harbor for an indefinite period, unless they are very seriously damaged. Floating dry-docks, headquarters installations, repair ships of every description, and airfields which maintain B-29 "Superfortresses" were undoubtedly installed at Guam and Saipan and Tinian. More and more this area will become the Navy's headquarters for the ultimate amphibious attack upon Japan's "inner fortress."

The major steps that followed the Marianas operations were taken at a tangent to the direct route to the main Japanese islands. Covered by wide-ranging and tremendous carrier task force "strikes" by Admiral William F. Halsey's Third Fleet, operations against Morotai and Palau were started almost simultaneously. Palau, one of the principal Japanese bases on the edge of the western Carolines, 525 miles from Mindanao in the Philippines, and Morotai (near Halmahera) in the Dutch East Indies 300 miles from Mindanao, lie on the flank of an approach to the Philippines from New Guinea. General MacArthur's main bases



in the South Pacific are now in New Guinea; Australia and New Zealand have been nearly stripped clean of American Army and Navy forces. The Philippines lie within General MacArthur's southeast Pacific command, and his approach to the islands could be only by way of New Guinea. Prudence, therefore, dictated the landings on Palau and Morotai.

The Morotai landing was made against slight opposition on September 15 and was quickly successful. The Japanese main garrison was on nearby Halmahera, which was by-passed. Air strips were established on Morotai from which the Halmahera



fields could be dominated and from which the invasion of the Philippines could be supported. The Japanese on Halmahera were allowed to "stew in their own juice."

The landings on the Palau group, made under the direction of Admiral Chester W. Nimitz, represented a far bigger operation and were, as expected, much more difficult. Major-General William H. Rupertus, commander of the veteran 1st Marine Division, which established the beachhead and did the bulk of the fighting on Peleliu Island in the Palau group, and Major-General Roy S. Geiger, U.S.M.C., commander of the Third Amphibious Corps, agreed that the Peleliu fight was the toughest they had

experienced. General Rupertus likened it to a "larger Tarawa," and General Geiger said there were "more casualties" and more Japanese killed in proportion to the numbers engaged than in any previous action of the Pacific war.

After a protracted period of "softening up" by sea and sky bombardment, the initial landings on Peleliu, the principal island in the southern part of the extensive Palau group, were made on September 14. Almost simultaneously, Army troops of the 81st ("Wildcat") Division landed on nearby Angaur Island. Little opposition was encountered on Angaur, but on Peleliu the Japanese adopted new tactics. They attempted no fixed defense of the beaches, but withdrew to coral and limestone ridges inland, where a series of two- and three-story interconnecting caves had been built, their entrances covered by steel doors. The Marines, subsequently reënforced by part of the 81st Division after the capture of Angaur, had to use every trick and strain every nerve to root the enemy out of his holes. Flame-throwers, pole charges, 155 mm. howitzers firing at the steel doors at point-blank range, and the traditional courage of the Marine Corps finally crushed the Japanese after a battle which was waged with ferocity and which lasted for some weeks.

While "Bloody Nose" Ridge on Peleliu was gradually being blasted to pieces, Army and Marine troops landed on other little islands of the Palau group. By early October some ten of them had been occupied; and the airfields, fuel dumps and bases on Babelthup, largest of the Palaus, had been neutralized by planes based on the islands we had conquered.

Operations against the island of Yap had been projected, but because of the great success of Admiral Halsey's Third Fleet strikes against the Philippines and Formosa, the Yap operation was abandoned and the two divisions earmarked for it — the 7th and 96th Divisions which composed the 24th (U. S. Army) Corps — were transferred from Admiral Nimitz's command to General MacArthur's and used in the invasion of the Philippines. However, two little atolls — Ngulu and Ulithi — on either side of Yap, were seized without opposition. They dominate that island. Ulithi has one of the finest protected anchorages in the western Pacific and gives us another advance base for floating drydocks, repair ships and auxiliaries.

During all these operations, the Third Fleet, including the famous Task Force 58 (large, high-speed carriers) under Vice Admiral Marc A. Mitscher, conducted a series of unprecedented

carrier attacks. The Nansei Islands and Formosa were hit, and the Philippines repeatedly blasted. Admiral Halsey first hit the Philippines as a covering part of the Palau operation on September 8. Enemy air opposition was so weak, and the results achieved seemed so considerable, that the date of the Philippine invasion was advanced. Between October 10 and October 18 the Third Fleet struck heavily at the Nansei group and repeatedly at Formosa and Luzon. The Formosa attacks provoked an air battle. Our ships were attacked time and again by land-based planes, which succeeded in torpedoing but not sinking two ships, probably cruisers. For a while during this operation it seemed as if the Japanese fleet would accept the challenge of battle, for a carrier task force steamed out from bases on Formosa or the Chinese coast; but it turned back after air reconnaissance contact had been made at extreme range.

The long-expected invasion of the Philippines began on October 20. Supported by the might of the Third Fleet, and closely covered by the heavy and light ships and escort carriers of the Seventh Fleet under Vice Admiral Thomas C. Kinkaid, MacArthur's naval commander, an armada of some 600 invasion ships steamed boldly from New Guinea and Pearl Harbor, and put into Leyte Gulf in the Visayas group in the central Philippines. Mindanao was by-passed. After a heavy preliminary bombardment, and after seizure of some small islands which dominated the entrances to the Gulf of Leyte, Army troops of the 24th Corps (Major-General John R. Hodge commanding) and the 10th Corps (Major-General Franklin C. Sibert commanding), the latter consisting of the 1st Cavalry and the 24th Infantry Divisions, landed on the eastern coast of Leyte.

Tacloban, capital of Leyte, was quickly taken and the Americans, fighting a grudge fight against the Japanese 16th Division, the conquerors of Bataan, established a 40-mile beachhead along the coastal road from the northern end of San Juanico Strait to Dulag. Using the excellent road system of the Philippines which made military movement more rapid than in prior jungle campaigns, troops under the tactical direction of Lieutenant-General Walter Krueger, commanding the Sixth Army, pushed inland to take Barauen and its nexus of airfields, and drove north to Carigara. Beachheads were also established on the adjacent island of Samar, covering San Juanico Strait and Leyte Gulf. Soon after our landings on this island General MacArthur announced that effective opposition on Samar had been broken.

## III

On October 23 one of the most important naval battles of the war began. In a very well-planned operation, which, however, was not executed as smoothly as it was devised, the Japanese tried to annihilate our invasion shipping in Leyte Gulf and cut down the strength of our fleet. Not all the Japanese Fleet was engaged, but for the first time they risked the bulk of it. Their bold plan came very close to success — and failed. Failure cost them the heaviest damage they have sustained in any battle since the war began.

The Second Battle of the Philippine Seas, as it will probably be called by historians, was a series of disconnected and sprawling air-sea engagements, which lasted to October 26. Three main Japanese task forces were involved, and Japanese plans called for coördinated use of land-based air power. The principal American forces engaged were Admiral Halsey's Third Fleet, Admiral Kinkaid's Seventh Fleet, and a small number of United States Army land-based planes.

In the light of after-knowledge, it is obvious that United States naval intelligence, excellent since Pearl Harbor, was again well informed. Our forces early discovered the approach of two of the Japanese task forces and launched submarine and air attacks upon them. Steaming from Philippine bases or from Singapore, the Dutch East Indies and south China, these two task forces headed toward the only two straits through the Philippine archipelago which are navigable for big ships. We had chosen the islands of Leyte and Samar as the focus of our invasion for several sound reasons. It is a central position, and our forces there automatically neutralized Mindanao to the south. Leyte Gulf has a fine harbor, and Leyte had good airfields which we wanted. And control of Leyte and Samar gave us control over the two straits — San Bernardino between Samar and Luzon, and Surigao between Leyte and Mindanao — toward which these Japanese forces were now advancing.

The smaller of the Japanese task forces headed through the Sulu Sea and the Mindanao Sea toward Surigao Strait. It comprised two old *Yamashiro*-class battleships, four cruisers and about eight destroyers. A northern force, sighted in the Sibuyan Sea moving toward San Bernardino Strait, consisted of five battleships, including the new 16-inch gun 40,000 to 45,000-ton *Yamato* and *Musashi*, eight cruisers and about 13 destroyers. In

retrospect, it is clear that this force, rather than the third one which subsequently showed up 200 miles east of the northern tip of Luzon, was the main enemy force. These two southern groups included no carriers, but were supposed to be protected by land-based planes. These planes did not provide the enemy with adequate air defense, but their heavy air attacks on our shipping complicated our defensive problem and inflicted considerable damage on our vessels. One light carrier, the U.S.S. *Princeton*, was so badly injured by one of these land-based attacks that she subsequently blew up and sank, after a great fire. Her casualties were light, but some of our ships nearby suffered heavy damage and losses in men when she blew up.

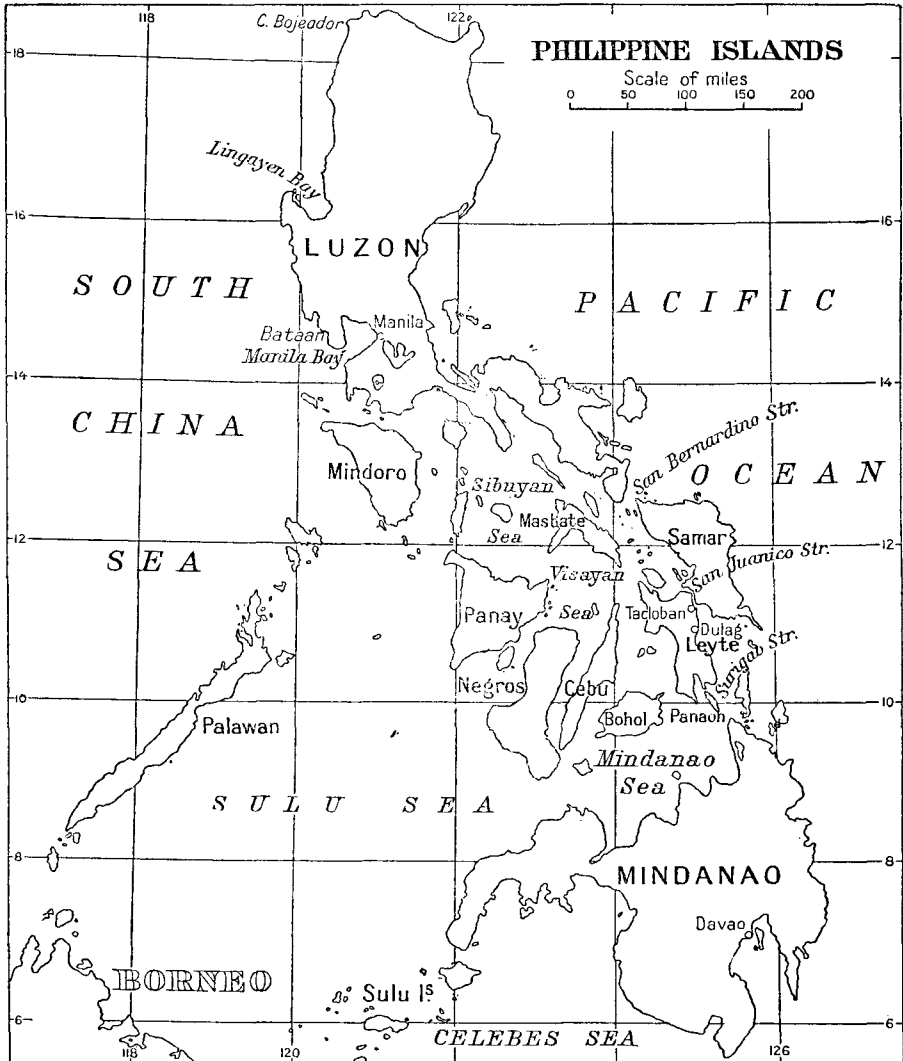
On October 23 the two southern Japanese task forces were sighted and attacked by our submarines. Three or four enemy cruisers apparently were damaged at a cost of one of our submarines which ran on a reef and had to be destroyed.

On October 24 the planes from Admiral Halsey's Third Fleet carriers, those from the small escort carriers of Admiral Kinkaid, and perhaps a few land-based Army planes repeatedly bombed the two Japanese forces advancing at high speed through the Sibuyan and Sulu Seas. The heaviest attacks were concentrated against the large northern force, and during the day it turned and headed away from San Bernardino Strait. According to pilots' reports it had been badly smashed; some of the ships were on fire and a good many of them seemed to have been damaged.

Toward the end of the day, October 24, reports reached Admiral Halsey that a third Japanese task force, consisting of four aircraft carriers, two combination battleship-carriers of the *Ise*-class,<sup>2</sup> four cruisers, and six destroyers, had been sighted heading south off northern Luzon. Admiral Halsey apparently believed that our air attacks had turned back the San Bernardino Strait task force, and he knew that Admiral Kinkaid had ample forces to deal with the small Surigao Strait task force, which was already badly battered by submarine and air assault. He turned almost the entire Third Fleet northward and headed at high speed toward the Japanese carrier task force off northern Luzon. This meant that all the modern battleships and large and high-speed carriers, as well as a considerable number of cruisers and destroyers, were drawn from the vicinity of Leyte. Left behind in the south to protect the vast mass of invasion shipping in Leyte Gulf

<sup>2</sup> This is a hybrid class, encountered for the first time in this war. Flight decks have replaced turrets on the sterns of the old *Ise*-class battleships.

was Admiral Kinkaid's Seventh Fleet, consisting of old battle-ships, some of them salvaged from the mud of Pearl Harbor, slow-speed escort carriers with a maximum speed of about 20 knots, cruisers and destroyers.



The decision was not in itself a mistake, and events show that it was probably a justifiable move. But the mistake that was made was in leaving San Bernardino Strait completely uncovered. It was a bad error which cost us dearly, and it might have had extremely serious consequences. History will explain why it was



done; but in this limited perspective of time, it seems that the old trouble — lack of a clear-cut, unified command — was partly responsible. Admiral Kinkaid was under General MacArthur, but not under Admiral Halsey. Admiral Halsey was under Admiral Nimitz (who had his headquarters in Pearl Harbor), but was cooperating with, but not under, General MacArthur. San Bernardino Strait had been covered by American submarines, but the Army Air Forces wanted to include this area in their surveillance and to be able to bomb any ships sighted in the Strait without danger of mistake. So the submarines had been withdrawn. But why no motor torpedo boats or destroyers, or some form of surface patrol, was not stationed off the entrance when Admiral Halsey took his fleet to the north is not clear. Perhaps Admiral Halsey believed Admiral Kinkaid would provide this watch; perhaps Kinkaid thought Halsey had done it; both may have felt the Army Air Force would provide the necessary guard. Whatever the reason, San Bernardino Strait was left completely uncovered.

Not so Surigao Strait. Admiral Kinkaid had set up a nice reception committee for the southern Japanese task force. He had sent motor torpedo boats deep into the twelve-mile-wide strait to attack the Japanese as they steamed through. Eight or ten miles inside the eastern entrance, where Surigao Strait opens into Leyte Gulf, he had stationed his destroyers. And across the eastern debouchement of the strait was a line of old battleships and new cruisers under Rear Admiral Jesse B. Oldendorf. "My theory," said Admiral Oldendorf later, "was that of the old-time gambler — never give a sucker a chance. If the Jap was sucker enough to try to come through the Straits I wasn't going to give him a chance."

And the southern enemy task force didn't have a chance. The torpedo attacks by motor torpedo boats and then by destroyers started before three-thirty a.m., as the Japanese force, already damaged by the air attacks the day before, steamed through the dark straits. Then the line of battleships and cruisers opened up, crossed the "T" of the enemy's column, and did fearful execution. The ships of the enemy column turned suicidally, one at a time, and all the guns of our long line registered in the darkness. In about forty minutes the Japanese task force was wrecked. Then, or later, both Japanese battleships are believed to have sunk, and many of the cruisers and destroyers went down with them.

But Admiral Kinkaid was still finishing off the Japanese crip-



ples and picking some enemy prisoners out of the water when danger came from the north. The main Japanese task force that had been bombed in the Sibuyan Sea the day before and that had been seen to head back to the west had turned east again, unobserved, and had come through unguarded San Bernardino Strait with lights out in the darkness — a remarkable navigation feat. These Japanese ships had turned south off the coast of Samar and had not been discovered until just after dawn, when they had opened fire upon six of our escort carriers, which were helping to support the Philippine invasion from stations north of Leyte Gulf. The escort carriers, converted from merchant ship hulls, have speeds of only about twenty knots and guns of 5-inch caliber, and hence are unable to run from enemy men-of-war or to fight them with gunfire. Their safety lies in staying out of gun range and in using their planes. But on that crucial morning the carriers were under gunfire from an enemy who was rapidly closing the range, and their planes were not in the air. And this little group of escort carriers, screened by some seven destroyers and destroyer escorts, were the only combat ships between the main enemy force and Leyte Gulf. Four out of the original five Japanese battleships,<sup>3</sup> seven cruisers with 6- and 8-inch guns, and some nine destroyers, were steaming hard for the south; and at more than fifteen-mile-range the Japanese were already straddling the carriers. Emergency messages to Admiral Kinkaid from Rear Admiral Thomas L. Sprague in command of Admiral Kinkaid's escort carriers, and from Admiral Kinkaid to Admiral Halsey, went out over the air. This was an hour of decision.

The Japanese came on, chasing the carriers, closing the range, and now beginning to score. Several carriers were ablaze; 6- and 8-inch shells, 14- and 16-inch shells plunged into unarmored sides and flight decks. Pilots struggling desperately with their planes went into the air while Japanese salvos landed on either side of their ships. Planes on Leyte took off in a mad scramble from fields so hazardous "each man deserved a medal of honor." One carrier was hit hard and limped behind. She was screened by a destroyer escort and two destroyers, but the Japanese fleet, pounding toward the south and Leyte Gulf, was now within 8,000 yards of this lame duck.

Here was one of those moments that live in American history,

<sup>3</sup> One of the new *Musashi*-class battleships was apparently badly damaged by the previous day's air attacks. Some of the enemy's destroyers also had been damaged.

the decisive moment, perhaps, in the Second Battle of the Philippine Sea. Gallantly the little "DE" laid a smoke screen around the crippled carrier. Gallantly, with a bone in their teeth and the white wake of the bow waves curling away aft in the morning light, the two destroyers charged the might of the Japanese Navy. They were smothered in a hail of gunfire. All four ships disappeared, never to be seen again. But the destroyers had driven home their "tin fish;" our crippled force had won time. The rest of the escort carriers got off their planes; other planes came out from land to join them. Some planes, without torpedoes, magnificently made passes at the Japanese ships simply to attract their antiaircraft fire and to strafe. More destroyers charged the Japanese ships. Two of the enemy cruisers and one or two destroyers were sunk. Suddenly the Japanese ships turned north. David had defeated Goliath.

It was not until well after the repulse that planes from a task group of Admiral Halsey's Third Fleet, sent south in answer to the urgent calls for aid, joined in the scrimmage and inflicted more damage on the Japanese ships. Attacked and harried, these ships fled through San Bernardino Strait that night "in a badly damaged condition." The enemy force had come close to its objective. It missed through a combination of American courage in a tight spot and a lack of Japanese resolution. Planes played the major rôle in our triumph but, had the enemy commander kept heading south despite the early damage to his ships, the planes and ships then available could scarcely have turned him back before he had penetrated Leyte Gulf and done great execution to our non-combat vessels.<sup>4</sup>

In the meantime, Admiral Halsey's Third Fleet and the Japanese northern task force had clashed. Some land-based enemy planes attacked the ships of the Third Fleet as they headed north in what American sailors hoped would be the showdown battle but what appears to have been a feint to draw our covering forces away from Leyte Gulf. The attacks were ineffective, however, and our carrier aircraft caught the enemy carriers with their planes on deck or en route from land bases to the carriers. The result was catastrophe for the Japanese. Four of their carriers

<sup>4</sup> The official Navy account states that "the Japanese admiral, with a costly local victory in sight, received word of the destruction of the southern force in Surigao Strait and the utter rout of the northern force with the destruction of its carriers." But the Navy communiqués about this battle have been far from frank, and the timing of these three separate actions indicates that the Japanese commander probably could not have known about the fight in the north when he turned back.

were sunk; the two battleship-carriers in the group were apparently badly hurt; cruisers and destroyers were sunk or damaged.

The sum total of these separate actions was a very considerable American victory. Officially, we claim to have sunk 24 Japanese warships: four carriers, two battleships, six heavy cruisers, three light cruisers, three small cruisers or large destroyers, and six destroyers. Our announced losses through sinkings are the U.S.S. *Princeton*, two escort carriers, two destroyers and one destroyer-escort. Many other Japanese ships and a considerable number of our own were damaged.

The Second Battle of the Philippine Sea shattered the daring Japanese attempt to repulse our Philippine invasion, and reduced and probably crippled the Japanese Fleet so badly that, at least for some months, it will be chiefly a fleet "in being." But the Japanese Fleet was not annihilated and it is a factor of potential importance in the war. Its losses may not have been so great as originally reported. Early communiqués have always tended to exaggerate the enemy's losses.

#### IV

The fleet action demonstrated the Japanese intention of making a major fight for the Philippines. The by-passing of Mindanao apparently took them by surprise but they recovered quickly. On October 29, General MacArthur announced that "all organized resistance in Leyte Valley has ceased . . . we now control roughly two-thirds of the island of Leyte, an area of approximately 1,800 square miles . . . the coast land now in our hands stretches 212 miles from Carigara in the north to include Panaon Island in the south . . . on Samar the small garrisons are helpless and can be destroyed at will . . . the liberation of a million and a half Filipino people on the islands of Leyte and Samar virtually is accomplished." But these were optimistic and premature statements. Japanese reënforcements were sent into Leyte under cover of the naval battle, and each night thereafter the enemy attempted to strengthen his battered Leyte forces by barges and by transports. Typhoons grounded our air power and handicapped the construction of airfields, and General MacArthur later explained that by November 12 all of the Japanese losses on Leyte, which he had previously estimated at 35,000 (too large a figure in this observer's opinion), had been more than replaced, and that elements of five Japanese divisions, organized as the Thirty-fifth Army, were in action on Leyte or in process of

being transferred there. General Yamashita, the conqueror of Malaya, was put in charge of the Japanese forces. The Philippine campaign seemed to be slowing down into something like the pattern of the Guadalcanal-Solomons operations.

Subsequently, we interfered damagingly but not decisively with Japanese attempts at reënforcement across the narrow straits separating Cebu and Mindanao from Leyte. Our land-based air power was still weak, and to bolster it Admiral Halsey's Third Fleet carriers had to be retained in the area far longer than most observers had expected.

At the end of November the Japanese still held the Ormoc "corridor" in western Leyte. At this time our destroyers commenced to interfere with the enemy's seaborne reënforcements and it seemed probable that the crisis in Leyte was past. But Japanese plane attacks continued to be heavy and persistent and our own toll of loss and damage mounted. And in the meantime Luzon, the citadel-island of the Philippines, already garrisoned by about 150,000 Japanese at the time of our initial invasion of Leyte, was reënforced and strengthened. The battle for "The Islands" promised to be long and hard.

On the heels of the realization that our next step toward the enemy mainland might be delayed came a dramatic piece of news from China. General Joseph W. Stilwell was relieved of his command at Chiang Kai-shek's personal request. The complex issue was bigger than personalities, however; the issue embraced the entire problem of leadership, administration and morale in China. China's weaknesses are now beginning to be understood in America. The China-Burma-India theater was split into two parts, with Major-General A. C. Wedemeyer, a brilliant young officer, in command in China, and Lieutenant-General Daniel I. Sultan (under Admiral Lord Louis Mountbatten) in charge in northern Burma and in command of all American troops in Burma and India. The operations for reopening the Burma Road and linking it with the Ledo Road hold some promise of success, and are continuing despite Stilwell's relief. But it now seems probable that amphibious strategy will be followed in the attack upon Japan and that China's east coast may be by-passed.

## v

The fighting of October and November in western Europe showed that the German Army was not broken. The sweep across France during August and early September netted more than

600,000 German prisoners, and total German casualties in the west since D-Day had been boosted to an estimated 1,000,000 or more by November 1. But the bulk of the best German armored divisions escaped and formed the cadres of new units. The majority of the prisoners taken in France were from second-class and rear-area outfits.

The Twenty-first Army Group of British, Canadian and other Allied forces was bolstered by American troops during the fall, partly because Canadian replacements were slow in coming, partly because the fighting in this flooded region was particularly difficult but offered important prizes. Two American airborne divisions, the 82nd and the 101st, took part in operations with British forces in Holland in September, all as part of Lieutenant-General Lewis H. Brereton's new Airborne Army. They spanned three of the four water lines which barred the British Second Army's advance to the north, but the Germans held along the Lek.

Throughout the fall, problems of weather and supply were stiff. Antwerp was not wrecked by the Germans, but its channel approaches were mined and silted, and in November the Germans claimed that their new V-2 rocket bombs were falling in the port. By the end of November, however, Antwerp was at least partially open to shipping and some of our acute supply problems were solved. The freeing of the approaches to Antwerp of German garrisons and batteries, and the combined Second Army-Airborne advance to the Lek, south of Arnhem, were direct prefaces to the great Allied winter offensive, which started with a limited offensive by the Third Army on November 8, and was in full swing along most of a 400-mile front by November 16.

The Third Army commenced an operation to pinch off the fortified position of Metz. This was followed by a drive by the Seventh Army and the French First Army toward Strasbourg and Belfort. These southern thrusts, from east of the Moselle to Belfort, met quick success. The Germans had withdrawn many of their troops from these areas, and the enemy offered stout but chiefly delaying action as he withdrew his main line of resistance to the Rhine and to frontiers of Germany along the Saar.

But the main Allied effort — and the area where decision would be won — was in the Cologne plain, east and north of Aachen which we had taken in a local offensive on October 20. Here, three Allied armies — the British Second, the newly organized American Ninth, Lieutenant-General William H. Simp-

son, commanding, and the American First — concentrated on a relatively narrow front in an attempt to smash the defending German armies and break through into the Ruhr. The first three weeks of the battle showed that the going was bitter and more bloody than the “hedgerow war” in Normandy, where our casualties were very high. At writing, the British have closed up to but have not yet crossed the Meuse between Venlo and Geilenkirchen, and the Americans have reached but have not yet crossed the Roer. The Germans are fighting with fanaticism and skill, and since September they have shown a remarkable recuperative power. The enemy is creating additional new divisions rapidly; his V-1 and V-2 weapons are being used with more and more frequency against our army supply lines immediately behind our fronts, and there is every indication of slow, grinding, bitter progress, hampered by weather as well as by the enemy.

Bad weather also handicapped our air power during the fall months. Heavy and continuous raids were made, but most of the bombing was done blind. From August 1942 to October 31, 1944, the Eighth Air Force, based in Britain, and the Fifteenth, in Italy, had together dropped 330,000 tons on targets in Germany and a grand total of 638,880 tons on objectives throughout Europe. The high-priority targets were synthetic oil plants; the German aircraft industry is now so dispersed that it is no longer a very profitable objective. The Germans are producing 1,200 to 1,500 planes a month and the Luftwaffe has not been completely knocked out; but it is not greatly influencing the course of the war.<sup>5</sup>

\* In Italy, the fall and winter rains caught our troops still in the mountains on the edge of the Po Valley. The Allied divisions had too little numerical superiority for a break-through. Casualties for limited gains continued high, and conditions of fighting and living were miserable.

The enemy has lost the war but we have not yet won it.

<sup>5</sup> The German jet fighters remain a source of danger; they are the fastest in the skies.



# BRETTON WOODS AND INTERNATIONAL COÖPERATION

*By Henry Morgenthau, Jr.*

THE United Nations won a great if unheralded victory at the Bretton Woods Monetary and Financial Conference. For they took the first, the most vital and the most difficult step toward putting into effect the sort of international economic program which will be necessary for preserving the peace and creating favorable conditions for world prosperity.

International agreements in the monetary and financial field are admittedly hard to reach, since they lie at the very heart of matters affecting the whole complex system of economic relations among nations. It is a familiar fact that in all countries sectional interests are often in conflict with the broader national interests and that these narrow interests are sometimes sufficiently strong to shape international economic policy. It was, therefore, a special source of satisfaction to all the participants in the Conference that agreements were reached covering so wide a range of international monetary and financial problems. This was largely due to long and careful preparation preceding the Conference during which we secured general recognition of the principle of international monetary and financial coöperation.

The Conference of 44 nations prepared Articles of Agreement for establishing the International Monetary Fund and the International Bank for Reconstruction and Development to provide the means for consultation and collaboration on international monetary and investment problems. These agreements demonstrate that the United Nations have the willingness and the ability to unite on the most difficult economic issues, issues on which comprehensive agreement had never before been reached even among countries with essentially similar political and economic institutions. The victory was thus all the greater in that the Bretton Woods Agreements were prepared by countries of differing degrees of economic development, with very far from similar economic systems, and will operate not merely in the immediate postwar years, as will UNRRA, but in the longer period ahead.

The hope that the United Nations will not prove a merely temporary wartime coalition which will disintegrate after military victory has thus received substantial reinforcement. No matter what pattern future organs of international coöperation may as-



sume — and the pattern may be diverse and varied to correspond with the great variety of problems to be met — Bretton Woods proved that if the determination to coöperate for peace as well as for war is present, adequate and suitable instruments can be devised in every sphere where international action is needed. In that sense, Bretton Woods was an unmistakable warning to the Axis that the United Nations cannot be divided either by military force or by the diplomatic intrigues of our enemies. It gave an unequivocal assurance to the soldiers of the United Nations that the sacrifices they are making to stamp out forever the causes of war are not being made in vain. And lastly it was a sign to the civilians on whose labors the war efforts of all the United Nations depend that such labors are bearing fruit in the councils of peace no less than those of war.

I have indicated that at Bretton Woods the United Nations took the first and hardest step toward the adoption of the kind of economic program necessary for world stability and prosperity. It was only the first step because the Articles of Agreement for the establishment of the Fund and the Bank still have to be ratified by each of the participants in accordance with legal and constitutional requirements and procedures. I would be the last to claim that the process is likely to be a simple or an easy one. Yet, so far as the action to be taken by the United States is concerned, I have sufficient faith in the common sense of the American people to believe that they have learned the painful lesson that the best way to guard our national interests is through effective international coöperation. We know that much remains to be done in other fields. But, despite their highly technical nature, the Fund and the Bank are the best starting point for international economic coöperation, because lack of agreement in these spheres would bedevil all other world economic relations.

Highly technical questions have one great advantage from the political point of view — their very intricacy should raise them above merely partisan considerations. My optimism is partly based on the belief that the Bretton Woods proposals will be discussed on an objective basis and that such differences of opinion as may emerge will not follow party lines. The American delegation was non-partisan in composition and was thoroughly united on all major questions. Republicans and Democrats alike had an equal voice in shaping its decisions, and there is good reason to expect that the precedent followed before and during the Conference will be continued and that the next stage of

ratification will be conducted on the same high plane. In the light of my experience as chairman of the American delegation, I believe that men of broad vision in both parties will rise to the challenge and the opportunity to initiate the historical pattern of international economic coöperation that world peace demands. The challenge and opportunity are all the greater because our course of action will largely determine the course of action of many other members of the United Nations. "As America goes, so goes the world" may be an exaggeration. But it is a pardonable exaggeration in a world made one by time and fate, in which America's strength and potentialities are perhaps more clearly realized by the rest of the world than by the American people itself. I should therefore like to emphasize as strongly as possible that a tremendous responsibility rests on our government and people in connection with the ratification of the Bretton Woods Agreements. For our action will be rightly or wrongly interpreted as a sure and infallible index of our intentions with respect to the shape of things to come.

## II

The fate of the Treaty of Versailles adds to the significance of the course we adopt on the Bretton Woods proposals. As the President has pointed out, the Allied leaders are acquainted with our constitutional processes as they affect our dealings with foreign powers. If there are any Americans who would utilize the division of powers to defeat the ends sought by the vast majority of Americans, they are not likely to succeed if the issues are clearly and unambiguously presented to the Congress and the people. We must always keep in mind that other nations are anxiously asking whether the United States has the desire and ability to coöperate effectively in establishing world peace. If we fail to ratify the Bretton Woods Agreements, they will be convinced that the American people either do not desire to coöperate or that they do not know how to achieve coöperation. They would then have little alternative but to seek a solution for their pressing political and economic problems on the old familiar lines, lines which will inexorably involve playing the old game of power politics with even greater intensity than before because the problems with which they will be confronted will be so much more acute. And power politics would be as disastrous to prosperity as to peace.

One important reason for the sharp decline in international

trade in the 1930's and the spread of depression from country to country was the growth of the twin evils of international economic aggression and monetary disorder. The decade of the 1930's was almost unique in the multiplicity of ingenious schemes that were devised by some countries, notably Germany, to exploit their creditors, their customers, and their competitors in their international trade and financial relations. It is necessary only to recall the use of exchange controls, competitive currency depreciation, multiple currency practices, blocked balances, bilateral clearing arrangements and the host of other restrictive and discriminatory devices to find the causes for the inadequate recovery in international trade in the decade before the war. These monetary devices were measures of international economic aggression, and they were the logical concomitant of a policy directed toward war and conquest.

The postwar international economic problems may well be more difficult than those of the 1930's, and unless we coöperate to solve these problems, we may be faced with a resumption and intensification of monetary disorder and economic aggression in the postwar period. There is no need to enlarge on the consequences of such a development. It is a bleak prospect, yet it is one we must understand. In some countries it will present itself as the only practical alternative if the rest of the world should be unable to count on effective American participation in a rounded and coherent program covering international political and economic relations. If that should come to pass, we will have to frame our own future to fit a world in which war will never be a remote contingency and in which economic barriers and restrictions will be the rule in a contracting economic universe. On the other hand, if we ratify the Bretton Woods Agreements, we will be showing the rest of the world not only that we can coöperate for winning the war, not only that we are capable of formulating a program for fulfilling our common aspirations, but that we intend to enforce and implement such a program in every relevant sphere of action. Ratification would thus strengthen all the forward-looking elements in every country who wish to translate their craving for peace into deeds and will be a resounding answer to the pessimists who feel that peace is unattainable.

The institution of an international security organization on the lines agreed on at Dumbarton Oaks constitutes a history-making accomplishment of which we may well be proud. Here

is an organization for maintaining peace and political security which for the first time has teeth in it. But it is our duty to keep to a minimum the tensions to which that organization will be subjected and to deal with the economic causes of aggression before the stage is reached where more far-reaching measures would be necessary. International monetary and financial coöperation is indispensable for the maintenance of economic stability; and economic stability, in turn, is indispensable to the maintenance of political stability. Therefore, a program for international economic coöperation of which Bretton Woods is the first step must accompany the program for political and military security toward which the United Nations are moving. Bretton Woods is the model in the economic sphere of what Dumbarton Oaks is in the political. They reinforce and supplement each other. Political and economic security from aggression are indivisible, and a sound program for peace must achieve both.

### III

As I have already said, agreement on international monetary and banking policy is only the first step toward the achievement of a constructive economic program through which world stability can be maintained and within which the horizon of prosperity can be expanded. Other measures, both national and international, will be required to round out the program.

Domestic economic stability is, of course, intimately bound up with international stability. But international stability by itself will not ensure domestic stability. It will be incumbent on us to adopt the kind of domestic program which will make possible the attainment and maintenance of high levels of employment with rising standards of living. I have sufficient faith in our economic system and the institutions of free enterprise and individual initiative to hope that this goal will be achieved. Needless to say, its achievement will be greatly facilitated by the promise of international monetary stability held forth by the Bretton Woods Agreements, just as the achievement of international monetary stability will be facilitated by a high level of prosperity in the United States. This is merely another illustration of the thesis that we are an integral part of the world economy and that the relations between the parts and the whole are intimate and mutual. High levels of employment in the United States strengthen economic and political stability throughout the world, which in turn reinforce American domestic prosperity.

In addition, international collaboration in the sphere of commercial policy, control of cartels, and possibly in the supply of primary commodities and labor standards will be needed if the basic causes of economic friction and aggression are to be abolished. The Fund and the Bank are not intended to cover these fields, which will, of course, be subjects for further discussion among the United Nations. The great objective of the Fund and the Bank is to provide the monetary and financial foundation without which agreement in these other important fields would be either impossible to attain or meaningless if attained. For no economic agreements among nations could survive discriminatory exchange practices, severe and repeated competitive currency depreciation, tight permanent exchange controls, and the like. In fact, it is not too much to say that when nations are pursuing competitive exchange policies — whether their purpose is aggressive or merely defensive is immaterial — reciprocal trade agreements cannot be made. Thus no reciprocal trade agreement with Germany in the period from 1933 to 1939, say, would have been worth the paper it was written on for the simple reason that all its purposes and effects would have been completely nullified by the exchange policy which the Germans pursued in those years.

This consideration applies with still greater force to agreements for protecting producers of primary commodities or for raising labor standards. How, for example, can we protect the American farmer in the world markets if a sizable wheat-producing country can resort to monetary action which places the wheat producers in that country in a preferred position with respect to American wheat exporters? If the American farmer is to continue to export wheat and to receive a fair price in dollars for the wheat he sells at home, he must know that the world price of wheat in terms of his own currency will not be seriously disturbed by large exchange fluctuations in the principal wheat exporting and importing countries.

And how can we obtain agreement protecting our own high labor standards if we do not participate in expansion of international long-term investment? For if the economically less advanced countries are to raise their labor standards they must increase their productivity, and to increase their productivity they need capital for modern machinery and processes. Unless adequate provision is made for a resumption and expansion of international investment by private investors on sound lines,

the less developed countries will have no alternative but to meet all their capital requirements themselves. The process of industrialization would then inevitably become more painful both to themselves and to the rest of the world, since they would have little choice but to control their imports rigorously and to compete as intensively as possible for their share of the world market, ruthlessly exploiting their own cheap labor, and undercutting countries with higher labor standards in the process. Instead of tending to raise their labor standards to our high level, this would tend to pull our labor standards down to theirs.

These instances are corollaries of the broader proposition that world stability and prosperity demand the expansion and growth of international trade and investment. In a contracting market each country will fight to maintain its foothold and will not be too fastidious as to the weapons it uses in the fight. An expanding market does not eliminate competition, but while competition assumes cutthroat and destructive forms in a contracting market, it tends to have socially beneficent effects in an expanding one.

#### IV

The Bretton Woods Agreements are thus the most vital step in the path of realizing effective international economic coöperation. Without monetary coöperation, international economic coöperation in other spheres will at best be short-lived; and it may not be too much to add that without monetary coöperation, international coöperation in non-economic spheres may be short-lived also. The Bretton Woods Agreements are also the most difficult step in international economic coöperation because while we were not exploring entirely uncharted seas, while precedents for monetary and financial collaboration for specific purposes existed, the scope and content of the collaboration proposed at Bretton Woods are so much broader and fuller that problems with infinitely more complications had to be solved. Our own stabilization fund has in the past entered into a number of arrangements with other governments and Central Banks to promote stability in exchange relationships between the United States and other countries. And such arrangements, while *bilateral* in character, undoubtedly made a definite contribution to orderly international monetary relations. An even broader form of *multilateral* coöperation through consultation with respect to contemplated changes in exchange rates was achieved by the



Tripartite Declaration of September 1936 among France, Great Britain and the United States, to which Belgium, Holland and Switzerland subsequently adhered. But without minimizing the significance of such monetary arrangements, and particularly of the Tripartite Accord, it is proper to note that because of their limited and improvised character, and also because of the conditions in which they were made, they could not cope with the range of problems the Fund and Bank are designed to handle.

Take, for example, the question of the relative international economic positions of the United States and England to which so much attention has been devoted in discussions of postwar trade possibilities. England was formerly a creditor nation and has now become a debtor. Previously she was able to turn her unfavorable trade balance into a favorable, or at least a compensated, balance of payments by receipts of interest and dividends on foreign investments and by receipts for current banking, insurance and shipping services. After the war she will have to expand her exports. Otherwise she will have to run down her foreign investment still further or resort to new borrowing, or she will have to curtail her imports which would lower her living standards and sharply restrict world trade. The United States has become a creditor country with the prospect of increasing exports, provided our customers are in a position to find the dollars which they need to pay for the goods and services they want to buy from us. Other countries cannot find the necessary dollars to pay for our exports unless we are willing to increase our own imports, our tourist and other expenditures abroad, or unless we are willing to become a creditor country on a greater scale, or both.

The measures for international coöperation on monetary and investment problems required to meet the needs of the United States and England must obviously be flexible in character and broad in scope. This was one of the outstanding accomplishments of Bretton Woods, an accomplishment which was easier to achieve because of the spirit of mutual understanding with which the American and British delegations faced their problems, and because of the extended British and American technical discussions during the two years prior to the Conference. I believe that the economic interests of the United States and Great Britain are not irreconcilable, that the world is large enough to provide an expanding market for the exports of both, and that, given the good will which has characterized the discussion of our common economic and financial problems in the past, no problem involv-



ing our two countries need remain unsolved. Quite obviously, the solution will be much less difficult in a world in which international trade is expanding and in which an adequate volume of sound and productive international investment is undertaken by private investors. That is precisely how the Fund and the Bank can contribute to the adjustment of international accounts.

## v

But that is only part of the picture. At Bretton Woods, countries in very different stages of economic evolution joined in working out common instruments of monetary and investment policy. China and India are predominantly agrarian countries with low levels of industrialization and low standards of living. Naturally, they desire to raise both. The United States and England are countries with high levels of industrialization and high standards of living, which just as naturally desire to maintain and if possible raise both. Unless some framework which will make the desires of both sets of countries mutually compatible is established, economic and monetary conflicts between the less and more developed countries will almost certainly ensue. Nothing would be more menacing to world security than to have the less developed countries, comprising more than half the population of the world, ranged in economic battle against the less populous but industrially more advanced nations of the west.

The Bretton Woods approach is based on the realization that it is to the economic and political advantage of countries such as India and China, and also of countries such as England and the United States, that the industrialization and betterment of living conditions in the former be achieved with the aid and encouragement of the latter. For the process of industrialization, without which improvement of living standards is unattainable, can be most efficiently accomplished by an increasing volume of imports of machinery and equipment. And what could be more natural than for India and China to import such goods from England and the United States with their vastly expanded capacity for producing such goods? The harmony of economic interests in international trade between the more and less developed countries is a doctrine which has long been preached by economists, but it is a doctrine which has often not been honored in observance. The United Nations Monetary and Financial Conference made a big advance toward translating this theoretically sound maxim into practice.

Again, there is a clear line of demarcation between those countries ravaged by war and the countries fortunate enough because of their geographic situation to have escaped invasion, bombing and looting by the enemy. Nowhere was what I should like to call the Bretton Woods spirit more clearly manifest than in the Conference's determinations to give special attention and consideration to the problems of countries in the first category. It was shared no less by the countries whose territories had not been damaged by Axis operations than by the immediate victims of totalitarian aggression. The reconstruction of the devastated countries of Europe and Asia is essential if normal international trade relations are to be resumed promptly. These countries are vitally important to the export and import trade of the western hemisphere. That is why all the American Republics gave whole-hearted support to the provision that the Bank is to facilitate economic reconstruction. I should like to single out for special mention Russia's splendid demonstration of the sincerity of her intentions to participate in world economic reconstruction by raising her subscription to the Bank from 9 million dollars to 1.2 billion dollars on the last day of the Conference.

Finally, countries with widely divergent economic systems participated in preparing the Agreements for the Fund and the Bank. The United States is as indubitably a capitalist country as Russia is a socialist one. Yet both agree not only on the desirability of promoting monetary stability and international investment but on the means required to realize these ends. And this for a very simple and satisfactory reason — it is to the advantage of each to do so. As an impenitent adherent of the capitalist system, which in the crucible of war has once again shown its ability to deliver the goods, I am firmly convinced that capitalist and socialist societies can coexist, as long as neither resorts to destructive practices and as long as both abide by the rules of international economic fair play. Perhaps it is not too much to claim for the International Monetary Fund that it prescribes the standards in the field of monetary policy which it is hoped all countries, whatever their political and economic systems, will follow.

Despite these difficulties, the Bretton Woods Conference had to succeed because there is no other method of dealing with international monetary and financial problems than through international coöperation. There is no satisfactory alternative. There has been a suggestion that these were questions that could

be solved by the United States and England, perhaps with the aid in later years of a few so-called key countries. But this approach takes no account of the realities of the postwar situation. The establishment of an exclusive Anglo-American condominium would not be the appropriate means of dealing with international monetary problems. In the absence of effective international action, unstable exchange rates are much more likely to occur in other countries than in Britain. In fact, unless there is a *general* environment of stable and orderly exchange rates with expanding trade and adequate investment, the adjustment of the British balance of payments after the war will be immeasurably more difficult. The problem of exchange stability is a general problem. Our own exporters of agricultural and industrial goods need more assurance than the stability of the dollar-sterling rate of exchange provides. They want to know that the price and quantity of their exports will not be suddenly reduced by depreciation in the countries to which they export or in the countries with whose exports they compete.

I doubt that the 42 other United and Associated Nations, who have been fighting and working with us during the war, would take kindly to what might be regarded as dictatorship of the world's finances by two countries. There is a vague promise in this alternative that other countries might in time be added to the select group whose coöperation was regarded as desirable. But even these countries would be expected to coöperate by attaching themselves to a dollar bloc or a sterling bloc. If we should exclude the greater part of the world from coöperation on these problems and postpone for ten years agreement on stability and order in exchange rates, we should find that the world had become irrevocably committed to fluctuating exchange rates, exchange controls and bilateral clearing arrangements. Once firmly established, it would not be possible to obtain the general abandonment of these restrictive and discriminatory measures. Beyond that, there would seem to be considerable danger — political as well as economic — in setting up a world divided into two blocs. Such a division of the world would not only deprive us of the general advantages of multilateral trade but would inevitably lead to conflict between the two groups. The fact is that the problems considered at Bretton Woods are international problems, common to all countries, that can be dealt with only through broad international coöperation.

The above are only the most striking examples of the range of

issues before the Conference. Each country has its own peculiar position in the world economy which no other country duplicates. Naturally each country wants to safeguard and, if possible, strengthen this position. The representatives of all countries always had this consideration in mind in weighing the merits of the proposals for the Fund and the Bank. Yet the very fact that so broad an agreement was reached is the best proof that the United Nations have all learned that we are one world community in which the prosperity of each is bound up with the prosperity of all. Because this is a point on which I feel so deeply, I should like to quote from my speech to the final session of the Conference on July 22:

There is a curious notion that the protection of national interest and the development of international coöperation are conflicting philosophies — that somehow or other men of different nations cannot work together without sacrificing the interests of their particular nation. There has been talk of this sort — and from people who ought to know better — concerning the international coöperative nature of the undertaking just completed at Bretton Woods.

I am perfectly certain that no delegation to this Conference has lost sight for a moment of the particular national interest it was sent here to represent. The American delegation, which I have the honor of leading, has been, at all times, conscious of its primary obligation — the protection of American interests. And the other representatives here have been no less loyal or devoted to the welfare of their own people.

Yet none of us has found any incompatibility between devotion to our own country and joint action. Indeed, we have found on the contrary that the only genuine safeguard for our national interests lies in international coöperation.

## VI

Attention should also be called to two resolutions of special significance passed by the Conference. The first recommends the earliest possible liquidation of the Bank for International Settlements. Whether rightly or wrongly, this institution has become inextricably identified with appeasement and collaboration. It is fitting that a United Nations Monetary and Financial Conference should record its unqualified stand on an existing financial organization which, to say the least, did not promote the ends we are seeking. Further, the Conference did not wish considerations of power politics to enter into the functioning of the instruments it fashioned. It is specifically stated that the Fund and the Bank should not be affected by political factors in their operations or in their recommendations to member countries. The Conference wanted to avoid linking the Fund and the Bank in any way with the Bank for International Settlements. It might be said

that the best way to deal with the problem was to ignore it. But that was not the feeling of the countries that have suffered from enemy occupation. Such a passive attitude would in itself have constituted appeasement of the Axis, and the root-and-branch recommendation is in much better accord with the determination of the United Nations to tolerate no institution that does not serve in the struggle for freedom and democracy.

The second resolution was designed to ensure the restoration to their rightful owners of property looted by Germany, Japan and their satellites. It supports the steps already taken by the United Nations and calls on the governments of neutral countries to facilitate the process of restoration. It is part of the United Nations program that the Axis and its Allies and agents should not be allowed to get away with any loot this time. This resolution implements that program and contributes to the strengthening of international law concerning international theft and banditry.

If I have dwelt at some length on the significance of the Bretton Woods program for international coöperation, it is because the subject has received less than its due attention and merit in the press, which has confined its discussions to the more purely monetary and financial aspects of the Conference. Its long-run political implications may be no less far-reaching than its economic achievements. For it is in our power to transform the Bretton Woods Agreements into an epoch-making precedent, a beacon of world progress.

# THE MONETARY FUND: SOME CRITICISMS EXAMINED

*By H. D. White*

PERHAPS no economic measure has ever received the careful consideration, extensive discussion and painstaking labor that went into the formulation of the proposal for an International Monetary Fund. The preparations for the United Nations Monetary and Financial Conference were a model of democracy in action. During the two years that elapsed between the emergence of the proposal in its original form and the final draft drawn up at Bretton Woods, literally hundreds of conferences were held with experts of some thirty nations. Hundreds more took place among American experts — from the staffs of the Treasury, the Federal Reserve Board, the State Department and other agencies of the government — and among interested groups of businessmen, bankers and labor. Comments pouring in from all over the country were studied with care. The original documents went through more than twenty drafts, several of which were published here and abroad and widely distributed for study. Before the Conference was called, foreign experts had many months to study the proposals and to discuss them with appropriate groups at home.

In June 1944, about sixty representatives of some fifteen major nations met with a score of American experts at Atlantic City, and for two weeks worked to improve the proposals. Finally, in July 1944, representatives of 44 nations met at Bretton Woods. These representatives included finance ministers, officials of Central Banks of most of the countries, Treasury officials who help to shape monetary policy in the major countries and to administer the large stabilization funds of the world, scores of monetary experts, economists, legal authorities, bankers, and almost all of the hundred or so technical representatives of foreign countries who for more than a year had participated with the American experts in consideration of the various drafts.

For three and a half weeks these experts labored 14 to 16 hours a day in committees and subcommittees, going over every provision, studying every suggestion, discussing in greatest detail every point of difference. Each line of each provision was subjected to the closest scrutiny. In the light of all this, the attempt which has been made by certain commentators, familiar with the



background, to convey the impression that the monetary proposal was the hastily compiled and visionary blueprint of a handful of men inexperienced in the real problems of foreign exchange and finance is somewhat puzzling. The charge that it was thrust full-born upon the public without giving it an opportunity to examine, criticize, or make recommendations can be interpreted only as a manoeuvre to undermine confidence in the soundness of the proposal.

Fortunately this criticism comes from a small, albeit powerful, group. The bulk of expert and informed opinion approves the proposals, and the number of supporters multiplies as the plan is studied and understood. This is due to the fact that, once understood, the proposals are recognized as effective machinery for achieving ends the desirability of which has been driven home by painful experiences of the last quarter century.

The proposal for an International Monetary Fund rests on two premises. The first is the need for stability, order and freedom in exchange transactions; without these we cannot have the expansion of world trade and the international investment essential to the attainment and maintenance of prosperity. The second is that stability in the international exchange structure is impossible of attainment without both international economic coöperation and an efficient mechanism for implementing the desire for such coöperation among the United Nations. Once these premises are accepted, the proposed International Monetary Fund is recognized as the necessary instrument for securing coöperation on international monetary and financial problems and the most logical and effective means for adopting and maintaining mutually advantageous policies.

Owing to the essential simplicity of the framework, the area of agreement was broad almost from the beginning. It is with respect to the technical details, from their nature complex, that agreement had to come slowly. That it was reached at last was unquestionably due to the wide discussion the proposal received and to the careful and earnest consideration given to every criticism and suggestion.

Many of the criticisms and suggestions proved invaluable. Certain others, however, had to be rejected for the reason that they did not meet the need or did not offer a practical basis for coöperation on international monetary and financial problems. I should like to consider some of these suggestions and criticisms and explain just why they are unacceptable.



## II

A suggestion frequently offered is that exchange stability can be most effectively established by restoring the gold standard in other countries, particularly England. To these critics the automatic functioning of the gold standard on pre-1914 levels appears as the ultimate desideratum of international monetary policy.

Now it is true that the decades before the First World War were a period of relative stability in international economic relations, and that in part the stability was a consequence of the gold standard. However, that gold standard was never even in its heyday an automatic and self-correcting mechanism, but one requiring a considerable amount of supple management. The gold standard could not have been maintained even to the extent that it was unless there had been coöperation among the leading Central Banks, particularly at critical junctures.

Fundamentally the stability of the decade before the First World War was due not to the gold standard but to the fact that the world economic structure was sufficiently resilient and adaptable to permit playing the game according to gold-standard rules. Unfortunately, the world today is much more complicated than the world of the nineteenth century, and the economic problems with which it confronts us are much less amenable to simple and rigorous solutions. To expect the restoration of the gold standard to bring back the resiliency of bygone days is, therefore, to put the cart before the horse.

That is not to say that there were not real advantages in the old gold standard. It did give assurance to businessmen that the exchange policy of a country would conform to a prescribed pattern of stability and freedom in exchange transactions. That is a worthwhile advantage in so far as it contributes to a high level of international trade and investment; but unless the economic structure of the great industrial countries and of the countries producing primary raw materials has the degree of flexibility and adaptability requisite for the operation of the gold standard, it will not be possible to continue maintaining the gold standard in periods of stress. The gold standard has repeatedly broken down under the strain of acute emergencies. Twice within a generation the gold standard has been abandoned by the very countries that had struggled to restore it. It is no use to argue that if countries would only make the "necessary adjustments"

the gold standard could be maintained. The countries involved regard such adjustments as adjustments to a Procrustean bed.

The restoration of the gold standard in the leading countries is not a policy that we can hope to see widely accepted. Few countries are again willing to commit themselves irrevocably always to undertake restoration of equilibrium in their balance of payments wholly via the route of wage and price deflation or through import restrictive devices. In Britain, for example, the public is convinced that the difficulties of the 1920's and the 1930's were due to the restoration of sterling to its prewar parity and to the overvaluation of the pound. So long as these views are widely held, no British Government will assume the responsibility for restoring the gold standard. In a debate in the House of Commons, the Chancellor of the Exchequer said most emphatically: "Certainly the attitude of His Majesty's present Government would be one of most vehement opposition to any suggestion that we should go back to the gold standard." The representatives of many other countries have likewise indicated that a return to the old gold standard is politically impossible in their countries.

But while a return to the old gold standard is of doubtful wisdom for some countries and impossible for many countries, there is no reason why we should not obtain its advantages without imposing its rigidities on countries unwilling to accept it. That is precisely what the International Monetary Fund does. It requires countries to define their currencies in terms of gold, to maintain exchange rates stable within a range of one percent above and below such parity, to make no alterations in the parity of their currencies except after consultation with the Fund, or with its concurrence, and to impose no restrictions on current transactions except after consultation with the Fund, or with its approval. While some countries are not prepared to adopt the gold standard, they are willing to take coöperative measures of this kind to provide stability and order in international exchange transactions. Those countries which elect, as does the United States, to adhere to the gold standard can, of course, do so without in any way complicating the operations of the Fund.

It should be pointed out that even if countries were to adopt the gold standard there would be no assurance that they would maintain it. It would do little good to have countries repeat the experience of the 1920's, struggling to restore the gold standard only to abandon it under the impact of a great depression. It is

far better to obtain an agreement through international monetary coöperation, and to establish a stable if moderately flexible exchange structure which has good chances of being maintained, than it would be to impose on other countries an ephemeral and involuntary restoration of the gold standard which they will abandon at the first opportunity or pretext.

## III

Some critics object to the Fund because it permits flexibility in exchange rates; they seem to believe that, once established, the parity of a currency has the sanction of moral law.

The Articles of Agreement for the International Monetary Fund provide that one of the purposes of the Fund is "to promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation." Stability of exchange rates is not, however, identical with rigidly fixed rates that cannot be changed under any circumstances. The difference between stability and rigidity in exchange rates is the difference between strength and brittleness. It is the difference between an orderly adjustment, if conditions warrant it, and eventual breakdown and painful adjustment. The assumption that rigidly fixed exchange rates are always advantageous is no longer held to be axiomatic. It is true that if countries permit wide fluctuations of exchange rates in response to temporary changes in their balance of payments, the level of international trade and international investment will be adversely affected. But when the economic position of a country shifts because major factors have affected the world's demand for its exports, the proper remedy *may* be an adjustment in exchange rates.

The world needs assurance that whatever changes are made in exchange rates will be made solely for the purpose of correcting a balance of payments which cannot be satisfactorily adjusted in any other way. The world needs assurance that exchange depreciation will not be used as a device for obtaining competitive advantage in international trade; for such exchange depreciation is never a real remedy. It inevitably leads to counter measures, and the ultimate effect is to reduce the aggregate volume of trade. This is precisely what happened in the period of the 1930's when competitive exchange depreciation brought wider use of import quotas, exchange controls and similar restrictive devices.

The Fund gives the assurance the world is asking for; it provides a method of obtaining orderly exchange adjustments if they

are needed to correct a fundamental disequilibrium. Such adjustments can be made only on the proposal of a member and only after consultation with the Fund. The Fund cannot object to a proposed change if, together with all the previous changes — whether increases or decreases — it does not exceed 10 percent of the initial par value of the currency. All other changes in exchange rates can be made only with the concurrence of the Fund. In the postwar period initial exchange rates will have to be set for countries that have been cut off from world trade during the war, and a procedure has been provided to adjust promptly any error made in the selection of initial parities. Such adjustment is preferable to allowing a persistent overvaluation or undervaluation of a currency.

The purpose of exchange stability is to encourage trade. We should defeat this purpose if we insisted on rigid exchange rates at the cost of severe deflation, which would reduce world trade and investment and spread depression from country to country. While the Fund would have every reason to object to exchange depreciation as a means of restoring equilibrium better achieved in other ways, it would not force upon a country a rigid exchange rate that can be maintained only by severe deflation of income, wage rates and domestic prices. Nor if a change in exchange rates is necessary to correct a fundamental disequilibrium, could the Fund object on the grounds of the domestic social or political policies of a country; it cannot be placed in the position of judging such policies of its members. It could not forbid countries to undertake social security programs or other social measures on the ground that such measures may jeopardize a given parity. Englishmen have not forgotten that in the sterling crisis of 1931 social services were cut in the attempt to maintain the fixed sterling parity. To use international monetary arrangements as a cloak for the enforcement of unpopular policies whose merits or demerits rest not on international monetary considerations as such but on the whole economic program and philosophy of the country concerned, would poison the whole atmosphere of international financial relations.

These provisions of the Fund assure a stable and orderly pattern of exchange rates without restrictive rigidity. It puts the sanction of international agreement on stable and orderly exchange arrangements. If any change in exchange rates is made after the Fund has expressed its objection, the member becomes ineligible to use the resources of the Fund; and if the difference

between the member and the Fund continues, the member may be compelled to withdraw from the Fund. Altogether, the Fund provides greater assurance of exchange stability than would be possible under the gold standard.

## IV

It has been asserted that the Fund is only a device for lending United States dollars cheaply and that the money will be wasted or lost; that other countries just want to get our dollars, and that there is nothing to stop them from quickly draining our dollars from the Fund.

This is an argument that could be made only by persons who either have not carefully studied the Fund document, or are attempting to frighten people into economic isolationism. The fact is that from Article I to Article XX safeguards have been written into this agreement to make sure that the Fund's resources cannot be dissipated or lost. Some of these safeguards are briefly discussed below.

The Fund will not accept an initial par value for the currency of any country if, "in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members." In fact, the Fund will "postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members."

To meet an adverse balance of payments for approved purposes, a country is entitled, subject to certain quantitative and qualitative limitations, to purchase the needed exchange from the Fund. The purchases of exchange must not cause the Fund's holdings of the member's currency during a 12-month period to increase by more than 25 percent of its quota, nor to exceed by more than 100 percent the quota of the country. The Fund may waive these limitations, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. The Fund may also require the pledge of collateral as a condition of waiver and it may prescribe whatever other terms and conditions it regards as necessary to safeguard its interests.

Some critics have spoken of these provisions on the sale of exchange as confirming automatic credit rights to countries who are not what they call "credit worthy." The criticism is wholly

unjustified. The technique of conditionally permitting a country to buy foreign exchange to a limited amount is commonly used in stabilization operations. It is included in all of the bilateral arrangements under our own exchange stabilization fund and in the Anglo-Belgian, Anglo-Dutch and Belgo-Dutch exchange agreements recently announced. The safeguard is that this conditional right can be terminated whenever it is not used for the purposes of the agreement. It is specifically provided that a member acting contrary to the Fund's purposes may be declared ineligible to use the resources of the Fund.

Apart from these general limitations, there are special provisions designed to assure the liquidity of the Fund and the revolving character of its resources. Members purchasing foreign exchange from the Fund are expected to use their own reserves of gold and foreign exchange in an equal amount, provided their monetary reserves exceed their quotas. When their balance of payments become favorable members are expected to use half of the increase in their reserves in excess of their quotas to repurchase their currencies held by the Fund. The provision that a country must use one-half of the increment in its reserves to repurchase its currency from the Fund is the counterpart of the provision that a country must meet one-half of the deficit in its balance of payments by use of its own reserves. The fact is that if over a period of time all countries were to maintain their international payments in equilibrium, the distribution of the Fund's resources would not only be restored to its original position, but because of the growth in monetary reserves, even strengthened.

The Fund has other provisions to assure the revolving character of its resources. A country purchasing exchange from the Fund with its currency must pay a service charge of three-fourths of one percent. This is a relatively heavy charge and it will induce countries, as intended, to place primary reliance on their own resources rather than the Fund's. Further, the Fund levies charges on its balances of a member country's currency; these charges rise steadily as the balances held by the Fund increase and the period over which they are held lengthens. When the charge rises to 4 percent on any of the Fund's holdings, the member and the Fund must consider means of reducing the Fund's holdings of the currency.

Finally, there is a specific provision safeguarding the gold value of the Fund's assets. No country can diminish its obligations to the Fund through depreciation. Whenever the par value of a



member's currency is reduced, or its foreign exchange value depreciates to a significant extent, the member must pay to the Fund an amount necessary to maintain the gold value of the Fund's assets.

Some critics fear that other nations are not interested in maintaining a sound Fund, that the Fund will be managed by debtors and that the United States will have only a minority voice. This fear is hardly warranted by the facts. The United States will have 28 percent, and the United Kingdom, the British Dominions and India together will have 26 percent of the total voting power. Provision is made for having the two largest creditor countries on the Executive Directorate. In all voting involving the sale of exchange, the votes of creditor countries are adjusted upward and the votes of debtor countries are adjusted downward. These are quite obviously ample safeguards to protect the creditor countries. But the greatest safeguard is the common interest of all countries in maintaining a Fund that will become the basis for stable and orderly exchange arrangements without which the world cannot have the expansion of international trade and the resumption of international investment essential to a prosperous world economy.

In the period after the war the world may need more dollars for imports from the United States and other payments to the United States than will be available; a number of countries may experience a scarcity of dollars. If we attain a high level of employment in this country after the war and resume international investment on an adequate level, the dollar will not become a scarce currency; the volume of imports and the purchase of services from abroad should be sufficient to cover all legitimate foreign demands for dollars. Failing such action, however, there is the real possibility that dollars will become so scarce that the Fund will not be able to sell as much dollar exchange as members wish to buy. This is not likely to happen quickly: 1, the Fund would have large resources of dollars and gold; 2, there are quantitative and qualitative limitations on the purchase of exchange from the Fund; and 3, member countries are required to use their own resources of gold and dollars when making use of the Fund. But in time, if the balance of payments becomes too one-sided, there may be a shortage of dollars. Such a shortage, if it develops, will not be because of the Fund but in spite of the Fund. Some critics have argued as if the Fund itself would be the cause of the scarcity in dollars. The Fund cannot create a shortage of dollars. On the

contrary, the Fund inevitably postpones a shortage of the currency most in demand, even when it doesn't prevent it.

Long before any acute scarcity of a currency develops, the Fund would have considered the situation and taken whatever steps were feasible to remedy it. The Fund might find that the principal cause of the difficulty was excessive imports by countries utilizing the Fund, and it would require corrective measures as a condition of continued use of the Fund's resources by such countries. The Fund might find that the causes of the scarcity were high trade barriers in the country whose currency was scarce, or a failure to undertake adequate international investment, and it would propose appropriate remedies. In the meantime, if the Fund should find that the difficulties were of a temporary character, it could use its gold resources or borrow the scarce currency under terms agreed with the country.

If, notwithstanding the delaying and corrective action of the Fund, a general scarcity of a particular currency is developing, the Fund may issue a report to member countries setting forth the causes of the scarcity and making recommendations designed to bring it to an end. This report may be issued while the Fund still has that currency and means of obtaining more. When the Fund finds that it will not be able to meet the prospective demand for a member's currency, the Fund will declare that currency scarce and thereafter apportion its existing and accruing supply of the scarce currency with due regard to relative need of members, the general international economic situation, and other pertinent considerations. The Fund would, of course, never exhaust its dollar supply. It would have a continued inflow of gold and dollars from its other transactions which would be available for sale to members. These provisions make the resources held by and accruing to the Fund available for dollar payments in the United States. The over-all utilization of dollars is sure to be larger under the Fund than it could be without it.

When a country is short of dollars, it is certain to take steps to limit the demand of its nationals for dollars. Without the Fund this action would take the form of establishing whatever controls the country wished. Under the Fund agreement, the limitations on the freedom of exchange operations that a country may impose with respect to a scarce currency are definitely prescribed and are undertaken only after consultation with the Fund. They must be no more restrictive than is necessary to limit the demand for the scarce currency, and the limitations must be relaxed and

removed as rapidly as conditions permit. Furthermore, a member must give sympathetic consideration to the representations of other members regarding such restrictions.

Very definitely this country assumes no moral responsibility for a scarcity of dollars. The technical representatives of the United States have made it clear to other countries in a number of memoranda that a scarcity of dollars cannot be accepted as evidence of our responsibility for the distortion of the balance of payments. I quote from such a memorandum: "It should not be overlooked that the disequilibrium in the balance of payments cannot be manifested as a problem peculiar to one country. Whenever the supply of a member country's currency is scarce, this scarcity is likely to be accompanied by excessive supplies of the currencies of other countries. In such cases the responsibility for the correction of the maladjustment is not a unilateral one. It will be the duty of the Fund to make a report not only to the country whose currency is scarce but also to the member countries who are exhausting or are using the resources of the Fund in a manner which is not consistent with the purposes of the Fund."

Some critics have expressed the view that once the Fund's holdings of dollars have fallen considerably below the subscription of the United States, it will not be able to function. This is completely wrong. The Fund will continue to be the means for international monetary coöperation and for maintaining stability and order in exchange transactions. The Fund will hold all currencies, except the dollar, in adequate amounts and will continue to sell such currencies to members. From its transactions, the Fund will also have dollars accruing to it, which it will sell in limited amounts to other countries. In time, of course, the Fund's position with respect to dollars will be fully restored if the United States does not have a persistently large favorable balance of payments. The United States can always acquire whatever currency it needs from the Fund. Furthermore, its position as a subscriber to the Fund is fully secured by the obligation of other countries to maintain unimpaired the gold value of their currencies held by the Fund, and by their obligation to redeem in gold or dollars any currency that is distributed to the United States if the Fund should be liquidated.

v

A view frequently expressed is that the proposal for the Fund is too ambitious, that the problem can best be solved by stabiliza-

tion of the key currencies — the dollar and sterling and perhaps some few others — and that other currencies can achieve some degree of stability by adherence to the dollar or sterling.

In part this exclusive concern with the key currencies reflects a fear that exchange stability and freedom in exchange transactions are not universally desirable policies; that many countries should be permitted to have fluctuating currencies and to use exchange control to manage their international payments. Whether this objection to the Fund is well taken is a matter of opinion. Regardless of the degree of stability or freedom one may prefer, few will deny that orderly exchange arrangements are essential, and such arrangements are practicable only through coöperation on a multilateral basis.

The emphasis on the key currencies in which international payments are made seems to me completely mistaken. The dollar and sterling are, of course, the most important currencies; but the currencies of other countries also are important to the extent that they affect volume of international trade and investment.

Some illustrations may help. Taking the sum of exports and imports, England's trade in 1937 was about 15 percent of the world total and the United States' trade was about 12 percent of the world trade. Is it of no importance to achieve currency stability in the countries carrying on nearly 75 percent of world trade among themselves? Only 11.5 percent of our trade in 1937 was with England and only 23 percent with British Empire countries other than Canada. Is it of no consequence to us to obtain currency stability in the countries with which we have more than 75 percent of our trade?

The fact is that we are directly interested in the exchange rates of all countries, because all countries are either our customers, competitors or suppliers. The problem of the American cotton exporter offers a helpful illustration of the importance of general exchange stability. He is interested, of course, in the exchange rates of cotton importing countries, cotton exporting countries, and textile importing countries — in other words, he is interested in the exchange rates of England, Japan, Germany, India, Egypt, Brazil, Mexico and a host of other nations. What happens to the price of cotton in the United States when the exchanges depreciate in these countries? The answer can be found in the sharp fall in the spot price of cotton in New Orleans from 9.08 cents in May 1931 to 6.06 cents in October 1931, when currency depreciation occurred in nearly all of these countries.

Some critics carry the key currencies concept so far that they completely identify postwar monetary problems with the British balance of payments in the postwar period. They propose that the United States and England enter into a bilateral agreement for stabilization of the dollar-sterling exchange rate, and that Britain remove restrictions on exchange transactions and fund the abnormal sterling balances accumulated by India and the Dominions as a result of Britain's war expenditures. To enable England to meet the need for foreign exchange that such a program would involve, it is proposed that the United States lend five billion dollars to Britain.

There are, of course, a number of variations of this approach, all of which miss completely the real postwar problem in Britain, the United States and elsewhere. The net change in Britain's foreign exchange position on capital account is large, and in time Britain will want to restore her international economic position. But that problem is neither as urgent nor as great as the question of her current balance of payments after the war. To facilitate the restoration of balance in her international accounts Britain needs an expansion of world trade. A loan to Britain to enable her to establish exchange stability and freedom from exchange control will not of itself help significantly with Britain's problem, or with the world's problem of establishing a sound postwar pattern of international payments. Such a loan might burden Britain with a dollar debt while making no real contribution toward balancing Britain's international payments. On the other hand, the Fund and the Bank, by providing the favorable conditions necessary for expanding world trade and investment, would be of real help in establishing a sound postwar pattern of international payments and would contribute substantially to prosperity in this country and abroad.

## VI

With those critics who say that additional measures are necessary no one disagrees. The position of the United States Government from the beginning has been that the Fund and the Bank must be supplemented by other measures. There is every reason to expect that these other measures will be taken, and that they can be taken with greater confidence because of the Bretton Woods program.

The maintenance of stable and orderly exchange arrangements will be best assured if the great industrial countries pursue poli-

cies for maintaining a high level of business activity. Under such conditions international payments can be kept in balance without difficulty, for the greatest distortion in the balance of payments occurs during periods of business depression, when international trade and investment fall off.

It would be helpful, of course, to lower the barriers to international trade. The United States has been pursuing the policy of reducing tariffs through reciprocal trade agreements. More can be done and will be done to achieve a general relaxation of trade barriers. But this cannot be done until there is assurance of orderly exchange rates and freedom in exchange transactions for trade purposes. A depreciation in exchange rates is an alternative method of increasing tariff rates; and exchange restriction is an alternative method of applying import quotas. With the Fund, countries can undertake reciprocal tariff reduction knowing that such agreements will not be defeated by offsetting action on the exchanges. It should be noted that with high levels of business activity, countries will not be tempted to follow the false road of trade restrictions to provide more employment at home.

Nearly every critic has said that stability of exchange rates is possible only if countries put their economies in order. Nobody disagrees with this view, certainly not those who were at Bretton Woods. The countries that were occupied by Germany have a difficult but not insuperable problem in restoring their economies. In western Europe, the Germans retained wage and price controls in order to exploit production more effectively in these countries. Because of these controls, the monetary system did not get out of hand, and with energetic measures it will be possible to attain international economic stability. In eastern Europe, the situation has deteriorated so far that completely new monetary systems will probably be necessary. The measures that will be taken for monetary stability can be effective only if the public has confidence in the currency. Can there be any doubt that reconstruction and stabilization in these areas will be more prompt and more effective with the Bank and the Fund to give confidence to the people of these countries?

To those who sincerely believe that the Fund should not be instituted until after the period of postwar transition, it must be pointed out that while the Fund is not intended to provide resources for relief, reconstruction, or the settlement of wartime indebtedness, it does have a most valuable function to fulfill during the transition period. Quite apart from the special prob-



lems of the transition, the world will have the same problems of exchange and payment as before, and the Fund is essential for dealing with them. It is of vital importance that the postwar pattern of exchange rates should be initially determined by consultation between the Fund and member countries, and that whatever adjustments become necessary should be made through and with the Fund. Most significant, during this period of transition the general lines of international monetary policy will be definitely determined, and it would be a tragic error to allow a relapse to the monetary disorders of the 1930's through inaction and delay.

The plea that we should wait several years before attempting any comprehensive program for international monetary collaboration has been made by a few economists whose objectives are admirable and whose approach is careful and responsible. But it is the approach of perfectionism: let us postpone action until more evidence is in — next month, next year, some years hence. Unfortunately, this counsel of caution plays directly into the hands of those who are not disinterested. There are, in truth, economic isolationists as well as political isolationists. One tactic of political isolationists is the attempt to kill all concrete and specific proposals for international political security and coöperation not by forthright opposition — the public would too soon recognize such opposition for what it is — but by a plea for postponement. They hope that the passage of time will multiply frictions among the United Nations, and that they can effectively use the time thus gained to create frictions and aggravate points of potential difference; therefore, they reason, the very deferment of agreement will make the attainment of agreement more difficult. To them delay is merely a subterfuge to facilitate sabotage of our plans for an international security organization. The economic isolationists hope that the general environment may somehow become unfavorable for measures of international economic coöperation. We must answer them in the same way as we are answering the political isolationists — by going straight ahead with the implementation of the program for international economic as well as political coöperation. The American people have unequivocally endorsed that program.

Quite recently, the suggestion has been made that the Fund be dropped and that the Bank be authorized to make stabilization loans. There is in this suggestion a basic error — the assumption that the principal purpose of the Fund is to provide additional exchange resources. Primarily, the Fund is the means for estab-

lishing and maintaining stability, order and freedom in exchange transactions. The resources of the Fund are only for the purpose of helping countries to adopt and keep such policies. Long-term stabilization loans would defeat this purpose. We need constant, continued and general coöperation on exchange problems and exchange policies, and this is possible only through the Fund. Both the Fund and the Bank have important but distinct functions in maintaining a high level of international trade and sound international investments. While each could function alone, they supplement and strengthen each other. Together they could make a great contribution to a prosperous world economy.

The world is in desperate danger of reverting to economic isolation after the war, and economic isolation will inevitably breed political isolation. Those who talk of waiting and of bilateral arrangements with one or two countries are in fact proposing that we do nothing, that we allow the world to drift back to the restrictions and the disorders of the prewar decade. This is a risk neither we nor the rest of the world can afford. We have the opportunity to put into effect the fundamental principle which must be the basis for a peaceful and prosperous world, the principle that international problems are an international responsibility to be met only through international coöperation. The Fund and the Bank are concrete applications of this principle in the international currency and investment spheres.

# THE VATICAN'S POSITION IN EUROPE

*By Luigi Sturzo*

**W**HAT are the intentions and the goals of the Vatican in this tragic yet challenging moment when the end of the war in Europe is near and a new world is emerging from the ruins of the old? The question is being widely discussed. This paper is an attempt to describe the position of the Vatican in Europe in terms that are as close to reality as possible, and to suggest some of the problems which the Church faces. The author uses the facts and the Vatican documents which can be verified by all, and interprets them in the light of his own experience and his knowledge. The analysis is a personal contribution in no way authorized.

The problem which the question poses is complex. One cannot place in any single category the relationships between the Holy See and the various states of the world or the attitudes which can be taken by the hierarchy of each country. Nor can one thus simplify either the attitude of the ecclesiastical hierarchy as such or the positions which Catholics acting under their own responsibility think it right and necessary to take, individually or in groups. Within the Catholic Church there is a margin of freedom, large or small according to circumstances which, moving from purely religious forms to social and temporal activities, quite often permits the emergence of truly autonomous movements, especially in politics.

An example taken from actual recent events may illustrate this point to those who, being outside the discipline of the Church, believe or surmise that the Church is a kind of militant army in which only the will of the supreme head prevails. In his speech of September 1, 1944, Pope Pius XII reasserted two points of Catholic doctrine: that private property is in the sphere of natural law, and hence cannot be abolished; and that the social duties which flow from the very nature of property transcend the private good and must aim at the common good. This is the doctrine. In the process of applying it to the conditions of each country the bishops will perhaps issue certain guiding statements, the philosophers will discuss the ethical implications of the doctrine, the economists will examine the practical consequences of its application, the sociologists will inquire into its social effects, the jurists will frame possible legislation, and the statesmen,

finally, will undertake to reconcile the various issues which have thereby been raised with questions of public policy and party politics, and with the circumstances of the moment.

Plainly, such a process cannot be described in terms of soldiers carrying out the orders of their commander-in-chief, and still less in terms of the mechanical application of a fixed slogan. We are dealing with men who think and act, who bring to bear the fruit of their own minds and consciences. Even if they all agree on the desirability of carrying out the teachings of the Pope, they will differ about the means to be employed, the time that action should be taken, the limits of the program and so on. A vast amount of human effort and personal responsibility is mobilized to translate a doctrine into a concrete program and the "margin of freedom" increases in direct relationship to the distance which separates the statement of the general principle from its final execution.

## II

What will be the relationship between the Holy See and the states of Europe after the war? Let us proceed on the basis of certain hypotheses. Normally, the Vatican's policy follows the tradition that the Church should never take the initiative in changing the status of its relations with foreign countries. Thus, for the Vatican, the prewar concordats with Italy, Germany and Poland are still in existence as are the *modus vivendi* with Czechoslovakia and Spain, and the friendly ties with England, France, Belgium and Holland. There is a presumption that the world is moving along its old paths, even when it has been turned upside down by a war as universal and destructive as this one. The Holy See continues to maintain relations with all the states with which it enjoyed them before the war. It has even added three countries to that list: Japan, China and Finland. But the initiative for a change can be taken by the other parties. What changes seem likely?

For a long period of time Germany will be occupied by the four Powers, the United States, Great Britain, Russia and France. Presupposing a friendly attitude toward the Vatican on the part of Great Britain, the United States and France, it may be assumed that these occupying Powers will maintain relationships with the Holy See either through a single nuncio, at present residing in Berlin, or through several local representatives. Will Russia follow the policy of the other three Allies?

Major issues are bound to arise with regard to the U.S.S.R. If Moscow is willing to exchange diplomatic representatives with the Vatican, no matter what the differences and mutual hesitation, as China and Japan have recently done, the Vatican will not refuse or demand unacceptable conditions. Even if Moscow is unwilling to enter into diplomatic relationships, it would be in line with Vatican tradition to send a religious envoy, either official (as in the case of the United States since the time of Leo XIII) or unofficial (as in the case of the mission of the Dominican Father Delos to the Committee of National Liberation in Algiers). Since 1917 numerous envoys from the Vatican have in fact been sent to Russia to deal with humanitarian and religious problems, irrespective of their standing with Soviet authorities. In May 1922, for example, a Vatican mission headed by the then Under Secretary of State Monsignor Pizzardo was dispatched to the Soviet delegation at the Genoa conference, a gesture of the Holy See which received wide attention. Foreign Commissar Chicherin, the head of the Russian delegation, thanked the envoy for the Vatican's friendly move, but was reported as having let it be understood that any further step would be premature. After 22 years a new step might or might not be considered timely.

Many recently believed that the Communist leader Togliatti, a member of the present Italian Government, had presented a plan for closer relationships between the U.S.S.R. and the Holy See to the Christian Democratic leader de Gasperi, also a member of the Italian Government, and that either jointly or separately they had discussed the matter with the Papal Under Secretary of State, Monsignor Montini. But the existence of such a plan was later denied by the official Vatican organ *Osservatore Romano*. Since then the Moscow press has twice attacked the Vatican, accusing it of following a pro-Fascist policy in the past and of continuing such a policy. Although it might be possible to place several constructions upon these attacks, they unquestionably reflect the resentment of the Communists, and of the pro-Soviet elements in other countries, who are embittered against that part of the Catholic press which systematically attacks Moscow both for its Communism and for its policies toward Poland, Lithuania and Finland. The Moscow press quoted the Brooklyn *Tablet* and the London *Catholic Herald* in its criticism of the Vatican; neither paper claims to be a spokesman of the Holy See or of Catholic opinion in general, however.

The diplomatic history of the Holy See offers sufficient precedents to enable the Vatican to establish relations with Soviet Russia. The Vatican was represented at the court of the Sultan at Constantinople after leading Europe's fight against the Turk for many centuries. The Vatican was also represented at St. Petersburg when the Pope was a temporal sovereign and afterward, even though the Tsars maintained anti-Catholic laws in Poland and throughout Russia.

The Holy See's opposition to Bolshevist Russia is based on two factors: the materialistic theories which form the premise of Communism, and the atheistic propaganda sponsored by the Soviets. True enough, the world is full of materialistic theories of the most varied kind, taught in all sorts of universities: the Russian contribution to materialistic thought may be said to be quite small from the scientific point of view and not without uncertainty in its practical application. And atheistic propaganda, frankly or secretly striving for a wide de-Christianization of society, is not absent in any country. Nor is open backing of such a movement by public authorities peculiar to Russia. France went through a period when official teaching in all schools had an overwhelmingly positivistic tinge, founded on agnosticism or frank atheism. And Hitler has sponsored the pagan myths of Ludendorff and Rosenberg and forced the teaching of the theory of a super-race, aiming at the intellectual and moral de-Christianization of youth.

Russia also closed churches, convents and seminaries, prohibited teaching by the clergy — including the teaching of the catechism in church — and enacted a long series of measures designed to thwart any rebirth of religious sentiments in the new generation. It must, however, be admitted that these acts were the product of a revolutionary mood, akin to the mood of the French at the end of the eighteenth century, and that they are not necessarily a concomitant of the type of political and economic régime later created in Russia. Indeed, Stalin has changed many things. The program for a classless society and the elimination of all private property has been modified; and in the field of religion the Russian Orthodox Church has been recognized, with some restrictions, and other Christian churches or non-Christian groups have been permitted a rather limited exercise of their functions. In this respect, as in others, Stalin has followed the political line of Napoleon who, while adhering to the revolutionary ideals, reorganized the administration of France, reached a concordat with the Holy See, and asserted French hegemony.



The central issue involved in the establishment of diplomatic relationships between Russia and the Vatican is the right of the Church to assert Catholic principles even though they are in conflict with the principles officially professed by the contracting state. Pius XI's Encyclical of March 14, 1937 (*Mit brennender Sorge*), which condemned the religious persecutions within Germany and all racial theories, may at first glance hardly seem to have been written by the same Pope who had signed a concordat with Hitler and was maintaining a nuncio in Berlin. The explanation is that the Pope denounced Nazi policies in the exercise of his function as shepherd of souls. This function is always placed above the one which gives the Pope the sovereign right of legation and diplomatic representation in foreign countries. Pius IX protested against various laws of Napoleon III, of Francis Joseph, and of other chiefs of state in speeches which were strong — according to the style of that Pontiff — and which occasioned vigorous answers.

In the event that relations are established with the Vatican, will the U.S.S.R. tolerate a reaffirmation by the Pope of the Catholic principle that private property is a natural right — a natural right subject, of course, to all the restrictions imposed by solicitude for the common welfare? Will the U.S.S.R. accept papal protests against limitations of religious practice and restrictions of Catholic teaching in the Catholic communities of Russia? The possibilities that such protests would be made must be envisaged, though the Holy See usually limits itself to mild diplomatic steps with countries with which it maintains diplomatic ties, and resorts to public condemnation only when it finds itself obliged to fight back against theories and facts publicized by the other party. (Pius XI resorted to public protest in Fascist Italy with his Encyclical *Non abbiamo bisogno*, and with other letters and speeches well known to those who do not want to ignore them.)

If any difficulties should arise with regard to an agreement (based or not on diplomatic ties) between Russia and the Vatican, in my opinion they will come from other sources than Pius XII. Stalin, as in a different sense Churchill and in a less urgent manner Roosevelt, is preoccupied with the basic issue of the equilibrium of Europe. Before the end of the European war we shall see whether the sphere in which Russia will assert a predominant interest will be limited to the triangle Koenigsberg-Instanbul-Trieste, or whether it will extend westward to include

part of Germany, Hungary and Austria. Within such a zone there would be a good many Catholic countries, not to mention the many Catholics who are included within the 16 Soviet Republics, which on the basis of present plans embrace Lithuania and parts of Poland. What will be the fate of these Catholics? Will they be persecuted as under the Tsars, de-Christianized as under Lenin, or forced into paganism or exterminated as under Hitler? Or is it possible to envisage a peaceful coexistence of quasi-sovereign states under the protection of Moscow? And, finally, will Moscow try to carry out full economic collectivization in its new territories and even in the countries within its influence?

It goes without saying that in the event of persecution the Vatican will rush to the moral defense of the local churches, and it will manifest hostility toward experiments based on economic totalitarianism, foreseeing that they would lead to the suppression of civil liberties. I think that Marshal Stalin, who has shown such a complete mastery of himself and a certain cautious adaptation to circumstances, will refrain from pushing things too far, unless he should consider it safer to suppress at the start any opposition coming from the local clergies, military and bourgeois groups, or even from mob pressure. In such case, it is legitimate to believe that if any real influence can be exercised on Stalin, it will come from Great Britain and the United States, whose concern is for a peaceful Europe. Any other kind of intervention would be impractical and might have dangerous repercussions.

There is frequent mention of a supposed "Vatican plan" to block Russian expansion in Europe and the spread of Communist-inspired revolutionary feeling among the masses by reviving the institution of monarchy. Mr. Churchill has been reported as favoring some such plan — perhaps as a result of his support of monarchy in Greece and in Italy — and it is even rumored that the Department of State has backed the idea. The purported goal of these plans is the establishment of monarchies in Austria, Hungary, Bavaria and possibly in France and Spain, and the bolstering of existing monarchies in Italy and Greece. The rumors seem to me absurd. To suggest opposing monarchy to Communism brings to my mind the picture of a paladin of Charlemagne trying to fight a machine gun with his sword.

It is not unusual to find ecclesiastics in Europe who prefer an hereditary king to an elective president. But all other considerations apart, those responsible for Vatican policies are too wide-awake not to perceive the poverty and danger of any such

manœuvre. Vatican support for the alleged project or for others similar to it, such as that of a *cordon sanitaire* against Russia, would make the Holy See an easy target for attacks on the Church as a political agent and for a revived anti-clericalism led by Moscow. And which European monarchy desires to draw upon itself Communist fire and to begin to rule by alienating a large part of the working classes? The success of such a scheme would require a dynastic coalition such as the one which emerged from the Congress of Vienna, sworn to defend the property of all landowners of the aristocratic and bourgeois classes (which as such do not exist any more), and backed by a first-rank Power such as the old Austrian Empire, but with modern armies at its disposal. It is, in short, a scheme for a different century. Who can dream of making Pius XII another Pius VII, to lead a new Restoration? Today there is practically nothing left to restore of the old absolutist feudal and monarchical world. The emergence of Labor parties is the new factor in the world today. The only "restoration" which could offer an alternative to that world movement would be a restored Nazi-Fascist or rightist dictatorship.

The Vatican has suffered under Fascism in Italy for 20 years, and under Nazism for 12 years in Germany, and for four years throughout Europe — not to speak of its ordeals under the various semi-Fascist experiments in other parts of the world. The present war with its unparalleled hatreds, violence, destruction and massacres has been the product of these experiments; the Vatican will be the last to desire their repetition. Talk of an alleged "Vatican plan" is made possible by the tendency of some rightist Catholic groups, not necessarily restricted to Italy, to wish for a measure of authoritarianism, to long for a past in which favors were received by the Church (even though their price was never fully estimated) and, most of all, fears of the future, usually magnified by those who do not bear any responsibility for the reconstruction of the world. It is not to be wondered that Communism should exploit this grey zone of lay and ecclesiastical Catholic opinion for its own ends, and should also exploit the rumors about Vatican policy which are spread by anti-clerical sources, or by journalists feeding upon sensationalism.

### III

American Catholic opinion is rather critical toward Russia owing to fear of Communism and the question of Soviet policy

toward Poland and other Catholic countries, but in Europe collaboration between the Catholic groups and Communists in the underground has produced a certain mutual understanding. This collaboration has carried over into the newly-formed governments in liberated countries. The Christian Democratic Parties in Italy and in France are members of coalitions in which the Communists participate. The same collaboration seems to be taking place elsewhere.

The numerical strength of the parties of Christian Democracy, and the type of their leadership, give them a unique place in liberated Europe. The development of Christian Democracy in social fields, started after the Encyclical *Rerum Novarum* of 1891, assumed significant political proportions after 1919. Popular parties arose in Italy, Czechoslovakia and France; the Christian Democratic wing developed within the Catholic bloc in Belgium, and trade union representation emerged within the Catholic Party in Holland. At that period the various Catholic parliamentary groups of Poland, Lithuania and Spain, the left wings within the Christian Social Parties in Austria and Hungary, and the Center Party in Germany also developed strength. Today we are witnessing the rebirth of that movement, which many believed was forever buried. Fortified by experience, men like Bidault, Minister for Foreign Affairs in the French Provisional Government, Gronchi and de Gasperi, members of the Italian Government, are already bringing significant contributions to the reconstruction of European political life.

These leaders and parties are in agreement with the Communists in the political field as well as in the field of trade union activities. Whatever may be the future of Italy and France, the Catholic Democratic groups of those countries will no longer represent the old clericalism with its systematic opposition to modern parliamentary and democratic institutions and its fear of the social advancement of the working classes. They embody a gradualist revolutionary movement — “revolutionary” in the sense of the American Revolution of 1776. In current American political terminology they would be called progressives. As the convention of the Christian Democratic Party held in Naples in August 1944 declared, they will fight against any new attempt at dictatorship from the right or the left, against mob violence or palace coup.

What position does the Vatican take toward Christian Democracy? There have been doubts and suspicions of Christian

Democracy on the part of ecclesiastical authorities in the past, just as there have been expressions of sympathy and understanding. The same situation will prevail tomorrow. The parties of Christian Democratic inspiration do not ask for Church support or favors. Mindful of the painful experiences of the clerical groups of earlier days, they will carefully refrain from becoming pressure groups in the name of the Church.

The basis of democracy is political freedom. After the totalitarian experiment and the tragedy of Nazi rule it seems about to be rewon throughout Europe. Christian Democrats are convinced that, while vindicating her freedom in tyrannical régimes the Church would in effect get a privileged position, in doing so in democratic régimes she imparts a moral value to freedom for all.

A basic concept of Christian Democracy is the duty of carrying out in political and legislative fields, into the field of labor, of the relations among various classes, those principles which the popes have taught and the social Catholic "school" has developed. Adherence to parliamentary and electoral forms of government is likewise basic. Political coöperation with the Socialists and the Communists for the reconstruction of Europe and the reform of economic institutions may be useful up to a certain point, in these exceptional times. But the Christian Democratic Party is an autonomous party, free to collaborate or to oppose. It will oppose other parties to the degree that they depart from the methods of parliamentary government — that is to say, the methods of freedom.

The Vatican has no reason to oppose these civic and political ideals. It would not be to its interest to favor any party in such a way as to create resentment in others. But surely the Vatican looks with sympathy upon all persons in public life, Christian Democrats or not, who are trying to realize the Christian principles of justice and charity, in domestic or international affairs.

#### IV

All the public activities of the Catholic Church, and particularly of the Holy See, are directed toward teaching, propagandizing and defending Christian principles. Certain methods for achieving this general basic aim are well suited to a given time; others are required in a different period. Pius XI felt that concordats and *modus vivendi* were a guarantee for the Church, and he negotiated them with dictatorships (as with Italy under Mussolini and Germany under Hitler), with Socialist govern-

ments (as with the Braun régime in Prussia under the Weimar Republic) and with democracies (as with Czechoslovakia). Perhaps he was right in so doing. Perhaps he trusted the totalitarian governments too much. Tomorrow, Pius XII will be confronted with new problems. There will be new political leadership in Europe; there will be the inevitable economic and political crisis of the postwar period. The Pope will not be lacking in will, courage or the rapid intuition he has demonstrated in these last years. Above all, he will not lack the steady moral purpose which comes from the highest ethical and religious principles.

The papal defense of Poland has been criticized, and in some quarters the appeal to forgiveness, made by Pope Pius XII to the people of London tortured by five years of cruel warfare, has been misunderstood. Similarly, the statements made by the Pope in favor of a rebirth of Germany, on the occasion of the opening of the academic year at the Germanic College in Rome, have appeared inopportune, at this moment of supreme effort to defeat the enemy in his own land. In that connection we might remember that President Roosevelt has quite recently expressed his religious belief in the innate dignity and worthiness of all men, including the Germans. Can anyone expect the papacy to take a position not designed to heal the wounds of the war? The papacy cannot blindly follow the flags of the victors, even when they are the victors in a just cause as the United Nations will be. The Pope must act as mediator in a suffering world. This does not mean that justice be not applied to enemies and that the precautions necessary for the maintenance of peace should not be taken. But should the Allies deem Germans guilty as a people and embark upon a policy of their destruction as a people, the voice of the Pope will not fail to impress upon them the need of observance of Christian duties even in political life.

Pius XII has repeatedly pointed out the basis of a sound international order. The five points of his Christmas speech of 1939 anticipated the Atlantic Charter by almost two years and still remain the keystone of any lasting international structure. With an ever-present realization of changing needs and popular aspirations, he has outlined the social teachings of the Church with regard to the rights of the working people, the social function of property, and the right of the state to intervene in conflicts of interests and to harmonize them in the light of justice and equity. The practical achievement of these principles is in the hands of society as a whole. Its task of freeing itself from all tyrannies, the



hidden ones which exist even in democratic countries as well as the open ones, will be long and hard. The Catholic Church with its powerful ecclesiastical organization and its firm adherence to principles is not an enemy of the new world which is emerging, but the collaborator in all the efforts which temporal society and its political groups are making to achieve peace and security. Social dynamism will always mean struggle; but those who believe that force plays the decisive part in human events are wrong. Force was not the main element of the Allied victory in 1918, and it will not be that of the victory of the United Nations in 1945. Unless the defense of order, peace and liberty is made upon the basis of fundamental principles accepted by all, the world will renew its bloody past in an even bloodier future. Religion as an urgent need of the soul, the churches as fundamental organisms of society, and the Catholic Church in particular as a traditional organism reaching widely among the populations of the earth, must be accepted as a force integrating and vivifying the ethical spirit of mankind.

# CHINA'S FINANCIAL PROBLEMS

*By H. H. Kung*

WHEN Japan invaded China in 1937, China's monetary system was prepared for the emergency. It can be said without exaggeration that were it not for the new monetary system which was introduced in November 1935, China could not have withstood the Japanese onslaught in the initial period of the war. A clear understanding of the new system and a knowledge of the way it has operated during the war are a necessary precondition for a fruitful discussion of the problem of the postwar adjustment of Chinese currency.

The importance of the new monetary system can best be suggested by a reference to the chaotic condition of the currency in the days of the Peking Government and during the early years of the National Government. As late as 1929, the report of the Kemmerer Commission stated that "China has unquestionably the worst currency to be found in any important country of the world." The major tasks of currency reform were the establishment of a uniform and convenient medium of exchange and the adoption of a monetary standard. In 1933, the first and comparatively easier problem was solved by the abolition of the tael and the adoption of the standard silver dollar as China's monetary unit. The much more difficult problem of the monetary standard was solved in November 1935 by the abandonment of the silver standard and the adoption of a managed currency.

The circumstances which precipitated the adoption of the new monetary system are of much more than academic interest. Now, when China's central financial problem is rising prices, it is interesting to recall that, although inflation is most undesirable, its immediate impact does not create difficulties as acute as those produced by deflation. The rise in the world price of silver after 1931, stimulated by the British devaluation of the pound and later to a greater degree by the American silver purchase program, led to a sharp fall in prices in China. Prices in Shanghai fell more than 30 percent from the summer of 1931 to the summer of 1935. The wave of failures of businesses and banks, the unemployment, and the stagnation of trade in the period 1933-35 are still vividly remembered in China. These developments sealed the doom of the silver standard. In October 1934, just a year after the writer was appointed Minister of Finance, China divorced the value of its

currency from silver by imposing an export duty and a variable equalization charge on outward movements of silver. This step checked the tendency of the exchanges to appreciate, a movement which was exerting serious effects on China's exports, and prepared the way for reform of the currency.

This epochal reform, which was announced on November 3, 1935, made the *yuan*, or Chinese dollar, *fapi*, or legal tender. Silver was nationalized; the use of silver dollars as currency was prohibited and *fapi* could not be converted into silver. The value of *fapi* was to be kept stable by the three government banks — the Central Bank, the Bank of China and the Bank of Communications — which could buy and sell foreign exchange in unlimited quantities. In order to sustain confidence, note issue was carefully controlled and the government banks' reserve against note issue was required to be at least 60 percent in gold, silver and foreign exchange, the balance to consist of government bonds and other approved securities. By 1937, when Japan began the present war, the external reserve against note issue had increased to more than 70 percent. Foreign exchange rates were successfully stabilized and free convertibility into foreign exchange maintained until March 1938, when a limited degree of exchange control had become necessary as a measure of economic warfare. It was at that time that Japanese puppet banks in occupied China began to issue currency with which to purchase *fapi*, planning to convert it into foreign exchange.

The new system contributed materially to the restoration of prosperity in China, and by doing so it facilitated other measures of financial reform, most of which had been initiated before 1935. These included the strengthening of revenues and the restoration of credit through the reorganization of the internal and external debt. It enabled us to obtain a favorable balance of payments which, together with the sale of silver, brought about the accumulation by China of large balances of foreign exchange. These stood China in good stead in the war of resistance. Last but not least, it enabled the government to rely on the increase of bank credit as a means of emergency war finance. Thus, despite the lack of modern equipment in the military field, the new monetary system provided China with modern means of financing war.

Partly as a result of advance in monetary technique throughout the world, the technique of war finance, like that of war itself, has made rapid progress in the last 30 years. Under the older monetary systems, when bank notes were convertible on demand

into hard cash, a considerable increase of issue to meet a government's deficit tended to cause not only a fall in the purchasing power of the notes, but also their depreciation in terms of coin. This depreciation always had a direct and often very serious effect on public confidence, and the rise and fall of the premium on specie measured the public's estimate of the fortunes of war and the government's financial prospects. Thus the old technique of war finance commonly involved measures of inflation that directly and quickly impaired morale. For instance, during the American Civil War, a considerable part of the war expenditures was covered by direct issue of government paper money which almost immediately went to a discount in terms of gold. By 1914, however, central banking systems were in operation in most of the leading countries, and upon the outbreak of the First World War, systems of managed currency were promptly introduced. These systems made it possible to finance war expenditures by means of loans from government banks.

Had the old silver standard persisted in China, the transition to a managed currency could not have been made, under war conditions. Silver would have gone to a premium over bank notes, which would have rapidly depreciated, and an early monetary breakdown would have resulted. Moreover, the large silver reserve kept by the banks for the purpose of meeting the public's demand for convertibility would have stayed mostly at Shanghai and other coastal cities, subject to enemy seizure. The reform of 1935 unified the monetary system on a managed currency basis with an exchange standard, and prepared the way for emergency expansion of currency and credit.

## II

During the course of seven and a half years of war, China was forced to resort more and more to emergency expansion of currency and credit in order to bridge the gap between the needs of the government, particularly for war and reconstruction, and the revenue which could be raised by taxation and borrowing from the people. The government, of course, did its best to restrict expenditures and to raise as much revenue as possible from taxes and public loans. The loss of customs revenue, the major part of the salt levies, and the consolidated taxes on manufactured products greatly reduced the income of the government. But the government developed several important new sources of revenue.

The outstanding wartime fiscal innovation was the reorganiza-

tion of the land tax. As a result of careful planning, culminating in the Third National Financial Conference in June 1941, the land tax was transferred from the provincial authorities to the National Government, which reorganized it on the basis of collections in kind. The successful collection of land tax in kind, together with obligatory sales of food to the government by landowners, has placed more than 50,000,000 piculs of foodstuffs at the government's disposal annually. This has been used to feed the Army and government employees, and also to stabilize the price of rice and wheat, the most important daily necessities. The collection of this tax requires a large and elaborate apparatus with ramifications extending down to the village. Since the coöperation of the village functionaries was necessary, certain abuses were inevitable; these local leaders lacked the training and the discipline of the National Government's officials. But many of the abuses have been eradicated and further remedial measures are being devised and applied.

The development of direct taxation included another important wartime fiscal reform — the broadening of the scope of the income tax, which had been initiated before the war. An excess war-profit tax was introduced on January 1, 1939, an inheritance tax on July 1, 1940, and a wartime consumption and sales tax in 1942. The unification of national and provincial finance also yielded additional revenue, besides strengthening the Central Government politically. Prior to the war, we had instituted a budgetary system and established the Office of the Comptroller-General and a national auditing system, thereby ensuring a modern system of independent supervision over receipts and expenditures. Among various reforms in fiscal administration which continued the process of modernization, the most significant was the introduction of the Public Treasury System on October 1, 1939. This provided that all public funds were to be handled by the National Treasury, with the Central Bank of China acting as the custodian. These progressive measures resulted in such a substantial increase in the tax yield that in 1943 between 40 percent and 50 percent of government expenditures were met by income.

Like all countries at war, China was obliged to expand its expenditures rapidly. Not only did she have to raise and support large armies, but the enemy's invasion made it imperative for the government to take immediate and large-scale action to open new means of communication, to develop industries to supply the armies with vitally needed munitions, and to provide the public

with necessities formerly obtained from abroad or from regions occupied by the enemy. Beginning in 1942, the strain on the Chinese economy was increased by the growing expenditure of the United States Army in China. This involved large *fapi* outlays. According to the principles of sound finance, the gap between large and mounting expenditures and receipts from taxes should be bridged as far as possible by loans subscribed by the public. But, during the last six years, it has been difficult to raise funds in this way in China because of the loss of the leading centers of wealth and trade.

Thus, the main difference between China's war finance and that of some other countries does not lie in the smaller share raised by taxation; as indicated above, the proportion of government expenditures covered by tax revenue in China is comparatively high. The difference lies rather in China's inability to raise the greater part of the deficit through loans from the public. Under the circumstances, the government could not avoid borrowing most of its funds from the banks and from abroad.

Some private foreign credits for war needs were obtained early in the war, although the amounts were relatively small. The period of substantial borrowing began in 1938 with the American wood oil loan and Russian barter credits, followed early in 1939 by the first British stabilization credit. Loans from the Allies, which to date have amounted to about one billion United States dollars, have been of the greatest value to China in sustaining her war effort. Part of these loans has already been repaid. The United States \$25,000,000 wood oil loan was repaid two years and a half before it matured; and the United States \$50,000,000 stabilization credit of 1941, only a small part of which was drawn upon, and the 5,000,000 pound British stabilization credit of 1941, have also been paid. We are also shipping goods to Soviet Russia to liquidate our obligations under the barter agreement. The largest single items of Allied financial assistance to China, arranged after the outbreak of the Pacific war, are the United States \$500,000,000 loan and the British credit of 50,000,000 pounds. Two-fifths of the United States \$500,000,000 loan were used as backing for the issuance of United States dollar certificates and victory bonds, which were sold to the public. The double purpose of the issuance of these securities was to check inflation by absorbing *fapi*, and to provide merchants and manufacturers with means of purchasing equipment and supplies



after the war for industrial reconstruction and development. Part of this loan was used to purchase gold, which is being sold to the public. The quantity of *fapi* absorbed by these means, however, does not bridge the gap, and it is necessary to borrow rather heavily from the government banks.

This method of emergency finance, therefore, carries with it an unavoidable inflationary tendency. The inflation can be checked to some extent by various controls of trade, production, consumption and prices, and foreign exchange. But effective control of a country's economy is possible only when the economy is centralized and its system of governmental administration complete and highly integrated. But China's economy is dominantly agricultural and largely decentralized. The development of the necessary railways and other modern means of communication is far from complete. While the National Government had made great strides in the administrative organization and unification of the country in the decade prior to 1937, the task was a tremendous one and was still unfinished at the beginning of the war. And, most important of all, the seizure by Japan, in the early period of the war, of leading centers of finance, where most of China's modern industries are concentrated, forced Free China to move its economic and financial base to the economically less developed interior provinces in the southwest and northwest. Under these conditions, such elaborate and comprehensive controls of production, consumption and prices as are now in force in the western countries could not be effectively applied throughout China. Control of foreign exchange can, of course, be carried out with some effectiveness. But without strong internal control of production, prices and consumption, control of foreign exchange inevitably produces a divergence in the internal and external values of the currency.

Such a divergence developed markedly in China after the middle of 1940, when the shortage of goods began to be keenly felt. The severance of the Indo-China route and the temporary closing of the Burma Road, the loss of Ichang, and the relatively poor crops in 1940 resulted in a great scarcity of goods. The war in the Pacific which began in 1941, and the Japanese conquest of Burma in 1942, led to an almost complete cessation of China's international trade. This reduced the supply of goods still more and heightened the fear of very grave commodity shortages. Inevitably, prices rose further. One of the major causes of rising prices in China is simply the shortage of goods. This is partly

evidenced by the fact that commodity prices vary considerably from one locality to another.

In studying the problem of prices in China, it is important to remember that China's decentralized and predominantly agricultural economy has also proven a source of strength; the process of inflation has been much more gradual than it would have been in a more integrated economy. China's largely rural population has managed to adjust itself to price increases with less hardship and suffering than would have been the case in industrialized countries.

The official rate of exchange of *fapi* was fixed by the Stabilization Board of China in August 1941 at .05 11/32 United States dollars; this was changed to .05 United States dollars as of July 10, 1942. Since July 1942, the government has persistently followed a policy of maintaining the exchange rate in order not to weaken confidence in the currency and provide speculators with an excuse for further boosting prices. Under conditions of blockade, with foreign trade practically non-existent, no benefit that can be derived from lowering the rate would counterbalance the harm that might result from further loss of internal confidence and its unfavorable impact on internal prices. However, in order to lighten the hardship of foreign residents and others in China, the government granted a 100 percent subsidy (40 *fapi* instead of 20 for one United States dollar) to missionary, philanthropic and relief organizations, journalists and foreign government and other foreign personnel, and for emigrant remittances from abroad.

Those who argue in favor of a change of the rate by citing the theory of "purchasing power parity" overlook the fact that even in normal times the theory requires various qualifications. It must be remembered that the index numbers in the countries compared are based upon different kinds of goods, and include many articles of local use which do not enter into foreign trade. And in applying the theory, allowance must be made for obstacles to free interchange of goods, such as transportation charges, tariffs and controls. In China today, with ordinary trade stopped and exchange controlled, the usual interaction of internal and external prices and exchange rates is blocked. The black market, which unfortunately exists wherever there is exchange control, is very narrow; both the amounts of foreign currency (mostly United States dollars) supplied, as well as those demanded, are small and sporadic. Neither the estimate calculated on the basis of

purchasing power parity nor the black market rate indicates the true external value of *fapi*.

Therefore, no one can say what exchange rates are theoretically correct for China at present. As for the future, when the occupied territories are recovered, the enormous quantities of Japanese and puppet currencies now in circulation in these regions will be wiped out, and a large quantity of *fapi* will be needed to fill the vacuum thus created. The confidence of the people of the occupied regions in the currency is shown by the fact that it is being hoarded in considerable quantities by the peasants, in spite of the severe coercive and punitive measures adopted by the Japanese against the practice. Confidence is also reflected in the rapid appreciation of *fapi* in terms of puppet currencies in occupied China. If this confidence is maintained, the task of readjusting the currency will be greatly facilitated. It is yet too early to prescribe in detail what steps of readjustment should be taken. But the prospect of victory is sufficiently close, and the shape of things to come sufficiently clarified, to make it possible to outline the basic principles for the solution of China's postwar monetary problems.

### III

First of all, it is essential to remember that stabilization of internal prices, determination of the level of exchange, and rehabilitation of the public finances are intimately related. Without relative internal price stabilization, rates of exchange and the balance of payments cannot be maintained in equilibrium. And without substantial equilibrium in the budget, price stabilization will not be possible. Solution of all these problems is, in turn, closely bound up with the question of the restoration of the country's internal economy — in particular its production and transport facilities — and the rehabilitation of its foreign trade. Monetary and fiscal reform in China therefore depends upon the speed with which the work of relief and rehabilitation is undertaken; and it demands a many-sided program of economic reconstruction. The task will have to be approached from many angles at the same time. This analysis can merely list in summary fashion certain of the basic steps:

(1) A program of relief and rehabilitation, to be carried out in coöperation with UNRRA, should be put into practice as soon as transportation facilities are available and as soon as parts of occupied China are liberated. The program should be designed to

help restore China's internal economy by augmenting the supply of goods, both through the importation of relief supplies and by taking action to enable China to increase her own production.

(2) Effective measures to reduce government expenditures must be adopted as soon as possible. In order to accomplish this difficult but supremely important objective, it may be necessary to abolish certain wartime agencies and reorganize both civil and military branches of the government in the light of peacetime needs and on a basis of strict economy. In planning government expenditures for economic reconstruction, careful consideration should be given to China's financial situation and the vital importance of restoring equilibrium in the budget. President Chiang called attention to this important principle in a recent address to the Conference on Planning of Industrial Reconstruction. The quickest and surest way to initiate a sound program of reconstruction will be to make certain that its cost does not interfere with the restoration of sound finance.

(3) Government income must be increased by the restoration of fiscal services in the occupied areas and the reorganization of the revenue system. The national income will rise rapidly when China is able to begin producing again. Thus with a wise plan of taxation, built on the foundations that have been laid in wartime, and with proper attention paid to the further development of a sound system of administering taxes, there need be no concern about the possibility of raising adequate revenue. The revenue will be sufficient for the current needs of the central, provincial and local governments and will provide a sound fiscal basis for economic and cultural growth.

(4) Japan should be made to pay with raw materials and goods as well as with her gold, silver and foreign exchange for the damage she has inflicted on the Chinese people. Such reparations from Japan can greatly assist China in her program of reconstruction and in her task of monetary rehabilitation. A plan should likewise be worked out to force Japan to shoulder as much as possible of the burden of liquidating the enormous quantity of Japanese and puppet currencies issued in China. Naturally, the Chinese Government will not recognize these notes and cannot pledge a cent of the Chinese taxpayers' money for their redemption. But among the holders of the notes are innocent Chinese who had the currency forced on them and who should not be made to suffer a total loss. Under the circumstances, the most equitable solution is to make the Japanese, the puppet governments, officials,

and the other collaborators who have enriched themselves by squeezing the people, foot the bill.

(5) The Chinese system of banking and credit should be further reformed. In particular, the Central Bank should be strengthened in order to accommodate the banking structure to the requirements of the postwar period. In order to enable the Central Bank to discharge the functions of a full-fledged bankers' bank, it should be made to maintain its stand as an independent institution and its powers should be expanded on the lines indicated in the charter which was adopted — but not promulgated — in 1937, a recent revision of which has just been drafted. Furthermore, the modern private banks, the native banks and the system of agricultural credit must be reorganized in conformity with postwar needs. In view of the extent to which certain financial institutions are involved in commodity speculation — despite government regulations to the contrary — serious losses and many failures will inevitably result when the price rise is checked and the period of financial readjustment sets in. There will, therefore, be a real need for reform of the banking system to facilitate production and trade and to encourage formation of private capital.

(6) Appropriate measures should be adopted to improve China's international balance of payments. The program may involve temporary control of imports, so that the most important reconstruction projects will have priority. It must be adjusted to China's capacity to pay for imports out of available assets and credits. The encouragement of export trade and of private foreign investment will play a prominent part in the program as a whole. The government should also do everything possible to help rehabilitate the economy of overseas Chinese, whose remittances before the war contributed substantially to balance China's international payments.

(7) Painstaking effort should be exerted to accumulate the foreign exchange reserve which is vital to the successful operation of the new monetary system. In a free exchange market, reserves should be sufficient to tide over seasonal demands, capital movements and such special needs as debt payment; and reserves must also be sufficient to meet the emergencies of periods in which the balance of payments is unfavorable or in which the currency is under attack. Hence, a reserve should be looked upon as a "regulator fund" which can absorb a drain of exchange and give time for remedial measures to be taken. Even when the free exchange

market is closed, which action China was compelled to take by the exigencies of the war in March 1938 and to a greater extent in July 1941, an adequate reserve is still essential for the maintenance of confidence in a nation's financial institutions. This is particularly true in a country like China, where effective price control is difficult to enforce, and where greater dependence must be placed upon the existence of a reserve adequate to hold in check the velocity of circulation.

Furthermore, as indicated by her support of the Bretton Woods plans for monetary stabilization, China regards exchange control as a temporary necessity. Owing to specially difficult circumstances, resulting from the occupation and devastation of vast sections of her territory by the enemy, she will have to take advantage of the provisions for a transitional period which are written into the Bretton Woods plan, and continue exchange control for a time after the war. But it is hoped, as the Bretton Woods plan contemplates, that at the proper time such controls will be lifted and a free exchange market reestablished. It is essential that China should maintain an adequate reserve in order to facilitate such a transition from exchange control to free exchange which will mark a long step forward in strengthening the *fapi* and developing China's international trade.

(8) China should continue the policy of wholehearted coöperation for the setting up of international monetary and financial agencies which she pursued at the Bretton Woods Conference. China realizes that the International Monetary Fund and the International Bank for Reconstruction and Development will contribute very materially to promote international trade and facilitate international investment for all countries concerned. Monetary problems have become more and more a matter of international concern, and therefore their satisfactory solution can best be achieved by international coöperation, in which China is willing and anxious to play her part.



# THE COURT AS AN ORGAN OF THE UNITED NATIONS

*By Philip C. Jessup*

THERE is no hedging in the agreement reached by the four Powers at Dumbarton Oaks on the question of the inclusion of a court as an integral part of the organization to be known as The United Nations. That is an important fact, even though numerous problems of real complexity relating to the court must still be decided. The basic principle of procedure at Dumbarton Oaks which seeks agreement on fundamentals without being distracted by details is wholly to be commended.

The problems still to be solved so far as the court is concerned may be divided under four headings for the purpose of discussion. The first is whether the present World Court is to be used or a new one created. The second relates to the selection of judges. The third includes the basic question of the court's jurisdiction. The fourth embraces the many details, largely technical, bearing on the amendment of the World Court's Statute.

The Dumbarton Oaks proposals name an International Court of Justice as one of the four "principal organs" of the new organization called The United Nations. The other principal organs listed in Chapter IV of the proposals are a General Assembly, a Security Council and a Secretariat. The conferees of the four Powers specify their common ideas about a court in Chapter VII. The most significant point of agreement is that all members of the organization "should ipso facto be parties to the statute of the International Court of Justice." The important question whether the statute of the future international court of justice should be the present Statute of the Permanent Court of International Justice (usually called the World Court) or whether a new statute should be drafted, lies in the much discussed "ten percent" area in which agreement was not reached. It is agreed, however, that even if the second alternative is chosen and a new statute drafted, the existing Statute of the World Court "should be used as a basis."

It would have been surprising if the Dumbarton Oaks proposals had not included provision for a court of justice. The American, the British and the Chinese mind have traditionally and consistently stressed the legal and judicial aspects of international organization. Frequently they have gone too far and, through an

excess of legalism, overstressed the procedures of international organization at the expense of underlying political and economic fundamentals. The Russians have been less legalistically-minded in their attitude toward international affairs. Even during the period when the Soviet Union was an active member of the League of Nations, and Maxim Litvinoff was challenging the other Powers to take bold steps toward disarmament, Moscow never uttered a friendly word about the Permanent Court of International Justice at The Hague. In several of the general international treaties which, more or less as a matter of course, came to include a provision that in case of disagreement the World Court should have power to interpret the text, the Soviet Government made a reservation. The U.S.S.R. may merely have continued to reflect a distrust which it had in the twenties when the Permanent Court of International Justice began its career; quite soundly from its point of view, the Soviet Government wondered whether any judge on the bench could then be truly impartial with regard to the Soviet Union. This doubt was frankly expressed by Mr. Litvinoff at The Hague in 1922 and by the Soviet Government itself in its refusal to recognize the competence of the World Court in the famous Eastern Karelia case.

It will be recalled that the United States never became an official supporter of the Court. This is not the place to rehearse the sorry story of how Hearst-paper propaganda and political timidity contributed to that result, despite the urgings of every President and Secretary of State, the Bar, labor, agriculture, business, a great majority of the newspapers and most of the leading figures of the country without respect to party. The enemies of the Court succeeded in blocking action by stressing the Court's connections with the League (although we joined the International Labor Organization, which was more closely related to the League, without discussion of the bogey). As this question of international organization comes up anew, it is a relief to know that opponents of all forms of international coöperation can no longer make Americans shudder by mentioning the League of Nations.

## II

The first great question in regard to the judicial branch of the new international organization — whether the existing World Court is to be retained or a new one built on its Statute — is broader than the problem of the Court itself. The Dumbarton Oaks conferees must have considered the question of the relation

of The United Nations to the League of Nations.<sup>1</sup> They included in their proposals references to various other international organizations now existing or contemplated which would need to be brought into relationship with the new over-all organization. The question is a divisible one and the future status of each particular organization should be considered separately. Clearly, the League of Nations itself must be superseded by The United Nations. Popular opinion and expert opinion are in agreement in this. It is the conclusion reached, for example, by the group of Americans who have had experience with international organizations and who were among the enthusiastic supporters of the League of Nations from the time of its founding. Their findings were made public on August 1, 1944, as "A Design for a Charter of the General International Organization." That same group assumed that the International Labor Organization would be continued, and this is probably the general assumption. They also were firmly of the belief that the Permanent Court of International Justice should be retained as the judicial organ of the new general international organization. The same conclusion relative to the Court was reached in the statement entitled "The International Law of the Future" made public March 27, 1944, as the result of the deliberations of some two hundred judges, lawyers, professors, government officials and men of special international experience. More recently, the American Bar Association at its Chicago meeting on September 12, 1944, adopted through its House of Delegates a resolution in favor of the continuance of the World Court. On November 8, a group of 44 lawyers including Charles C. Burlingham, Roscoe Pound, Charles Evans Hughes and John Bassett Moore released a letter to the Secretary of State supporting the same position.

Granting that the existing Statute of the World Court needs to be revised, it is hard to see why the institution itself should not be preserved. One of the most powerful practical reasons for maintaining it is that there are in existence several hundred international treaties which contain the so-called compromissary clause providing that in case of dispute the Permanent Court of International Justice shall have power to interpret the treaty. A certain number of these treaties may fall as a result of the war, but most of them, by virtue of their general and technical character, will probably continue in force. Anyone familiar with the diffi-

<sup>1</sup> On this, as on other points, further announcements of added items of agreement may be published before this article appears.

culty of obtaining even the simplest common action by a large number of states, parties to a treaty, will recognize the difficulty of amending this great network of agreements. A close analysis of the provisions of these treaties will reveal that numerous complications would result if the judicial body referred to in their terms ceased to exist. If there were strong reasons why the existing Court should be superseded these difficulties could be faced, but no good reasons appear for taking such a step.

The only arguments which come to mind for superseding the Court are those which might arise out of the historic antagonisms and susceptibilities of the Governments of the U.S.S.R. and of the United States. But the U.S.S.R. has accepted the basic point that there is to be a court, and any objections it might have could as well be met by a modification of the Statute of the World Court as by creating a new court. So far as the United States is concerned, the bogeys of the twenties must be eliminated or The United Nations may never come into existence. If the United States becomes a member of the new over-all organization, as is to be expected, the old objections to joining the World Court largely disappear. Most of them could not have been raised in the old days if the United States had been a member of the League with a seat on the Council. If there are valid objections still unanswered, they can be met by amendments to the Statute.

### III

The two central and most difficult problems connected with the general question of an international court and the specific question of the revision of the Statute of the World Court, have to do with the selection of the judges and with the jurisdiction of the tribunal.

The problem of selection of judges has not received as much emphasis as it deserves in discussions of the judicial settlement of international disputes. The choice of judges to sit on a Court of Arbitration has traditionally involved a laborious process of check and counter-check. Under the older systems of arbitration procedure, whereby judges were selected *ad hoc* to decide particular cases or groups of cases, it was usual either for the two litigant states to agree upon a single judge, or for each of them to nominate one judge and allow those two to select a third. Sometimes a deadlock could be broken by having the third selected by an outside authority. (A number of existing treaties entrust this duty to the President of the Permanent Court of International

Justice.) In such a process each Department of State or Foreign Office would comb the record of each nominee to make sure that the individual in question had never revealed any bias against its country, or any view upon the points of law involved which might be adverse to its contentions. The unsatisfactory nature of this process was one of the factors which led to the insistent demand for the creation of an international court with a fixed bench. This objective was reached with the establishment of the World Court in 1920. With the fixed bench of judges, some governments wondered whether they could obtain justice from the particular men who had been chosen. It is a natural reaction, especially for lawyers. In the practice of law in this country it is not unusual for counsel to weigh any options as to venue in order to have the case tried before this or the other judge. Many of the attacks levelled against the World Court were designed to prove that the judges voted according to their national sympathies and not according to the law. An examination of the record fails to sustain this charge. Judge Anzilotti, the great Italian jurist, voiced his disagreement with the contentions of the Italian Government in the case of the phosphates in Morocco, decided by the Court in 1938; Judge Weiss from France failed to support the contentions of the French Government in what at the time was the rather serious controversy with England over the French nationality decrees in Tunis and Morocco. These are among the instances.

It is true that on many occasions the judges on the bench supported the views of the countries from which they came, but there is no reason to charge them with bad faith in so doing. It is equally plausible to assert that in the particular cases they were convinced of the legal soundness of the position which was taken. More of a case might, however, be made against the so-called "national judges" appointed *ad hoc* under the Statute to sit in any case when one or both parties did not already have a judge on the bench. These national judges in every case decided in favor of the states from which they came.

The Statute of the World Court provided for these national judges on the theory that the Court would be aided by having present a jurist familiar with the legal thought of every party to a case before it. Actually, the provision helped to smooth the transition from the old system of choosing judges for the particular arbitration to the new system of the fixed bench. It is doubtful whether the inclusion of the national judge could determine the

court's decision, in most instances, although such a result is possible where the judges are almost evenly divided. On the other hand, it is rather too much to hope as yet, as a matter of international practice, that if the fixed bench includes a judge of the nationality of the plaintiff, the defendant will be content without redressing the balance. The balance can be achieved by following the present rule of permitting the defendant to name a judge *ad hoc* or by adopting a new rule requiring the sitting judge of the plaintiff's nationality to withdraw. The Statute does now recognize that a judge may be disqualified from sitting and that in such case he shall not sit; the practice on the bench of the Supreme Court of the United States is similar. It would be possible to consider a judge disqualified if he were of the nationality of either party to the case at bar. Under such a rule, if nationals of both parties were sitting on the bench, both would be disqualified.

## IV

A great many of the debates about international arbitration and judicial settlement have turned upon the terms of reference and the problem of jurisdiction. It is unquestionably true that various states have from time to time been most averse to permitting international tribunals to pass upon particular questions about which they felt very strongly. If a government had an uneasy feeling that it was in the wrong it was all the more reluctant to consent to the impartial adjudication of the issue. Something of that psychology found expression in Paragraph 8 of Article 15 of the Covenant of the League of Nations, which reserved from consideration by the Council of the League all questions which under international law are "solely within the domestic jurisdiction" of a state. To a certain extent the Dumbarton Oaks proposals continue to reserve so-called "domestic questions." Section A of Chapter VIII of the proposals deals with "arrangements for the maintenance of international peace and security including prevention and suppression of aggression;" Paragraph 7 excludes the competence of the Security Council or the General Assembly in domestic matters. But when Section B of this chapter deals with "determination of threats to the peace or acts of aggression and action with respect thereto," it permits the Security Council to proceed to emergency action in any situation where there is an actual or potential breach of the peace. One weakness in Paragraph 7 of Section A is that it seems to exclude judicial consideration of the issue whether a particular mat-



ter is "by international law . . . solely within the domestic jurisdiction." Yet no more clearly justiciable a category of issues could be conceived. The Permanent Court of International Justice made an admirable analysis of the problem in its Advisory Opinion on the French nationality decrees in Tunis and Morocco.

In popular discussions of an international court there has frequently been misunderstanding of the difference between the usual international and the usual domestic judicial procedure. Domestically, the plaintiff brings his suit, serves his summons, and the court will then proceed to judgment whether or not the defendant chooses to appear. Internationally, the plaintiff state must get the defendant's agreement that a suit will be tried, and that some particular court will be empowered to try it. The great development after 1920 was the number of agreements by which states gave their consent in advance to adjudication by a certain court in certain cases. Is it possible now, in setting up The United Nations, to agree in the Charter that the international court shall have general jurisdiction, like a domestic court? This is the essence of the much-discussed question of "compulsory" jurisdiction.

The jurists who framed the Statute of the World Court in 1920 included provisions giving the Court compulsory jurisdiction in certain defined categories of cases. The League bodies in the course of reviewing the recommendations of the experts were not ready to be so bold. The compromise was the framing of the so-called "Optional Clause" whereby any state so desiring might accept the jurisdiction of the Court for defined types of controversies by means of a separate protocol. Of the 51 states which ratified the Statute of the Court, 45 also accepted the Optional Clause. This latter group included most of the Great Powers. Nevertheless, acceptances of the Optional Clause were commonly qualified by reservations which still left the Court without jurisdiction in many important situations. Compulsory jurisdiction was also conferred upon the Court by a large number of treaties referring to special topics — the administration of the mandates, for example. It was under such a provision in a Mandate that Greece was able to summon Great Britain before the Court in the *Mavrommatis* case.

The jurisdiction of the Court to give advisory opinions was under attack in this country for some time, but the Senate finally conceeded through the form of its reservations that this could be a proper judicial function. Unbiased students of the work of the

Court can have no doubt on the subject. The Dumbarton Oaks proposals would preserve this useful function, although the use of the term "advice" in place of "advisory opinions" in the proposals is inept.

No current consideration of the Court's jurisdiction should overlook the argument that a mistake has been made in seeking to distinguish between legal and political questions and in concluding that only those in the former category can properly go before a court. It is argued that the determination of aggression is a judicial question and should be decided judicially, probably in accordance with some predetermined test of what constitutes aggression. The American people, with their ingrained belief in the fairness of a court, would be more inclined to have such matters decided by judges than by a political body like the Security Council of The United Nations, the argument continues. And it points out further that the constitutional question of the power of the President to utilize the armed forces of the United States against an aggressor, in advance of a Congressional declaration of war, would be less troublesome if the fact of aggression were judicially determined before the President acted.

There is much to commend this approach to the problem, although it must be remembered that the attitude of people in the United States toward judicial processes is not quite typical of that of people in all other countries. The proposal that when a treaty includes a definition of aggression the Court may apply the legal test to the given facts would probably command general assent. But this begs the question to some extent; the attempt to include definitions of aggression in prewar treaties was often unsuccessful. And the still more serious flaw in this procedure is that at this stage of the world's international development it casts too great a burden upon the Court. The issue of the very life or death of an "aggressor" would be before the Court, which would reach its decisions on a black or white basis. A political body like the Security Council, on the other hand, can bring to bear all the forces of diplomacy before the irrevocable word is spoken. The whole gradated scheme of the Dumbarton Oaks proposals is built on the theory that the Security Council will follow the traditional technique of diplomacy and first try to dissuade and then to threaten. Only as a last resort will it mobilize force against an aggressor. The Security Council does not have to identify an "aggressor state" before it can restrain that state from using force, as was necessary under the League system.

The question whether an international court of justice can properly deal with great political questions was raised and much debated when the Council of the League in 1931 asked the Permanent Court of International Justice for an Advisory Opinion relative to the compatibility of the Anschluss with Austria's treaty obligations. The Council finally moved on political lines, and the Court's opinion seemed to be deprived of practical importance. The resulting criticisms were directed less at the Council for interfering with the judicial function than at the Court for being entangled in a political question of vast import, even though a legal question was involved. One is reminded of the attacks on the United States Supreme Court when it rendered its decision in the Dred Scott case in 1857; the *New York Tribune* claimed that the "Court has rushed into politics. . . ." The proposal to give the Court so wide a power in defining aggression and naming an aggressor would impose upon it the responsibility for making a judgment upon cases so charged with political explosives as to shake the judicial equilibrium of the most irreproachable jurists of history.

To diminish the Court's jurisdiction in any way in a revision of the Statute would be a decidedly retrogressive step. The Preliminary Recommendations on Post War Problems of the Inter-American Juridical Committee, submitted to the Governments of the American Republics in 1942, urged that the jurisdiction of the Court "be extended." Incorporation of the Optional Clause in the Statute — a return to the position taken by the 1920 Committee of Jurists — would represent only normal progress. It is clearly desirable, and should be recommended by the United States Government.

From 1897, when the Senate refused to approve the Olney-Pauncefote arbitration treaty, there has been an almost unbroken series of Senatorial objections to proposals which would in advance confer jurisdiction upon an international tribunal in cases to which the United States was a party. The basic trouble is the traditional unwillingness of the Senate to entrust the Executive with full power in this field. The Senate has insisted that its hands be kept on the reins; it will run no risk that a President might perchance agree to a procedure for obtaining an impartial decision in some controversy which might involve the very special sensibilities of one state or region. Yet the President's general constitutional power over foreign relations gives him authority to submit cases to arbitration even without a treaty, and he has fre-

quently done so. During the period between the world wars, the damaging fact was that while other states were groping for a sense of security through the establishment of international processes and binding agreements to use them, the United States was insisting that other countries should simply depend upon our general reasonableness and an expectation that at the time of crisis we would agree to submit a dispute to some improvised procedure. No substitutes for war can be developed if nations maintain such a position. In becoming a member of The United Nations, the United States must accept the proposition that procedures for peaceful settlement of international disputes must be developed far in advance of the crisis, and that the broadening of the jurisdiction of international courts is an essential part of the development.

The American Bar Association, at its last meeting, declared in favor of obligatory jurisdiction for an international judicial system which would be capped by the Permanent Court of International Justice and strengthened by a system of Circuit Courts "to hold regular terms in the Capital of each member nation of the International Judicial System." There has long been a difference of opinion among those favoring the cause of international adjudication, as to whether more than one permanent court should be established. In particular, should there be an Inter-American Court of Justice for the American Republics? Those opposed to the idea maintain that there is not enough judicial business fully to occupy two high international tribunals, nor sufficient personnel of the proper type to staff more than the one court at The Hague. And some demur at the cost of another tribunal. On the other hand, it has been suggested that the ready availability of other courts, and the fact that their benches were composed of judges more familiar with regional interests, would lead states to submit more cases to judicial settlement. The Bar Association's proposal takes a middle ground, in the sense that it would keep the Permanent Court of International Justice as the highest court; the Circuit Courts which it advocates would act as tribunals of original jurisdiction from which, presumably, appeals might be taken to the Court at The Hague. The personnel difficulty is met by the suggestion that the Circuit Courts be staffed by judges of the World Court riding circuit, on the historic United States model.

The idea has much to commend it. The cost of international judicial proceedings in the past has been high. This fact is re-

flected in the language of the Inter-American pecuniary claims convention of 1902, which contained an obligation to arbitrate all claims for loss or damage "when said claims are of sufficient importance to warrant the expenses of arbitration." Moreover, the Permanent Court of International Justice should be relieved of the necessity of concerning itself with cases raising points of minor importance; the Supreme Court of the United States is thus protected. The revision of the Statute of the Court might well indicate what types of cases are sufficiently important for the Court at The Hague to be given original jurisdiction over them. Circuit Courts might obviate the need for Mixed Claims Commissions which are now periodically established to handle an accumulation of cases. In this type of international litigation it is not uncommon for a case to fail to find a forum for 50 years, and in such instances the original amount of the claim has increased, at simple interest, by 300 percent.

The postwar period will see a large amount of international litigation of the kind which, after the First World War, was referred to the network of Mixed Arbitral Tribunals established under the peace treaties. Some such emergency judicial machinery may be necessary again, particularly for unscrambling the complicated property cases which arise in times of belligerent occupation of enemy and friendly territory. It is doubtful whether the proposed Circuit Courts could handle this business.

The amendments to the Statute of the Permanent Court of International Justice should include provisions for a regular appellate jurisdiction, in order that decisions of Circuit Courts or special *ad hoc* courts can find a source of unification of conflicting views, just as in our federal judicial system the Supreme Court effects a reconciliation among Circuit Courts of Appeal. When a leading case has been decided by the Court at The Hague, inferior courts thereafter should no longer need to look elsewhere for an authoritative exposition of the rule of law laid down in the case. For this reason there should be an amendment to Article 59 of the present Statute which declares that "The decision of the Court has no binding force except between the parties and in respect of that particular case." To the extent to which this article restates the rule of *res adjudicata* as between the parties, it is sound. But to assert that the decisions of the Court do not constitute authoritative statements of international law which should be followed by inferior courts is a relic of the transitional period of the twenties. The old doctrine would be inconsistent with the

Dumbarton Oaks proposals which provide that all members of The United Nations shall also be parties to the Statute of the Court. One of the important functions of the Court is to give to international law the gradual and reasoned development which national courts have given to Anglo-American law, by applying general precepts and principles to specific situations. There may be need of adjustment between the civil law and the Anglo-American view which meticulously separates the "holding" in a case from mere *obiter dicta*. Civil law jurists less addicted to case law and more respectful of the views of learned writers find our distinctions curious. It is odd to find that in a brief, or even a judicial decision, the views of a second-rate or third-rate author of a book or article may be preferred to those of a Marshall or a Story because the latter have been expressed *obiter* from the bench.

## v

The mechanical problem of amending the Statute of the Permanent Court of International Justice in order to incorporate the necessary changes in the existing institution presents technical difficulties. It is generally held that a treaty can be modified only with the consent of all the parties thereto. Nonetheless, multipartite treaties of general interest have in practice been amended without unanimous concurrence. In the case of the World Court, the treaty in question is not the Statute alone but the document known as the Protocol of Signature, to which the Statute is annexed. On signing this Protocol, a state declares that it accepts the jurisdiction of the Court in accordance with the terms and subject to the conditions stated in the Statute. The Statute and the Protocol are silent as to the way in which the former may be amended.

When revisions were made in the Statute in 1929, largely to meet objections voiced by the United States, their adoption was provided for by a new Protocol to enter into force on a named date if the Council of the League of Nations was then satisfied that the parties to the earlier Protocol had no objection to the changes coming into force. Objections were apparent, however, and another attempt was necessary before the purpose was achieved. Since the original Statute had been drawn up in response to a duty imposed upon the Council of the League of Nations under Article 14 of the Covenant, there was a natural feeling in Geneva that the League bodies should deal with all



proposed revisions. It is neither advisable nor feasible at this stage to attempt to act through the League Council and Assembly in amending the Statute of the Court. Those bodies might meet and take confirmatory action if that were deemed politic. It may be necessary for them to meet in order to bring about an orderly succession or supersession of the League of Nations and its projects and interests. If so, action on any revised Statute of the Court would be an important item on their agenda. But if a substantial number of states, signatories of the existing Protocol, agree to an amended Statute, the existing Court could function under that Statute. A state not party to the new protocol of amendment might be freed from any obligation laid upon it by virtue of its signature of the earlier protocol or the Optional Clause, but it is unlikely that any state ready to become a member of The United Nations would be unwilling to join in supporting the reorganized tribunal.

The existing Statute of the Court contains provisions in connection with the election of judges which require amendment, since they rely upon using the Council and Assembly of the League as electoral bodies. This scheme, developed by Elihu Root, solved the old controversy which had made it impossible for the large and small states to agree upon a method. The device rested upon the idea that the Assembly was controlled by the small states and the Council by the Great Powers. If the two bodies, voting concurrently but separately, agreed upon the choice of a nominee, that person was declared elected. The scheme worked well in practice, although as a matter of fact the membership of the Council of the League was soon expanded so that the Great Powers no longer held a numerical majority. The situation revealed the truth that in international affairs of moment, the Great Powers are not brusquely overridden by a majority grouping of small states. The influence of the Great Powers, which flows from their importance, is more potent than any clever formula. Formulas are nonetheless necessary to secure original acceptances of plans for coöperation among large and small states.

The Dumbarton Oaks proposals contemplate the existence of an Assembly and two Councils, the Security Council, and the Economic and Social Council. It is a relatively simple matter to draft a formula to use two of those bodies in place of the League Assembly and Council for the election of judges to the World Court. Nominations could be made by the national groups on the panel of the Permanent Court of Arbitration, in much the

same way as at present; or a variation on that theme to suit any particular demand could be easily provided.

There was to have been an election of judges of the World Court in the autumn of 1939, but it was not held — for obvious reasons. As a result, the judges, all of whose terms expired at that time, were held over under the provisions of the Statute. Of these 15 judges, 12 still hold office. As of last July, three were over 75 years of age, five over 70, and nine out of the 12 were over 65. An amendment to the Statute might provide that no person shall be nominated if he is over a certain age — say 65, or even 60. Meanwhile, if it were necessary, the Court could meet with a quorum of nine judges. Its Chamber of Summary Procedure requires only five judges.

There are obviously a multitude of questions to be worked out in connection with the position of a Court in the new international structure. But there is none which appears to be of major political consequence in comparison with the basic decision to accept the plan for The United Nations. Like other aspects of the new organization, questions relating to the Court will require a plethora of talk. The history of the World Court will be reviewed and the value of particular parts of its work and structure will be hotly debated. But the discussion will be useful if it can be focussed on the central problem: to establish provisions for the choice and service of judges of the Court that will attract to its bench the ablest jurists of all legal systems of the world. If the bench is selected on the basis of judicial competence, the Court will find ample work within the new international framework. If it is thus staffed, the still prevalent reluctance to give it the jurisdiction necessary to deal with important questions will diminish. The Court can then contribute its large part to the general objective of a peaceful and well-ordered world.

# BRITISH RECONVERSION AND TRADE

*By W. Manning Dacey*

A MAJOR changeover from war to peace production is clearly out of the question in any of the United Nations until Germany capitulates. But in the United States the first tentative steps toward reconversion have been taken. In Britain we read of the lifting of the ban on American production of some hundreds of civilian items and of spot authorizations to more than a thousand plants, permitting a \$200,000,000 increase in civilian output during the last quarter of 1944 and all of 1945. These moves have been followed with interest in this country.

How much progress has been made along these lines in Britain? The answer is none, almost literally. The best evidence of this is to be found in our figures of government disbursements, which in the first half of the year seemed to have become stabilized at a steady maximum but in recent months have expanded to new high levels. There have, of course, been cutbacks in some lines of production where supplies are now ample to last out the German war, but these have been more than offset by the intensification of the war effort in other directions.

For the most part, labor released by the termination of war contracts has either been absorbed into the armed forces or diverted to other war production, notably that intended for the Japanese war in "Stage 2." In some instances the shift in production has tended to create pockets of unemployment, as, for example, by the release of married women with young children who cannot be ordered to take jobs away from their homes. To build new factories to reabsorb such labor in war work would be useless at this late stage, and to leave the women unemployed would be wasteful. Consequently, the Board of Trade recently announced that some hosiery factories in Lanarkshire might be allowed to reopen, though they will not employ more than two or three hundred people. That appears to be the only example of a return to civil production even on a small scale. The situation in regard both to labor and raw materials is still extremely tight in this country.

Industrial reconversion is still in the paper stage. British manufacturers have not even begun to prepare prototypes — not through any lack of initiative or lack of interest in postwar prospects, but because any company diverting labor or materials to

such planning would hitherto have risked having its labor taken away. In mid-autumn, however, the Board of Trade circulated a letter inviting manufacturers who wished to undertake work on postwar models or similar projects to state their needs to the Industrial Supplies Department of that Ministry. It was pointed out that vital war work must not be impeded, but that subject to this proviso requests for the use of a small amount of labor for postwar planning would be sympathetically considered. Mr. Hugh Dalton, President of the Board of Trade, has since stated that 350 applications for such permits have been received, of which about 150 have already been granted. Sir Charles Bruce-Gardner has just been appointed chief executive for industrial reconversion. He has not yet had time even to announce his approach to the problem, still less to make any of the difficult decisions involved in such a question as the reopening of the more than 4,000 plants closed as unessential or telescoped under the concentration scheme.

In other words, the problem of reconversion still lies before us in its entirety. No invidious comparisons are involved in the statement that the task will be a relatively much more formidable one for us than for the United States. The vast American war effort has been achieved mainly by the stupendous increase of some 75 percent in the total output. Together with the reduction in net investment (which even in 1943 was, however, still positive) this has taken care of the war requirements and left the aggregate civilian consumption still some 15 percent higher than in 1939. In Britain, on the other hand, the over-all expansion in output has not been more than 25 to 30 percent, partly because there was less slack to take up in British economy, partly because as much as 10 percent of our entire population has been taken into the Services.

The remaining two-thirds of our war production has been obtained by drawing on capital, both at home and abroad, and by severe curtailment of civil consumption. Our Budget White Paper showed "overseas disinvestment" totalling 2.843 billion pounds (11.372 billion dollars) for the four years of 1940-1943 alone, representing sales of gold and securities in earlier stages of the war, and the still greater accumulation of sterling claims by overseas countries such as India as the result of our war purchases. By the middle of 1945, the deterioration in our capital position in relation to the rest of the world since the outbreak of the war will certainly easily exceed 4 billion pounds, with a cor-

responding loss of investment income in the future. Again, in the four years from 1940 to 1943, restrictions on maintenance and renewal of our home equipment resulted in drafts on capital of 763,000,000 pounds. On the other side of the ledger is the fact that the government has built many war factories and accumulated great stocks of war stores; but the extent to which these will have a peacetime value is still an unknown quantity.

Between 1939 and 1943, civilian consumption was cut by 21 percent in real terms, but this gives a wholly inadequate idea of the degree to which British industry was converted to war production. Consumption at 79 percent of the 1939 level includes supplies received from abroad, either against payments or generously provided on lend-lease terms by the United States, or by gift or mutual aid from Canada. Home production of civilian goods has been cut by considerably more than 21 percent.

## II

Lend-leasing of food and raw materials can, of course, achieve its purpose of strengthening the combined war effort only if it sets free for transfer to the fighting services or to war industry British labor that would otherwise have to provide for our essential civilian needs — directly or by manufacturing exports. Lend-lease has thus been a factor in bringing about what may almost be called “over-mobilization” of British economy, and especially in curtailing our export trades. Britain hopes that the difficulties involved in reversing this process will not be overlooked when the termination of lend-lease is considered.

The net result, at any rate, has been that 80 percent of all employment in manufacturing industries is now on government account. No more than 33 percent of our total labor force of about 23,000,000 is now engaged in producing for civilian purposes — including under this heading the distribution of power and the operation of essential public utilities, as well as the production of food, clothing, and so on. A bare 2 percent is employed in the manufacture of exports. Not all of the remaining 65 percent will actually have to change their employment during reconversion, since many firms will be able to switch their existing labor force back to peacetime production. The number involved in the changeover has been officially estimated at about 7,000,000.

In the transition period, of course, the major problem will be the same in character, if not in degree, on both sides of the Atlantic: namely, to prevent severe unemployment while workers

are being transferred from the forces to their civilian occupation and factories are closed for retooling and conversion. Once economic demobilization has been completed, however, British and American problems will be diametrically opposite. It seems generally agreed that the chief difficulty in the United States will be to reverse the trend which has led to the extraordinarily high level of savings. The disposition to save has done much to damp wartime inflationary tendencies, but in peace it could produce a slump and mass unemployment. (The Federal Reserve Board's calculations of the volume of spending needed to bring about the full employment of America's vast resources were noted with interest over here.)

In Britain, our difficulty will be precisely the converse of this. It will be to meet the numerous and mounting demands on our very limited resources, while maintaining a reasonable standard of living for our people. In particular, we shall have to make large expenditures on housing, we shall have to find capital for industrial restocking and reconversion — including deferred repairs — and we must send large quantities of exports to countries such as India in liquidation of the huge sterling balances.

At this stage, estimates of postwar budgets and the postwar national income must be subject to many uncertainties, but the following estimates give a general picture. The combined expenditures of the central government and local authorities may be placed at about 2.5 billion pounds, of which something more than one billion pounds will represent transfer expenditures (national debt interest, unemployment allowances, etc.) and the remainder expenditure of goods and services (defense, education, etc.). The net investment, including repair of war damage and the capital expenditure of public authorities, will probably have to be triple its prewar level of 250,000,000 pounds.

What of the income out of which these demands must be met? If the general level of output were no higher than in 1938, then allowing for a loss of overseas income and assuming a 40 percent rise in prices, the net national income would be only 6.3 billion pounds and taxable incomes would be about 7.3 billion pounds. This means that there would not be enough income left, after public expenditure and investment, to permit consumption to rise at all from its depressed wartime level or to make possible any reduction in the present rates of taxation. These rates would be intolerably repressive in a normal economy. The problem begins to appear manageable only if we assume a 15 to 20 percent ex-



pansion in over-all production, bringing the net national income up to around 7.5 billion pounds and taxable income to about 8.5 billion pounds. Given such increase in output, consumption can be restored to the 1938 level or a little higher, and taxes can be reduced by a quarter or a third.

That is the basic situation which must condition all economic policy in this country. An all-around increase in production is absolutely imperative. A reduction in unemployment from the 1938 level of 1,750,000 to perhaps only 750,000 may be expected to result in a 6 to 10 percent expansion in the national income. But with a static population any further increase can come only from a rise in productivity per worker. The prospects in this direction are mixed. During the war there has undoubtedly been a considerable increase in productivity per worker in munitions industries, as a result of the mass production methods made possible by huge government orders; perhaps it is as large as 20 percent. In some of our basic industries, however, productivity per worker has actually declined. In coal-mining the output per wage earner has fallen 9 percent since 1939, while a sharp rise in labor costs per ton has doubled the price of the product. This rise is reflected in the prices of many other products — steel, for example. Again, the country has been disagreeably impressed by the newly-published report of our Cotton Textile Mission, which shows that the output per man hour in the United States is very considerably higher in all branches of the industry.

The background of this report is interesting. The Cotton Board brought out a report some months ago pressing the government for legislative powers to fix maximum and minimum prices and to restrict entry into the industry. It denied that the average unit in the industry was too small for efficient production, but approved amalgamations as a means of facilitating “unified and united commercial policies,” *i.e.*, price-fixing agreements. To this the government replied by refusing outright any price-fixing powers and making any legislation conditional on immediate steps toward a five-point program to increase efficiency by such means as amalgamations, modernization of equipment, and the pruning of redundant merchandizing organizations. It is hoped that this new-found emphasis on efficiency will characterize the government’s approach to all industrial problems.

In defense of the low productivity in many British industries, it is said that in peacetime there may be great advantages in a flexible industrial setup organized for “batch production” rather

than "mass production," especially for export markets. But it is encouraging to find a realization growing on the part of all concerned that disparities in British and American productivity are too great to be explained away on this score. It must be freely admitted that the present position has undoubtedly come about to some extent from restrictive practices by trade unions and by "slump-mindedness" on the part of management — that is, the tendency to seek solutions by way of combinations and price maintenance rather than by technological improvements. In a sense, this past weakness may now prove a source of strength, since a mere change of outlook and methods would permit a substantial reduction in costs and an increased output. But there can be no doubt that many industries can be brought up to full efficiency only by the expenditures of fresh capital for new equipment. Its total will run to several hundred million pounds.

## III

This situation has a threefold significance for our position in regard to balance of payments. In the first place, coal and cotton are themselves major export industries. Secondly, modernization may necessitate imports of capital goods (American coal-cutting machinery, for example) precisely at a time when we shall be hard put to it to pay for normal current imports. Thirdly, even if the new equipment is manufactured at home, the necessity of producing it will increase the general strain on our resources and indirectly add to the difficulty of achieving the needed all-round increase in exports. Large home demands for capital equipment will be inconvenient in the postwar years, since it is precisely in the engineering industries that the markets for expanded exports appear most promising. Wool and chemicals are other industries which hope for greatly expanded exports.

By 1943 British wartime exports had been reduced to no more than 29 percent of the prewar volume, in obedience to the principle that exports can now be permitted only if they are essential to the life of the importing country or are the only means of obtaining essential supplies in return. In short, the common war effort has placed drastic restrictions on British trade. No one would have it otherwise. Naturally, this virtual suspension of exports involved heavy sacrifices.<sup>1</sup> It is partly responsible for an

<sup>1</sup> On the average our export prices were 71 percent higher in 1943 than in 1938. Since United States prices have risen about 50 percent during the same period, and sterling has declined from \$4.88 to \$4.03, it would seem that the relative cost of British and American goods has not been greatly altered during the war.

increase in our external indebtedness and it means the severance of normal trade contacts, which cannot be regained overnight. In many lines, for example, our Dominion and other customers have been handed over to alternative sources of supply or have themselves built up industries to produce goods formerly bought from the United Kingdom. As will be seen from the following table, American cash exports have for the past three years been running at about three times the level of our own (figures in millions of pounds):

<i>Year</i>	<i>Exports from United Kingdom (including reexports and reciprocal aid)</i>	<i>Exports from United States (including reexports but excluding lend-lease)</i>	<i>Ratio: United States to United Kingdom — Percent</i>
1938.....	471	633	134
1939.....	440 (including munitions)	716	163
1940.....	411 (including munitions)	1,000	243
1941.....	365 (including munitions)	1,091	299
1942.....	269	780	290
1943.....	232	646	278

Owing to the loss of overseas investment income, and a probable decline in earnings of the British Mercantile Marine, it is estimated that our merchandise exports will have to be 50 percent above the prewar volume to bridge the resulting gap in the British balance of payments. In other words, they must expand fivefold from the 1943 level. This is a formidable goal. In the short run, the task will be facilitated by a world-wide backlog of demand, especially for capital goods of all kinds, and presumably by the disappearance of German competition.

If this analysis presents our economic problems in a somewhat somber light, it should not be inferred that they are regarded as insuperable. The British people will rise to the tasks of peace with the same resourcefulness and determination that they have shown in war. But so far as the balance of payments is concerned, a solution cannot come from our own efforts alone. It demands international understanding and coöperation. For example, in the immediate postwar years, rationing and the allocation of raw materials will be necessary to prevent a rush of spending which would raise the total monetary demand for goods far above the productive capacity of our economy, and so tend to cause an inflationary rise in prices. For the same reason, there must be restrictions on imports at first, to exclude luxuries and confine purchases to essentials. If, in this period, the British Government is giving priority to export industries in allocating materials and is sponsoring the export drive generally, then it may well seem

to other countries that Britain is seeking to play it both ways. It is vital that our friends overseas understand why such a government policy is necessary. In a free market, the same goal — the limitation of imports and the expansion of exports — would be reached automatically through the depreciation of sterling. But that is what everybody wants to avoid. For many years to come this country will have no interest in exports for their own sake or as a stimulus to employment; it strives for them merely as a means of obtaining essential food and materials.

## IV

Britain particularly hopes that her problems and policies will be understood in the United States, for although American mass-produced goods and British specialties are largely complementary, the rivalry between our two nations is inevitable in many markets. Britain has always been the world's largest importer, but has hitherto ranked second to the United States as an exporter, since 40 percent of our imports were not paid for with merchandise but by services and investment of income. Now that more than half of this "invisible export" income has been lost only two means of balancing our accounts remain. The first alternative is a reduction in British imports that would not only depress our own standard of living but would put "finis" to hopes of an expanding world economy. The preferable alternative is the expansion in British merchandise exports to a point well above the prewar level of American exports.

It cannot be denied that many people in this country view with some apprehension the plans being made by American manufacturers for a vigorous postwar drive for trade. In the absence of any sign that the United States would welcome a corresponding increase in imports, there is danger that America will assume an unbalanced creditor position and create a world shortage of dollars. Fortunately there is one policy that would reconcile the expansionist ambitions of America with Britain's need for additional exports. Direct loans would be quite unacceptable to this country, which already faces a serious burden of external debt. But great assistance to international commerce would be rendered by American loans to third parties *not* obligated to spend the entire proceeds on American goods. Once again, this may seem to be asking a great deal. But the suggestion is made in the serious belief that, on reflection, it will be found to provide the most practicable short-term solution of an international

problem, even if only a short-term solution. In the long run, must not the United States acknowledge her creditor position by permitting an import surplus on the current account? In any event, it should be remembered that every increase in British exports does not mean an equivalent loss of business to American traders. On the contrary, the only alternative to such British expansion would be a reduction in the volume of British imports; and this in turn would greatly reduce the prosperity of many of America's overseas customers and so render them less able to buy American goods.

Despite the obvious difficulties, economic opinion in this country has been greatly encouraged by the insight into world trade problems shown by the United States Department of Commerce in its publications "The United States in the World Economy" and "Postwar Trade with the British Empire." In the latter, the Department urges that an increase in the volume of United States imports from Britain and Canada would be advantageous, reasoning that it would ensure the maintenance of American trade with the British countries which have hitherto absorbed more than 40 percent of all United States exports. It recognizes that Britain's international position will be too strained to permit a reduction in imperial preference without a *quid pro quo*, and that British commercial policy will be dominated by America's commercial policy.

Britain welcomes these admirably liberal sentiments. But opinion in this country would probably declare that the maintenance of internal prosperity in the United States is even more important than the reduction of the American tariff. After all, a prosperous America can be a good customer of the rest of the world, despite import duties, but even a completely free-trade America would be merely a depressing factor in world economy if she were to get into a slump. The whole future of world trade depends on the question whether the United States will be able to avoid postwar depression.

# DIPLOMACY, OLD AND NEW

By *André Géraud*  
(“*Pertinax*”)

THE terms “old diplomacy” and “new diplomacy” have been in common use for twenty-five years or more. The system of alliance set up by France, England and Russia to ward off the German danger in the decade before 1914 is dubbed “old diplomacy.” The system of so-called international security which took shape in the League’s Covenant of June 1919, and afterward regulated or was supposed to regulate the relations of the fifty-odd states of the world, is labelled “new diplomacy.” All the implications of the word “alliance” connote “old diplomacy.” In the same way, “new diplomacy” connotes the twin ideas of replacing the bilateral alliances of the past with a universal or semi-universal association of states pledged to compliance with a set of general principles embodied in international law, and the abandonment of “power politics” — that is, the use of force to settle conflicts between nations.

It is difficult today to imagine the unbounded enthusiasm which burst out in most European nations when the American President landed in Brest in 1918. I shall always remember the remark of an eminent British political writer with whom I was taking a short rest in the country. A common friend was about to go to London as correspondent of the *Echo de Paris*, the newspaper of which I was then foreign editor. That friend, who was to make a great name as a playwright, had remarked that he was attracted by his new journalistic task but feared lest his scanty knowledge of history would prove a serious hindrance. “Do believe,” said the Englishman, “that we are starting today with a clean slate and that the interests and the passions which formerly have determined the fate of the world will henceforth be of little weight.” Such was the belief of many, perhaps of most — if not in France, at least in England, and, I am sure, here in America.

Those great expectations have been frustrated. The ambitious experiment started by the preceding generation of statesmen has ended in war — in an ordeal more terrible than the one old diplomacy had been unable to forestall. Was new diplomacy at fault? Numerous voices insist that it was not. New diplomacy, they say, was not given a fair chance. It was stifled in its very cradle by the men and the ideas it was to replace. This time, they



conclude, we must make a complete break with the political tenets and practices which held sway in Paris, London and St. Petersburg when the present century was in its teens.

This article examines only the pattern of old diplomacy worked out by the Powers of the Triple Entente — France, Russia and Britain. They are the Powers that tried to preserve peace, and we are interested in defense, not in offense. It is meaningless to use the terms “old” and “new” diplomacy in reference to Germany. Germany, a persistently aggressive empire, had no more to do with new diplomacy than was necessary to disguise her program of revenge.

The danger at the present moment, with full victory within the grasp of the American, British and Russian Armies, is a fresh venture in the field of new diplomacy as it was understood at the termination of the First World War. For the common good we must rid ourselves of confusion of thought which, if continued, cannot but play into the hands of all disturbers of the peace.

My contention is that, to nip in the bud all forms of aggression, to curb any would-be disturber of the peace, to initiate any vigorous action in the international field, definite political and military commitments must be entered into. Political and military commitments are not likely to prove adequate if diluted into general pacts subscribed to by twenty, thirty or forty participants. To believe that such pacts suffice to maintain peace is to beg the whole question, to assume that the conduct of international relations can forever be divorced from the use of material force, that the rule of law has already been made secure throughout the world, that no secular arm is needed in support of law — in short, that the days of power politics are over. Clearly, no such assumptions are permissible. And as long as international relations involve questions of power, only the commitments which create a distinct solidarity of the few Great Powers can exorcise war.

Those few Great Powers must so closely adjust their respective national interests as to be equally determined to take up the challenge, whenever the challenge comes. And I doubt that such adjustment of national interests between the few is possible if too many signatories are gathered. Moreover, with a great number of signatories, the execution of the pledges will unavoidably lack the necessary decisiveness. In a convoy groping its way across the ocean, the pace is set by the slowest ship. Not very differently, collective enforcement of obligations binding dozens of states runs

the risk of being adjusted to the gait of those which are the less determined to act and the most prone to entertain extensive reservations, if not, indeed, to play a double game. I do not imply that the Great Powers who must assume the responsibility for dealing with the disturbers of the peace are free to trample on the rights of the international community, and to ignore notions of justice and equity. By no means. Within the international organization, unequal functions ought not to generate unequal rights. In a well-ordered international polity, there should be procedures by which secondary Powers could mobilize public opinion against the leading states, should the latter become domineering. I wish to emphasize only that the leadership in the effort to maintain peace must rest with the principal Powers. That leadership must be founded upon their alliance.

## II

Old diplomacy failed in 1914 because the counter-alliance it managed to set up in order to hold in check the Triple Alliance of Germany, Austria and Italy was not impressive enough and, consequently, did not deter the Central Empires from their sinister undertaking. New diplomacy failed in the thirties because, having brought about the dissolution of the Anglo-French alliance, it could construct nothing positive from the wreckage of its ideological schemes. History will hold that the sins of commission for which the new diplomacy is answerable outstrip the sins of omission laid at the door of the old.

The danger to European civilization and to the world in the German bid for supremacy which became visible in the opening years of the century cannot now be minimized by the wildest stretch of pacifist and humanitarian imagination. To its eternal honor, French diplomacy was first to detect it. The alliance of the United Nations in the present war as well as the system outlined in the Dumbarton Oaks proposals are the lineal descendants of the coalition pieced together some forty years ago.

On the day Théophile Delcassé took office as Minister of Foreign Affairs in June 1898, France undertook not only to unite Britain and herself in a common bond, but also to unite Britain and Russia, the ally of France since 1891-92. Indeed, Delcassé himself was not the original inventor of the Triple Entente. The scheme loomed large in the talk of Léon Gambetta, some eighteen years earlier, and the idea had been taken up by Paul Cambon and Camille Barrère, the most farseeing am-

bassadors any French government ever had in its service. Let us add to the small group of pioneers the names of Alexandre Ribot (the Minister who brought into being the alliance with Russia), and of Jules Cambon, who was not to be given an ambassadorial post until 1898. They are the statesmen who fully perceived the convergence of Franco-British interests, latent all through the nineteenth century in spite of superficial discords. The problem was to draw Russia and Britain together for the sake of European salvation. After Gabriel Hanotaux left the Quai d'Orsay for good in 1898, Delcassé let nothing interfere with his main purpose. A close adviser of Delcassé once told me of the Minister's deep emotion on leaving the room of Lord Lansdowne at the Foreign Office in the spring of 1903. The Frenchman had come to London to further the progress of the contemplated convention on Egypt and Morocco which was to seal the Entente Cordiale the following year. All of a sudden Lord Lansdowne said to him: "You ought to open the way for some rapprochement between ourselves and Russia." "I felt," related Delcassé to my friend, "that my head was about to burst. But I did not show anything of the feeling those words had stirred deep in me. I was content to remark that I should avail myself of every opportunity to praise in the presence of Russian statesmen the satisfactory working of the Entente Cordiale. I could not promise to do more, at the outset, since great care had to be taken not to raise doubts, among Russian diplomats, as to our loyalty to the Franco-Russian alliance." The dream of Delcassé became true on August 31, 1907. On that day the Governments of London and St. Petersburg reached full agreement on Persia, Afghanistan and Tibet. The Triple Entente was born.

When put to the test, seven years later, the Franco-Russian branch of the system worked without a hitch. As unhesitatingly as Germany supported Austria, France remained loyal to her bond and unflinchingly accepted the terrible risks and sacrifices of the First World War. It was the Anglo-French branch which was slow to operate. Properly speaking, no formal alliance between France and England was in existence: only a mechanism for co-operation between the general staffs of the two countries had been set up.

The old diplomacy of the period was outdone by the warlike moves of the Central Empires. It took the British Government a full week or more to estimate correctly the far-reaching consequences of the ultimatum delivered by the Austrian Government

to Belgrade on July 23, 1914. I vividly remember calling on Paul Cambon the morning of the next day, a few hours after the text, or a summary, of the ultimatum had been made public. Oddly enough, he knew nothing of it. Apparently no warning had reached him as yet from the Foreign Office or even from his own staff. He carefully perused the Ballplatz note and said: "It means war. I easily visualize what is about to happen. If the British Government put its foot on the whole thing today, peace might be saved. But Grey is going to wobble and hesitate. Meanwhile, the Germans will go ahead in the belief that England does not dare intervene. England is sure to join us in the end but too late!" Paul Cambon only too accurately forecast the British course.

To a great extent, the European tragedy arose from the fact that, instinctively, our British friends were still involved in the traditional concept of the balance of power. For ages that concept had done them good service. They clung to it against a mass of premonitory warnings. I ask the reader not to imagine that I find some wanton delectation in plunging into the recesses of the past, that I wander about unburying the dead for the sake of indicting the British Government. But the lesson implicit in those records of thirty years ago has a bearing on the present time and must not be missed.

The balance of power principle had a very peculiar significance for England. As used by a Frenchman, the expression meant that no single Power or group of Powers must be permitted to become a law unto itself, and that unless France was ready to forfeit her independence she had no choice but to band her resources with the resources of others as soon as she felt unable to maintain an equilibrium by her own might. But France was always to be at the center of the contemplated coalition, in the thick of the fight, with her land and sea forces. As the British Cabinet understood the balance of power, England, on the contrary, needed not be in the midst of the storm. Britain's control of the seas and the incomparable consequences of sea power, as appraised in London, made it possible for her to hold the scales on the Continent with a minimum contribution of her own substance. The necessary prerequisite of such a policy was, of course, that calculations of every nation's resources and purposes should be faultless.

In 1914, the British ministers were blind to many new international factors. Many of them did not rightly judge the strength and threat of the German Navy. The dynamism and the scope of the Pan German movement escaped their notice. As late as 1899,

for example, Joseph Chamberlain favored the conclusion of an alliance with Germany. And British ministers failed to perceive the significance of the changes of structure in Austria-Hungary.

They could not shake off old connections and prejudices before it was too late. I doubt that more intelligent ministers ever sat around the Council table at 10 Downing Street than such men as Herbert Asquith, Edward Grey, R. B. Haldane, David Lloyd George, Winston Churchill. But they were imbued to the marrow with the optimism of the nineteenth century. A very charming girl of 13, close to one of them, once addressed a colonel of the Guards in the following words: "How extraordinary that you should spend your life preparing for emergencies which will never come to pass! Can you take yourself seriously?" The appeasement of Germany by the London Cabinet, from 1907 to 1914, makes a story which approximates the show of Munich. In those acts of surrender — the agreements initialed or even signed on Asiatic Turkey and the Portuguese colonies — the German Emperor and his counsellors found a convincing proof of the British resolve to keep aloof, and they went to war. Nothing less than a fully constituted military alliance might have dissuaded them. The Triple Entente was realistically planned but very inadequately implemented.

The French, British and Russian statesmen of the period have been charged with secrecy, and people in the United States are particularly apt to suspect them of shady machinations. I have approached many of the diplomats who then played an active part. Oddly enough, I was even a regular visitor at the German Embassy in London, and the counsellor and *chargé d'affaires*, Freiherr von Kühlmann, who was to take charge of the Wilhelmstrasse in 1917, spoke to me with little restraint. I can bear witness that it was no harder to follow whatever international negotiation was in progress than it is today. No press conference was held, it is true. But are press conferences of such great assistance? While knowing how to be discreet as to details, the protagonists never concealed their movements. Paul Cambon, held to be the very embodiment of old diplomacy, evinced utter frankness, a frankness never shown by such a man as Aristide Briand, for instance. I am at a loss to understand how Woodrow Wilson could have been caught unaware by the treaty intended to bring Italy into the war in April 1915, or by the territorial and political advantages simultaneously promised to the Imperial Government of Russia. It is true that neither the letters ex-

changed in 1891, 1892 and 1899 by the French and the Russian ministers and military leaders to define their countries' alliance, nor the correspondence between Sir Edward Grey and Paul Cambon in November 1912, which regularized the military consultations between the French and British general staffs, were ever made public. This was in accordance with the practice of the time. The treaties of Triple Alliance — incomparably more involved and detailed documents — were shrouded in mystery. It would not have helped our cause to give the potential enemy an insight into our very fragmentary arrangements. The content of the agreements negotiated with Sergei Sazonoff, the Foreign Minister of Tsar Nicholas II, and with Baron Sonnino, the Italian Foreign Minister, were not so very unlike the adjustments of national interests which today have to be made among nations.

## III

The advent of new diplomacy can be dated from January 1920. Then the Council of the League of Nations met in Paris for the first time and a very numerous staff set to work under the guidance of Sir Eric Drummond (Lord Perth), Secretary-General of the League. Sir Eric Drummond was a regular Foreign Office diplomat, but of the weakest type. Later, he served as Ambassador to Rome. If the dispatches he sent from Mussolini's capital are ever made public otherwise than as excerpts from selected documents, his intellectual caliber and his strength of purpose will be evident to all. The French League officials under him were picked up very casually. Lord Robert Cecil (Lord Cecil of Chelwood) had forced upon Clemenceau's acceptance a French protégé of his, a businessman who had everything to learn about foreign affairs. "Since I do not care a brass for the League of Nations," said the French Premier, "I have conceded Lord Cecil's request." The old statesman was wrong. The League was out to destroy French policy as shaped in the Delcassé-Poincaré tradition, and it succeeded.

To listen to the talk current at the Geneva forum was a shocking experience. The adepts of the new faith believed that the political universe could be rebuilt on a set of very simple principles. For instance, they did not doubt that calculated economic interest would henceforward have greater weight with the mass of the people in enemy states and elsewhere than chauvinistic programs. Had it not been proved that victory did not pay? "Then why don't you let me have some little crumbs from your table?"



retorted the German Foreign Minister Stresemann to an egregious lady friend of mine who had expatiated on that theme. The proponents of the League were convinced that public opinion crossing frontiers would surely assert itself in a tremendous volume against the government daring to violate the rules of the Covenant and retain its military establishments. The assumption was that the Weimar Constitution had turned the German people into peaceloving liberals.

It is a fact that during a period of some ten years, which opened with the defeat of Raymond Poincaré in the general election of 1924 and closed about two years after the death of Aristide Briand, everyone behaved as though the Covenant was indeed the regulator of international relations. The attempt of French diplomacy to resist the change which was fatally to weaken the enforcement of the Treaty of Versailles was overwhelmed. The Secretary-General of the Ministry of Foreign Affairs, Philippe Berthelot, was a strange person. He boasted that while paying tribute to the Geneva institution in high-sounding words he knew how to safeguard the long-tested concepts and positions of French foreign relations. That man has always baffled me. Whether he was more than an exhibitionist addicted to perpetual paradoxes, an opportunist, and a questionable connoisseur of exotic antiquities, remains a riddle. His name is linked with the disintegration of France's policy.

In theory, the Covenant of the League of Nations was consistent with the continuation of the alliances. Such is the meaning of Articles 20 and 21. But the spirit of that instrument was antagonistic to all separate groupings of power, and, except in special circumstances, favored general commitments entered into by all states, great and small alike. The American prejudice against old-fashioned political and military agreements also contributed to the decay of the alliances. And from the outset, the British Government shared to the full in the reaction against them. The Franco-British bond was the first to suffer. Then, under pressure from the United States, the London Foreign Office resigned itself to severing the alliance with Japan, though convinced at the time that Japanese nationalism and imperialism were thereby being given free rein. Alliance, therefore, gave way to a system of general engagements unrelated to any concrete situation. Its fundamental weakness has already been underlined.

Leaving aside problems of execution, can it be said that on

paper, at any rate, the Covenant was a closely-woven document which made all acts of aggression punishable by the League? No. Preventive action by the Council? Article 11 provided for it. But the requirement for a unanimous vote sterilized the procedure. The solitary exception to the rule of unanimity was found in Article 15, dealing with the settlement of conflicts by the Council — conflicts which had actually broken out. Was Article 15 thus to be taken as an unshakable bulwark of peace? Let the reader ponder on paragraph 7 and enlightenment will come: "If the Council fails to reach a report which is unanimously agreed upon by the members thereof, other than the representatives of one or more of the parties to the dispute, the members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice." That, in fact, meant that governments with delegates on the Council could lawfully pass into the camp of the attacking nation! In the Covenant there was room for "lawful wars." Other gaps could be singled out.

Then, in what set of circumstances were the economic and military sanctions with which Article 16 dealt intended to become effective? Those sanctions were only to be enforced if the warmaker had not complied, before unsheathing his sword, with the long drawn out procedure before the Council (Article 15) or with the alternative method left to his choice — arbitration (Articles 13 and 14), if he had started waging war regardless of the three months delay (after the award by the arbitrators or the report by the Council) prescribed in Article 12.

None of the aggressors of 1931 to 1938, neither Japan nor Italy nor Germany, took the trouble to avail herself of the several loopholes which the Covenant afforded her to fight "lawfully." They struck their blows without bothering about Article 16 and its sanctions. They knew that the rule of unanimity stood in the way. (All the ingenuity, energy and brilliant intellect of Nicolas Titulesco had to be employed to get around that rule of unanimity in October 1935, when Fascist Italy invaded Abyssinia.) They knew also that economic sanctions carried out by fifty states — with no compulsory military sanctions to back them — could not hit the target. What a paradox that no permanent military committee should ever have had a lasting rôle in the Geneva framework, that the helpless permanent consultative military committee of 1920 faded away in 1928 without leaving a trace behind! Only a fully organized Franco-British alliance could

have given vigor to the League in those great emergencies when war again threatened to engulf the world. It was not at hand. It was not to be revived in time. Moreover, in the tumult of ideas and men which followed the check inflicted on Poincaré's Ruhr policy in 1924, unscrupulous and perverse politicians — Laval, Flandin, Bonnet — came to the top and wielded an influence which would never have been theirs had not the traditional school been so drastically dismantled.

When the full history of the League is written, the most pathetic chapter will relate what was done from year to year to uphold the great illusions. Who first invented the idea of "pacts of non-aggression" whereby a promise to refrain from making war on one's neighbor without provocation was treated as a substantial consolidation of the European structure and rewarded accordingly? Was it not an open admission that there was such a thing as a right of aggression? The idea flowered in the futile Kellogg-Briand Pact of August 1928. What an ersatz for a guarantee of peace!

But the Treaties of Locarno of October 16, 1925, must be regarded as the most deceptive and dishonest instrument of the period. Article 4 in the treaty of mutual guarantee between Germany, Belgium, France, Great Britain, Italy (the so-called Rhineland Pact) and Article 1 in the arbitration treaties between Germany and Poland, Germany and Czechoslovakia, are worthy specimens of the whole compact. Article 4 is a contradiction in terms. On the one hand, England and Italy, the guarantors, were under the obligation immediately to come to the help of France in case of a flagrant violation by Germany of the clauses of the Treaty of Versailles on the demilitarization of the Rhineland. On the other hand, the guarantors undertook "to act in accordance with the recommendations of the League's Council," which implied procrastination. When the Rhineland Pact was bluntly challenged by Hitler in March 1936, the British guarantor remained inert. (It was out of the question, of course, that Italy should make good her guarantee.) And the Council of the League, on being called upon to intervene, coldly declared that the whole pact was *res inter alios acta* and that it was not concerned in the matter. Article I in the Locarno treaties of arbitration covertly ruled out territorial disputes. The said treaties did not apply "to disputes arising out of events prior to them and belonging to the past." It would not be easy to find a match for such trickery with words in the diplomatic records of the nineteenth century.

After all, naked cynicism is to be preferred to hypocrisy. We were on safer ground before 1919. The true significance of treaties was not so well concealed behind a screen of make-believe.

The successors of Poincaré in France professed to trust the trilogy "arbitration, disarmament, security;" nonetheless, they endeavored to get some reinsurance in the old style. But all the constructions between France and Poland, France and Czechoslovakia, among Czechoslovakia, Yugoslavia and Rumania, and among Yugoslavia, Rumania, Greece and Turkey, were mere castles of cards. Again, only the alliance of France and England could have given them some solidity; and that central pillar had long been pulled down.

An effective Franco-Russian alliance might have proved a substitute. But the contract to which Laval and Litvinoff appended their names remained a dead letter. The industrial and military growth of Russia frightened the French bourgeoisie out of their senses and the country was cut asunder. At last, in November 1936, after the Rhineland had been occupied by the Reichswehr, there was a general stampede toward the mode of international security deliberately destroyed fifteen years before. The London and Paris Governments formally undertook to stand together against a German attack; but British commitments did not extend beyond western Europe — a restriction which was not to disappear until the spring of 1939, six months after Munich. At this point the two great allies, with their eyes wide open at last to the impending peril, had to put up with the terrible consequences of their relative disarmament. The control of the air had slipped from the western Powers to Germany. The British Admiralty labored under an exaggerated sense of its impotence on the high seas. France had maintained an army, despite the bitter criticism which surged against her from the Anglo-Saxon world; but the all-pervading pacifism, born of the social schism, and an out-of-date High Command, made it an indifferent force. Salvation was tentatively sought in a policy of appeasement carried much further than in 1912-1914.

Making light of all Geneva formulas, Britain had once again played the game of the balance of power. Lord Lothian hailed Hitler's repudiation of the military clauses of the Treaty of Versailles in March 1935, and the reassertion of full German sovereignty over the Rhineland as healthy changes, harbingers of a well-poised Europe. So much for the achievements of the new diplomacy, in cursory review.

## IV

The conduct of diplomatic business in the years between the two world wars deserves particular attention. The French and British Ambassadors lost a good deal of their importance in the great capitals. On the whole, they were abased to the level of ushers, messengers and mailboxes. Essential negotiations were no longer channelled into their care. The heads of government, or the foreign ministers who met in Geneva four times a year during the regular sessions of the League's Council and in the international conferences held outside Geneva, became the supreme negotiators. In wartime, when military and political problems are inextricably interwoven, this is inescapable. But, in wartime, the heads of government are more often than not men of outstanding stature, men who have successfully withstood the impact of tremendous events and proved their mettle. In peacetime, the ministers at the helm have won promotion in the electoral and parliamentary field. Most of them have not been tried elsewhere. They are not prepared to undertake tasks which call for a thorough knowledge of the political and economic forces at work in the Old and New Worlds, an understanding to be won only through many years of intense study and sustained observation.

It is true that in the interwar period career diplomats sometimes bowed more abjectly than their masters to the whims of uninformed public opinion. But their very mediocrity was the result of the new rôle assumed by the political chiefs. They were often selected because of their pliancy and servility. "Are you aware," said Jules Cambon to his brother Paul, "that nowadays we could not serve as ambassadors?" He meant that a diplomat more experienced in foreign affairs than the titular minister, and with definite opinions about his country's interest, was in honor compelled to revolt against a system where ignorance and foolhardiness had free rein.

The personal conversations Aristide Briand had with Stresemann, for instance, did not help international harmony. Philippe Berthelot was never able to find out from Briand what had really passed between him and the German leader in Thoiry in 1926. And what about Sir John Simon and Hitler, Ramsay MacDonald and Mussolini? I am told by an English friend who knows what he is talking about that the diplomatic correspondence pigeon-holed at the Foreign Office can never be printed. The archives issued in book form on the origins of the wars of 1870 and 1914

redound to the credit of the majority of the French diplomats concerned, even under the reign of Napoleon III.

This is not the place to discuss the functioning of the press in the era of emphatic idealism. Corrupt journalists in France and elsewhere have come in for their fair share of denunciation. But they did no greater harm than honest but naïve, ill-informed and wrongheaded editors. The speeches of Lord Lothian in the House of Lords and his articles in the London *Times*, signed and unsigned, are a sample. I hope they will be collected and published; they might convey a warning. Before the 1914 conflict, the press in western Europe probably gave its readers a more accurate picture of the political world than did the press during the period of the new diplomacy.

## v

To sum up. The protective system created by France, Russia and England in the first decade of this century was in an embryonic state when Germany and Austria-Hungary resolved to force their hegemony upon the Continent by means of war. To deter them, a full-grown alliance of the three Powers was needed; and even such an alliance might not have kept the peace. The alliance remained a rudimentary one largely because British political thought had stagnated in the concepts of the Victorian Age. Nonetheless, the Triple Entente did not give way under the German onslaught. It was soon in full battle array, and but for the stupid policy followed toward Turkey and for the medieval structure of Russian society, it might have won through to victory without the full participation of American troops. It rested upon the convergence of French, Russian and British national interests. It was cast in the mold of political realism. The statesmen who brought it into being had assimilated the lessons of historical experience and were full of contempt for ideologies. Their task, as they understood it, was not to resettle the universe *sub specie aeternitatis* but to solve its problems empirically. They trusted that their successors of the next generation would meet new circumstances in a similar spirit and carry their work further. They believed that all panaceas were likely to make impossible the solutions which the problems of the near future required, and they considered any panacea positively dangerous.

The international system which came into its own in 1919–20 led the victors of the First World War to a new and more terrible ordeal, though the possibility of safeguarding European peace in



1934-36 was incomparably greater than in 1912-1914. A modicum of common sense and courage could have avoided the ordeal of the Second World War. But no success was possible unless the whole policy of the preceding fifteen years was abruptly reversed and the old alliances restored. In 1934, after Germany had slammed the door on the League, Louis Barthou did his utmost to precipitate the reversal. Perhaps a great opportunity was at hand. It vanished the day he was assassinated and Pierre Laval took office. Too many incompetent or unworthy men crowded governmental councils in Paris and in London to permit the great undertaking to be performed. Fools and knaves, in posts of influence, cannot but wreck the best conceived international system. And in 1935-1936 everything had to be assembled anew out of materials scattered on the lawns of Geneva.

The tentative proposals for a world security organization drafted at the Dumbarton Oaks Conference do not fall within the range of this article. However, it may be permissible to record that they conform to the lessons of the last thirty years and retain surprisingly little of the claims and the practices of the new diplomacy.

Disarmament was in the forefront of the program of the new diplomacy. The lasting military alliance of the Great Powers is at the hub of the organization contemplated at Dumbarton Oaks. The pretense of the new diplomacy was to rule the world on the basis of a set of universal principles embodied in a "covenant." No covenant has issued from Dumbarton Oaks. It was felt that the Atlantic Charter — which is in the nature of a geometrical limit — had better be retained. The grand alliance is centered on the enforcement, over many years, of the armistice conventions to be imposed upon Germany, Germany's satellites and Japan. Its feet are on the ground. And the national interests of the Great Powers are being submitted to an unbroken process of adaptation to make certain that centrifugal forces will not get the better of their concord. This makes for an experimental, yet well-defined system.

Does not even this brief glance at the recent past support the conclusion that only well-defined systems, geared to a concrete purpose and comparatively modest in scope, can take a firm grip on international realities? At the same time I think that this political world of ours will not always be denied, at any rate, the sort of stabilization which became the privilege of man under the Roman Caesars in the first three centuries of the Christian era.

In the pages above, new diplomacy has been dissected and found wanting. But it ought not to be inferred that we shall be confined to the narrow circle of possibilities within which old diplomacy moved before 1914. Whether and when the reign of undiluted international law will be made secure cannot be predicted. However, it is reasonable to stand by those two assertions.

Assuming that the grand alliance which emerged from the Dumbarton Oaks Conference is to withstand the test for the length of one generation, then some definite progress toward an international system built on more ambitious lines may well materialize. The ideology embodied in the 1919 Covenant did not have the flimsiest chance to succeed, 25 years ago. But let us rewrite history. Let us suppose that, 25 years ago, the war alliances had been continued and that all the revengeful preparations in Germany had broken upon that rock, between 1930 and 1940. In that case, is it so unreasonable to imagine that the tide of the time might have favored grandiose projects of pacification? The Covenant of 1919 could not be a point of departure. To some degree it might have been a point of arrival.

In the interval ahead, it will devolve upon public opinion to provide some of the checks and balances needed in the "security organization." To scorn and decry that kind of check and balance is only too easy. They cannot be relied upon at every turn and perhaps even on most occasions. Even so, it is fairly safe to lay down the general rule that no grand alliance of the Dumbarton Oaks model would prove capable of surviving many years against a rising volume of criticism in the principal democracies of the world. Against the eventual excesses of the system, this safeguard must not, therefore, be called inexistent.

# ARGENTINA, THE RECALCITRANT AMERICAN STATE

*By Frank Tannenbaum*

IT WILL long remain a perplexing question why Argentina chose to alienate all of the American Governments and set herself against a united opposition to the Axis Powers. It is more puzzling still to account for her persistence in a design so seemingly perverse, when it must have become clear to the Argentinians that the Allies were going to win the war, that the course they were pursuing was fraught with danger to themselves and might well engulf Argentina in strife with her neighbors and pave the way for national disaster. To cite the effectiveness of German propaganda does not answer the question. That same propaganda had opposite results in the other American nations. If the people of Argentina proved themselves more gullible, more easily persuaded, if the siren's voice sounded sweeter and more enticing than it did to other peoples in this hemisphere, then there must have been a special receptivity in this nation for the newly elaborated German doctrines of force, glory, gore and racial superiority.

The voluntary offer of so profound a challenge to the American system of free and democratic government cannot be explained as merely accidental or purely personal with this or that leader. National policy has a certain inner logic and historical consistency. If Argentina was responsive to the call that issued from Germany, it must have been because the call sounded true and right; and it could sound so only if in some manner it fitted in with an age-old and persistent urge now come to the surface and containing the hope of present fulfillment.

Argentine statesmen, scholars and soldiers must have become obsessed with the idea that their country was being submerged by forces over which they had no control, that their nation was declining in power and prestige, and that it was, in fact, in real danger of entering a declining and decrepit old age before it had achieved the promise latent in a very vigorous adolescence. All about them the nations were expanding, increasing in population, growing in wealth and power. Their own country was showing evident marks of a stationary and even falling population; their economy was seemingly stagnating and their power declining. In fact, as one of their leading economists expressed it, Argentina was a "blockaded nation." This had dawned on them

slowly, but with ever greater force, until looking out upon the world — upon Brazil for whom they long had an openly expressed contempt as a “negroid nation,” and the United States, which in their eyes was both materialistic and godless — they saw a growing might against which they could only chafe and with which they could not compete.

The world was slipping from them and yet, only the day before yesterday, only a generation ago, it seemed evident that Argentina was not only the leading nation in South America, but destined to play an ever greater rôle in the world. The German example came as a promising way out. Axis propaganda fitted in with their traditional pride of race, their belief in individual prowess stemming from the days of the Gaucho, with their acceptance of the idea of one-man rule, that of the *Caudillo*, the leader, the strong man; it fitted like a glove the persistent nostalgia for the return of the lost provinces, Uruguay, Paraguay, Bolivia, and southern Brazil as well; and the German denial of the sovereignty of the small nation made the hope of establishing the greater Rio de la Plata confederation something in the offing. If Argentina accepted the blatant propaganda stemming from the ruthless destroyers of Europe, it was because it seemed, for the moment at least, to offer the hope of breaking the closing circle and reopening the path that destiny seemed to have marked out for her. Argentina would again be a powerful nation, strong, proud, vigorous and self-assertive, as was consistent with her tradition and natural to her people.

## II

The Argentine people have lived in a kind of dream world, where nature gave them freely and without pain all of those things which man has to achieve by suffering and toil. They were, and knew themselves to be, the favored children of God. He gave them a large, beautiful and rich country — rich beyond the dream of man and theirs just for the asking. They had from the beginning a plenitude of food and water and fire, in a mild climate, under a blue sky, and they had it without man or beast to contend against, or master to lord it over them. When Buenos Aires was settled in 1580, the horses and cattle previously brought over had multiplied until the pampa teemed with wild animals. For the taking, therefore, this living mine, belonging to no one in particular and to everyone in general, was theirs to live on and live by. An open and unlimited horizon, dotted with millions of

wild and free cattle, occupied by few people, each having an equal claim upon the wealth nature had so generously provided, conditioned the development of Argentina all through the colonial era and well into the nineteenth century. Within this new and exotic environment, a special people dedicated to the taming of the wild horse and the killing of animals came into being. In that kind of setting, the horse provided the rule of life and the knife the instrument of living. With a good horse, man was free — free as a bird. Even more than that, his horse gave him security, pride, confidence and equality. A man well-mounted was any man's equal and rich as the next if he had a good knife and a bola at hand to lay hold of any of the millions of wild cattle roaming the pampa.

The Gaucho, for so he was called, had few needs. A rope made out of horsehair and armed with three stones at one end would provide him with either a new mount or something to eat; a knife would do to cut the tongue out of a young heifer for food; and hide, raw or dried, served a thousand purposes that in other places were filled by wood or iron. His wife he carried off — with the young lady's consent — as soon as he was old enough to consider the enterprise worth the effort; and mounted on his horse and armed with his two instruments, the bola and the knife, he was equipped for life and living. Out of a hide he made his bed, his table, and his house, his rope, his chair, his clothes in part; all came for the taking. A few hides stripped in the field would give him cash enough for his needs. His food was nearly-raw meat, turned on a spit, and his drink, maté; his only vegetables were onions and garlic, and he did not have those until very late in the nineteenth century.

The country was sparsely settled; the traveler would find lone houses ten or more miles apart, often surrounded by a dry moat, possessed of a drawbridge as protection against Indians. Land was so cheap it belonged to no one at all, or only nominally to anyone in particular. A man laying claim to fifty square leagues or more would have only half a dozen families on the entire property, all living in mud shacks which were covered with hides. It was a crude, barbarous, free and self-reliant community. This small population lived by the export of hides, hooves and horns. As late as the middle of the eighteenth century Buenos Aires had only some 16,000 inhabitants in the city and in the surrounding countryside together, and half of these were Negroes, mulattoes and mestizos, who did all of the work. The white man would do none of it. Cattle and horses were so plentiful that two horses

could be bought for one needle, and as late as 1730 it was possible in the city of Buenos Aires to exchange a cask of aguardiente, worth 26 francs, for 18 horses. As late as 1800 a full grown ox was purchasable for four shillings. So plentiful were the cattle that they were killed just for the tongue, or for a piece of favorite loin, and the rest left in the field. In the immediate environs of Buenos Aires, the rotting carcasses of freshly-killed cattle were to be seen late in the eighteenth century. In a sense, cattle and horses were priceless and ownerless; they belonged to him who would have them for the exertion of catching them. Only if he slaughtered more than 10,000 head would he need to ask for a permit, and that as late as 1730.

The commerce in hides grew to great proportions in time, and in 1792 as many as 825,609 hides were shipped out of the Argentine. Gathering these hides was the main occupation of the people, excepting those confined to the small urban communities and dedicated to sedentary crafts or commercial pursuits. Eighteen or twenty men, well-mounted and armed with spears, would gallop at full speed through the pampa after the fleeing cattle and cut the tendon of one of the hind legs of the frightened beasts. In an hour of wild exertion, this troop of riders would have laid low some seven or eight hundred kine. Satiated with the excitement of the chase, and weary with the effort, they would dismount, rest and drink maté. Then laying hold of their sharp, long knives and leisurely walking from one crippled beast to another, they would deftly slit its throat, leaving it to bleed to death where it had fallen in its tracks. With that job well done, there was only the need to strip the hides from the butchered animals and cart them off to some convenient place for drying and sorting. The carcasses of the dead cattle were left to rot in the field, or to be devoured by the enormous dogs which had grown up as a complement to this rural art and economy. This was the main occupation — the very source of livelihood of the Argentine people all through the colonial period and well after it.

The skilful rider and the deft wielder of the knife became the prototype of the national character. Boys grew to emulate these arts, and local fame and character accrued to those reputed to be dexterous in the management of the wild horse and adroit in wielding the sharp-edged knife against either beast or man. The knife became the traditional weapon of the Argentine people and folk songs lent enchantment to its keen blade. The lonely Gaucho, gathering with his fellows in some isolated *pulperia* for such



fellowship as the place afforded, or at some country festival occasioned by a death or the rare appearance of a priest, would talk in whispers and embellish the prowess of some Gaucho whose arts in the use of the knife were superhuman and whose horse was as fleet as the wind.

The unexpected appearance of the knight of the pampa would stir enthusiasm and extravagant talk and between drinks lead to a sharp word, the flash of the knife and the expected entertainment. The two Gauchos, their knives drawn, the poncho wrapped about the left hand, would square off for the fight — fair and clean and skilful, for the art required that the best man merely carve his opponent's face. The surrounding Gauchos, enthusiastic as a gathering around a cockfight, would cheer the opponents on to battle. It was a square fight, with the rules known to every man and the purpose to draw blood and not to kill. Death was unfortunate if it occurred. The gathered crowd sorrowed not for the dead, but for the living one who had disgraced himself by artless killing, and, in their sympathy, they would, if necessary, provide him with a fresh horse and urge him to leave before the rumor of the disgrace should bring the police on his heels. After a few months, when the unfortunate accident had been forgotten, he would be welcomed back and with added prestige — especially if he had acquired a reputation as a killer. For then he became not merely a marked, but also a feared man, with a reputation and a life to defend. And, if he proved valiant, skilful and lucky, he would gather followers about him. Here was the beginning of a possible career that spread both terror and fame far and wide.

The Gaucho and his natural leaders were the base of Argentine society. And the skill in slitting a throat was more than a business in killing cattle, more than an art in self-defense — it came to be something of a tradition.

### III

The winning of national independence produced little change in these popular mores. In some ways it reinforced them. The overthrow of Spanish rule destroyed what central government there was and each province became a law unto itself, with its own *Caudillo*, owing obedience to no one, carrying on war against all of its neighbors. Local and national leadership was provided by men trained in the field as Gauchos, leaders of bands of smugglers, or captains of rural police — *montoneras*, themselves Gauchos

hired by the local authorities to keep the turbulent spirits of the rural districts in order. Many, if not most, of the important leaders of various Argentine provinces were drawn from these groups, and they converted the traditional use of the knife into a political instrument. To *degollar* prisoners taken in battle, or to cut the throats of political enemies privately and in secret, became an accepted means of enforcing public policy. One need but mention such figures as Rosas, Quiroga, López and Ramírez to make the point evident.

For thirty years or more, until 1852, the Gaucho ruled the new nation. Central government had disappeared and local authority had become symbolic with anarchy. The Gaucho answered the call to a rebellion with the same enthusiasm that he accepted an invitation to a country dance, and threw away his own life or took that of his opponent with equal indifference. The destruction of Spanish power in Argentina had, in effect, dissolved the bonds of organized society.

The other immediate consequence of independence was political dismemberment of the Rio de la Plata viceroyalty which, in addition to Argentina, had included what is now Uruguay, Paraguay and Bolivia. When order was finally reestablished and a central government organized, it administered a very much smaller territory than before. But it took a long time before any central government could be created, and it was finally achieved by the emergence of one of the Gauchos and the gradual elimination of his rivals by guile and assassination.

Rosas, who came to be the dictator of Argentina and for more than twenty years ruled the lives of her people with calculated cruelty and sleepless vigilance, was trained as a Gaucho. He took pride in his mastery of the arts so dear to the country folk and in his reputation as bravest of the brave. Fearlessness in personal combat with the pampa tiger, or Gaucho killer, and the hospitality with which he provided a haven of refuge on his large estates for the many criminals escaping from justice, gave him a following. With the support of the common people he ultimately gained political control of the country. Rosas achieved unification of Argentina, eliminated all opposition — by assassination or other means — exalted the military virtues of his rural following, kept the country in a state of constant tension, quarreled with all of his neighbors, and visibly conspired to reestablish the hegemony of Argentina over the lost provinces. In its day, Rosas' method of government could scarcely be equalled in its mania for

detailed manipulation of the individual lives of his subjects — for “subjects” the people of Argentina came to be. No one dared utter a criticism, even in private, for fear of discovery; the press and public opinion were completely controlled. All of the important intellectuals were, in time, driven from the country. The private property of adversaries was confiscated. Political enemies were assassinated by the *Mazorca* — a band kept at Rosas’ service, skilled in the slitting of throats; and those that were not killed outright were tortured, among other ways, by stretching their limbs on the ground — a method learned from the stretching of a hide to dry, as Darwin observes.

This man, honest in his way — for he was never accused of personal peculation — attending to every detail of administration and supervising the Argentine nation as if it were his private prison, managed to ingratiate himself by force, fear, favor and deliberate design into the apparent affection and admiration of his subjects to an extent rarely seen before. They dragged his picture, mounted on a carriage, through the streets of Buenos Aires, the women as well as the men harnessing themselves in the place of the horses; they spoke of him as “savior of the nation” and the “lion of the desert;” they wore the red which was his party symbol — men, women and children, with “Death to the Unitarians” the delicate inscription on the pretty young ladies’ ribbons. They painted their doorways in red, a little bit of red even on the altars in the churches, just to show a common fealty, or a healthy regard for the invisible hand that wielded the deadly blade. All of this and more went on for more than twenty years — the people humiliated, degraded and treated like the beasts of the field. Rosas ruled with a sure hand, a keen eye and a distant reach; and his enemies’ heads were, as a special favor, sent to him preserved in vinegar. (He would be sure that his enemies were dead.)

It was not until this man was overthrown, in 1852, that Argentina was in a position to enter into the current of economic and political progress that was to bring her to the fore within the next half century as a great and civilized nation. The country was poor, her commerce at low ebb, her population small. Argentina had less than half a million people in 1810, less than a million in 1850, and barely two million in 1873. Her export was still largely in hides, though dried meat and particularly wool were increasingly becoming export products. The Indians were still roaming the outlying districts of the pampa and it was not till after 1878 that,

with great and indiscriminate slaughter, they were finally driven beyond the Rio Negro and the pampa made safe for settlers. In the vast area freed of Indians, land was parcelled out to favorites of the government in enormous estates of 50 and 100 square leagues. Instead of laying the foundation for a small land-holding peasantry, the new land policy merely accentuated an already established pattern of enormous haciendas in the hands of a few families.

And then a miracle occurred. It can be described only in that way. The Argentinians had nothing to do with it. Like the innumerable cattle which filled the pampa when Buenos Aires was settled, this new gift came to them without any effort on their part; and it came very suddenly, overnight in fact. The gift was barbed wire. In the period of the single generation between 1885 and 1915, it enabled this backward and unprogressive people to become the envy of the world and one of the great nations of this hemisphere.

Barbed wire was invented in the United States in 1873. Its introduction in Argentina precipitated a profound agricultural, economic and commercial revolution. No longer was Argentina confined to the export of hides and a little dried meat and wool. By enclosing the wild cattle and breeding them with good European stock — an art brought them by English immigrants — she could produce excellent beef on an increasing scale for the European market. This same barbed wire enabled the *estanciero* to devote part of his large estate to the growing of grain, an impossible thing while the pampa was open to roaming cattle; and it enabled him to sow alfalfa — also brought by European immigrants — in the fields after the grains had been harvested, thus greatly enriching the pastures and increasing the number of cattle that could be fattened per acre.

The improvement in refrigeration and the increased speed of steamships opened an expanding European market, whose rapidly growing urban population called for ever greater amounts of wheat and meat. Almost overnight, the untamed Argentine pampa became a cultivated field capable of meeting a seemingly insatiable demand with an equally inexhaustible supply. The first grain elevator in Argentina was built in 1882, and the first shipment of chilled beef was made in 1883. These sudden changes converted a poor nation into a wealthy one. European investments greatly increased, railroads were built, the cities were improved. Immigrants came by the hundreds of thousands. The

old Argentine families grew so prosperous that it became proverbial in Paris to say "as rich as an Argentinian," for with their sudden opulence, upper class families flocked to France and made their presence known by lavishly wasting the wealth which had come to them so unexpectedly and effortlessly.

During the 20 years between 1895 and 1915 Argentina was living in a rapidly expanding universe. Even the most conservative Argentinian must have looked out upon a world full of the promise of good and great things. The population jumped in that short period from 3,900,000 to 8,000,000. Immigration from Europe was growing by leaps and bounds, and reached 323,403 in 1912, its peak year. Exports, which in 1864 had been valued at only 45,500,000 gold pesos (14.6 pesos per capita), had reached 215,100,000 in 1895 (30.1 pesos per capita). In 1915, the value of exports came to more than one billion pesos. The area under cultivation had jumped from 4,892,000 hectares to 22,301,000 between the years 1895 and 1915. The railway trackage had increased from 10 kilometers in 1864 to approximately 30,000 in 1915.

All the statistics tell the same tale. The world must have looked bright indeed to the generation of 1895-1915. Argentina, clearly enough, had some special grace peculiar to herself which brought her so much good fortune in this world with so little effort. Once more, all had come to Argentina as a matter of course — just for the taking.

#### IV

The Argentine economist and statesman, looking back upon that happy period, perceives that the First World War marked a change in the expanding economy of the country. Since then the rate of growth has levelled off. The Argentine statesman expected that the population would continue increasing, doubling every 20 years, and would give the country at least 16,000,000 inhabitants in 1930, 30,000,000 or more in 1960, and perhaps as many as 100,000,000 at the end of the century; and even then Argentina would have a lower density of population than western Europe now has. But the facts are otherwise. In 1943 the country had a population of only 13,500,000 and a rapidly declining birth rate. In 1901 the birth rate was 38.3 per thousand and in 1937 only 22.9. Even this does not tell the whole story. Immigration has come almost to a standstill and the urban population has increased so rapidly that now 74 percent of the total population

live in cities; and it is in the cities that the birth rate has most declined. In fact there seems evidence to suggest that if the present rate of change continues, the population will begin declining in 1950 and drop to 12,500,000 in 1978 and 11,500,000 in 1988. A more optimistic calculation places the figure at 19,000,000 at the end of the century.<sup>1</sup>

This unexpected change has evoked much speculation and alarm from heads of Church and State. But the very forces of nature seem to be working against Argentina now. The decline of the birth rate, the increase in the urban population and the decrease in the rural population have gone hand in hand. The cities are growing more rapidly than the total population is increasing, Greater Buenos Aires alone having more people than all of the rural districts and all of the communities under 1,000 in the nation.

This decline in the rural residents has given rise to the rare phenomenon — a great agricultural nation without an agricultural population. More than two or three Gauchos have never been required to herd a thousand head of cattle, and the modern changes in that industry have not involved a material increase in the number of laborers needed. This has been true of the sheep-raising industry: fifty to a hundred shepherds will run 100,000 sheep. Argentine agriculture uses many fewer people than do American farms. A family of three or four people will cultivate 200 hectares of wheat. The agricultural plant with its rich, flat, stoneless soil has been ideal for modern machinery, and the laying out of the *estancia* has fitted into the modern use of power tools in agricultural production. But all of this has accentuated a drift to the cities and contributed to a decrease in the rate of growth of the total population. It has done even more. It has made a breaking up of these large estates more difficult and less likely, and, for both economic and political reasons, has made an increase in immigration such as was stimulated by our Homestead Act improbable. In fact there is some evidence that the smaller properties have declined and the larger ones have increased in recent years.

This unexpected contraction of the rate of population growth is but a part of what seems to be a general tendency in Argentina. Up until 1914, as we have seen, the exports of meat and grain products increased with phenomenal speed. But after 1914 the increase tapered off until 1930 and actually showed a decline after that. In the three years 1919-1921, the average value of

<sup>1</sup> Cf. A. E. Bunge, "Una Nueva Argentina." Buenos Aires: Gmo. Kraft, 1940, p. 96-154.



annual exports was 2.08 billion pesos; in 1937-1939, including the very exceptional year of 1937, the exports equalled only 1.573 billion pesos. If we exclude the year 1937, the exports per capita (in pesos) for the years 1930-1940 were lower than in any year since 1912. If measured by volume of production, the record goes the same way. In millions of tons and grouped in three-year averages since 1926, we have: 1926-28, 16.0; 1929-31, 15.4; 1932-34, 14.9; 1935-37, 16.3; 1938-40, 10.5. This general trend is further indicated if we examine the shift in area under cultivation. Between 1914-25, average acreage under cultivation was 259 hectares per 100 inhabitants; 1928-37, 230 hectares per 100 inhabitants. In the year 1936-37, it equalled only 224 hectares per 100 inhabitants. These figures are sufficiently revealing; and here again, all the evidence points in the same direction.

The alarm of the Argentine statesmen, soldiers and scholars is understandable. They fear that their country is losing ground, relatively and actually, in a world where power is the means of national survival. And while this has been taking place, their disparaged if not despised neighbor, Brazil, has been rapidly expanding in population, resources, industry, commerce, prestige and, last but not least, armaments. Nor is this all. The European countries, after the last war, developed a series of protective policies which tended to restrict the market for those very things which Argentina has to offer. There is scarcely a nation in Europe that has not attempted to increase local production of food supplies. And the Argentinians have seen no evidence that this policy was likely to be changed within any reasonable period of time. Even the British Isles — the great customer of Argentina — took the same direction in the Ottawa Agreements. Here again the evidence is more detailed than can be recorded in a short analysis.

During the First World War and after it, very considerable progress toward industrialization was made in Argentina, and the record is more impressive when we remember that as late as 1900 practically everything manufactured was imported from abroad. The figures tell a striking story. Between 1914 and 1940 there was a 122.3 percent increase in employment in industry. But Argentina has neither coal nor iron in sufficient amount for any important industrial expansion. Her oil production is insufficient, at present supplying something like half of the total requirements of the country, and the available substitutes, such as forest products, are neither adequate nor satisfactory. Nor can much be said for the possibilities of hydroelectric development, though

what the future holds in this field is still a matter of conjecture. For the moment, at any rate, the high cost of transmission of electric current has made the development of the best power sites uneconomic; the power sites are at one place, the population centers hundreds of miles away.

Industrial development in the immediate future as in the past is seemingly dependent upon an expanding foreign market for meat and wheat products. The present flare-up of small industrial exports is due to war conditions and is unlikely to continue after the war. The country needs increasing exports to pay for the cost of industrialization but the markets for them, according to the best calculations, are not available. This is what the Argentine economist means when he speaks of Argentina as a "blockaded nation." If there is no outlet either in agriculture or in industry, then where can Argentina turn?

## v

The answer seemed to be supplied by Hitler. Lebensraum, the argument ran, can be obtained by political and military means. Expansion is possible if there is the energy and the will, the readiness for self-sacrifice, the belief in destiny, sufficient hardiness, a willingness to work, a disregard for the rights of the individual, a contempt for democracy, a notion of racial superiority, a military, or, at least, a bravado tradition, a penchant for cruelty, a contempt for one's neighbors, a belief in the *Führer prinzip* and a disregard for one's plighted word. And the Argentine people — or at least some of them — looking back at their earlier history, felt themselves possessed of all these specialized competencies.

They would hitch their wagon to the dark star risen in Europe and ride in its orbit. Thus and thus only can the policy of the Government of Argentina from Castillo to Farrell be explained. Its objectives seem clearly described by its conduct, by its talk, by its self-adulation. The repudiation of solemnly accepted international commitments, the contemptuous suppression of constitutional procedure, the jailing and exiling of opponents and critics, the harboring of German spies, the resuscitation of Rosas as the great national hero, all the wild talk and action, is meant to "save" the nation. Save it from what? From a delusion of encirclement, a delusion half-believed and half-fostered for a purpose — the purpose of reestablishing the greater Argentina. It is an old dream. It has been declaimed upon for a hundred years, and it has been actively toyed with more than once.

This activity leads in but one direction, and, had the Germans won the war, its outcome was clear and inevitable — the expansion of Argentina at the expense of her neighbors under the ægis of the new masters of the world. Here would have been a real game for Germany and a ready tool to play it with. But Germany is not going to win the war. That fact is slowly, though not even yet convincingly, dawning upon the present Argentine Government. It is hard to surrender a dream pursued with such avidity for so great a prize, seemingly so close at hand and so easy to fulfill. The military who have taken this enterprise so seriously have staked their very reputation, their prestige, their survival as leaders of the nation upon it. A change of policy comes hard, but the facts are pressing in upon them. And so we see a two-faced movement — a seeming return to a less arbitrary rule, even if not a democratic one, and, at the same time, a continuance of military rearmament.

We thus see the Government of Argentina pressing for the production of arms small and great, the building of airfields, the procurement of tanks and planes, the mobilization of the population from ages 12 to 50 for military training, and, at the same time, requesting a meeting of the Ministers of State through the Pan American Union so Argentina may place her case before the bar of the American nations. The conscience of the present Argentine Government is uneasy. General Rawson, one of the early leaders of the nationalist revolution, recently said: "We must develop our diplomacy. Since we have the privilege of being part of the American nations, we must contribute to this Continent's unity and defense without making difficulties. We will not obtain anything by sheer force. . . . We must not aspire to gain supremacy over other Latin American countries." He was placed under arrest for the statement. It is indeed a revealing one, giving clear evidence of the hidden purpose and the sense of frustration that is gnawing at contemporary leaders of what was, until recently, a great and constitutional government.

# THE RECONSTRUCTION OF EUROPEAN AGRICULTURE

*By Karl Brandt*

IN THE simplest terms, reconstruction of European agriculture means employment for the farm population and food for urban people. But its successful performance implies all the difference between chaos and the return of individuals and nations to peaceful life. In a large area of the Continent the initial work of restoration has, indeed, already begun. What is the situation at the turn of the year, when the fields of most of Europe are resting under a blanket of snow? And what are some of the problems that lie ahead?

Since February 1943 Russia has recovered all her territory previously occupied by Germany, has recovered the eastern part of Poland and Estonia, most of Latvia and parts of Lithuania, and has gained Bessarabia and Bucovina from Rumania. These areas comprise the Kuban, the Donets basin, the Crimea, the entire Russian and Polish Ukraine and White Russia, and embrace the magnificent *tzernozem*, or Black Soil Belt. The liberated areas originally held some fifty to sixty million of the 170,000,000 souls in the Soviet Union. The fury of total war has left these areas the most severely blighted agricultural region ever known.

The Balkans, adjacent to the great plains of Russia, have been largely freed from Axis occupation. Greece, Bulgaria and Rumania are more or less out of the war. All of France and French North Africa are liberated, save for some pockets of Nazi suicide garrisons along the Atlantic coast. All of Belgium is free. Italy's former North African colonies, Lybia and Tripoli, and Sicily and the Italian boot up to the northern slope of the Etruscan Apennines are out of the war. But Holland, Denmark and Norway, Austria, Czechoslovakia and west Poland, northern Italy, Yugoslavia, Albania and part of Hungary are still to be liberated. And Germany remains in the grip of her self-chosen tyranny.

We should note again that Russia's agricultural regions are terribly devastated. In its furious retreats the Red Army scorched the earth throughout those vast spaces which Hindenburg once said could swallow up all the armies of the world. The volume of capital investment per acre in rural Russia was only a fraction of what it was in west European countries, but under the Five Year Plans agriculture had been successfully mechanized and collectiv-

ized. This made it possible for the Russians to evacuate the personnel, and to remove or destroy the machinery of the "MTS" — machine-tractor stations — which service the collectives as well as the individual farms, and which are the backbone of Russia's farm production. The Russians had concentrated the storage of grain and were able to destroy a considerable part of it. And the fact that most of Russia's farm buildings are wooden structures made them an easy prey to the torch.

The military character of the war in Russia aggravated the destruction. In spite of the power of the panzer columns, Russia's defense in depth always succeeded in maintaining a front, in enveloping these spearhead thrusts, and finally in throwing them back after they had spent their momentum. Infantry and artillery ultimately fought the battles. Guerrilla warfare meant extensive economic sabotage behind the lines. Farmsteads, toolsheds, grain-bins, barns, whole villages were burnt to the ground by the thousands in these swinging and swaying movements of fronts. Railroads and bridges were torn up, power dams blasted. And when the German Army retreated it laid the torch to the buildings that were standing or had been rebuilt. The MTS it had reopened in the Ukraine were once more stripped of personnel and machinery, and the population was screened clean of skilled or even able-bodied manpower. Whatever livestock the Russians had not evacuated, eaten or shot, the Germans seized and, in turn, ate or shot while they retreated. But neither the Russians nor the Germans were able to move the vast majority of the farm people. They and the land and the climate remained; and this rural population is immensely hardy. Somehow grain, some potatoes and some carrots and cabbage have been cultivated throughout this ghastly ordeal.

Nowhere else in Europe has agriculture suffered such wholesale damage, unless perhaps through flooding by sea water in Holland; we do not yet know the extent to which that has been or will be carried out. The grinding process in the battle of Italy has not destroyed farms so much as bridges, viaducts and tunnels, railroads and mountain roads and power plants and irrigation dams. Moreover, except in Russia, European agriculture is based on individual family farms — interspersed in Poland, Hungary and Germany with large estates which depend entirely on hired labor. Agricultural production is not centrally managed even in totalitarian Germany. In spite of a complex system of market controls for farm products, European farms operate as individual units under

the initiative of private owners. This decentralization made it impossible for the other countries attacked by Germany to order, let alone enforce, a scorched-earth policy. Militarily, this may be regrettable, although scorched earth would probably never have stopped the German avalanche in Holland, Belgium, France, Poland or the lower Danube basin. Economically, the family farms have been the salvation of Europe's food supply. There has been starvation in Athens and other Greek cities and in the Polish ghettos, but no general famine or epidemic in Europe. The amazing resiliency of the family farm system provides the explanation for this seeming miracle. The nature of the European terrain, with its many mountains and forests, and the stone or brick construction of buildings have also helped agriculture to survive the German invasions and retreats.

Stationary warfare with heavy shelling, sowing of mines, sapping, and "saturation" bombardment from airplanes cannot, of course, fail to erase the last vestiges of human habitation and work anywhere. The stone buildings and sheltering mountains of the region around Cassino did not avert destruction there, nor did the hedges and high poplar wind curtains spare the dairy country of Normandy. Fortunately, however, such stationary war has so far created a no-man's land in only a few limited areas, chiefly in Italy south of Rome, in France near Caen, Bayeux and on the invasion peninsula, and perhaps in the Dutch lowlands.

Taking countries as a whole, the damage to the farms themselves is so far insignificant. One major loss, however, is the curtailment of the livestock herd, a result of the shutting off of imported feed and food. This also means a heavy loss in operating capital. In prewar years the farmers of the Continent imported 9,000,000 tons of grains and 4,000,000 to 5,000,000 tons of oilcake, thus maintaining enough dairy cows, pigs and chickens to export net dairy products equivalent to more than 5,000,000 metric tons of milk, 140,000,000 tons of meat, bacon and lard and 80,000 tons of eggs.

The radical change in continental agriculture from a most active foreign trade position to one of enforced autarchy had a profound impact upon its system of land and crop utilization. Grain, beans, peas, vetches and skimmed milk had to be used for direct human consumption, and their use as feed for pigs and chickens greatly curtailed, in order to save the 70 to 90 percent of the calories otherwise wasted. Denmark and Holland, heavy importers of feed, had to make particularly severe readjustments.



France and the southeastern countries were little affected in this respect. The conversion of many pastures and meadows into crop land for growing food caused a further reduction in numbers of livestock. Flocks and herds were reduced to their lowest size by the summer of 1942. Since then there has been a gradual recovery, especially in Denmark and France.

After three poor crops in a row, favorable weather in 1943 and 1944 brought fair to good yields. According to the best estimates available in the fall of 1944, the prewar continental cattle herd and the sheep flock of 100,000,000 head each have been reduced to 93,000,000, a 7 percent reduction of each. This loss is so moderate that a heavy drought could have caused it in peacetime. The reduction in numbers of pigs and chickens has been more drastic. The pig herd has been cut from 70 or 80 million to 50 or 60 million — more than 30 percent; and the poultry flock has been cut from 500 million to 370 or 400 million birds. It must be remembered, however, that hogs and chickens are mainly converters of surplus grain and potatoes, and that due to their high fecundity their numbers fluctuate violently even in times of peace and prosperity. The present size of the livestock herd is essentially in balance with the available feed supplies and with the forced change to predominantly vegetarian national diets.

Large numbers of horses were drafted for military purposes and many have been destroyed. Many more were taken from the farmers to be substituted for motorized equipment in the strained transportation systems of the cities. But more horses have been bred, and oxen and cows are being used as beasts of burden on the farms more than before the war.

The more highly developed an agricultural system is, the more it depends upon a normal circulation of goods and services. In a modern economy, a net of railways moves the perishables, the livestock and the grain from farm to city, and brings the fertilizer, the coal, the seed and the machinery from the factories to the farm: the production of the farm is stifled if the railroads break down. In wartime the trucks and the horse-drawn vehicles which take over the task of transportation bog down as fuel gives out or as bridges and tunnels are bombed. Where the farms are equipped with electric light and power, stoppage of the central power plants impedes the farmer in innumerable ways. And it is seldom realized how many auxiliary industries service modern agriculture. Mills and refineries, grain elevators, meat packing houses, canneries, oil seed crushing and extracting mills, refrigerator plants and

storehouses are some examples. Intensive air bombardment claws holes in such a system, and the inner wear and tear of total war has its destructive effect also.

No man can foresee what devastation the final phase of the war will bring. Concentrated assaults upon an ever-decreasing area may pulverize all improvements on the land in some of the Continent's most productive agricultural zones. "Earthquake bombs" and perhaps new explosives derived from atom-smashing modern chemistry may aggravate the destruction incalculably. And there can be an even more destructive phase, after organized warfare ceases, in which insurrection, marauding by guerrilla bands, and civil war sap the last strength from agriculture.

## II

But though we do not know how much more destruction may be visited upon Europe, nothing could be more simple than to gauge the basic agricultural needs of the future. The farmers must be enabled to repair their buildings or construct new ones, to repair their machines, and to buy fertilizer and seed. There can be no doubt that Europe's millions of farm people long to get their inherited piece of land back into full production. It is also obvious that the urban people of the Continent are in desperate need of the produce of the farms and are probably willing to pay a relatively high price for better food if they can get it.

It is impossible to perceive the political framework within which this task of organizing and administering a program of agricultural reconstruction must be fitted. Above all, what treatment will be accorded to Germany, potentially one of the chief countries of the Continent, with a strong and healthy agriculture? This article does not attempt to analyze the political questions, but only to point out some of the problems which are critical from the standpoint of agricultural reconstruction.

During the interwar period Soviet Russia was, in an agricultural sense, more or less self-sufficient; all the other European continental nations were tied into the network of world trade. The trade in agricultural commodities reached peaks in 1929 and 1939, with the deep trough of the great depression in between. During the long years of this war the blockaded Continent was forcibly united, politically and economically. Fortress Europe had one center of power and control — Berlin. It is a serious mistake to ignore the unpleasant fact that, in spite of the hatred and open revolt the German conquest inspired, Europe's agriculture has

been operating successfully within the consolidated market area of the Fortress. But Europe's coherence was certain to be only temporary. It is now dissolving, and the centralized management of the continental economy is disintegrating.

Eastern and southeastern Europe comprise the Continent's chief agricultural export areas. They are regions of overpopulated farms with low productivity of land and labor, and under-industrialized towns and cities. To find adequate markets for the exports of Poland, Hungary, Rumania, Bulgaria and Jugoslavia was one of the most difficult economic problems of the interwar period. The natural market for these areas lies in the industrialized countries of central, northwestern and northern Europe. Belgium, Holland, Denmark, Germany, Austria, Switzerland and Czechoslovakia can buy the food, feedstuffs and tobacco of the east and southeast, provided they have a flourishing foreign outlet for their industrial exports and quality agricultural products.

Russia is the rapidly rising Eurasian industrial empire. It will offer an insatiable market for a mounting farm production of its own and that of the Baltic States, eastern Poland, Bessarabia and Bucovina. Moreover, the further shift of Russia's population into the cities, the continued rapid increase of population and the rising per capita purchasing power will create sufficient demand to absorb all or most of the agricultural surpluses of the Balkans, Poland and Hungary. Russia may also absorb whatever exports there are in Germany east of the Elbe, if that area is under Russian occupation for many years.

In the opinion of the writer it may be taken for granted that economic and political necessity will cause the responsibility for reconstruction to be transferred to national governments, provisional or constitutionally elected. Really wise and astute military governors cannot fail to perceive the plain impossibility of administering the reconstruction of entire modern economies with a handful of foreign officers or experts. Indeed, even if it were possible to do so, the fact would be a bitter comment on the pretensions of democracy. Our experience in North Africa, Italy and France has proved the necessity of restoring indigenous civilian administration at once. General MacArthur's call to President Osmeña for the reconstruction of the Philippines was a sound move of military statesmanship. By placing the responsibility for reconstruction on provisional national governments in liberated as well as conquered countries, the problem of agricultural reconstruction will thereby be decentralized and reduced

to manageable proportions. However, all the questions of foreign trade, capital movement and economic coöperation in general should be separated from the question of domestic economic policies; problems in the former category will demand international solutions more insistently than ever. Policies of reconstruction for agriculture or industry drawn up wholly in terms of national autonomy and sovereignty could lay the foundations for an entrenched economic nationalism. Though reconstruction policies must be executed by national governments, economic policy should be worked out by international agreement.

The key to an understanding of the over-all problem of agricultural reconstruction lies in the fact that the major part of the job must be done outside of agriculture. Depression or prosperity in agriculture is caused chiefly by the conditions prevailing in the market for agricultural products. The volume, character and intensity of the demand are set by the rate of capital investment in industry and commerce, and the resulting rate of non-agricultural employment. In the two interwar decades we learned that while it is possible simultaneously to have a period of low agricultural income and high industrial earnings, the reverse is practically impossible. If Europe's agriculture is to develop its full possibilities, it must be enabled to produce more animal products (*e.g.*, meat and poultry meat, fish, milk, butter, cheese, or eggs), more fruits and vegetables, and, in general, more products with a higher monetary value per unit. Naturally, it can do so only if it can supply the city population on the Continent and the people in Great Britain with a high volume of the preferred and more costly types of food. And this is possible only if high industrial employment keeps consumer purchasing power high. Nothing but industrial prosperity can set the pace for a healthy agriculture.

Whether European agriculture gets on its feet depends, therefore, on the prior recovery of industry in Great Britain and all the continental countries, and on the volume of postwar international trade. If industrial depression stalks the Continent, agricultural depression is the inevitable consequence. Industrial depression dams up the overpopulation on the farms and at the same time throws thousands of unemployed back to the land. Farm wages which are too low forestall the use of costly machinery and lower the output of human labor. Economic distress among the farm population leads to radicalism in the most conservative element of the population, to nationalism and irredentist movements. It is modern society's most dangerous political dynamite.

Only an expanding economy throughout the world can offer the proper environment for reconstruction of agriculture. The problem, in short, is a matter of international policy. The great ports of the world and the merchant marines must spring to life. A prospering foreign trade based on multilateral trade agreements under competitive conditions is the strongest and healthiest support that can be given to European agriculture, to agriculture in any country in the world, and particularly to agriculture in the United States.

Whether this basic and most powerful aid to reconstruction of agriculture will be granted in Europe depends primarily upon decisions taken by the United States — the world's leading industrial power and the greatest creditor among the nations. Economic nationalism in the form of high tariffs and excise taxes levied to protect the American market against Europe's industrial goods will force the European countries into new systems of autarchy. It will stifle the development of European agriculture along the lines of sound international division of labor. The immense destruction of homes and industry in Europe has created the opportunity for a gigantic reconstruction boom which, if intelligently directed and controlled, could create prosperity for perhaps two decades. Substantial initial assistance from the United States, Great Britain, Sweden and Switzerland, and mutual aid among all the European countries in need, are, of course, prerequisites for such healthy business conditions.

It seems to the writer that plans to force advanced industrial countries into a shrinking economic straitjacket and to reagrarize them are the opposite of what economic reason demands. Modern agriculture in industrial countries depends to such an extent on the products of industry — *e.g.*, on gasoline, coal, electric power, steel, machinery, fertilizer, railroads, trucks — that considerable proportions of industrial and commercial employment are simply a concealed part of the food production on the farm. If more people are forced back to the farm, the capacity of agriculture to feed people will not increase but decline.

The greatest impediment to speedy reconstruction in Europe may be the lack of agreement among the United States, Great Britain and Russia as to the political and economic future of the different countries. The division of authority and responsibility for European political and economic issues among too many governmental agencies in the United States is also a handicap. Too many cooks often spoil the broth.

## III

Assuming that such measures of international coöperation as large loans for reconstruction, multilateral trade treaties and international currency agreements will be agreed upon among the victorious Allies, we may briefly examine a program for the physical rehabilitation of the agricultural plant and its auxiliaries.

Most of the first steps are obvious. The farmers must return to their farms. How quickly the German prisoners of war — who, of course, include many farmers — can be set free is to some extent a military question and a matter of controversy. The drafted army horses, the tractors and trucks must be returned to the farmers. Seed and fertilizer must be distributed so far as they are available and needed. Feed must be imported, and gradually better feed rations for livestock be allowed by turning over to the feed trough the bran which now goes into the dark war bread.

Beyond these preliminary steps of demobilization the next moves present much more solid obstacles. Raw materials for industries and replacement of costly machinery are desperately needed. Coal, gasoline, lubricants and steel are essential if industry and the transportation system are to be repaired. The communications system is the worst damaged sector of the European economy.<sup>1</sup> Even in France, a country which has miraculously escaped with limited damage to farms and to many industries, the railroads are in a truly deplorable condition.<sup>2</sup> Only one-tenth of the locomotive fleet of prewar years is in operating condition; 4,000 out of 14,000 may be put in service by major repairs. No bridges of importance are left intact, about 4,000 having been wrecked by allied bombardment and German demolition.

One of the first steps toward the improvement of food conditions in France or Italy is, therefore, not the shipment of food or feed, or, as some American livestock farmers have anticipated, of cattle, but the shipment of as many locomotives as can be delivered. Trucks and gasoline come next, and electric power must be restored. France had a good harvest in 1944 and the Germans left in such haste that they had no time or opportunity to requisition much of it. It is possible that French farmers will need only indirect aid in the form of industrial supplies and help with the repair of transportation facilities. The situation in France is prob-

<sup>1</sup> Cf. Karl Brandt: "Germany's Vulnerable Spot: Transportation," *FOREIGN AFFAIRS*, January 1943.

<sup>2</sup> Cf. *The New York Times*, October 19, 1944.



ably typical of conditions in Belgium and Italy, and in essentials foreshadows the conditions that will be found in Germany, though damage to industrial and transportation systems will be much heavier there.

Agricultural reconstruction in Russia is well under way. Tractors are rolling off several plants reconverted from tank manufacture: spare parts are supplied and the sowing campaign of the fall of 1944 is said to have proceeded according to plan. The rebuilding of farmhouses constitutes a major problem in Russia, temporarily met by dugouts with thatched roofs. The reconstruction of the shattered livestock herds will take several years.

#### IV

Aside from problems of physical replacement and repair, European agriculture needs the support of measures of financial reconstruction. In countries with private property in land and individual management of farms, the price level and the relation between the prices of various commodities ultimately determine the crop plans, the size of the livestock herd and all other decisions. The first over-all measure to give agriculture a solid foundation must consist of drastic action to stop inflation and stabilize the currencies. If this cannot be done, prices of farm products should be fixed temporarily in terms of gold or foreign currency. It also seems advisable to guarantee farmers a certain modest price floor for the coming crop, as an incentive to maintain or expand production.

The farm mortgage structure, which embraces the land value and the debt service, is a vital part of the agricultural system, if not its major financial anchorage. Its protection is mandatory. A limited moratorium for the initial period of reconstruction, with special incentives for the resumption of interest payments, seems an advisable measure. This whole problem is highly complex, particularly since the deeds, the land registers, the mortgage records and most of the other evidence of property and its encumbrance have vanished. Naturally, farm credit must be restored as one of the major means of reconstruction. In some countries it may be possible to satisfy the demand in part by private capital, but wherever the destruction is heavy, public funds alone will meet the urgent requirements. Such loans will help admirably to revive the national economy and will promise an early return on interest. Due to the slow turnover in agriculture they must be made on a long-term basis — say, eight to 18 or

more years — preferably with amortization beginning after two or three years.

The reconstruction of agriculture is but a part of the task of general economic rehabilitation, which requires a large volume of investment capital for permanent improvements, and a large volume of operating capital. As the productive resources of the nations begin to be utilized, much of the needed capital can be raised domestically. But if the process is to be accelerated and the whole enterprise be made to stimulate a general improvement in international trade, a substantial part of the capital needed for the reconstruction of agriculture must be supplied through the international market. Even so, European agriculture cannot regain its prewar strength for several years. That does not mean that American agriculture will necessarily find a large and profitable demand for its exportable surpluses in Europe. The odds are heavily against such a development unless Congress changes its policy of fixing farm commodity prices far above the competitive level and unless it also lowers tariffs on industrial imports. In the field of agriculture, as in others, our self-interest will best be served by concern for the general welfare.

# SHANGHAI AND HONG KONG

## A BRITISH VIEW

*By H. G. W. Woodhead*

SHANGHAI and Hong Kong are two of the world's great cities. Until Shanghai became the scene of major Sino-Japanese hostilities in 1937 it was among the five largest ports in the world and was the industrial, commercial and financial metropolis of China. About twenty years ago Hong Kong's annual volume of shipping was the greatest in the world. Though Hong Kong never rivalled Shanghai as an industrial center, it was a southern terminus of one of China's main railway systems, the distributing center for the trade of south and mid-China and a terminus of American, British and Chinese aviation services.

The heart of Shanghai was the Foreign (or International) Settlement. When the Japanese have been expelled from Shanghai, the administrative control of the entire city will pass into Chinese hands. That was made certain by the treaties which the British and American Governments signed with the Chinese Government in January 1943; the treaties provide for the abolition of extraterritoriality and of all other special privileges enjoyed by British and American nationals in China. Many questions relating to Shanghai will nonetheless be a matter of concern to the Anglo-American Powers.

Hong Kong was a British Crown Colony, but a free port, in which shipping, regardless of nationality, received equal treatment and facilities. The British Treaty was silent in regard to the ceded and leased territories of Hong Kong. The future of Hong Kong has yet to be determined. Will the city again be placed under British sovereignty, will it be internationalized, or will it be united with China? There are strong arguments to support each of these three solutions.

Since Pearl Harbor there has been a tendency to be apologetic for all past British and for some American activities in China, especially those activities which resulted in the extraterritorial system and the establishment of colonies, settlements or concessions on Chinese soil. Both Britain and America were motivated by self-interest in obtaining these special rights and privileges, but the manner in which they have been exercised has not been "imperialistic" in the worst sense of that word, and may,

in fact, not improperly be regarded with some pride by the British and United States Governments and their peoples.

In 1902 and 1903 the British and American Governments, respectively, signed treaties agreeing to give up their extraterritorial privileges as soon as the state of Chinese laws, the arrangements for their administration, and other considerations warranted them in so doing. The Chinese displayed so little interest in the fulfillment of these conditions that in June 1918 their government concluded a treaty with Switzerland, conceding extraterritorial privileges to nationals of that state. It was not until the Versailles Conference that the Chinese Government formally raised the issues of the abolition of consular jurisdiction, the relinquishment of leased territories, and the restoration of foreign concessions and settlements.

The twenties were a period of great internal confusion in China, but soon after the organization of the new Nationalist Government at Nanking in 1927 the British and American Governments agreed to take up negotiations for the abolition of extraterritoriality. By the summer of 1931 draft treaties for this purpose were virtually completed. The final negotiations were suspended as a result of the crisis produced by Japan's invasion of Manchuria in September of that year and they remained in abeyance until the autumn of 1942, when negotiations were resumed which resulted in the treaties of 1943.

## II

A brief summary of the history of the Crown Colony of Hong Kong and of the development of the International Settlement at Shanghai is a necessary preface to a discussion of the future of the two great ports. In the fourth decade of the last century China, like Japan, was pursuing a rigidly isolationist policy. Such external trade as was permitted was confined to a single port — Canton — where conditions of residence and commerce were intolerable to any self-respecting foreign merchant. The Manchu emperors had imposed "a rule of unequivocal seclusion and tyranny," to quote a revolutionary manifesto issued by Dr. Sun Yat-sen and Dr. Wu Ting-fang in January 1912.

In 1839 hostilities broke out between Britain and China. They originated in the seizure of British (and other) opium stocks at Canton, and this conflict has since become known as the "Opium War." To the British Government the question of opium was incidental to the main issue; the seizure of the opium and the

holding as hostages of the entire British community brought to a climax a long series of grievances arising out of the denial by China of a status of international equality to any other nation. In the Nanking Treaty which ended the war, opium was mentioned only in connection with the indemnity; this was assessed at half the estimated value of the opium that had been seized by the Chinese. No provision was made for the legalization of the opium trade, as has so frequently been asserted. The most important conditions in the Treaty were those providing for the opening of the ports of Canton, Amoy, Foochow, Ningpo and Shanghai to British trade (and hence to foreign trade in general), the appointment of consular officers who were to act on a footing of equality with Chinese officials, a uniform import and export tariff, and the cession to the British of the island of Hong Kong.

Hong Kong, with an area of about 32 square miles, was then a desolate, rocky region, frequented by pirates and a few fishermen; it had been occupied in 1839 by the British as a base for naval and military operations. It possessed a potentially good and spacious harbor, but was separated from the mainland by a channel so narrow that the island would have been undefendable against the artillery in use even in those days. Following a second war with China, therefore, the British Government, by the Peking Convention of 1860, obtained the cession of a strip of mainland territory known as Kowloon, in which Chinese batteries had been mounted during the hostilities. By the end of the century, artillery range had so increased that control of this strip of land afforded inadequate security, and following the seizure of Kiao-chao and Port Arthur by the Germans and the Russians, respectively, in 1898, the British Government sought and obtained a 99-year lease of a larger strip of mainland, since known as the New Territories. This gave the colony a hinterland 16 to 20 miles in depth and increased its total area to 390 square miles. The advent of the bombing plane rendered even this addition to the colony's territory insufficient for defense.

The development of Hong Kong from a barren pirate stronghold into the largest port in the world was attributable to a number of factors, chief of which were the rule of law, the maintenance of peace and order, and the absence of a customs tariff. Save for light duties on alcoholic beverages and tobacco, Hong Kong has always been a free port. At the height of its prosperity, in 1921, 672,680 vessels (excluding fishing junks), aggregating 43,500,000 tons, entered and cleared the harbor. Most of the

largest ocean-going steamers plying to and from the Far East loaded and unloaded portions of their cargoes there. Hong Kong became the most important distributing center in the Orient. It was the railway terminus of south China; and before the attack upon Pearl Harbor it had been the most important aerial terminus in the western Pacific.

The colony enjoyed a limited measure of self-government. At the head of the administration was the Governor, representing the Crown. Assisting him were an Executive Council of six official and three unofficial members (one of whom was Chinese), and the Legislative Council of 17 members (three of whom were Chinese). A Secretary for Chinese Affairs was charged with the duty of caring for the interests of the Chinese population.

In 1937, just before the outbreak of Sino-Japanese hostilities, the total population was estimated at a little more than 1,000,000, of whom all but 22,500 were Chinese. Following the Japanese invasion of south China in 1938, tens of thousands of Chinese sought refuge in British territory, the total reaching half or three-quarters of a million by December 1941. It was realized from the outset that the presence of these refugees would impose an additional strain upon the administration and defense of Hong Kong in the event of war with Japan, but their repatriation was considered impossible for humanitarian reasons.

The administration of the colony was complicated during the two decades preceding Pearl Harbor by the intense nationalism of the people of Canton, which at times assumed a violently anti-British character. This was manifested in strikes and boycotts, both at Canton and within Hong Kong. The existence of a British colony on former Chinese soil was, of course, resented by the nationalists. Both in China and abroad there was criticism of the measures taken by the British to restrain Kuomintang propaganda; and there was also criticism of Hong Kong's opium monopoly and of the "Mui Tsai" system, through which Chinese girls were placed in domestic service. The British Government regarded permanent residents, Chinese included, as British subjects and was, perhaps not unnaturally, averse from allowing the Chinese population to become indoctrinated with strongly nationalistic ideas. The opium monopoly, it is true, provided substantial revenue, but the reason usually advanced in its justification was that it would have been beyond the capacity of the colony to maintain a preventive service large enough to stop smuggling from the mainland and Canton. The Mui Tsai system



was vigorously denounced in Great Britain as a form of girl slavery. The Chinese, however, maintained that it was a traditional system of adoption prevalent throughout south China and that its repression would involve intolerable inquisitorial activities on the part of the local authorities. As a result of a series of investigations legislation was adopted designed to prevent any girl under 18 from being kept in a household against her will. This included registration of all Mui Tsai and periodical visits by inspectors or inspectresses employed for the purpose.

The question of returning the leased territories (British, French and Japanese) to China was first seriously raised at the Washington Conference (1921-22). Japan declined to consider the return of the Kwantung Leased Territory. France said she would agree to the restoration of Kwangchowan only as part of a general scheme in which all the Powers involved took part. Mr. Balfour (later Earl Balfour), as head of the British delegation, offered to restore the leased territory of Weihaiwei subject to certain conditions. As regards the leased territories of Hong Kong, he pointed out that without the leased territory, Hong Kong was perfectly indefensible and would be at the mercy of any enemy possessing modern artillery. He hoped that he would carry the Conference with him when he asserted that the safeguarding of the position of Hong Kong was not merely a British interest, but one in which the whole world was concerned. Mr. Balfour then read the following extract from the United States Government's "Commercial Handbook of China:"

The position of the British colony of Hong Kong in the world's trade is unique, and without parallel. It is a free port except for a duty on wines and spirits; it has relatively few important industries; it is one of the greatest shipping centers in the world; it is the distributing point for all the enormous trade of south China, and about thirty percent of the entire foreign commerce of China. The conditions of Hong Kong in its relations to commerce are in every way excellent. . . .

This brief story of Hong Kong would not be complete without some reference to the city's influence upon progress in China. Since there is space to quote but one authority I shall take the best. In 1923 Dr. Sun Yat-sen visited the colony. Here are a few extracts from the address that he gave at the University on that occasion:

I feel as though I had returned home, because Hong Kong and its University are my intellectual birthplace. I have never before been able to answer the question properly, but now I feel I am in a position to answer it today. The

question is 'Where did I get my revolutionary and modern ideas from?' The answer is: 'I got them in this very place, in the colony of Hong Kong.' I compared Heungshan [his birthplace] with Hong Kong, and although they are only fifty miles apart, the difference of the government oppressed me very much. Afterwards, I saw the outside world, and I began to wonder how it was that foreigners, that Englishmen, could do so much as they had done, for example, with the barren rock of Hong Kong within seventy or eighty years, while in four thousand years China had no place like Hong Kong. . . . Then the idea came into my head. Why cannot we do the same thing in China? . . . My fellow-students. You and I have studied in this English colony, and in an English university. We must learn by English examples. We must carry this English example of good government to every part of China.

## III

So much for Hong Kong's past. Shanghai was never a British colony. Its most important area, the International Settlement, owed its establishment and much of its growth and its prosperity to Anglo-American coöperation.

As already mentioned, Shanghai was one of the five ports opened to British residence and trade under the Nanking Treaty of 1842. A British Consul and a few British merchants arrived there in 1843, and were followed by Americans, French and representatives of other nations. But it was early apparent that the opening of new ports on paper was a very different matter from opening them in practice. Though Canton, for example, was supposed to be open to foreign residence and trade in 1843, foreigners were unable to go into the Chinese city until 1860. Fanatical animosity toward foreigners was not so intense in Shanghai, however, and the newcomers took up their residence within the walled city. But they were not welcome guests; and living within the city walls meant for them deprivation of many hygienic and other amenities. All parties were relieved when the local Chinese authorities set apart certain areas below the city for French, British and American settlements.

In the middle of the last century the Shanghai area was twice overrun by Chinese rebel forces, and thousands of Chinese refugees sought asylum in the foreign settlements. They were admitted and sheltered, and many thousands of them remained; foreigners and Chinese alike discovered it was to their mutual advantage to live and work together. Thus, in areas intended for the exclusive use of foreigners, were laid the foundations of the International Settlement in which the bulk of the population was Chinese, but in which the municipal administration remained in Anglo-American hands. The British and American settlements

were amalgamated in 1863 and the French were invited to join; they declined, and continued to administer the French concession as a separate area.

The administration of the International Settlement was conducted under so-called Land Regulations which had the approval of the Chinese and the foreign authorities. For many years the Municipal Council consisted of nine foreign ratepayers, elected annually on property or rental franchises. Three Chinese, who were selected by a Chinese Ratepayers' Association, were added to the Council in 1928; two years later the number was increased to five. The area of the International Settlement was twice extended — the last time in 1899. In December 1941 it covered eight and two-thirds square miles and embraced a population of about 1,600,000, all but some 125,000 of whom were Chinese. Though Anglo-American influence predominated in the administration, the Council was a most cosmopolitan body.

The International Settlement was unique in many ways. All the Councillors, including the chairman — whose office was virtually a whole-time job — served on an honorary basis. Until recently the fire brigade was manned entirely by volunteers. There was also a volunteer auxiliary police force and a Military Volunteer Corps, some 2,000 strong, under a British Commandant and containing American, British, Chinese, Filipino, Japanese, Portuguese and Russian units. There was never any difficulty in finding public-spirited residents to serve on the Council or in its volunteer organizations, and in the 80 years of its existence there was never a scandal involving a Councillor in the performance of his public duties. At two of the most critical periods in Shanghai's recent history — in 1925 and again in 1937 — the chairman of the Council was an American citizen. Probably nowhere else in the world have the advantages of Anglo-American coöperation been more apparent and more fruitful.

The administration of the law within the International Settlement was complicated by the existence of extraterritorial rights. All nationals whose governments exercised these rights (*e.g.*, the United States, Britain, France, Italy, etc.) were tried by their own courts in any legal action, civil or criminal. Chinese citizens, and nationals of countries which did not possess extraterritorial rights (*e.g.*, Germany, Austria, Czechoslovakia, etc.) were tried in a Special Chinese Court, the successor to what was known as the Mixed Court. From its early days the Council fought for the principle that offences committed within the Settlement must be

tried and punished there, and that a *prima facie* case must be made out before the extradition of those accused of committing crimes outside the area. There were times when the assertion of this principle saved many Chinese from torture and death. Many Chinese political and military leaders, including Dr. Sun Yat-sen himself, sought asylum within the foreign areas of Shanghai when the tide of battle went against them.

Until the turn of the century the Chinese took little interest in this impairment of their sovereignty, as is shown by their government's willingness to extend the boundaries of the Settlement as late as 1899. Even after the overthrow of the Manchu dynasty, when the return of foreign settlements and concessions to Chinese sovereignty became the avowed objective of successive Chinese Governments, enlightened Chinese realized that there were two sides to the picture, and that the Settlement offered a constructive challenge to progressive Chinese. In 1926 Marshal Sun Chuan-fang, Governor of Kiangsu, the Province in which Shanghai is situated, announced the establishment of a Greater Shanghai Municipality, and called attention to the contrast between conditions in the foreign settlement and the old native city in the following words:

You will remember that when we saw each other last I expressed the idea of creating an organization in Shanghai to unite all the administrative powers into one center, so that it might have the necessary authority to improve the municipal government, plan a new port, and settle long-standing diplomatic disputes, gradually converting the area outside the foreign settlement into a model city, the result of which should form the basis for our demand for the abolishing of the foreign concessions. This has been one of my dearest dreams, for whenever I come to the Treaty Port I feel thoroughly humiliated, not only because a Treaty Port is a standing reminder of our loss of sovereignty, but also because whenever we pass from the concessions into Chinese territory we feel that we are crossing into a different world — the former is the upper, the latter is the underworld; for nothing in Chinese territory — roads, buildings, or public health — can be compared with the concessions. This is the greatest of our national humiliations, much greater in my opinion than the loss of sovereignty.

Marshal Sun appointed one of China's most distinguished scholars — the late Dr. V. K. Ting — first Mayor of Greater Shanghai and under him and his successors astonishing progress was made in the development of the new Chinese municipal area. It was cruelly devastated by the Japanese in 1932 and again in 1937. As has already been stated, Japanese aggression halted negotiations between China and the Anglo-Saxon Powers for abolition of extraterritoriality. In one way it was fortunate that

these negotiations were suspended; the existence of the International Settlement unquestionably obstructed Japan's plans for the subjugation of China, particularly her scheme for undermining China's currency and monopolizing the trade of the Yangtze valley. The Shanghai Municipal Council stubbornly resisted all attempts of the Japanese armed forces to dominate the administration of the Settlement. History might have taken a very different course had the Council yielded.

The whole of the International Settlement was occupied by Japanese armed forces on the morning of December 8, 1941. From that date it ceased to exist. There is no possibility that it will be restored to its former status. But the Japanese occupation is only temporary. Unless the Settlement is razed to the ground when the Japanese are driven from China, the dream of Marshal Sun Chuan-fang should be realized.

## IV

The Shanghai that will revert to Chinese sovereignty will be very different from the muddy flats which Anglo-American enterprise, with Chinese coöperation, developed into one of the greatest and most progressive cities in the Far East.

Nationalist China had many criticisms of the Shanghai administration, some well-founded, some based upon myths or misunderstanding. It was natural that there should be resentment at the existence of an *imperium in imperio* in which most foreigners were exempt from Chinese jurisdiction and which placed the entire community outside China's fiscal authority, except for customs duties and consumption and land taxes. The Settlement suffered from the paradox of being in some respects virtually an independent state and in others an integral part of China. During the civil wars that followed the overthrow of the Manchu dynasty the Shanghai Municipal Council endeavored to maintain a policy of strict neutrality, using its military and police forces to maintain internal peace and order and to prevent the entry of Chinese armed forces of any faction. Similarly it attempted to exclude both Chinese and Japanese forces from the Settlement in 1932 and again in 1937.

Of course much of China's antagonism to the International Settlement was psychologically understandable. Europeans and Americans who came there to trade and settle brought with them their habits, customs and standards of living, and expected Chinese residing in the areas they administered to accept and in some

instances to conform to them. They established for themselves recreation grounds, clubs, hospitals and public cemeteries, none of which institutions was familiar to the Chinese. As recently as 30 years ago there was virtually no social contact between Chinese and foreigners. But it would be unfair to attribute this wholly, or even mainly, to western racial prejudice. The Chinese themselves were at least equally responsible for the social gulf between the races. The fact that Chinese women, for instance, were almost as secluded as inmates of a harem, and were debarred from social contact with men outside their own families meant that practically all the entertaining done between the two communities was confined to "stag parties" at Chinese restaurants. When Chinese women emerged from their seclusion after the establishment of the Republic, and as increasing numbers of young Chinese who had completed their studies abroad returned to China, resentment arose at what was labelled the "superiority complex" of the foreigners. From this resentment arose such myths as the time-worn canard that a notice was once posted outside the Shanghai public gardens reading "Chinese and Dogs Not Admitted," and apocryphal tales of prominent Chinese guests being refused admission to foreign clubs or shown to the back doors. There were similar fables to the effect that Chinese were debarred from travelling first class on trains and coastal and river steamers.

Charges of "exclusiveness" are bound to arise in a community in which two entirely different civilizations collide; to be "different" anywhere is to risk the charge of pretensions to superiority, and above all is this so in the Orient. The ordinary American or Briton residing in countries in Europe or South America usually adopts the diet and style of living of the population. This is not the case in any part of the Far East, if one excepts a few missionaries and a very much smaller number of westerners who "go native." The average American or Briton finds an occasional selected Chinese meal delightful, but would find a continuous Chinese diet unpalatable and unnourishing. And the Chinese style of housing and living appear to him unhygienic and medieval. Dual living standards, resulting in a certain amount of social exclusiveness, were inevitable where Europeans or Americans settled down in Asiatic countries.

It is fair to emphasize that many of the allegations made against the Settlement régime and repeated to this day were not factual. It was said, for example, that the administration of the International Settlement was an obstacle to the Chinese Govern-



ment's opium-suppression policy. No opium is grown within hundreds of miles of Shanghai; the Municipal Police and the Chinese Maritime Customs consistently attempted to prevent the smuggling of Chinese or foreign opium into the area. During the internal upheavals following the establishment of the Republic there was a serious recrudescence of opium cultivation in mid and western China, and most of the opium which reached Shanghai was imported by Chinese racketeers, who obtained the coöperation of China's armed forces in escorting it from the interior to the coast. For some years these racketeers acted with the connivance of the police of the French concession, whose morale was completely undermined. When the French authorities cleaned up their area, the racketeers simply moved their stocks and selling agencies over the concession border into Chinese territory.

The abolition of extraterritoriality should ease many of the "psychological" problems. There will, of course, be practical problems of no little concern to Great Britain and to the United States, whose nationals have substantial interests in the city, including public utilities, real estate, wharves, clubs, theaters, hotels, banks, apartment buildings, mills and factories. It may be hoped that the complete restoration of China's sovereignty will not be found incompatible with reasonable foreign representation in the local administration. It is to China's advantage, as well as to the advantage of foreigners in the former Settlement area, that Shanghai be a prosperous and well-run city. No city under purely Chinese control in the past possessed public utilities of the size and efficiency of those of Shanghai, or a police force comparable to that of the Settlement. The nationalization of all public utilities is understood to be the policy of the Kuomintang. It would be unjust if the Shanghai public utilities were expropriated without adequate compensation. Further, inasmuch as the Chinese have not had experience in managing power stations, waterworks, gas-works, tramways, and telephone systems as elaborate as those in the International Settlement, common sense suggests that it would be mutually advantageous for the Chinese to retain the services of American and British experts for some years to come.

Apart from a shortage of technicians China may be hard put to find a sufficiency of experienced administrative officials, especially if, as ordained by the Cairo Conference, she recovers control over Manchuria and Formosa, in addition to all territory at present under Japanese occupation. A vast amount of administrative reorganization will be required when China takes over these areas.

For her to draw on a body of trained foreign administrators for assistance in rehabilitating Shanghai — a task for which external financial assistance is almost certain to be necessary — seems logical and desirable from every point of view. The transition from extraterritoriality to unfettered Chinese jurisdiction would probably be smoother if an experienced foreign element were also temporarily retained in the Shanghai police force. There is a precedent for such a course in the composition of the Police Force for the External Roads Area of the Settlement prior to Pearl Harbor. Foreign members of the Shanghai Municipal Police, though retained on the roll of that force, were temporarily placed under the orders of the Chinese Chief of Police. It would not be easy to avoid friction and misunderstanding if inexperienced Chinese police were suddenly put in sole charge of an area, containing many thousands of Europeans and Americans, which for nearly a century has been under western administration.

## v

Some of the questions raised by a discussion of the future of Hong Kong are similar to those which we have noted in regard to Shanghai. Some are quite different. Hong Kong and Kowloon are British territory, definitely ceded to the British Crown in 1842 and 1860 respectively; and the British lease of the New Territories does not expire until 1997. But though the avowed desire of the Chinese Nationalists for the return of the colony has no legal basis, the future well-being of Hong Kong must depend upon Anglo-Chinese friendship. Whatever may be the status of Hong Kong, the prosperity of the city can be assured only by friendly coöperation between the British and Chinese Governments.

Where strategic considerations are involved, the American Government likewise has a clear interest. Hong Kong may be destined to play a vital part in any international scheme to prevent a recurrence of Japanese aggression. It is not the purpose of this paper to examine the possible forms which such international action may take. The Filipino Government has expressed its willingness to grant naval, military and air bases to the United States on the soil of the Philippine Republic; and there have been suggestions from Chungking that, in the interests of Pacific security, similar bases should be granted to the United States on the island of Formosa. If either or both projects are undertaken, the rehabilitation of Hong Kong as a British base would appear to be a natural corollary. British forces at Hong Kong and Ameri-

can forces at Corregidor would be in a position to close all exits from the East China Sea. If we are alert to nip in the bud any Japanese attempt at rearmament, Hong Kong need not be made a heavily fortified base.

Great Britain, of course, has enormous vested interests at Hong Kong — in its wharves and buildings, public works and public utilities, docks and shipbuilding yards. It would not be just or reasonable for China to expect these establishments to be handed over without adequate compensation, and the enormous sum that would be required for this purpose could probably be put to much more productive use within Chinese territory. Were the colony to be restored to China, such questions as the carrying-over of experienced western technicians and officials in the city administration would be relevant here also.

Finally, emphasis must again be placed upon the past rôle of Hong Kong as an international distributing and communications center in the Far East. Hong Kong may grow to be an even more important port for the distribution of import and export cargoes than it was in prewar days — always provided it remains a free port — and will continue to be a junction and terminus of great international airlines. The international importance of Hong Kong will mount if, unhappily, postwar China should be torn by civil strife — a possibility which cannot be ignored, much as one hopes that a unified China will emerge from this long and exhausting conflict. And, as a matter of realism, it should be pointed out that in the event of a renewal of civil war in China, the disappearance of all foreign settlements and concessions might make Hong Kong the only place of refuge for the foreign communities in China, as at times it has been in the past.

Prime Minister Winston Churchill may not have had Hong Kong particularly in mind when he said that he had not become the King's First Minister to preside over the liquidation of the British Empire. But neither his Cabinet, nor any that will probably succeed it in the near future, is likely to treat the return of Hong Kong to China as a foregone conclusion. Does any responsible person wish to say today what the conditions in the Far East will be at the time of Japan's unconditional surrender? There may, in fact, be many very good reasons of a strategic or an economic nature — not to mention questions of "prestige" — why the British Empire should refuse now to make decisions which may not correspond to its own interest, to its Allies' interest, or the realities of a situation which no man can foresee.

# RACE RELATIONS IN PUERTO RICO AND THE VIRGIN ISLANDS

*By Eric Williams*

THE islands of the Caribbean differ in size, political affiliation, religious beliefs and language; but the basic difference is ethnic. Racially, the Caribbean falls into two distinct groups: the territories with a comparatively large white population, and the territories with a predominantly black or colored population.

In the 1940 United States census, the population of Puerto Rico was given as 76.55 percent white; the corresponding figure for the Virgin Islands was 9 percent. There are further divergencies within the Virgin Islands group. Only 3.2 percent of the population of the island of St. Croix was given as white, as compared with 15.8 percent for the island of St. Thomas. Charlotte Amalie, the chief city of St. Thomas, had a white population of 12.1 percent; the two chief cities of St. Croix had white populations of 2.2 and 4.3 percent respectively. This ethnic difference is the consequence of the particular economy developed in the various regions. Where the plantation economy based on sugar predominated, Negro slavery was essential and the territory automatically became black. The Virgin Islands fell in this category, together with Haiti and the British, French and Netherlands possessions. Where the small farmer survived, in a coffee or tobacco or livestock economy, white labor was predominant. Puerto Rico, Cuba and, to a lesser extent, the Dominican Republic were in this group.

The Negro made his appearance in Puerto Rico and the Virgin Islands as a chattel slave. But if Puerto Rico and the Virgin Islands have a common heritage of slavery, their economic development during the slavery period took divergent lines. Puerto Rico was always a white colony, a garrison rather than a plantation. The proportion of Negro slaves in Puerto Rico was never as high as elsewhere in the Caribbean, and never exceeded 14 percent of the population. Puerto Rico had a self-sufficient economy and its labor needs were satisfied by free men. Many of these free laborers were black or colored, but only for a brief period in the island's history did the non-white population exceed 50 percent of the total. The Virgin Islands, on the other hand, had plantation economies exporting sugar. St. Thomas in the Virgin Islands be-

came a free port rather than a sugar colony, however; hence its smaller Negro population. An ethnic map of the Caribbean would align Puerto Rico with the Spanish-speaking areas, and would group the Virgin Islands with Haiti and the European possessions, not because Puerto Rico was under Spanish rule and the Virgin Islands Danish, but because of their differing economies.

The plantation economy was notoriously harsher on the slave. It is no accident, therefore, that while slave rebellions were not unknown in Puerto Rico, those islands never experienced the convulsions that destroyed St. John in 1733, St. Croix in 1848, repeatedly visited the British islands, made Haiti independent, and produced revolts in Cuba in 1812 and again in 1843. It is an astonishing fact that in Puerto Rico slaveowners themselves petitioned for emancipation, against the wishes of the mother country. Emancipation in the Virgin Islands was a metropolitan measure introduced in the teeth of opposition from the local planters. Conditions for the integration of the Negro, after emancipation, were more favorable in Puerto Rico than in any other Caribbean territory except the Dominican Republic. But Spanish and Danish policies were in accord in one respect. In both territories the freeing of slaves was a relatively easy matter, and the numbers of free mulattoes and Negroes were larger than in many other Caribbean islands. Spanish legislation facilitated manumissions, and there was less excuse for denying freedom to slaves in Puerto Rico's coffee and subsistence economy than in the sugar economy of Cuba, with its slave gang.

These free people of color were usually, but not exclusively, light-skinned. Offspring of white fathers and black mothers, they were generally treated with indulgence by their fathers, often educated, and customarily left some property on the death of the father. In a society in which life, liberty and the pursuit of happiness were the inalienable rights of a white skin, it was inevitable that they despised the distaff-side of their ancestry. Too light to work in the fields, as the saying went, they regarded themselves as superior to the black slaves. Official policy sanctioned this differentiation. Six years before the Declaration of Independence the governor of Puerto Rico decreed the admission of white and mulatto children to the public schools "without distinction."

The Danes divided the colored people into two classes. Those in the first category were made first-class citizens, with full rights, privileges and duties. They were placed on an equal footing with whites and were in every case to be treated as whites; in traveling

abroad, for example, they were not to be designated as "free colored" but as "Mr. So-and-So." Colored people in the second division remained second-class citizens, and the governor was empowered to "transfer" a citizen from one race to another. While this plan of changing racial status by decree was never carried out, it suggests the way in which the free people of color formed a flexible caste that served as a convenient buffer between whites and blacks. As the saying goes in Puerto Rico, the colored people were "the ham in the sandwich."

Thus, in Puerto Rico and the Virgin Islands, when the sun of emancipation banished the last lingering shadows of a slavery that had been becoming increasingly unprofitable, certain characteristics of the new social order had already been established. Interbreeding, which relaxed the tensions of servitude, had taken place on a large scale. Moreover, the Negroes had shown themselves to be good Puerto Ricans. The schoolmaster Rafael Cordero, for example, taught children for 58 years without charging fees, thereby earning the approbation of the Economic Society of Friends of the Country. The shoemaker Miguel Enriquez was decorated by Philip V for bravery in battle against the Dutch and English and elevated to the rank of knight; in Spanish eyes he became so identified with Puerto Rico that a book published in Madrid described Puerto Rico itself as "the fatherland of Miguel Enriquez." Under the Danes, prominent colored people received invitations to official functions to which many whites were not invited. Thus was established the Caribbean tradition of race relations. Emphasis was on color, not race; and color was closely associated with class, and even determined by class.

In Puerto Rico today a population of close to two million people is crowded on a small island of slightly more than two million acres, less than half of which are arable. The population has doubled twice in the last century and is increasing at a net rate of 30,000 a year. The chief means of subsistence is the land, and the principal crop sugar. The sugar industry accounts for 60 percent of the total export trade, occupies 40 percent of all farm lands, employs 40 percent of the working population, and accounts for 90 percent of the freight hauled by the public railways. The industry achieved this supremacy by reason of tariff protection in the United States market, and without this tariff protection the crop would be almost eliminated. Its further expansion is prohibited by the quota system. Sugar has brought to the is-



land a phenomenal increase in wealth, but the average Puerto Rican is today a landless wage earner, ill-fed, ill-housed and ill-clothed, living on an income of \$341 a year. Puerto Rico today has a subsidized economy. Federal contributions, direct and indirect, amounted to \$57,000,000 in 1942, or approximately \$30 per capita.

In the Virgin Islands a population of 25,000 people live on 85,000 acres, of which less than one-sixth is crop land. With 11,600 acres of cropland and 8,000 acres in cultivation, St. Croix, the agricultural center of the group, supports a population of nearly 13,000. Yet the population has declined by more than 50 percent in the last century; the decline in St. John is more than 70 percent, while for the group as a whole it is more than 40 percent. Large-scale emigration represented an unconscious effort to achieve some equilibrium between population and means of subsistence. In spite of such emigration, the Administrator of St. Croix estimates that the present population of that island is 25 percent greater than the island can support. The National Resources Planning Board is even more pessimistic. In its "Development Plan for the Virgin Islands," the Board frankly confesses its inability to see a way of providing for more than 60 percent of the population of the area. Sugar, the main crop of St. Croix, yields 10 tons per acre as compared with 30 in Puerto Rico. Without tariff protection the industry would collapse overnight. Before the war, tourist expenditures were the chief supplementary source of revenue. National defense projects have taken their place during the war. The average income in St. Croix is \$400 per year; the income of the working classes is much lower. Even this standard of living is achieved only by subsidies. Federal contributions in 1942 amounted to nearly \$1,000,000, or \$39 per capita.

It is in this concrete economic setting that we must view the question of race relations. The struggle for survival, by the community and by the individual, is a grim one.

## II

Legal discrimination in the two countries is unknown. Children of all colors meet on equal terms in the public schools, though discrimination is prevalent in private schools, even those which receive government grants. There are no segregated housing areas. Whites, blacks and mulattoes sit side by side in theaters, churches and public vehicles, and lie side by side in the cemeteries. The law

recognizes no differences based on race, color, creed, national origin or previous condition. Lynchings are unheard of.

This absence of legal discrimination against the Negro arises from the fact that racial differences are subordinate to those of class. Muñoz Marín, Puerto Rico's distinguished statesman and popular leader, tells the story of the white voter who was asked by a colored lawyer to vote for a certain candidate. The white voter replied: "You *blanquitos* ["little whites," not to be confused with the American term "poor whites"] have too much." The story is very revealing. "White" denotes class and status rather than color and race. In the Caribbean generally a man is not only as white as he looks. If by virtue of his position or his wealth he moves about in white society, he automatically becomes "white." An American student, Dr. Charles C. Rogler, has made an intensive study of a small Puerto Rican town, Comerío. He found that social distinctions were based on class and not race, and that the two coalesced merely because the Negro is never found in the upper class. "However," he adds, "if, to take a hypothetical case, a dark mulatto were to belong to the upper class, he would be socially defined as a white person." There is no unanimity as to who are Negroes and who are not. Some Puerto Rican families may have one child classified in the census as white, another as colored. It is well known that, in order not to antagonize some prominent family which does not wish to be identified with Negroes, the census officer would classify its members as white, and perhaps change the classification later. For this reason some observers believe that the percentage of colored people in the Puerto Rican census has been grossly underestimated. It is a notorious fact that these "white-minded Negroes," as they are called in St. Thomas, have colored ancestors. The mulatto in the United States Caribbean possessions thus has a much greater social mobility than his kinsfolk in the United States. It must be emphasized that this mobility is very largely a result of historical causes.

The mulatto's concern with color is understandable in a society where his handicaps increase more and more drastically as the pigmentation deepens. But the consciousness of legal equality tends to give the colored people confidence in social relationships. For example, within the last 70 years numbers of French people have migrated to St. Thomas from the French island of St. Barthélemy. Today this French colony has more than a thousand members, concentrated in a fishing village three miles west of Charlotte Amalie and in a community of farmers on the northern

side of the island. They keep very largely to themselves, speak a French patois though they understand and speak English, and are easily identified by the obvious signs of malnutrition they reveal. The islanders derisively call them *Chachas*. The attitude of the colored people to this French community is, indeed, one of unveiled contempt. Some of the French people send their children to the schools, wearing shoes. Some of the adults have taken to trade, and own grocery stores and liquor bars in the French district. But the prejudice against them remains, and the marriage of a colored girl to one of these Frenchmen is an occasion for endless gossip. The children, it is said, will always have "the Chacha look." The feeling is unmistakable in St. Thomas that "the Chachas are all right in their place." It is a complete reversal of the relationships that would prevail in other countries.

The Negro enjoys equality with the white man politically as well as legally. Negroes in Puerto Rico vote not as Negroes but as Puerto Ricans identified with one of the major parties. The Republican Party was founded by a colored Puerto Rican, Dr. José Celso Barbosa, one of the great names in Puerto Rico's history. Today colored Puerto Ricans are found in the Insular Congress and in municipal government, as well as in high administrative positions. Ramos Antonini, the colored deputy leader of the Populares Party, was elected as representative-at-large in the 1942 elections and polled the largest vote. In other words, he does not represent a Negro constituency nor are his supporters Negroes only. His color debarred him from becoming Speaker of the House of Representatives, however. Dr. Leopoldo Figueroa, another colored Puerto Rican, head of the maternity section of the Municipal Hospital, is one of the chief stalwarts of the Coalition Party. Until recently a prominent Negro lawyer sat on the Public Service Commission; another is Chief Examiner of the Civil Service Commission. In the Virgin Islands in recent years, very dark men have taken positions that were reserved, under the Danes, for Europeans or light colored people.

Thus it is that, by virtue of the absence of legal discrimination, the high degree of social mobility, the emphasis on class, and the political equality that prevails, unity among Negroes on the race question does not exist in Puerto Rico and the Virgin Islands. The word "Negro" is seldom used in the Caribbean, and, when used, is not a "fighting" word. All over the Caribbean it is either synonymous with "slave," or is a term of endearment, used colloquially by both whites and Negroes. The Spanish word for slave-

ship is, significantly, *negrero*, but there is no Spanish equivalent for "nigger" or "damned nigger." The militancy of American Negroes has no counterpart in Puerto Rico and St. Thomas. To repeat — the issue in the Caribbean is not one of race but one of class. Puerto Ricans talk not so much of "the colored race" as of "the colored class." The conflict is not between white and black but, as in St. Thomas, between those who live on one of the three hills on which the town is built and those who do not. Muñoz Marín puts the same idea in different words: there are in Puerto Rico only two classes, those who wear neckties and those who don't. The situation is the same in the British West Indies, where the mark of differentiation is the wearing of shoes rather than of neckties. It is to be noted that similar conditions prevail in Haiti where there is no considerable number of white people.

## III

Legally, the Negro is on a footing of equality with the white man. On the social level, however, race prejudice antedated the American occupation, exists today, and is increasing. It will be readily appreciated, however, that in the nature of things social discrimination does not affect the large majority of colored people. The entry of foreign capital has brought the practices associated with the countries of origin. It is not the influx of Americans as individuals but of American capital that has resulted in the recrudescence of the race problem. Social discrimination is most obvious in private employment in the upper brackets. Conventionally, none but white people or the fairest-skinned among the colored are employed by banks, sugar corporations, airlines and shipping companies, and the large department stores.

Discrimination is common in all the better hotels and restaurants. A few years ago a well-known restaurant in San Juan, then under non-local management, refused to serve people of color. The issue was taken to the District Court, where a decision in favor of the management was given. The Supreme Court upheld the verdict, and the practice continued until the establishment passed into Puerto Rican hands. In the leading hotel in Puerto Rico the patronage is almost wholly composed of whites from the United States. Colored people are never seen in the dining room or at the bar unless they are foreigners traveling on government missions. The outstanding hotel in St. Thomas, government-owned, and leased on a contract which specifically prohibited racial discrimination, refused to admit colored people until recently,

when it was turned over to a new manager who is colored. There is, however, another hotel which still refuses to serve colored people, on the plea that it is reserved for service men. Clubs in Puerto Rico are customarily classified as "first class" and "second class." Whites belong to both types of club, but Negroes belong only to "second class" ones. Cases have arisen in recent years of refusal by night clubs to serve colored people; in one instance the establishment was fined \$25. Such small fines are locally considered a joke. In the University of Puerto Rico, colored students, the majority destined to be schoolteachers, are freely admitted. Yet two members of the faculty, in a special study of the Negro in Puerto Rico, have brought to light a number of sayings about the Negro common to university students. The saying, "God made the Negro so that animals can rest," is an example.

Social discrimination has increased in Puerto Rico to such an extent that the legislature passed a Civil Rights Act in 1943 guaranteeing the right of all persons irrespective of differences of race, creed or political affiliation to enjoy the facilities afforded by public places, businesses and any agency of the Insular Government. The penalties decreed are a fine of from \$25 to \$100, or a jail term of from ten to a hundred days. Despite this law, however, colored people in Puerto Rico are very reluctant to visit certain hotels or night clubs.

#### IV

The lower classes of Caribbean society look to America as the land of opportunity. They are the underdogs now, since they are black, and the left-handed racial egalitarianism of the United States, where one drop of colored blood makes one a Negro, gives them that feeling of equality with the colored aristocracy which is ruled out at home by the emphasis on status. To these people contact with the United States means material benefits, the opportunity of education and the monthly remittances from emigrants who have made good.

But the islanders are even more aware of racial distinctions than they were before American rule. This is not to say that the presence of large numbers of American troops, mostly colored, in the area has produced any serious change in the racial situation, as far as the masses are concerned. The rank and file of American troops have fitted into local society. Barred from officers' clubs, looked down upon by white and colored aristocracy, the enlisted

men have gravitated toward the people of their own social milieu, the colored middle and lower classes. Left alone, white soldiers and colored population can and will work out an adjustment of their own. It is particularly important that they should do so. One instance taken from Jamaica suggests the problem. On December 8, 1943, an advertisement appeared in *The Gleaner* of Jamaica for "help" at the American base. The advertisement specified: "White, Male and Female." The next day the same advertisement appeared, minus one word: "White." But Kingston was in an uproar. Letters and protests poured in, the Corporation met and passed a resolution vigorously condemning the "insult," and voted that a copy of the resolution be sent to President Roosevelt. The United States Base Commander made a public apology, but the tension continued. Discriminatory notices are, in fact, a common feature of the West Indian press. But the incident is a reminder of Caribbean sensitiveness on the race question and of the perils inherent in the situation.

The constituents of the race problem in Puerto Rico and the Virgin Islands are, in short, a historical background that emphasizes class rather than race; an economic setting in which the problem of the Negro is merged in the larger problem of the community; the absence of legal discrimination against the black masses; and the pressure of social discrimination on the lighter-skinned middle class minority. There is no "solution" to such a problem. With the economic and social forces as they are it is difficult to see how there can be any substantial changes in race relations in the two communities. Ultimately, the shape of race relations in the United States will be the decisive factor in the relations between races in these colonies.

Some Puerto Rican sociologists advance as a solution the long tradition of interbreeding, which will, they believe, "whiten" the Puerto Rican Negroes in 75 to 100 years. But this is quite ridiculous, since the essential character of the present relations would prevent this "whitening" even if it were desirable and, within reasonable human expectation, possible. On the occasion of the Jamaican incident referred to above, a publicist advanced a more serious proposal. Americans, he said, must learn West Indian psychology. "It will not be enough for the Americans to say they followed the local custom."

There are many Americans in the islands who take these questions seriously. They must seek to understand that conditions in the West Indies are not like conditions at home. President Roose-



velt's directive to United States forces in the Caribbean to respect local customs has had good results, in this regard. All Americans in the area must recognize the particular racial background and historical development of the islands. The Administration must try to formulate policy and practice in accordance with the history and patterns of the area, and not allow itself to be influenced by the national traditions of the interests which it represents. Given the history and social sentiments of the island, it is not at all impossible for the United States Administration in Puerto Rico to strike blows at race prejudice and to try to develop an official attitude toward race relations in harmony with the aspirations and practice of the colonial areas. There are already signs that the American and British authorities recognize the necessity of action on this question. It is interesting to note that a special correspondent of the London *Times*, in two articles on the West Indies published on October 29 and 30, 1943, said that "it is time to consider whether Colonial Office officials should not in future be forbidden to belong to clubs which impose a color bar . . . sooner or later, the color bar which at present surrounds the higher administrative posts must be broken down."

Asked his views on the subject, Muñoz Marín replied simply: "More democracy." Even the colored opponents of this Puerto Rican leader agree that he and his party have given Negroes a square deal and opened positions to them, especially in the teaching profession and the higher ranks of the police force, from which they were conventionally debarred. The popular movement in these island possessions of the United States stands for "no discrimination," as opposed to what it considers the American trend toward greater discrimination. Similarly the Communist Party has consistently opposed racial discrimination. Recent events in Europe have shown that even liberty and racial rights which have been exercised for centuries are not safe except in a fully democratic order. In trying to base the struggle against racial discrimination upon the democratic aspirations of the people, Muñoz Marín is in harmony with the best thought and increasing practice of the age.

# THE GANDHI-JINNAH CONVERSATIONS

*By Sir Frederick Puckle*

**T**WENTY-EIGHT years ago, in the autumn of 1916, representatives of Hindus and Moslems met at Lucknow and concluded what was known as the Lucknow Pact, in an attempt to settle the differences between the two major Indian communities. This agreement, which among other matters accepted the principle of separate electorates for Hindus and Moslems, beyond doubt helped to bring about the British Government's declaration of August 1917, that its policy was "the progressive realization of responsible government in India as an integral part of the British Empire," and the Government of India Act of 1919, which ushered in the first stage of this program. For the next twenty years the two communities gradually drifted apart. As it became more and more obvious that Dominion status for India was the logical end of British policy, so the question who was to succeed to the British authority in India became more and more pressing, not unnaturally engendering suspicion between the possible heirs. In 1935 the new Government of India Act became law. Another long step forward toward self-government had been taken and the end of the journey was in sight. In 1936, just before the first elections under the new constitution, the Moslem League published a manifesto which contained a clear offer of coöperation with the Indian National Congress Party. If the Congress leaders had accepted the offer, the subsequent course of Hindu-Moslem relations and of the whole constitutional controversy would have been very different. For reasons which doubtless seemed to them good, they rejected it.

The League took this as a declaration of war and formal relations between the two parties ceased and have never been renewed. There was one man, however, who was not content to drift. Mr. Chakravarti Rajagopalachari (affectionately — and conveniently — known throughout India as C. R. or Rajaji) had been one of the leading men of the Congress Party for many years. He was second only to Jawaharlal Nehru in general Indian esteem and without rival in his own south. As Premier of the Congress Party's Ministry which governed Madras from 1937 to 1939, he had shown outstanding administrative ability. He had led the minority in the Congress Working Committee which had fought for the acceptance of the Cripps plan. In the summer of 1942, he had made a great effort to win over the Congress Party to a policy of conciliating the Moslem League by accepting in principle the claim for a separate Moslem state. He believed that an accord between Hindus and Moslems was an indispensable preliminary to any further negotiations with the British Government and he held that if India was to take her rightful share in the postwar settlement, it was essential that the end of the war should find her governed *de facto*, if not *de jure*, by Indians. He failed to convert his colleagues, and his failure was emphasized by the passing of what is known as the Jagatnarrain Lal resolution, which declared that "any proposal to disintegrate India by giving liberty to any component state or territorial unit to secede from the Indian Union or Federation will be highly detrimental to the best interests of the people of the different States and Provinces and the country as a whole and the Congress, therefore, cannot agree to any such

proposal." Thereupon, C. R. resigned from the party, which for most of a long life he had served and guided, in order that he might be free to "convert the Congress and the people of India" to his views. His campaign for conversion met with little success, though "The Way Out," the pamphlet in which in November 1943 he published his creed, is perhaps the ablest and most realistic Indian political document of modern times. However, perseverance presently had its reward and in the early summer of 1944, 28 years after the Lucknow Pact, Mr. M. A. Jinnah, the President of the Moslem League, received a letter from C. R. saying he had been authorized by Mr. Gandhi (who had lately been released from detention) to put forward a formula for a Congress-League agreement, which he hoped Mr. Jinnah would be able to see his way to endorse and lay before the Council of the League. Mr. Jinnah did not, for various reasons, see his way clear to do this, but he did shortly afterward accept an invitation to meet Mr. Gandhi and discuss the matter.

The two men met in September at Mr. Jinnah's house in Bombay, while India waited with mixed feelings for the result. Hindus, for whom India means Hindustan, were frankly apprehensive. They were vehemently opposed to any splitting up of India and some enthusiasts even picketed Mr. Gandhi's lodgings as a protest against the meeting. Congressmen, to whatever community they belonged, were nervous lest Mr. Gandhi should prejudice the cause of Indian independence and the Party's own position by going too far in meeting Mr. Jinnah's demands. The Moslem League watched, confident in their President's ability to hold his own. Opinion generally was pessimistic about the chances that the conversations would achieve much. The pessimists were right. On September 26, after discussions lasting nearly three weeks, Mr. Gandhi and Mr. Jinnah announced that they had been unable to reach any agreement; the discussions were postponed *sine die*, but not, they hoped, finally. The two men parted with protestations of friendship, but it seems with some underlying feeling of bitterness. They have since been busy in explaining to their followers their respective positions in terms studiously polite but not always very conciliatory.

It appears that at the first meeting on September 9, after some preliminary exposition of their views by both, Mr. Gandhi invited Mr. Jinnah to "formulate in writing" the points which he thought required explanation and clarification. Out of this grew a voluminous correspondence, to which the two men began to attach more and more importance as a record of the conversations. This correspondence, consisting of 21 letters, has been released.

## II

In the last letter (September 26) Mr. Jinnah writes: "If a break comes, it will be because you have not satisfied me in regard to the essence of the Lahore Resolution." This was a resolution of the full session of the Moslem League at Lahore in March 1940, at which 100,000 Moslems were estimated to have been present. The essence of it was the "two nation" theory and everything which flows from its adoption. The resolution set forth the meaning of Pakistan, though the word Pakistan was not to be found in it. Once Mr. Gandhi and Mr. Jinnah disagreed about the two nation theory, they disagreed inevitably on Pakistan and on every other point which came up in their discussion.

Mr. Jinnah expounded the Moslem position in the following words:

We maintain that Moslems and Hindus are two major nations by any definition or test of a nation. We are a nation of a hundred million, and what is more we are a nation with our own distinctive culture and civilization, language and literature, art and architecture, names and nomenclature, sense of value and proportion, legal laws and moral codes, customs and calendar, history and traditions, aptitudes and ambitions. In short, we have our own distinctive outlook on life and of life. By all canons of international law, we are a nation.

To this Mr. Gandhi replied:

I can find no parallel in history for a body of converts and their descendants claiming to be a nation apart from the parent stock. If India was one nation before the advent of Islam, it must remain one in spite of a change of the faith of a very large body of her children. You do not claim to be a separate nation by right of conquest but by reason of the acceptance of Islam. Will the two nations become one if the whole of India accepted Islam? Will Bengalis, Oriyas, Andhras, Tamilians, Maharashtrians, Gujaratis, cease to have their special characteristics if all of them become converts to Islam?

For practical purposes, there was no more discussion. Mr. Gandhi remarked that the mere assertion that Hindus and Moslems were two nations was no proof. No more, of course, was an assertion to the contrary. So while he continued to declare that he saw nothing but ruin for the whole of India, if the theory were accepted, and Mr. Jinnah continued to maintain that the true welfare not only of Moslems but of the rest of India lay in such a division of India, and that this was the road to the achievement of freedom and independence for all, the matter was really taken no further. It is, of course, a proposition which is hardly susceptible of proof; creeds rarely are.

Once we grasp the importance which the two nation theory has for Mr. Jinnah, and the finality of Mr. Gandhi's rejection of it, the rest of the discussion, as revealed in the letters, becomes comprehensible. A number of points were taken up, most of which arose directly or indirectly out of Mr. Rajagopalachari's original formula, or an alternative to it which Mr. Gandhi propounded in his letter of September 24. Mr. Jinnah commented that the two formulas had a family resemblance and in essence were much the same. It will be sufficient to examine the fundamentals of Mr. Gandhi's own formula and Mr. Jinnah's objections to them.

What we may call the preamble laid down two assumptions: (1) That India is not to be regarded as two or more nations but as one family consisting of many members. (2) That the Moslem members of the family living in Baluchistan, Sind, North West Frontier Province and that part of the Punjab where they are in an absolute majority and in those parts of Bengal and Assam where they are in an absolute majority, desire to live in separation from the rest of India.

On these assumptions, Mr. Gandhi proposed: (1) That the claim to separation should be accepted. (2) That the areas eligible for separation should be demarcated by a joint Congress-League Commission. (3) That there should be a plebiscite of all the inhabitants of these areas. (4) That where the vote was in favor of separation, separate states should be formed "as soon as possible after India is free from foreign domination and can therefore be constituted into two sovereign independent states." (5) That there should be a treaty of separation providing for the administration "of foreign affairs, defense, in-

ternal communications, commerce and the like, which must necessarily continue to be matters of common interest between the contracting parties," and for safeguarding the rights of minorities. (6) That the Congress and the League should, "Immediately on the acceptance of this agreement" [*i.e.*, Mr. Gandhi's formula, not the treaty in clause five], decide upon a course of common action for the attainment of independence for India, but that the League would not be bound to join the Congress in any "direct action."

How with this preamble, which directly denied the fundamental principle of the Lahore Resolution — the two nation theory — Mr. Gandhi hoped to obtain acceptance of the rest of his proposal is not clear. Mr. Jinnah's letter of September 25 is a detailed rejection of it, which for practical purposes closed the conversations, though there were two or three subsequent letters. Mr. Jinnah was consistent. Since the Moslems were a separate nation, the right of self-determination rested in them and them alone. In an earlier letter, he had claimed for Moslems the right of self-determination as a nation and not as a territorial unit. "Ours," he wrote, "is a case of carving out two independent sovereign states by way of settlement between two major nations, Hindus and Moslems, and not of severance or secession from any existing union." In another letter he wrote that no progress was to be made along the lines of differing on the question of "two nations" and solving the problem on the basis of "self-determination," a suggestion which Mr. Gandhi made on September 19. Consistent with this attitude, Mr. Jinnah refused a general plebiscite and maintained his position that in Baluchistan, Sind, North West Frontier Province, Punjab, Bengal and Assam, where Moslems were in a majority and which must therefore be considered their homelands, it was for Moslems, and Moslems alone, to decide whether they wished to separate from the rest of India. If they did so decide, they would take their homelands with them, though subsequent territorial adjustments, to avoid including in Pakistan predominately Hindu districts, were not ruled out.

Mr. Jinnah also rejected clause five, which laid down that a treaty should be concluded to "provide for the efficient and satisfactory administration" of foreign affairs and other "matters of common interest." Apparently what Mr. Gandhi had in mind was some joint administrative body, to be settled upon between the Congress and the League and set up simultaneously with, or before, the actual separation. The letters are not clear on this point. On September 14 Mr. Gandhi had asked what provision was contemplated under the Lahore Resolution for "defense and similar matters of common interest." On September 21 Mr. Jinnah had replied that there could be no "defense and similar matters of common concern;" this was a question to be settled by the constitution-making body chosen by Pakistan, negotiating with a similar body from Hindustan and both representing sovereign states.

In the letter of September 25, he implies that Mr. Gandhi had some central machinery in mind (perhaps this had been suggested verbally) and goes on to affirm that "these matters, which are the lifeblood of any state, cannot be delegated to any central authority or government;" they will have to be dealt with on the assumption that Pakistan and Hindustan are two independent states. Probably here we have the two nation theory working again: Mr. Jinnah is going to make no concessions at this stage which might later on be brought up against him in argument against the strict application of this principle which is fundamental with him. Mr. Gandhi is equally firm: "I can

be no willing party to a division which does not provide for *simultaneous* safeguarding of common interests." It is the "simultaneous" which Mr. Jinnah cannot swallow; it may be interpreted as a diminution of Pakistan's absolute sovereign status.

The remaining clauses of Mr. Gandhi's offer may be summed up, in effect, as a suggestion that, since the two negotiators had come to some preliminary agreement on how India is to be divided, Hindus and Moslems should combine to force the British to declare India independent and hand over authority to a provisional national government. At their leisure they could then frame the new constitution and settle the details of the division between Hindustan and Pakistan, if they still decided that a division was for the best; in other words, independence first and separation afterward. One can understand that Mr. Jinnah was logically bound to reject the preliminary agreement in the form in which it was put to him. But why was he so insistent on reversing Mr. Gandhi's order of things and putting separation before independence? He never moved from this position. As early as September 11, he told Mr. Gandhi that it was putting the cart before the horse to put the achievement of independence before the exercise of the right of self-determination by Moslems, and on September 25 he wrote with a tone of finality that the Moslems proposed to come to a complete settlement first and then to do everything possible "to secure the freedom and independence of the people of India on the basis of Pakistan and Hindustan."

Why is Mr. Jinnah so suspicious of the Congress Party that he will not join with it to gain that independence, which is as much an essential part of the creed of the League as it is of the Congress, until he has got in his pocket security for Moslems, which is what Pakistan means? That this mistrust exists comes out very clearly in his letter of September 23, when he is dealing with the August resolution (in which the Congress Party issued its famous threat of mass civil disobedience, if the British did not hand over power at once). He charges that that resolution meant "establishing a Hindu Raj;" he asserts that the Congress planned a constituent assembly "composed of an overwhelming majority of Hindus, nearly 75 percent;" he talks of these demands being made enforceable "at your [Gandhi's] command and when ordered by you as sole dictator of the Congress Party." He finishes thus:

. . . this demand is basically and fundamentally opposed to the ideals and demands of Moslem India, and if you succeed in realizing this demand it would be a death-blow to Moslem India. I see from the correspondence and talks between you and me, you are still holding fast to this fateful resolution.

When, later on, Mr. Gandhi attempts to reassure him by pointing out that the resolution was aimed only against Britain, he retorts, "I am not at present concerned with Britain." He is also worried by the Jagatnarain Lal resolution. The fact is that the policy of the Congress Party, between the time that Congress Ministries took office in the Provinces in 1937 and the passing of the August resolution in 1942, created suspicion and alarm among Moslems. Whether this was justified or not is beside the point. We have to reckon with the state of things as it exists.

### III

The rest of the correspondence, though interesting, is of minor importance. One notes Mr. Gandhi's insistence on the impossibility of a settlement in the



presence of a "third party," the British (September 13). "I do hold that unless we oust the third party we shall not be able to live at peace with one another." After the discussions were over, he said to a press conference on September 30: "The presence of a third party hinders a solution. A mind enslaved cannot act as if it was free." On this Mr. Jinnah commented on October 4: "No power can enslave the mind and soul of men and I am sure that Gandhi is the last person to allow his mind to be enslaved;" he wished Mr. Gandhi would get over this obsession.

Mr. Jinnah also had his King Charles's head, which was Mr. Gandhi's unrepresentative capacity. Mr. Jinnah, of course, as President of the Moslem League, would have been bound to press upon the League any agreement to which he and Mr. Gandhi might put their hands. Mr. Gandhi, for his part, made it clear that he was speaking only for himself and not for the Congress Party or for Hindus, though he considered himself pledged to use all his influence with the Congress Party to ratify an agreement. Mr. Jinnah took the position that this was not enough; he was bound and Mr. Gandhi was not; they were not negotiating on equal terms and this was unfair to him. Mr. Gandhi was at times a little irritable on this subject, but in the end Mr. Jinnah said clearly that the discussions did not break down on the point of Mr. Gandhi's unrepresentative capacity. It is rather surprising that Mr. Gandhi never took the position that he could not act in a representative capacity as long as the leaders of the Congress Party were in detention and the Party therefore immobilized. One would have expected an appeal to Mr. Jinnah for joint action to urge their release.

Looked at from this distant range, there seem to have been two main reasons why no definite results came out of the discussions. The first was that Mr. Jinnah demanded the acceptance in full of the two nation doctrine and Mr. Gandhi knew he could not carry his followers with him in accepting this demand. The second was that the weaker party, the Moslems, is deeply suspicious of the stronger party, the Hindus, and Mr. Jinnah will not give up his strongest lever, Moslem aid in bringing pressure on the British Government to accelerate transfer of power to a national Indian Government, until he has the price in his hands — Moslem security, or Pakistan.

There was never, it seems, any real hope that the conference would produce concrete results. It was the first time the two men had met, there had been no preliminary examination of the very complicated issues and there was consequently no fixed agenda, and one of the parties at least was not authorized to promise delivery of the goods, if there had been an agreement. But something, however, has been gained: First, the principle of discussion across a table has been established. This is a great advance on the previous procedure of long-range bombardment. Second, the Moslem League is recognized as the party representing Moslems, with which the Congress Party must deal. This removes the stumbling block erected by the Congress Party's previous attitude that it, and it alone, represented India. Third, the nature and depth of the differences between the two parties have been revealed. This has cleared away the stupid pretense that differences existed only in the imagination of evilly-disposed persons. And fourth, the failure of the "Grand Old Men" to find the smallest spot of common ground may encourage a move by other Indians, who have a livelier sense of the importance of compromise in politics.

# PHASES IN SWEDISH NEUTRALITY

*By Joachim Joesten*

**I**N THE sixth year of war, the pendulum of Swedish neutrality has swung sharply to the Allied side. Despite Stockholm's reluctance to depart from its cherished position of neutrality, German-Swedish relations have deteriorated to a point where open hostilities between the two countries appear a distinct possibility.

In mid-November the Nazis recalled the German Minister to Sweden, Dr. Hans Thomsen. Germany had previously declared the Eastern Baltic a zone of naval operations in which all ships would be sunk without warning, and Sweden had protested in unusually sharp terms. Other factors in the mounting tension were the repeated inroads and depredations on north Swedish territory by German troops fleeing from Finland, the drastic roundup of known Nazi agents which the Swedish police carried out in November, and, finally, the Swedish announcement that she would not hold the annual trade talks with Germany but would let the current agreement expire on January 1, 1945, without renewal.

It has been amply demonstrated in this war that neutrality is far from an absolute and immutable status. Theoretically, neutrality requires a complete balance in the neutral country's relations with the two belligerent groups of states. In practice, however, such total or ideal neutrality is seldom attained. In the present war it has been conspicuous by its absence. Which of the few surviving neutral countries can claim to have maintained the same status throughout the war? All of them have passed through various stages of affiliation with one or the other of the belligerents, ranging from unavowed collaboration to non-belligerent alliance, or even "moral belligerency." The swing of the pendulum from one to the other of the two warring blocs is perhaps most marked in the case of Sweden. The Swedes, like other wary bystanders, continually adjusted their concepts of neutrality in accordance with the demands of the winning side.

## II

There are four distinct phases in the evolution of Sweden's policy of neutrality. In the short initial phase of the war, from September 1, 1939, to November 30, 1939, Sweden adhered strictly to the principles of neutrality laid down at The Hague Convention of 1907 and to the joint neutrality rules that had been drawn up by the five northern states of Europe at the Stockholm Conference of May 27, 1938. From the beginning of the war, the sympathies of the Swedish people lay overwhelmingly on the Allied side, but the government doggedly pursued a policy of absolute impartiality. However, during those months of "phony war" the government placed few restrictions on the comments of the Swedish press on the international situation, and there was little interference with the propaganda activities of either belligerent group. A close tab was kept on attempts at espionage, however. At the same time, the mobilization of Sweden's manpower and industrial resources in defense of neutrality, which had begun in 1936 and had progressed steadily year by year, was switched into high gear. Sweden's neutrality was armed and vigilant from the start, in marked contrast to the state of affairs in Denmark and Norway.

Russia's surprise attack on Finland, on the morning of November 30, 1939, brought the second period, which was to last until April 9, 1940. Sweden continued to observe strict neutrality in the conflict between Germany and the Allies, but for a variety of reasons she did not regard herself as equally committed to impartiality in the secondary struggle between Finland and the Soviet Union. Sweden had always looked upon Finland as the bulwark of her own security, and as a sister state. There is a Swedish minority of perhaps 10 percent within Finland's population, established centuries ago in the coastal regions of Finland. The policy of "Nordic collaboration," initiated in the middle thirties, had tied all the northern states closely together, in sentiment at least. And finally Swedish and Finnish interests in the strategic Aland Islands coincided; both countries were resolved to keep them out of reach of any Great Power.

The cry "Finland's cause is ours," which was launched by the Swedish interventionists as soon as the Russo-Finnish war broke out, had a tremendous echo throughout the country and profoundly affected government policies. Premier Per Albin Hansson and his Cabinet resisted the pressure for a declaration of war against Russia, but they went to the very edge of belligerency in lending unofficial assistance to the Finns. Swedish authorities not only tolerated the recruiting of volunteers for the Finnish Army, but openly encouraged and assisted the movement. About 9,000 volunteers crossed the Gulf of Bothnia, fully armed and equipped. And various public and private agencies in Sweden raised a total of 500,000,000 kronor (about \$125,000,000) for the purchase of munitions, medical supplies and other materials of war for Finland.

This Swedish policy of unofficial intervention in the Russo-Finnish conflict was enthusiastically hailed in all democratic countries. The Nazi-Soviet Pact of August 1939 was still in force. Foes of Germany and foes of Russia regretted only that Stockholm refused to go further and declare war, or at least permit the passage of Allied troops through Swedish territory. In mid-February 1940 the Swedish Government refused an official request from Helsinki for the dispatch of several Swedish divisions; and it also categorically rejected a British-French request for passage of three Allied divisions through northern Sweden. In retrospect, the Allies must shudder at the thought of what might have happened had Sweden granted this demand. All this time, the Kremlin contented itself with mild protests in Stockholm and, as far as is known, never even threatened to make war on Sweden in reprisal for actions which were admittedly unneutral. Future historians will decide what the reasons for this Soviet moderation were.

Though giving Finland all assistance short of war, the Swedish Government constantly sought to end the conflict by peaceful means. Germany, too, was then interested in a Russo-Finnish peace, and the two countries not unnaturally combined their efforts toward this end. Late in February 1940 the Swedish Government dispatched an unofficial emissary to Berlin, the noted explorer Sven Hedin, who was joined in the German capital by the industrialist Axel L. Wenner-Gren, summoned from the western hemisphere by an urgent personal message from Hermann Goering. The two Swedes, assisted by the German authorities, successfully acted as intermediators in Berlin, and other Russo-Finnish contacts were made in Stockholm. They led to the signing of peace on March 12.

The question of a defensive alliance between Sweden and Finland arose in

connection with Finland's acceptance of the Russian peace terms, and was further discussed in the course of that fateful summer. However, when the Soviet Government registered its formal opposition to this scheme in December 1940, the Swedes dropped the idea, reverting for another few months to a state of harmonious relations with Moscow.

## III

In the meantime, Sweden's will to neutrality had been put to an even greater test on another front. On April 9, 1940, German troops invaded Denmark and Norway. And the iron ring was drawn tighter around the last surviving neutral in northern Europe when, in the winter of that year, the Nazis surreptitiously occupied strategic positions in Finland. From the beginning of this third period the Nazis took full advantage of the stranglehold which they had obtained on Sweden's economy, and the power of life and death which they held over her contacts with the outside world.

German military movements in Norway, especially in the northernmost part of that country, were hampered by the sparsity of rail and road communications, and harassed by operations of the British Navy. Small Allied expeditionary forces had established bridgeheads in central and northern Norway, and the Norwegian Army was making a fighting retreat northward. Though the Germans enjoyed crushing numerical and material superiority in Norway, they found it convenient to press Sweden for permission to move troops and supplies over the Swedish railroad system to Trondheim and Narvik. The first request of the kind was made on April 25 and was followed by a series of diplomatic moves emphasizing the same point at intervals of a week or so up to June 6. The demands became ever more urgent and finally centered on relief for the hard-pressed German garrison of Narvik. The Allies had pushed the German invaders back into the mountains on the Swedish border at that point, scoring their only land success of the Norwegian campaign.

Sweden resisted the German pressure for a time, in spite of open threats of invasion, but eventually agreed to permit the dispatch of several trainloads of Red Cross personnel and medical supplies to the Nazi troops besieged in the mountains above Narvik. Norwegians have repeatedly asserted that the Germans grossly abused this privilege by sending troops, in Red Cross garb, and military supplies through Sweden. Stockholm has consistently denied these reports. Whatever the truth, the Germans were able to hold out and Narvik was evacuated by the Allies, one week before the fall of France.

After the Norwegian campaign had ended, the Swedish Government held that its obligations as a neutral would not be violated if it granted the incessant German requests for further transit privileges. On July 5, 1940, it was officially announced in Stockholm that an agreement had been concluded with Germany under which German officers and men, "principally on leave," would be allowed to travel unarmed over the Swedish railroad system. This so-called "leave traffic" was severely criticized both in Sweden and abroad, as incompatible with the obligations of neutrality. The Hague Convention explicitly forbids a neutral state to allow a belligerent to move troops, munitions or supplies across its territory. Sweden's contention that war in Norway had ended was scarcely sound, for Britain and Germany were still at war and the Nazis were preparing quite openly to attack the British Isles from Norway.

The exact nature and extent of the "leave traffic" is still very much a matter

of dispute. Norwegian, Russian and other Allied sources — and at least one Swedish newspaper of international reputation, the *Göteborgs Handels-och-Sjöfartstidning* — have repeatedly maintained that the Germans took the opportunity to move major forces and heavy matériel into Norway. They insist also that the Nazis flouted the agreement forbidding them to carry arms on the Swedish trains by loading the troops in one train and their weapons in another following immediately behind. These charges have always been denied. On April 6, 1943, the American-Swedish News Exchange, an agency of the Swedish Board of Information, officially defined the extent of the leave traffic as follows: One train daily, in each direction, between Kornsjö [the Norwegian border station southeast of Oslo] and Hälsingborg or Trälleborg; three trains weekly in each direction between Narvik and Hälsingborg or Trälleborg; two trains weekly in each direction between Trondheim and Narvik over the Swedish inland trunk railway [“horseshoe traffic”]; two carriages twice weekly in each direction between Haparanda on the Finnish border and Storlien on the Norwegian border. Officers, travelling in special compartments, were allowed to carry their pistols; soldiers, only their bayonets, other arms not being allowed on the trains.

But quite apart from the question whether or not the Germans misused the transit privileges officially granted them, it is rather obvious that a regular railroad traffic of such dimensions cannot have served merely military personnel on leave. After the outbreak of the German-Russian war in June 1941, Sweden also complied with an urgent German request to allow passage across Swedish territory for one fully armed and equipped Nazi division on its way from Norway to Finland. According to the *Völkischer Beobachter* of August 24, 1941, this decision was forced through the Swedish Council of Ministers by the personal intervention of King Gustav V “against the trade union leaders.” It aroused heated debate in Sweden and led to formal British and Russian protests in Stockholm. It could not possibly be brought into harmony with The Hague Convention, but Sweden’s excuse was that it was a concession *ad hoc*, given for one division and never repeated.

As the Nazi ring around Sweden tightened still further and the German Armies marched triumphantly through Europe, the Swedish Government imposed increasingly severe restrictions on the expression of pro-Allied or anti-Nazi sentiments within Sweden. Books, newspapers and magazines were banned for giving offense to the German legation, and recalcitrant editors were dismissed or imprisoned. Even the mildest criticism of the Nazi régime was expunged from theatrical performances, moving pictures and various exhibitions, and public opinion was repeatedly warned not to bruise the sensitive feelings of the powerful neighbor in the south in any manner. This was a concession to the new theories of “integral neutrality” which had been evolved by Dr. E. H. Bockhoff and other Nazi neutrality experts. *Staatsneutralität* (neutrality of the state) was not enough, the Germans claimed, if a country wished to remain at peace with the Reich; it must be supplemented by *Volksneutralität*, or neutrality of the people, and *Neutralität der Gesinnung*, or ideological neutrality. The Germans openly declared that they would not feel bound to honor the proclaimed neutrality of any country in which public opinion was allowed to manifest hostility to the Reich or to the Nazi régime. With the fate of Czechoslovakia, Denmark, Norway and the Low Countries before their eyes, the Swedes did not feel like taking risks. Popular sympathies in Sweden never



deserted the Allied cause even at its blackest hour, but most of Sweden's political and business leaders believed that the ultimate victory of Germany was certain. And for some time after the United States entered the war, they thought that a compromise peace which would leave German power intact was likely. Throughout the years 1940 to 1942 Swedish policy was determined by this estimate of the situation. Not until after the Russian victory at Stalingrad, and the Allied victory in Tunisia in the early part of 1943, did the Swedes seriously entertain the possibility of a crushing German defeat. The government then revised its concept of neutrality.

## IV

When the administrative checks on public opinion were relaxed somewhat in 1943, an increasingly urgent demand arose for the revocation of the German transit privileges. On April 5 a mass meeting held at the Stockholm Concert Hall adopted a strongly worded resolution asking the government to put an end to the "leave traffic." The Social Democratic federation of trade unions was prominent in the movement, and many other organizations and prominent individuals joined in the appeal. At the same time, Allied pressure on Sweden, which hitherto had been very light, increased. Late in July, following the collapse of the German summer offensive in the Kursk area, and the surge of the Soviet Armies toward Orel and Belgorod, the Swedish Government took the plunge. On August 5 Stockholm announced that an agreement had been reached with the Reich, suspending German transit privileges for war materials and for troops, effective August 15 and 20 respectively. Actually, it was a one-sided decision by Sweden, made after a reappraisal of Swedish interests.

A series of incidents followed that seemed deliberately provoked by Germany. On August 25 German warships sank two Swedish trawlers without warning in Danish waters, with the loss of 12 lives; a few days later a Nazi pursuit plane machine-gunned and downed the Swedish courier plane *Gladan* on its way home from England. These unwarranted attacks led to a warm controversy between Swedish and German newspapers which was further embittered when the Nazi persecution of Danish Jews began. Sweden not only offered asylum to thousands of Jews fleeing across the Oeresund, but on October 1 the Swedish Minister in Berlin lodged a formal protest against the deportation of Danish Jews to Poland. The Germans sharply rejected the protest as "meddling" in Germany's domestic affairs. Another Swedish courier plane, *Gripen*, was shot down by the Nazis on October 22, and a few days later the Germans temporarily suspended the safe-conduct granted a limited number of Swedish ships bringing essential supplies from overseas to Gothenburg. Swedish-German relations have since grown even more strained. In January 1944 cultural intercourse between the two countries was virtually broken off when Sweden, angered by the mass deportations of Norwegian students, declared that visiting German scholars were no longer welcome. Shortly after, the Swedish customs authorities discovered that the Germans were shipping thousands of detail military maps of Sweden to their forces in Norway and Finland.

On the eve of the invasion of France, the main issue between Sweden and the Allies involved Swedish trade in war materials with Germany. When the German-Swedish trade agreement had come up for renewal toward the end of 1943, Sweden, yielding to Allied demands, had sharply curtailed deliveries of iron ore



and ball bearings, the two Swedish commodities most eagerly sought by the Germans. In 1944 Germany was scheduled to get only 7,100,000 tons of Swedish iron ore as compared with 10,200,000 tons in 1943, and \$7,500,000 worth of ball and roller bearings as against amounts valued at \$15,000,000. But Allied experts felt that even these reduced deliveries would go a long way toward offsetting the damage done to crucial German industries by bombing. In May 1944 the Allies clearly intimated that Sweden should completely halt the shipments of ball bearings at least. Sweden pled respect for her contract with Germany and her independence on vital supplies, especially coal, from that country, and at first refused to comply. Then she yielded in part. Under a compromise agreement announced June 13, shipments of ball bearings to the Reich in 1944 were limited to about 20 percent of the total of the preceding year. As we have noted, Sweden has now declared that the trade agreement with Germany will not be renewed in any form in 1945. And on September 5 the Swedish Minister of Social Welfare, Gustav Möller, declared that Sweden would not become a haven for war criminals, and he added: "If any such succeed in crossing our borders they will be sent back." Several Finnish refugees who were alleged to be war criminals have, in fact, already been turned away.

Even before the successful Allied invasion of Europe, Sweden had stretched out the hand of friendship to her traditional enemy, Russia. Swedish diplomacy vainly sought to prevent the renewal of hostilities between Finland and Russia in June 1941. When the fighting started again on that front, Sweden extended some material aid to Finland, though on a much smaller scale than in the winter of 1939-40. A few thousand Swedish volunteers joined the Finnish forces, but they received little official encouragement and by mid-summer of 1944 most of them had returned home. Sweden repeatedly advised Finland to seek peace with Russia at the earliest possible moment, and her good offices probably helped the Finns obtain their relatively moderate terms.

Swedish advances to Russia have become quite frequent and conspicuous. A Russian Institute was opened at Stockholm University, and an "Association for the Advancement of Cultural and Economic Relations between Sweden and the Soviet Republics" was founded. On November 7, 1943, it sponsored the first public celebration of the anniversary of the Bolshevik Revolution ever held in Stockholm. And the Swedish press is paying ever-increasing attention to the possibilities of a vast postwar trade with the Soviet Union. The Swedes, always practical-minded, will be guided by reason rather than by sentiment in their future relations with Russia.

Relations with the Norwegian Government, which had been markedly cool for some time after the Nazi invasion of Norway, also are on the upgrade. Normal diplomatic intercourse has been restored between the two countries, and more than 21,000 Norwegian refugees have been cared for in Sweden. Sweden has also placed a \$50,000,000 credit at the disposal of the Norwegian Government for purposes of rehabilitation. By agreement with the lawful Norwegian Government, an auxiliary police force of about 11,000 Norwegian patriots has been trained in Swedish camps to assist in the restoration of orderly conditions after the downfall of the Quisling régime. Early in November 1944, to the great annoyance of the Germans, the vanguard of this force left for the Russian-liberated parts of north Norway. Probably not without reason, the Germans fear that these "policemen" will take an active part in chasing out the remaining Nazis on arrival in their homeland.

# RECENT BOOKS ON INTERNATIONAL RELATIONS

*By Robert Gale Woolbert*

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## *General: Political, Military and Legal*

OUR SETTLEMENT WITH GERMANY. BY H. N. BRAILSFORD. New York: Day, 1944, 160 p. \$1.75.

Mr. Brailsford is one of the most respected of British liberal journalists. In this thoughtful, sane and challenging little book he admonishes the United Nations against repeating the errors of Versailles or making new ones, unless they wish their victory to be utterly illusory. He holds that a real peace will be possible only if there is a true — not a bogus — social revolution in Germany and only if the “democratic” Powers seek honestly to become democratic in fact as well as in name.

THE CONTROL OF GERMANY AND JAPAN. BY HAROLD G. MOULTON AND LOUIS MARLIO. Washington: Brookings Institution, 1944, 116 p. \$2.00.

A well reasoned argument against relying upon economic, instead of political, measures to prevent recurrence of aggression by Germany and Japan.

PEACE IS THE VICTORY. EDITED BY HARROP A. FREEMAN. New York: Harper, 1944, 253 p. \$1.50.

A baker's dozen of American liberal thinkers and religious leaders contribute essays on various aspects of the question: How can real peace be won? The recurring theme is that force alone will not suffice.

PRIMER OF THE COMING WORLD. BY LEOPOLD SCHWARZSCHILD. New York: Knopf, 1944, 309 p. \$2.50.

The author is an economist who was a prominent editor in pre-Nazi Germany. Most of his suggestions and warnings about what we must do to make peace work will recommend themselves as sensible, though some would appear founded on a false optimism as to the willingness of the peoples of the Great Powers to maintain long-term responsibilities.

IT CAN BE DONE THIS TIME. BY FREDERICK PALMER. New York: Scribner, 1944, 307 p. \$2.75.

A veteran observer finds that the best chance of peace lies in effective police work carried out in the air by the three great victorious Powers — the United States, Great Britain and the Soviet Union.

PEACE THROUGH LAW. BY HANS Kelsen. Chapel Hill: University of North Carolina Press, 1944, 155 p. \$2.00.

A recognized authority on international law describes the bases for a permanent peace organization that would be buttressed with a world court possessing compulsory jurisdiction.

REGIONALISM AND WORLD ORGANIZATION. Washington: American Council on Public Affairs, 1944, 162 p. \$2.50.

Nine contributions, concerning plans for international organization, especially in Europe.

PERMANENT PEACE FOR EUROPE. BY HARRY LEWIS BRAHAM. Boston: Christopher, 1944, 192 p. \$2.25.

A peace plan that involves the creation of regional "federated nations" sufficiently powerful to discourage aggression.

**WAR CRIMINALS AND PUNISHMENT.** BY GEORGE CREEL. New York: McBride, 1944, 303 p. \$3.00.

The Chairman of the Office of Public Information in the First World War strikes out vigorously against letting the punishment of "war criminals" go by default as was done after Versailles. After reviewing Germany's systematic use of atrocities as a weapon for exterminating enemies — present and future — Mr. Creel lines up with those who refuse to differentiate between "good" and "bad" Germans.

**NATIONALITY IN HISTORY AND POLITICS.** BY FREDERICK HERTZ. New York: Oxford University Press, 1944, 417 p. \$6.50.

This is a book of fundamental importance — scholarly, dispassionate and realistic. Dr. Hertz has examined and analyzed the literature on all phases of this subject without losing his sense of balance. His approach is topical rather than chronological.

**PLEA FOR LIBERTY.** BY GEORGES BERNANOS. New York: Pantheon Books, 1944, 272 p. \$3.00.

Bernanos is a liberal French Catholic writer who, among other things, spoke out against the Franco terror in Spain. More lately he has lived in Brazil. These "letters" are motivated by a love of justice and human dignity that is moving, even if its expression is often abstract and other-worldly.

**JUSTICE AND WORLD SOCIETY.** BY LAURENCE STAPLETON. Chapel Hill: University of North Carolina Press, 1944, 150 p. \$2.00.

Essays on some of the fundamental traits and rules of social behavior as applied to relations between nations.

**LIBÉRATION DE LA LIBERTÉ.** BY AUGUSTO J. DURELLI. Montreal: Éditions de l'Arbre, 1944, 131 p. \$1.00.

Critical essays on the relations of the Catholic Church to such modern forces as democracy, nationalism and total war.

**PEOPLE ON OUR SIDE.** BY EDGAR SNOW. New York: Random House, 1944, 336 p. \$3.50.

Intimate, sympathetic reactions to life as it is being lived today by the common people in China, India and Russia. Mr. Snow, an experienced reporter on China, foresees no happy future for that country if the ruling oligarchy continues in power. In India he finds the makings of an explosive situation unless the British begin to show signs of getting out. His Russian chapters are probably the most interesting of all.

**WINGED PEACE.** BY AIR MARSHAL WILLIAM A. BISHOP. New York: Viking, 1944, 175 p. \$2.75.

The exciting story of the growth of modern aviation, related by the colorful "Billy" Bishop, Canada's great air leader.

**INFANTRY ATTACKS.** BY GENERAL FIELD MARSHAL ERWIN ROMMEL. Washington: Infantry Journal, 1944, 265 p. \$3.00.

A translation of the late Nazi Field Marshal's account of his participation in World War I on the French, Rumanian and Italian fronts.

**EUROPE: AN ATLAS OF HUMAN GEOGRAPHY.** BY MARTHE RAJCHMAN. New York: Morrow, 1944, 120 p. \$2.00.

This valuable atlas contains maps of the important physical, historical, economic and sociological facts about Europe and its principal parts. More than half of the space is given over to explanatory text and tables.

**COMPASS OF THE WORLD.** EDITED BY HANS W. WEIGERT AND VILHJALMUR STEFANSSON. New York: Macmillan, 1944, 466 p. \$3.50.

Twenty-eight British and American authorities have contributed chapters to this "Symposium on Political Geography." Most of the material has already been published

elsewhere as magazine articles. The emphasis is on the strategic importance of the Far Northern zones of America and the Soviet Union.

**WORLD MAPS AND GLOBES.** BY IRVING FISHER AND O. M. MILLER. New York: Essential Books, 1944, 168 p. \$2.50.

In recent years many new forms of cartographic representation have been offered the public, presumably to facilitate its understanding of geography, strategy, world politics and the like. Some of these have served useful purposes, others have merely led to further confusion and distortion. The authors of this little book explain and critically analyze the numerous "projections" now current.

**THE GEOGRAPHY OF WORLD AIR TRANSPORT.** BY J. PARKER VAN ZANDT. Washington: Brookings Institution, 1944, 65 p. \$1.00.

This essay on political and "aerial" geography is the first in a series "America Faces the Air Age."

**THE LITERATURE OF EUROPEAN IMPERIALISM 1815-1939.** BY LOWELL JOSEPH RAGATZ. Washington: Pearlman, 1944, 153 p. \$2.00.

A good selective list of books and articles, well organized for ready reference.

**EVERYBODY'S POLITICAL WHAT'S WHAT?** BY BERNARD SHAW. New York: Dodd, 1944, 380 p. \$3.00.

Mr. Shaw, now on the threshold of the nineties, allows his mind to wander over the surface of a great deal of the subject matter of the social sciences. Much of what he says he has said before, and in general he restrains himself from entering into international problems, where wittiness is perhaps not at the moment appropriate.

**THE FIRST AND SECOND WORLD WARS.** BY FRANCIS J. TSCHAN AND OTHERS. Philadelphia: Lippincott, 1943, 246 p. \$1.75.

This is a supplement, covering the period since 1914, to the authors' comprehensive text, "Western Civilization."

**THE STATESMAN'S YEAR-BOOK 1944.** EDITED BY M. EPSTEIN. New York: Macmillan, 1944, 1484 p. \$7.50.

This invaluable reference work maintains its excellence despite all the hazards of war. Folded in at the front is a colored map showing Poland's historical boundaries.

**1944 BRITANNICA BOOK OF THE YEAR.** EDITED BY WALTER YUST. Chicago: Encyclopaedia Britannica, 1944, 812 p. \$10.00.

The current volume of what is by now a recognized book of reference.

### *General: Economic and Social*

**THE SINEWS OF PEACE.** BY HERBERT FEIS. New York: Harper, 1944, 271 p. \$2.50.

Mr. Feis served for over twelve years as adviser on international economic affairs in the State Department. Against the background of this unique experience he has projected a wide panorama of the economic and financial problems that will confront us with the return to peace. Mr. Feis writes with the authority of an expert but in language comprehensible to the layman. Several of his chapters are devoted to a discussion of the issues raised by the Bretton Woods Conference.

**THE NEW ECONOMY.** BY ROBERT BOOTHBY. London: Secker and Warburg, 1943, 162 p. 6/.

A Conservative M.P., after studying the lessons to be learned from the failure of laissez-faire capitalism, notably after World War I, comes out for a number of specific measures to avoid a repetition of those mistakes. Among other things he wants state intervention to keep the national economy on an even keel.

**OMNIPOTENT GOVERNMENT.** BY LUDWIG VON MISES. New Haven: Yale University Press, 1944, 291 p. \$3.75.

The author is a distinguished Austrian economist, now an exile in the United States.

In the present book, which seems destined to become the source of considerable controversy, he gives a logical and uncompromising statement to the doctrine that "statism," or government intervention in the economic process, is the principal cause of our current ills, political as well as economic. His explanation of the rise of Nazism is wholly in terms of this theory and thus subject to serious discount.

**PEACE THROUGH CO-OPERATION.** By J. HENRY CARPENTER. New York: Harper, 1944, 113 p. \$1.25.

An advocate of the cooperative idea in the economic field says that we may have peace if we will extend it to international relations.

**CARTELS.** By WENDELL BERGE. Washington: Public Affairs Press, 1944, 266 p. \$3.25.

The author succeeded Thurman Arnold as Assistant Attorney General of the United States in charge of anti-trust prosecutions. This volume piles up additional evidence unearthed by the Justice Department concerning combinations in restraint of trade in a number of specific industries. What Mr. Berge has failed to give is a comprehensive and feasible plan for attacking the cartel problem on the international level. Issued under the auspices of the American Council on Public Affairs.

**FREEDOM FROM FEAR.** By LOUIS H. PINK. New York: Harper, 1944, 254 p. \$2.50.

Mr. Pink believes that fear originates primarily in economic insecurity, whether within a nation or between nations. This book contains his proposals for lessening this insecurity by such measures as European federation, tariff reform, monetary agreements, etc.

**POSTWAR ECONOMIC SOCIETY.** EDITED BY ARNOLD J. ZURCHER AND RICHMOND PAGE. New York: New York University Press, 1944, 306 p. \$3.50.

A score of papers, originally delivered at the Third Series of Conferences of the Institute on Postwar Reconstruction at New York University in the spring of 1944.

**A TIME IS BORN.** By GARET GARRETT. New York: Putnam, 1944, 234 p. \$2.50.

Mr. Garrett, who was once an editorial writer for the *Saturday Evening Post*, has written a book which is broad and deep. In essence, he sees in the remarkable scientific discoveries of the age a key that will open to all people, not merely a chosen few, the abundance of food and other things for which the "have-not" nations have previously gone to war. Mr. Garrett is plausible but fails to perceive that economic motives do not alone explain why nation has fought nation.

**THEORY OF NATIONAL ECONOMIC PLANNING.** By CARL LANDAUER. Berkeley: University of California Press, 1944, 189 p. \$2.00.

The author, professor of economics at the University of California, seeks to provide a theoretical framework for those who must carry out the transition from an unplanned to a planned economy.

**FOOD, WAR AND THE FUTURE.** By E. PARMALEE PRENTICE. New York: Harper, 1944, 164 p. \$2.50.

A somewhat alarmist analysis of the problem of providing sufficient food for the world's growing population.

**INTERNATIONAL RELIEF IN ACTION 1914-1943.** By HERTHA KRAUS. Philadelphia: American Friends Service Committee, 1944, 248 p. \$1.25.

These "Selected Records, with Notes" were compiled for use by those preparing to go abroad on relief work. The volume includes 57 brief case histories, or "project records," from all parts of the world.

**RACE: NATION: PERSON.** New York: Barnes and Noble, 1944, 436 p. \$3.75.

A symposium by Catholic writers — American, French and Italian — on the social aspects of the problem of race.

THE SOCIAL CONTRACT AND THE ISLAMIC STATE. BY ILYAS AHMAD. Allahabad: Urdu Publishing House, 1944, 203 p. 3/8.

An attempt to relate western political thought to the teachings and institutions of Islam.

THE JEW IN OUR DAY. BY WALDO FRANK. New York: Duell, 1944, 199 p. \$2.50.

A penetrating analysis of some of the psychological problems facing the Jew today, and a plea that he remain true to himself and his creed.

THE GREAT CENTURY IN NORTHERN AFRICA AND ASIA: A.D. 1800-A.D. 1914. BY KENNETH SCOTT LATOURETTE. New York: Harper, 1944, 502 p. \$4.00.

In this volume Professor Latourette concludes the strictly historical narrative of his monumental work on the expansion of Christianity. This is unquestionably one of the few great and durable works of comprehensive scholarship to be produced in our time. A seventh and final volume will contain a "summary and conclusions."

LE DÉVELOPPEMENT DE LA PRESSE ET SON INFLUENCE SUR LA RESPONSABILITÉ INTERNATIONALE DE L'ÉTAT. BY RAYMOND CHRISTINGER. Lausanne: Roth, 1944, 155 p.

A technical juridical study.

### *Second World War*

OUR ARMY AT WAR. New York: Harper, 1944, n.p., \$3.00.

A photographic record of the salient events in the U. S. Army's campaigns in the Pacific and the Far East, the Aleutians, North Africa, and in the air over Europe during the first year and a half of American participation in the war.

THE WAR IN MAPS: AN ATLAS OF THE NEW YORK TIMES MAPS. New York: Oxford University Press, 1944, 163 p. \$2.00.

A revised and expanded edition of a handy reference book.

GREAT SOLDIERS OF WORLD WAR II. BY MAJOR H. A. DEWEERD. New York: Norton, 1944, 316 p. \$3.75.

Critical and analytical studies of a score of military and political leaders on both sides, by an associate editor of the *Infantry Journal*.

EISENHOWER: MAN AND SOLDIER. BY FRANCIS TREVELYAN MILLER. Philadelphia: Winston, 1944, 293 p. \$2.00.

The character and career of the General, generously interlarded with miscellaneous background material.

PRELUDE TO INVASION. BY HENRY L. STIMSON. Washington: Public Affairs Press, 1944, 332 p. \$3.25.

The texts of some eighty official reports on the course of the war issued by the Secretary of War between December 11, 1941, and June 8, 1944. This volume appears under the auspices of the American Council on Public Affairs.

INVASION DIARY. BY RICHARD TREGASKIS. New York: Random House, 1944, 241 p. \$2.75.

First-rate reporting on the invasion of Sicily and southern Italy, by the author of "Guadalcanal Diary."

DE MONTMARTRE À TRIPOLI. BY ANDRÉ GLARNER. Montreal: Éditions de l'Arbre, 1944, 257 p. \$1.50.

The diary of a war correspondent in France (before the disaster), North Africa and the Near East.

RETOUR AU FEU. BY ANDRÉ LABARTHE. New York: Maison Française, 1943, 281 p. \$2.00.

A personal account of the Tunisian campaign.

INVASION! BY CHARLES CHRISTIAN WERTENBAKER. New York: Appleton-Century, 1944, 168 p. \$2.50.



Within this small volume the *Time* correspondent with the invasion forces has managed to reconstruct a remarkably terse and dramatic story of that magnificent operation. Wertenbaker has not relied exclusively on his own observation, and his account is thus more comprehensive than a mere eyewitness report.

**WAR BELOW ZERO.** BY COLONEL BERNT BALCHEN AND OTHERS. Boston: Houghton, 1944, 127 p. \$2.00.

The incredible difficulties involved in American air operations over Greenland exemplified in the hair-raising story of the rescue of a Flying Fortress crew that had crashed on the Ice Cap.

**THE NAVY'S WAR.** BY FLETCHER PRATT. New York: Harper, 1944, 295 p. \$2.75.

Though Mr. Pratt was not an eyewitness to the far-flung activities of the U. S. Navy in this war, these chapters — originally published in *Harper's Magazine* — represent the writing of contemporary history at its best — lucid, vivid and authoritative. The author was supplied with reports, documents and other official material by the Navy Department.

**WE BUILD, WE FIGHT! THE STORY OF THE SEABEES.** BY HUGH B. CAVE. New York: Harper, 1944, 122 p. \$2.50.

A popular, extensively illustrated description of the magnificent work done by the Navy Construction Battalions.

**PACIFIC BATTLE LINE.** BY FOSTER HAILEY. New York: Macmillan, 1944, 405 p. \$3.50.

First-rate reporting on the war in the Pacific during "the first two desperate years" following Pearl Harbor, by a *New York Times* correspondent.

**MACARTHUR AND THE WAR AGAINST JAPAN.** BY FRAZIER HUNT. New York: Scribner, 1944, 182 p. \$2.50.

This is a vivid, highly readable report of the campaigns in the Philippines and the Southwest Pacific. Unhappily, Mr. Hunt spoils his story with his exaggeratedly pro-MacArthur line.

**PACIFIC VICTORY, 1945.** BY JOSEPH DRISCOLL. Philadelphia: Lippincott, 1944, 297 p. \$3.00.

Belying the title, this chatty book is largely concerned with the human side of the Navy's war as the author observed it during 1943 and 1944 rather than with prophecies or plans about the future.

**NOR DEATH DISMAY.** BY SAMUEL DUFF MCCOY. New York: Macmillan, 1944, 248 p. \$2.50.

Stirring incidents from the history of the American Merchant Marine during this war.

**NAVIES IN EXILE.** BY A. D. DIVINE. London: Murray, 1944, 194 p. 12/6.

A thoroughly readable description of the activities of the Polish, Norwegian, Dutch and Greek naval forces.

**THE TEMPERING OF RUSSIA.** BY ILYA EHRENBURG. New York: Knopf, 1944, 356 p. \$3.00.

Soviet Russia's most noted contemporary journalist has culled for American readers some of the more colorful passages in which he described the Nazi invasion of his homeland. His prose is fiery, his hate for the Germans is intense, and his love for Russia and her people is boundless.

**LENINGRAD.** BY ALEXANDER WERTH. New York: Knopf, 1944, 189 p. \$2.50.

The gripping story of the siege of Leningrad that lasted more than two years, told by a British journalist who had been born and grew up in that city in Tsarist days.

**RUSSIAN YEAR.** BY XAVIER PRUSZYNSKI. New York: Roy, 1944, 189 p. \$2.50.

The author, a liberal Polish journalist, served in Moscow as a press attaché with the

Polish Embassy after relations between Poland and the Soviets were resumed in 1941. Unfortunately, he says almost nothing about those relations.

### *The United States*

AN AMERICAN PROGRAM. BY WENDELL L. WILLKIE. New York: Simon and Schuster, 1944, 58 p. \$1.00.

This little book consists of nine articles in which Mr. Willkie had set forth his views on issues — notably those of race and American foreign policy — concerning which he felt neither party was taking a definite and courageous stand. Also included is his proposed platform for the Republican Party. Rereading these last words of Mr. Willkie, one is made more than ever aware of how great a loss his untimely death represents for political honesty and straight thinking in America.

THE AMERICAN CHARACTER. BY D. W. BROGAN. New York: Knopf, 1944, 169 p. \$2.50.

The *homo americanus* as seen by an acute and friendly British observer who knows the species well.

FOREIGN INFLUENCES IN AMERICAN LIFE. EDITED BY DAVID F. BOWERS. Princeton: Princeton University Press, 1944, 254 p. \$3.00.

Chapters by various hands on the social, cultural and ethnic impact of outsiders, largely immigrants from Europe, on American life and ideas.

THE ROAD TO FOREIGN POLICY. BY HUGH GIBSON. Garden City: Doubleday, 1944, 252 p. \$2.50.

When Mr. Gibson discusses the nature of diplomacy he is on familiar and safe ground. When he discusses current American foreign policies and suggests new intra-governmental procedures, he enters a controversial zone where many readers will find it hard to follow him.

BASES OVER SEAS. BY GEORGE WELLER. New York: Harcourt, 1944, 434 p. \$3.50.

The author's logic is as follows: War is endemic in modern society; the United States has shown that it cannot keep out of war; the better part of wisdom is hence for the United States to be prepared to win these wars; and the best way to do this is to have, and hold, strategic bases in various parts of the world. This doctrine sounds plausible enough, but when its implications are followed, we find that it is a one-way ticket to American imperialism, and thus to bigger if not better wars.

THE BATTLE AGAINST ISOLATION. BY WALTER JOHNSON. Chicago: University of Chicago Press, 1944, 269 p. \$3.00.

This is essentially the story of the activities of the Committee to Defend America by Aiding the Allies.

AN AMERICAN PEACE. BY NEIL MACNEIL. New York: Scribner, 1944, 276 p. \$2.75.

A *New York Times* editor reviews American foreign policy since World War I and specifies in what ways we can avoid repeating past mistakes. He reminds us that we possess certain high responsibilities which willynilly we cannot escape.

OUR ROAD TO POWER. BY JULIAN BORNOW. Cynthiana (Ky.): Hobson Book Press, 1944, 216 p. \$2.00.

Another amateur enters the lists with the suggestion that we form an alliance among the countries of this hemisphere.

ESTADOS UNIDOS DE AMERICA: CENTRO DE DEMOCRACIA MUNDIAL. BY ALBERTO SAYÁN DE VIDAURRE. Buenos Aires: Unión Nacional y Democrática Interamericana, 1944, 243 p. \$3.00.

The author pleads for closer political understanding and organization in the western hemisphere in order to protect democratic processes.

WHAT MANNER OF MAN? BY NOEL F. BUSCH. New York: Harper, 1944, 189 p. \$2.00.

This is not a biography of Franklin Roosevelt but a pen portrait of the man — his character and the forces which shaped it; his faults and the trouble they have brought down on him; his virtues and how they have equipped him admirably to head the nation in time of crisis.

"THAT MAN" IN THE WHITE HOUSE. BY FRANK KINGDON. New York: Arco, 1944, 77 p. \$2.00.

A campaign pamphlet for the Fourth Term.

DEWEY: AN AMERICAN OF THIS CENTURY. BY STANLEY WALKER. New York: Whittlesey House, 1944, 350 p. \$2.50.

A campaign biography.

THE GENTLEMAN FROM MASSACHUSETTS: HENRY CABOT LODGE. BY KARL SCHRIFTGIESSER. Boston: Little, Brown, 1944, 386 p. \$3.00.

Though this is certainly not a definitive biography of Henry Cabot Lodge, it is a good one. The author seeks to be fair and balanced in his interpretation of Lodge's whole career, and on the whole he succeeds.

DEMOCRACY REBORN. BY HENRY A. WALLACE. New York: Reynal, 1944, 280 p. \$3.00.

Selected speeches and articles of the Vice-President for the period 1933-1944, chosen and arranged to illustrate his political credo.

WATCHING THE WORLD. BY RAYMOND CLAPPER. New York: Whittlesey House, 1944, 372 p. \$3.00.

Selected passages from a decade of Clapper's "columns" dealing with current issues, domestic and international.

STEFANSSON: PROPHET OF THE NORTH. BY EARL PARKER HANSON. New York: Harper, 1944, 241 p. \$2.50.

The career of the noted Arctic explorer and scientist narrated sympathetically and with sound understanding, by a fellow explorer.

REPORT ON DEMOBILIZATION. BY JAMES R. MOCK AND EVANGELINE THURBER. Norman: University of Oklahoma Press, 1944, 257 p. \$3.00.

A scholarly reconstruction of the process by which the United States "reconverted" from war to peace after World War I. The story of the lack of planning, and of plans unfulfilled, is disheartening, and one can only hope that some of the lessons of this experience are now being taken to heart.

THE PRESIDENCY AND THE CRISIS. BY LOUIS WILLIAM KOENIG. New York: Columbia University Press, 1944, 166 p. \$2.00.

An objective monograph on the evolution of the powers of the American Presidency from September 1939 to our entry into the war.

OUR CIVIL LIBERTIES. BY OSMOND K. FRAENKEL. New York: Viking, 1944, 277 p. \$3.00.

A review of the current legal status of the guaranteed personal liberties in the United States.

THE BUREAUCRAT. BY JOHN H. CRIDER. Philadelphia: Lippincott, 1944, 373 p. \$3.00.

This is an opinionated and far from adequate treatment of what, after all, is one of the great American political problems of our day.

YOU AND YOUR CONGRESS. BY VOLTA TORREY. New York: Morrow, 1944, 280 p. \$3.00.

Mr. Torrey is critical of the way Congress is organized and operates. He wants a "better and braver Congress," and he gives concrete suggestions for getting one.

A DICTIONARY OF AMERICAN POLITICS. EDITED BY EDWARD CONRAD SMITH AND ARNOLD JOHN ZURCHER. New York: Barnes and Noble, 1944, 358 p. \$3.00.

A handy reference book in which many of the entries deal with American foreign policy.

REPRESENTATIVE AMERICAN SPEECHES: 1943-1944. SELECTED BY A. CRAIG BAIRD. New York: H. W. Wilson, 1944, 360 p. \$1.25.

The texts of thirty-one addresses by thirty American political, journalistic and other figures, dealing largely with the war on both the home and international fronts.

CITIZENS FOR A NEW WORLD. EDITED BY ERLING M. HUNT. Washington: National Council for the Social Studies, 1944, 186 p. \$2.00.

A coöperative survey and appraisal of the problems peace will bring, especially in the field of education for international understanding.

THE REST OF YOUR LIFE. BY LEO CHERNE. Garden City: Doubleday, 1944, 298 p. \$2.75.

A professional forecaster of economic trends assures us that things are going to get pretty bad here in the United States when we start trying to convert our economy back to a peacetime basis.

PEACE, PLENTY AND PETROLEUM. BY BENJAMIN T. BROOKS. Lancaster (Pa.): Cattell Press, 1944, 197 p. \$2.50.

An oil chemist, after reviewing the American oil problem in both its technical and political phases, states the elements of a sound foreign policy which he believes would protect our position in regard to this vital commodity.

THE FOOD FRONT IN WORLD WAR I. BY MAXCY ROBSON DICKSON. Washington: American Council on Public Affairs, 1944, 194 p. \$3.25.

This account of the manner in which the American food problem was met in the last war rests in no small part on documents in the National Archives.

FOOD "CRISIS." BY ROY F. HENDRICKSON. Garden City: Doubleday, 1943, 274 p. \$2.50.

America's wartime food problems, how they are being met, and what still remains to be done — explained by the Director of the U. S. Food Distribution Administration.

UNITED STATES SHIPPING IN TRANSPACIFIC TRADE, 1922-1938. BY WALTER A. RADIUS. Stanford University: Stanford University Press, 1944, 204 p. \$3.50.

A somewhat technical study of American trade routes and services, supplied with an abundance of statistical and graphic material.

U. S. AVIATION IN WARTIME. Washington: American Council on Public Affairs, 1944, 203 p. \$2.50.

Concise factual material on the organization and operation of both the military and civil air services.

STATE OF THE NATION. BY JOHN DOS PASSOS. Boston: Houghton, 1944, 333 p. \$3.00.

Literary snapshots of the American people at war.

HISTORY OF AMERICAN TROTSKYISM. BY JAMES P. CANNON. New York: Pioneer Publishers, 1944, 268 p. \$2.75.

The circumstantial "report of a participant."

PREJUDICE. JAPANESE-AMERICANS: SYMBOL OF RACIAL INTOLERANCE. BY CAREY McWILLIAMS. Boston: Little, Brown, 1944, 337 p. \$3.00.

The far from happy story of the disabilities and persecution from which the Japanese-Americans, especially in California, have suffered in recent years. Mr. McWilliams' account is carefully documented.

REVOLT IN PARADISE. BY ALEXANDER MACDONALD. New York: Daye Press, 1944, 288 p. \$3.00.

An exposé of the control which the big sugar companies had obtained over the politics and economy of the Hawaiian Islands before the Japanese attack.

*Western Europe*

THE TRUTH ABOUT DE GAULLE. BY ANDRÉ RIVELoup. New York: Arco, 1944, 74 p. \$2.00.

A flattering picture of the man and his movement.

BATAILLE SECRÈTE EN FRANCE. BY ANDRÉ GIRARD. New York: Brentano, 1944, 292 p. \$2.50.

Graphic, personal episodes from the French underground struggle against the Nazis.

SUGGESTIONS POUR LA IV<sup>e</sup> RÉPUBLIQUE. BY FERNAND CORCOS. New York: Brentano, 1944, 182 p. \$1.25.

Many concrete and practical suggestions, by a French liberal, for remedying the shortcomings which have been revealed in the political and economic setup of the Third Republic.

FRANCE IN SUNSHINE AND SHADOW. BY TRYPHOSA BATES-BATCHELLER. New York: Brentano, 1944, 202 p. \$2.50.

Personal experiences in falling and fallen France.

SAINTE-PIÈRE ET MIQUELON. BY E. AUBERT DE LA RÛE. Montreal: Les Éditions l'Arbre, 1944, 260 p. \$2.00.

An illustrated treatise on the human geography of the diminutive French possession off Newfoundland.

THE NETHERLANDS: THE STORY OF A FREE PEOPLE. BY HENDRIK RIEMENS. New York: Duell, 1944, 349 p. \$3.75.

This is a sound, readable summary of the political, economic and social development of the Dutch people, in Europe and in the two Indies. The author is commercial secretary of the Netherlands Embassy in Washington.

THE MAKING OF MODERN HOLLAND. BY A. J. BARNOUW. New York: Norton, 1944, 224 p. \$2.75.

A concise political history of the Dutch people, by the Queen Wilhelmina Professor of History, Language and Literature of the Netherlands at Columbia University.

GERMANY: A SHORT HISTORY. BY GEORGE N. SHUSTER AND ARNOLD BERGSTRASSER. New York: Norton, 1944, 238 p. \$2.75.

This work, a masterpiece of historical condensation, is about equally divided between the pre-1914 and the post-1914 periods. The story as here unfolded is not one to encourage a belief in the easy redemption of Germany, even though the authors are a long way from being anti-German in their approach.

MILITARY OCCUPATION AND THE RULE OF LAW. BY ERNST FRAENKEL. New York: Oxford University Press, 1944, 267 p. \$3.50.

A scholarly history of the Allied occupational government in the Rhineland from 1918 to 1923.

THE NAZIS GO UNDERGROUND. BY CURT RIESS. Garden City: Doubleday, 1944, 210 p. \$2.50.

Mr. Riess has in recent years written several books that seemed at the time pretty sensational. The present one is no exception. It describes the Nazi plan for preparing the groundwork of a German victory in World War III. In a concluding chapter he tells us "what we can do about it."

ESCAPE VIA BERLIN. BY JOSÉ ANTONIO DE AGUIRRE. New York: Macmillan, 1944, 361 p. \$3.00.

The President of the short-lived Basque Republic recounts the story of how he evaded Franco and the Gestapo. In his concluding chapters he sets forth his ideas on various international problems.

*Eastern Europe*

REVOLUTIONS IN RUSSIA: THEIR LESSONS FOR THE WESTERN WORLD. BY G. R. TREVIRANUS. New York: Harper, 1944, 303 p. \$3.00.

A useful, and on the whole sound, summary and interpretation of the political and social development of the Russian people during and since the nineteenth century, primarily in terms of the revolutionary forces and convulsions which have marked modern Russian history. The author is a onetime German Nationalist.

THE U.S.S.R. IN RECONSTRUCTION. New York: American Russian Institute, 1944, 160 p. \$1.10.

Essays on a variety of problems connected with reconstruction plans and activities in the Soviet Union — by a dozen contributors, Russian and American.

THE STRUCTURE OF SOVIET WAGES. BY ABRAM BERGSON. Cambridge: Harvard University Press, 1944, 255 p. \$3.50.

An important statistical and analytical study based largely on Soviet sources.

SCIENCE IN SOVIET RUSSIA. Lancaster (Pa.): Cattell Press, 1944, 97 p. \$1.50.

Brief statements by fourteen scientists, mostly Americans, concerning Russia's contribution during recent years to scientific progress in various fields.

POLAND AND RUSSIA. BY ANN SU CARDWELL. New York: Sheed, 1944, 252 p. \$2.75.

The author proclaims that she has sought to be strictly factual in reviewing Russo-Polish relations, but her quotations are almost all from Polish sources.

POLAND'S PROGRESS 1919-1939. EDITED BY MICHAEL MURRAY. London: Murray, 1944, 152 p. 10/6.

A well organized, profusely illustrated compendium of facts and statistics on Poland's remarkable progress in many fields during the interwar period.

CENTRAL UNION OF EUROPE. BY PETER JORDAN. New York: McBride, 1944, 110 p. \$2.00.

A plan for the creation of a federation in eastern Europe reaching from the Gulf of Finland to the Mediterranean and between Germany and Russia.

WE STOOD ALONE. BY DOROTHY ADAMS. New York: Longmans, 1944, 284 p. \$3.00.

The author, an American married to a Pole, records in this highly personal story her reactions to life in interwar Poland and to the Nazi invasion of the country.

THE BALTIC RIDDLE. BY GREGORY MEIKSINS. New York: L. B. Fischer, 1943, 271 p. \$3.00.

This book is not particularly well written or coherently put together. It also lacks scholarly precision and detachment, for its author, a young Latvian lawyer, had to pay for his thoroughly anti-Fascist outlook by exile from his native land. Despite its shortcomings, this collection of material on the four Baltic countries is of value because we have so little on that area.

THE CZECHOSLOVAK CAUSE. BY EDUARD TÁBORSKY. London: Witherby, 1944, 158 p. 12/6.

An expert's scholarly and documented "account of problems of international law in relation to Czechoslovakia" since Munich.

TEN YEARS OF CONTROLLED TRADE IN SOUTH-EASTERN EUROPE. BY N. MOMTCHILOFF. New York: Cambridge University Press, 1944, 85 p. 75 cents.

A great deal of factual and statistical material has been packed into this little book on the complicated trade and financial problems (since 1930) of Hungary, Rumania, Jugoslavia, Greece, Bulgaria and Turkey.

STUDIES IN THE HISTORY OF THE RUMANIAN JEWS IN THE 19TH AND



THE BEGINNING OF THE 20TH CENTURIES. BY JOSEPH KISSMAN. New York: Yiddish Scientific Institute, 1944, 114 p. \$2.00.

The text is in Yiddish, but there is a brief summary in English.

### *The British Commonwealth of Nations*

PARLIAMENTARY REPRESENTATION. BY J. F. S. ROSS. New Haven: Yale University Press, 1944, 245 p. \$3.00.

This is an extremely interesting study, based on a statistical analysis, of the men and women who have sat in the House of Commons in recent years — their education, age, occupation, wealth, social position, party affiliation, etc. Mr. Ross explains the phenomena he has found and suggests reforms such as proportional representation.

THE TARIFF PROBLEM IN GREAT BRITAIN, 1918–1923. BY RIXFORD KINNEY SNYDER. Stanford University: Stanford University Press, 1944, 168 p. \$2.75.

A politico-economic monograph.

BRITAIN'S MERCHANT NAVY. EDITED BY SIR ARCHIBALD HURD. London: Odhams, 1944, 256 p. 7/6.

This copiously illustrated account of the British Merchant Marine — in and out of war — is crammed with interesting and valuable information. Boys (of all ages) who have not outgrown their *Popular Mechanics* stage will especially love it.

CANADA AND THE WESTERN HEMISPHERE. COMPILED BY JULIA E. JOHNSON. New York: H. W. Wilson, 1944, 295 p. \$1.25.

Some thirty articles representing various points of view. There is a bibliography.

FRENCH CANADA. BY STANLEY B. RYERSON. New York: International Publishers, 1944, 256 p. \$2.50.

A Leftist interpretation of the political and economic history of Quebec and of the difficulties in the way of real national unity in Canada.

THE AUSTRALIAN ARMY MEDICAL SERVICES IN THE WAR OF 1914–1918. BY COLONEL A. J. BUTLER. Canberra: Australian War Memorial, 1943, 1103 p. 21/.

This abundantly documented volume completes the official Australian medical history of the First World War.

VERDICT ON INDIA. BY BEVERLEY NICHOLS. New York: Harcourt, 1944, 304 p. \$2.50.

The forthright verdict of Mr. Nichols is, for example, *against* the claim of the Congress Party to represent the Indian people and *for* the Moslem proposal of a separate state within a state known as Pakistan.

### *The Near East*

THE RISING CRESCENT. BY ERNEST JACKH. New York: Farrar, 1944, 278 p. \$3.50.

In pre-Nazi days the author was head of the Hochschule für Politik which he had founded in Berlin. He later left Germany, became a British subject, and now occupies a chair in Public Law at Columbia University. Long intimately acquainted with Turkey and the Turks, Dr. Jackh writes about their history and current policies with understanding.

AMERICAN POLICY TOWARD PALESTINE. BY CARL J. FRIEDRICH. Washington: Public Affairs Press, 1944, 106 p. \$1.00.

A very brief historical review leading to specific conclusions and suggestions for future policy, with documents. Issued under the auspices of the American Council on Public Affairs.

COOPERATIVE LIVING IN PALESTINE. BY HENRIK F. INFELD. New York: Dryden, 1944, 192 p. \$3.00.

A description of how the Zionist agricultural coöperatives are functioning.

*Africa*

ACROSS MADAGASCAR. BY OLIVE MURRAY CHAPMAN. Cheltenham: Burrow, 1943, 144 p. 9/6.

Information about the natives based on extensive travels in many parts of the island.

*The Far East*

ASIA'S LANDS AND PEOPLES. BY GEORGE B. CRESSEY. New York: Whittlesey House, 1944, 608 p. \$5.50.

A massive compendium of well arranged and well illustrated data on the physical, economic and political geography of the entire continent, plus the East Indies and the Philippines. It is best on Siberia, China, Japan and India.

TREATY PORTS. BY HALLETT ABEND. Garden City: Doubleday, 1944, 271 p. \$3.00.

This somewhat rambling book reviews the important and interesting history of those Chinese cities where the west has met the east during the last century.

CHINA ENTERS THE MACHINE AGE. BY KUO-HENG SHIH. Cambridge: Harvard University Press, 1944, 206 p. \$2.50.

A case study of the economic and social effects of industrialization in Free China.

CHINA'S WARTIME POLITICS 1937-1944. BY LAWRENCE K. ROSINGER. Princeton: Princeton University Press, 1944, 133 p. \$2.00.

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# SOURCE MATERIAL

*By Ruth Savord*

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