



BRITISH FINANCIAL POLICY

Author(s): WINSTON CHURCHILL

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France considers that an arbitration treaty of the kind which Germany proposes would be the natural complement of a Rhineland Pact. But it must be understood that, as between France and Germany, such a treaty ought to apply to all disputes, and ought not to leave room for coercive action save where such action shall be undertaken consistently with the provisions of treaties in force between the parties, or of the Rhineland Pact or in virtue of the guarantee given to an arbitration treaty by the parties or by any one of them. An arbitration treaty of the same kind between Belgium and Germany would be no less necessary.

To give full effect to these two treaties, their observance ought to be assured by the joint and several guarantee of the Powers which also participate in the territorial guarantee contained in the Rhineland Pact, so as to bring this guarantee into immediate operation, if one of the parties, refusing to submit a dispute to arbitration or to carry out an arbitral award, resorts to hostile measures.

Where one of the contracting parties, without resorting to hostile measures, fails to observe its undertakings, the Council of the League of Nations shall propose what steps should be taken to give effect to the treaty.

V

In their memorandum the German Government added that they were ready to conclude with all States who were so disposed arbitration treaties of the same kind.

The Allied Governments note this assurance with satisfaction. They even consider that in the absence of such agreements between Germany and those of her neighbors who, without being parties to the suggested Rhineland Pact, are signatories of the Treaty of Versailles, the peace of Europe, which the Rhineland Pact tends to consolidate and of which it is to constitute an essential element, could not be completely guaranteed.

The Allied States, in fact, have, under the Covenant of the League of Nations and the Treaties of Peace, rights which they cannot possibly give up and obligations of which they cannot possibly divest themselves.

These arbitration treaties thus conceived would have the same scope as those contemplated in Section IV. The Powers signatories of the Treaty of Versailles and of the proposed Rhineland Pact would have the option, if they so desire, of constituting themselves the guarantors of such arbitration treaties.

VI

Nothing in the treaties contemplated in the present note should affect the rights and obligations attaching to membership of the League of Nations under the Covenant of the League.

VII

The general guarantee of security necessary for the maintenance of peace cannot be completely ensured unless all the agreements aimed at in the present note come into force simultaneously.

These agreements, in conformity with the Covenant, ought to be registered by the League of Nations and placed under its auspices.

Finally, it goes without saying, that, if the United States were to find it possible to associate themselves with the agreements which would thus be realized, France would be only too happy to see the great American nation participate in this work of general peace and security.

Such are the principal points on which it has appeared necessary to obtain precise knowledge of the views of the German Government.

The French Government would be glad to receive a reply on this subject which will permit the opening of negotiations with the object of concluding agreements which will constitute a new and effective guarantee of peace.

BRITISH FINANCIAL POLICY SPEECH BY MR. WINSTON CHURCHILL

(NOTE.—Following is an abstract from a speech delivered by Mr. Winston Churchill, Chancellor of the Exchequer, before the British Bankers' Association, setting forth the salient features of the financial policy pursued by the British Government.)

One can quite easily see the many temptations which wait about the threshold of the finance ministers of the world, in this serious and difficult period to make no proper provision for the discharge of liabilities, and to try to tide over the difficulties of the moment by failing to do their duty to the responsibilities of the future. We have no reason to regret that stern, austere finance which has been followed, apart from party, apart from change of governments, by everyone who has

held the office of Chancellor of the Exchequer since the war. We see on every side the lamentable consequences which have followed the departure from those sound principles that you have to pay your debts, you have to balance your budget, you have to enforce economy by every means you can, you have to stimulate industrial effort and co-operation among all classes of the people, you have to save expenditure and create wealth. There is no other road to prosperity than the old, perfectly well-known and understood path.

The Gold Standard

As for the gold standard, certainly it is a very memorable and important decision which had to be taken. It was not a decision which could have been avoided. It is a matter so difficult, on which so many very able men take different views—though more able men take one view than the other (laughter)—that any Chancellor of the Exchequer might well be pardoned if he rejoiced in the opportunity of postponing the decision for two years or three years, and in the meanwhile looked very wise and talked very profoundly about the intricacies of the currency controversy. But no such choice was open to me. The legislation which prohibited the export of gold expires on December 31 of this year, and I was forced in my submissions to the Cabinet to point out that we must announce either that this legislation would lapse or that we would renew it.

Many have dwelt upon the advantages and disadvantages of a return to the gold standard, but I have always felt greatly interested in considering what would have happened if we had taken the opposite course. Here was our legislation expiring on December 31. For the last five years the policy of successive governments and the treasury and the Bank of England has been to move steadily towards the resumption of the gold standard. No responsible authority has ever disputed that policy. Here was the moment when, unless we were prepared to pursue that policy, it would be necessary to say we were unable to carry out our purpose. The prolongation of the embargo on the export of gold would have been taken in every part of the world as a mark of weakness, some inherited weakness in ourselves, in our financial system, and in our resources, and the immediate and temporary consequences might have been extremely disagreeable. But, far more than

the temporary consequences and any disadvantages which would have followed from them, there would have been that sense of loss of confidence in Britain and in London following that admission of weakness which, believe me, would have been far more detrimental to our general conditions than any of the evils and stringencies which conceivably might from time to time occur in the future.

More than that, we not only hold a central position in the finance of the world; we are also the center of a wide empire. Each of the governing dominions of that empire is on the gold standard or determined to achieve it. Is it conceivable that we in these circumstances could have taken a step which would have declared our inability to achieve the gold standard, and have sat still, prolonging our legislation, while everyone of the great governing dominions of the Crown were returning to the gold standard? I am indulging in no rosy visions, I am predicting no smooth or easy advance to prosperity. That will come only from hard work and sound politics. But I do say that it would be impossible for London to retain its position as the great center of the British Empire and world finance unless it were able to march with the movement in the direction of establishing a common foundation for all international transactions.

The Pensions Scheme

We are told that the new pensions scheme, while it undoubtedly will confer enormous advantages on great masses of the population, notwithstanding casts a new burden on those productive industries especially concerned in the employment of labor which are already in a condition justly exciting anxiety and concern. It is quite true that there is an additional burden, but that burden will not have to be assumed before January 4 next, and there are still seven months in which the situation can be considered. We have not embarked upon this policy of a scheme of national insurance for widows and earlier old-age pensions without taking into consideration the position of the great productive industries in regard to unemployment insurance. At the present time 10*d.* is exacted from the employer and 9*d.* from every workman over an area of 11,000,000 persons for the purposes of unemployment insurance. But when the so-called deficiency period passes away, when, that is to say, unemployment falls into the neighborhood of 800,000 and

850,000—as it will do in a reasonable, a certain period—and when the fund in consequence becomes solvent, then by law the contributions of the employers and of the workmen over this great area fall to a common 6*d.*—that is, a reduction of 4*d.* by the employer and 3*d.* by the work people. The key to the situation is the termination of the deficiency period.

So far as the exchequer is concerned, we have always considered that special exertions must fall upon us; but before those are met, it is essential that we should be sure that unemployment is not swollen by adventitious causes. We must be sure, for instance, that individuals, and possibly even classes, are not obtaining relief under the existing system who never thought of obtaining relief, even in the worst periods of unemployment, three and four years ago. Every effort must be made to restore the Unemployment Insurance Fund to a solvent condition. Once there is some assurance that that has been really achieved, and will be maintained, then it will be possible for the government to intervene with a view to a far more speedy termination of the deficiency period than would ever be achieved if the fund were left to its own unaided contributions. From that moment it will be true to say that the new burden which has to be sustained and the great advantages which will follow from that burden will involve no extra charge at all upon the employers, and will only involve a charge of one penny upon 11,000,000 of persons, as compared with 15,000,000 in the existing area of health insurance. But the condition of our productive industries does constitute a grave and almost paramount preoccupation in the minds of the government, and you may be sure that, as far as faithful study and earnest effort will go, nothing shall be neglected which will enable us to provide some assistance and mitigation of the present difficult and anxious conditions.

Public Economy

I will refer, in conclusion, to the question of public economy. I need your help in that. I am quite sure that everyone here realizes that the future relief to the taxpayer can only be achieved by restraint of the growing tendencies of expenditure, and, more than that, by positive reductions from the present total of our estimates. It is very hard to carry it into effect. The whole movement of the time is

towards greater expenditure. It is not a movement towards wasted expenditure or extravagant expenditure. The machinery of government and administration complicates itself every year, and well-meaning people, trying to do their best to perfect this or improve that, make an upward pressure of expenditure which it is almost impossible to control. Everyone who is in temporary government employ wishes to be permanent; everyone on a non-pensionable basis wishes to be pensionable; everyone on a pensionable basis assisted by contributions wishes to be on a basis unassisted by contributions. (Laughter.) Everyone produces excellent reasons why this or that should be done. It is only by the House of Commons and the powerful influential forces in the country making up their minds to fight for a particular figure and insisting on the reduction below a particular limit that all these powerful upward tendencies will be contained and controlled. We shall certainly do our best. But we shall need the support of a strong public opinion to aid the government in making any positive reduction, or even holding their own against the strong upward tide. I will do my best, and I am sure that I can rely upon you for your assistance.

A National Policy

We are a government who have the right to look forward, in ordinary circumstances, as far as you can see in this changing and precarious existence, of reasonable continuity of power. Therefore it is an obligation upon us to pursue a national policy and not a party policy, to take the long view and not the short view, to make plans, not for the leading articles of tomorrow morning, but for the results which the country will judge in two, three, or four years' time. That is our aim. The appeasement of class bitterness, the promotion of a spirit of co-operation, the stabilization of our national life, the building of financial and social plans upon a three or four years' basis instead of a few months' basis, an earnest effort to give the country some period of recuperation after the enormous efforts it has made and the vicissitudes to which it has been subjected, to pursue a policy which contains features of interest to every class and section of our wide and varied community—that is the method and spirit in which we are proceeding, and when it comes to judgment, let it be not the judg-

ment of speeches or policies declared and programs propounded, but the judgment three or four years hence of a nation which perhaps will feel that things are definitely a little better, not for one class or another, but for all, than they were when we first assumed responsibility and power.

THE ALLIED DISARMAMENT NOTE

"Totality of Defaults a Menace to Peace"

The "Note presented to the German Government by the British, French, Italian, Japanese, and Belgian Ambassadors at Berlin" on Thursday, June 4, has been issued by the English Foreign Office as a printed Parliamentary paper, containing the text of the Note in French, with the English translation and 20 pages of appendices, also both in French and English. The English text of the Note is as follows:

In their Note of January 5 last the Allied Governments informed the German Government that the extent to which the Treaty of Versailles had been fulfilled by Germany did not justify them in granting her the benefit of the partial evacuation in advance contemplated by article 429 (1).

2. They at the same time declared their intention of awaiting the final report of the Inter-Allied Commission of Control before informing the German Government of "what will remain for Germany to do in order that her military obligations may within the terms of article 429 be considered as faithfully fulfilled."

3. This report has now been received and examined. It establishes the numerous defaults of the German Government in respect of the obligations devolving upon them under part 5 of the Treaty of Versailles, and it thus enables the Allied Governments now to make the communication which they had promised.

Model of a Nation in Arms

4. The Allied Governments consider it of capital importance to place in the foreground of their argument the general observation that these defaults, if not promptly rectified, would in the aggregate enable the German Government eventually to reconstitute an army modeled on the principles of a nation-in-arms. This would be directly counter to the Treaty of Peace, under which the German army was to be used exclusively for the maintenance of internal order and for the control of the German frontiers. It is this circumstance which, while it demonstrates the importance of each individual default, renders the totality of these defaults so serious a menace to peace.

5. In order that the treaty may be fulfilled in its fundamental provisions, it is therefore necessary that these important defaults should be made good. So long as they remain unrectified it will be impossible to consider Germany's military obligations as fulfilled. It should be clearly realized that the breaches of the treaty thus specified constitute the most serious, but not the only, evidence of the non-fulfillment by Germany of this essential portion of the Treaty of Peace.

Contents of Memorandum

6. In the accompanying memorandum will be found:

(1) An examination of the state of execution of the military obligations devolving upon Germany as established by the report of the Commission of Control, dated the 25th January, 1925.

(2) A summary of the principle points in the military clauses on which the Allies have not yet received satisfaction.

(3) A detailed list of the measures which should be taken to rectify these defaults. In regard to these the Allied Governments have given all necessary instructions to the Commission of Control, a body qualified by the treaty to act in this respect.

(4) A list of the concessions already made by the Allies. This list has been inserted in order that the statement of the position may be complete.

7. The Allied Governments are convinced that it merely requires good will on the part of the German Government and of the German authorities to secure that the rectifications of the defaults cited in the third part of the memorandum are carried out in a relatively short period.

8. In fine, it now rests with the German Government themselves to create the conditions in which evacuation can speedily be effected. It is they themselves who will profit by the readiness with which they give effect to the rectification demanded, as well as by the care with which they proceed strictly to conform their attitude to the terms of the treaty.

The Cologne Zone—Conditions of Evacuation

9. The Reparation Commission has, in a letter of which a copy is inclosed herein, declared that Germany is at the present moment faithfully fulfilling her reparation obligations as they are at present fixed. The Allied Governments are therefore prepared, notwithstanding the reservations which the state of non-execution of other parts of the treaty would justify on their part and in consideration of the capital importance they attach to the execution of the military clauses of the treaty, to order the evacuation of the first zone of occupation so soon as the breaches of the treaty enumerated in part 3 of the attached memorandum have been made good.