

Information Department Papers issued by the  
Royal Institute of International Affairs, London.

1. The Economic and Financial Position of Italy.  
(No.15) 1935. pp. 1-32.  
X.52.N35 G5
2. Abyssinia and Italy. (No.16) 1935. pp. 33-60.  
V682:19.52.N35 G5
3. Sanctions. The Character of International  
Sanctions and their application.  
(No.17) pp. 61-96.  
Z1,30695 G5
4. Raw Materials and Colonies. (No.18) pp.97-130.  
X:271.1(W77).N4 G6
5. Great Britain and Egypt, 1914-1936. (No.19)  
pp. 131-164.  
V3:19.671.N36 G6
6. Great Britain and Palestine, 1915-1936.  
(No.20) pp. 165-220. 956.9  
V3:19.465.N36 G7

Information Department Papers No. 16

THE ECONOMIC AND  
FINANCIAL POSITION  
OF ITALY

*Issued by the  
Information Department,  
Royal Institute of  
International Affairs*



Dhananjayrao Gadgil Library



GIPE-PUNE-011265

SECOND REVISED  
EDITION

*September 1935.*

LONDON  
OXFORD UNIVERSITY PRESS  
HUMPHREY MILFORD

## INFORMATION DEPARTMENT PAPERS

*The Information Department of the Royal Institute of International Affairs from time to time publishes Papers on International Questions. Prepared as occasion demands, these provide a concise and objective statement of the facts essential to an understanding of the current issues with which they deal.*

---

*The Royal Institute of International Affairs is an unofficial and non-political body, founded in 1920 to encourage and facilitate the scientific study of International Questions.*

*The Institute, as such, is precluded by its rules from expressing an opinion on any aspect of international affairs. Any opinions expressed in this publication are, therefore, purely individual.*

X.52.N35

G5

11265

## PREFACE

Few subjects in recent years have roused such interest or so much controversy as the progress of the Fascist régime in Italy and the establishment and development of the Corporative State. Personal or political bias so often colours first-hand accounts of the situation that there is justification for an attempt to present a detached study of fact.

That the task of sifting the mass of conflicting information has been completed at all is in great part due to the advice and assistance of numerous experts to whom the Department wishes to express its deep obligation.

It is beyond the scope of the Memorandum to draw conclusions. The aim has been to present a set of facts from which readers can form their own views as to what the Italian Government is attempting in the economic and financial field, and how far it has succeeded or failed.

Since this Memorandum was first published in June, 1935, the military measures taken in connexion with the dispute with Abyssinia have had their repercussions on Italian economics and finance, and they are a factor to be borne in mind when forming a judgment as to the future.

But in order to bring the second edition up to date, it has not been necessary to do more than add a few new facts and figures. The change brought about by the threat of war has so far been one of tempo and not of form.

*Information Department.*

CHATHAM HOUSE,  
September 2, 1935

NOTE: The use of the terms 'corporate' and 'corporative' seems to be a matter of taste. This memorandum uses 'corporative' and 'corporatism' throughout.

# CONTENTS

## PART I. THE STRUCTURE

1. PERMANENT ECONOMIC CONSIDERATIONS . . . . .	7
Population . . . . .	7
Raw Materials . . . . .	8
2. THE MECHANISM: THE CORPORATIVE STATE . . . . .	8
Post-War Italy . . . . .	8
Corporatism: Some Misunderstandings . . . . .	9
The Italian Form of Corporatism . . . . .	10
The Corporative Hierarchy . . . . .	10
3. FASCISM AND NATIONAL UNITY . . . . .	14

## PART II. THE PROCESS OF RATIONALIZATION

Banking . . . . .	19
Investment . . . . .	20
Improved Production . . . . .	21
Price Control . . . . .	22
Land Policy . . . . .	22
Subsidies . . . . .	22

## PART III. THE POSITION IN THE SUMMER OF 1935

1. THE LIRA . . . . .	25
Stabilization . . . . .	26
The Need for Deflation . . . . .	26
The Fascist Method . . . . .	26
Reflationary Tendencies . . . . .	27
Exchange Control . . . . .	29
Gold Losses . . . . .	29
The December Decrees . . . . .	29
Suspension of Legal Minimum Gold Cover . . . . .	31
2. FOREIGN TRADE AND SELF-SUFFICIENCY . . . . .	32
Industrial Production . . . . .	36
Balance of Trade . . . . .	37
Commercial Policy . . . . .	38
Quotas . . . . .	38
Barter . . . . .	39

3. STANDARD OF LIVING . . . . .	40
Cost of Living . . . . .	41
Real Wages . . . . .	42
Taxation . . . . .	44
4. UNEMPLOYMENT . . . . .	45
5. PUBLIC WORKS . . . . .	47
6. THE BUDGET . . . . .	49
Difficulties of Analysis . . . . .	49
Revenue . . . . .	51
Expenditure . . . . .	51
Budget Deficits . . . . .	54
7. THE NATIONAL DEBT . . . . .	55
Foreign Indebtedness . . . . .	55
War Debts and Reparations . . . . .	55
Internal Debt . . . . .	56
Conversions and New Issues . . . . .	57
Additional Government Liabilities . . . . .	57
APPENDICES . . . . .	60
I. BALANCE OF PAYMENTS . . . . .	60
II. FOREIGN TRADE BY MONTHS, 1931-5 . . . . .	61
III. DIRECTION OF TRADE: 1929 AND 1933 . . . . .	62
IV. BANK OF ITALY'S POSITION: LEGAL RESERVES AND NOTE CIRCULATION . . . . .	63
V. LOANS FLOATED ABROAD BY ITALIAN COMPANIES AND PUBLIC BODIES, 1925-34 . . . . .	64
VI. ANNUITIES CONTRACTED FOR BY THE STATE OVER THE PERIOD 1932-37: ALLOCATION BY MINISTRIES . . . . .	64

## APPENDIX I.

### THE MANDATE FOR PALESTINE.<sup>1</sup>

The Council of the League of Nations :

Whereas the Principal Allied Powers have agreed, for the purpose of giving effect to the provisions of Article 22 of the Covenant of the League of Nations, to entrust to a Mandatory selected by the said Powers the administration of the territory of Palestine, which formerly belonged to the Turkish Empire, within such boundaries as may be fixed by them ; and

Whereas the Principal Allied Powers have also agreed that the Mandatory should be responsible for putting into effect the declaration originally made on November 2nd, 1917, by the Government of His Britannic Majesty, and adopted by the said Powers, in favour of the establishment in Palestine of a national home for the Jewish people, it being clearly understood that nothing should be done which might prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country ; and

Whereas recognition has thereby been given to the historical connection of the Jewish people with Palestine and to the grounds for reconstituting their national home in that country ; and

Whereas the Principal Allied Powers have selected His Britannic Majesty as the Mandatory for Palestine ; and

Whereas the Mandate in respect of Palestine has been formulated in the following terms and submitted to the Council of the League for approval ; and

Whereas His Britannic Majesty has accepted the Mandate in respect of Palestine and undertaken to exercise it on behalf of the League of Nations in conformity with the following provisions ; and

Whereas by the afore-mentioned Article 22 (paragraph 8), it is provided that the degree of authority, control or administration to be exercised by the Mandatory, not having been previously agreed upon by the Members of the League, shall be explicitly defined by the Council of the League of Nations ;

Confirming the said Mandate, defines its terms as follows :

#### ARTICLE 1.

The Mandatory shall have full powers of legislation and of administration, save as they may be limited by the terms of this Mandate.

#### ARTICLE 2.

The Mandatory shall be responsible for placing the country under such political, administrative and economic conditions as will secure the establishment of the Jewish national home, as laid down in the preamble, and the development of self-governing institutions, and also for safeguarding the civil and religious rights of all the inhabitants of Palestine, irrespective of race and religion.

#### ARTICLE 3.

The Mandatory shall, so far as circumstances permit, encourage local autonomy.

---

(1) *British White Paper*, Cmd. 1785.

#### ARTICLE 4.

An appropriate Jewish agency shall be recognised as a public body for the purpose of advising and co-operating with the Administration of Palestine in such economic, social and other matters as may affect the establishment of the Jewish national home and the interests of the Jewish population in Palestine, and, subject always to the control of the Administration, to assist and take part in the development of the country.

The Zionist organisation, so long as its organisation and constitution are in the opinion of the Mandatory appropriate, shall be recognised as such agency. It shall take steps in consultation with His Britannic Majesty's Government to secure the co-operation of all Jews who are willing to assist in the establishment of the Jewish national home.

#### ARTICLE 5.

The Mandatory shall be responsible for seeing that no Palestine territory shall be ceded or leased to, or in any way placed under the control of, the Government of any foreign Power.

#### ARTICLE 6.

The Administration of Palestine, while ensuring that the rights and position of other sections of the population are not prejudiced, shall facilitate Jewish immigration under suitable conditions and shall encourage, in co-operation with the Jewish agency referred to in Article 4, close settlement by Jews on the land, including State lands and waste lands not required for public purposes.

#### ARTICLE 7.

The Administration of Palestine shall be responsible for enacting a nationality law. There shall be included in this law provisions framed so as to facilitate the acquisition of Palestinian citizenship by Jews who take up their permanent residence in Palestine.

#### ARTICLE 8.

The privileges and immunities of foreigners, including the benefits of consular jurisdiction and protection as formerly enjoyed by Capitulation or usage in the Ottoman Empire, shall not be applicable in Palestine.

Unless the Powers whose nationals enjoyed the afore-mentioned privileges and immunities on August 1st, 1914, shall have previously renounced the right to their re-establishment, or shall have agreed to their non-application for a specified period, these privileges and immunities shall, at the expiration of the Mandate, be immediately re-established in their entirety or with such modifications as may have been agreed upon between the Powers concerned.

#### ARTICLE 9.

The Mandatory shall be responsible for seeing that the judicial system established in Palestine shall assure to foreigners, as well as to natives, a complete guarantee of their rights.

Respect for the personal status of the various peoples and communities and for their religious interests shall be fully guaranteed. In particular, the control and administration of Wakfs shall be exercised in accordance with religious law and the dispositions of the founders.

#### ARTICLE 10.

Pending the making of special extradition agreements relating to Palestine, the extradition treaties in force between the Mandatory and other foreign Powers shall apply to Palestine.



#### ARTICLE 11.

The Administration of Palestine shall take all necessary measures to safeguard the interests of the community in connection with the development of the country, and, subject to any international obligations accepted by the Mandatory, shall have full power to provide for public ownership or control of any of the natural resources of the country or of the public works, services and utilities established or to be established therein. It shall introduce a land system appropriate to the needs of the country, having regard, among other things, to the desirability of promoting the close settlement and intensive cultivation of the land.

The Administration may arrange with the Jewish agency mentioned in Article 4 to construct or operate, upon fair and equitable terms, any public works, services and utilities, and to develop any of the natural resources of the country, in so far as these matters are not directly undertaken by the Administration. Any such arrangements shall provide that no profits distributed by such agency, directly or indirectly, shall exceed a reasonable rate of interest on the capital, and any further profits shall be utilised by it for the benefit of the country in a manner approved by the Administration.

#### ARTICLE 12.

The Mandatory shall be entrusted with the control of the foreign relations of Palestine and the right to issue exequaturs to consuls appointed by foreign Powers. He shall also be entitled to afford diplomatic and consular protection to citizens of Palestine when outside its territorial limits.

#### ARTICLE 13.

All responsibility in connection with the Holy Places and religious buildings or sites in Palestine, including that of preserving existing rights and of securing free access to the Holy Places, religious buildings and sites and the free exercise of worship, while ensuring the requirements of public order and decorum, is assumed by the Mandatory, who shall be responsible solely to the League of Nations in all matters connected herewith, provided that nothing in this article shall prevent the Mandatory from entering into such arrangements as he may deem reasonable with the Administration for the purpose of carrying the provisions of this article into effect; and provided also that nothing in this Mandate shall be construed as conferring upon the Mandatory authority to interfere with the fabric or the management of purely Moslem sacred shrines, the immunities of which are guaranteed.

#### ARTICLE 14.

A special Commission shall be appointed by the Mandatory to study, define and determine the rights and claims in connection with the Holy Places and the rights and claims relating to the different religious communities in Palestine. The method of nomination, the composition and the functions of this Commission shall be submitted to the Council of the League for its approval, and the Commission shall not be appointed or enter upon its functions without the approval of the Council.

#### ARTICLE 15.

The Mandatory shall see that complete freedom of conscience and the free exercise of all forms of worship, subject only to the maintenance of public order and morals, are ensured to all. No discrimination of any kind shall be made between the inhabitants of Palestine on the ground of race, religion or language. No person shall be excluded from Palestine on the sole ground of his religious belief.

The right of each community to maintain its own schools for the education of its own members in its own language, while conforming to such educational requirements of a general nature as the Administration may impose, shall not be denied or impaired.

#### ARTICLE 16.

The Mandatory shall be responsible for exercising such supervision over religious or eleemosynary bodies of all faiths in Palestine as may be required for the maintenance of public order and good government. Subject to such supervision, no measures shall be taken in Palestine to obstruct or interfere with the enterprise of such bodies or to discriminate against any representative or member of them on the ground of his religion or nationality.

#### ARTICLE 17.

The Administration of Palestine may organise on a voluntary basis the forces necessary for the preservation of peace and order, and also for the defence of the country, subject, however, to the supervision of the Mandatory, but shall not use them for purposes other than those above specified save with the consent of the Mandatory. Except for such purposes, no military, naval or air forces shall be raised or maintained by the Administration of Palestine.

Nothing in this article shall preclude the Administration of Palestine from contributing to the cost of the maintenance of the forces of the Mandatory in Palestine.

The Mandatory shall be entitled at all times to use the roads, railways and ports of Palestine for the movement of armed forces and the carriage of fuel and supplies.

#### ARTICLE 18.

The Mandatory shall see that there is no discrimination in Palestine against the nationals of any State Member of the League of Nations (including companies incorporated under its laws) as compared with those of the Mandatory or of any foreign State in matters concerning taxation, commerce or navigation, the exercise of industries or professions, or in the treatment of merchant vessels or civil aircraft. Similarly, there shall be no discrimination in Palestine against goods originating in or destined for any of the said States, and there shall be freedom of transit under equitable conditions across the Mandated area.

Subject as aforesaid and to the other provisions of this mandate, the Administration of Palestine may, on the advice of the Mandatory, impose such taxes and customs duties as it may consider necessary, and take such steps as it may think best to promote the development of the natural resources of the country and to safeguard the interests of the population. It may also, on the advice of the Mandatory, conclude a special customs agreement with any State the territory of which in 1914 was wholly included in Asiatic Turkey or Arabia.

#### ARTICLE 19.

The Mandatory shall adhere on behalf of the Administration of Palestine to any general international conventions already existing, or which may be concluded hereafter with the approval of the League of Nations, respecting the slave traffic, the traffic in arms and ammunition, or the traffic in drugs, or relating to commercial equality, freedom of transit and navigation, aerial navigation and postal, telegraphic and wireless communication or literary, artistic or industrial property.

**ARTICLE 20.**

The Mandatory shall co-operate on behalf of the Administration of Palestine, so far as religious, social and other conditions may permit, in the execution of any common policy adopted by the League of Nations for preventing and combating disease, including diseases of plants and animals.

**ARTICLE 21.**

The Mandatory shall secure the enactment within twelve months from this date, and shall ensure the execution of a Law of Antiquities based on the following rules. This law shall ensure equality of treatment in the matter of excavations and archæological research to the nations of all States Members of the League of Nations.

(1)

"Antiquity" means any construction or any product of human activity earlier than the year A.D. 1700.

(2)

The law for the protection of antiquities shall proceed by encouragement rather than by threat.

Any person who, having discovered an antiquity without being furnished with the authorisation referred to in paragraph 5, reports the same to an official of the competent Department, shall be rewarded according to the value of the discovery.

(3)

No antiquity may be disposed of except to the competent Department, unless this Department renounces the acquisition of any such antiquity.

No antiquity may leave the country without an export licence from the said Department.

(4)

Any person who maliciously or negligently destroys or damages an antiquity shall be liable to a penalty to be fixed.

(5)

No clearing of ground or digging with the object of finding antiquities shall be permitted, under penalty of fine, except to persons authorised by the competent Department.

(6)

Equitable terms shall be fixed for expropriation, temporary or permanent, of lands which might be of historical or archæological interest.

(7)

Authorisation to excavate shall only be granted to persons who show sufficient guarantees of archæological experience. The Administration of Palestine shall not, in granting these authorisations, act in such a way as to exclude scholars of any nation without good grounds.

(8)

The proceeds of excavations may be divided between the excavator and the competent Department in a proportion fixed by that Department. If division seems impossible for scientific reasons, the excavator shall receive a fair indemnity in lieu of a part of the find.

**ARTICLE 22.**

English, Arabic and Hebrew shall be the official languages of Palestine. Any statement or inscription in Arabic on stamps or money in Palestine shall be repeated in Hebrew, and any statement or inscription in Hebrew shall be repeated in Arabic.

**ARTICLE 23.**

The Administration of Palestine shall recognise the holy days of the respective communities in Palestine as legal days of rest for the members of such communities.

**ARTICLE 24.**

The Mandatory shall make to the Council of the League of Nations an annual report to the satisfaction of the Council as to the measures taken during the year to carry out the provisions of the Mandate. Copies of all laws and regulations promulgated or issued during the year shall be communicated with the report.

**ARTICLE 25.**

In the territories lying between the Jordan and the eastern boundary of Palestine as ultimately determined, the Mandatory shall be entitled, with the consent of the Council of the League of Nations, to postpone or withhold application of such provisions of this Mandate as he may consider inapplicable to the existing local conditions, and to make such provision for the administration of the territories as he may consider suitable to those conditions, provided that no action shall be taken which is inconsistent with the provisions of Articles 15, 16 and 18.

**ARTICLE 26.**

The Mandatory agrees that, if any dispute whatever should arise between the Mandatory and another Member of the League of Nations relating to the interpretation or the application of the provisions of the Mandate, such dispute, if it cannot be settled by negotiation, shall be submitted to the Permanent Court of International Justice provided for by Article 14 of the Covenant of the League of Nations.

**ARTICLE 27.**

The consent of the Council of the League of Nations is required for any modification of the terms of this mandate.

**ARTICLE 28.**

In the event of the termination of the Mandate hereby conferred upon the Mandatory, the Council or the League of Nations shall make such arrangements as may be deemed necessary for safeguarding in perpetuity, under guarantee of the League, the rights secured by Articles 13 and 14, and shall use its influence for securing, under the guarantee of the League, that the Government of Palestine will fully honour the financial obligations legitimately incurred by the Administration of Palestine during the period of the Mandate, including the rights of public servants to pensions or gratuities.

The present instrument shall be deposited in original in the archives of the League of Nations and certified copies shall be forwarded by the Secretary-General of the League of Nations to all Members of the League.

Done at London the twenty-fourth day of July, one thousand nine hundred and twenty-two.

## APPENDIX II.

### THE CHURCHILL MEMORANDUM, June 3, 1922.<sup>1</sup>

**PREAMBLE**—The Secretary of State for the Colonies has given renewed consideration to the existing political situation in Palestine, with a very earnest desire to arrive at a settlement of the outstanding questions which have given rise to uncertainty and unrest among certain sections of the population. After consultation with the High Commissioner for Palestine the following statement has been drawn up. It summarises the essential parts of the correspondence that has already taken place between the Secretary of State and a Delegation from the Moslem-Christian Society of Palestine, which has been for some time in England, and it states the further conclusions which have since been reached.

The tension which has prevailed from time to time in Palestine is mainly due to apprehensions, which are entertained both by sections of the Arab and of the Jewish population. These apprehensions, so far as the Arabs are concerned, are partly based upon the exaggerated interpretations of the meaning of the Declaration favouring the establishment of the Jewish National Home in Palestine, made on behalf of His Majesty's Government on November 2, 1917. Unauthorised statements have been made to the effect that the purpose in view is to create a wholly Jewish Palestine. Phrases have been used such as that Palestine is to become "as Jewish as England is English." His Majesty's Government regard any such expectation as impracticable and have no such aim in view. Nor have they at any time contemplated, as appears to be feared by the Arab Delegation, the disappearance or the subordination of the Arabic population, language or culture in Palestine. They would draw attention to the fact that the terms of the Declaration referred to do not contemplate that Palestine as a whole should be converted into a Jewish National Home, but that such a Home should be founded *in Palestine*. In this connection it has been observed with satisfaction that at the meeting of the Zionist Congress, the supreme governing body of the Zionist Organisation, held in Carlsbad in September, 1921, a resolution was passed expressing as the official statement of Zionist aims "the determination of the Jewish people to live with the Arab people on terms of unity and mutual respect, and together with them to make the common home into a flourishing community, the up-building of which may assure to each of its peoples an undisturbed national development."

It is also necessary to point out that the Zionist Commission in Palestine, now termed the Palestine Zionist Executive, has not desired to possess, and does not possess, any share in the general administration of the country. Nor does the special position assigned to the Zionist Organisation in Article 4 of the Draft Mandate for Palestine imply any such functions. That special position relates to the measures to be taken in Palestine affecting the Jewish population, and contemplates that the Organisation may assist in the general development of the country, but does not entitle it to share in any degree in its Government.

Further, it is contemplated that the status of all citizens of Palestine in the eyes of the law shall be Palestinian, and it has never been intended that they, or any section of them, should possess any other juridical status.

So far as the Jewish population of Palestine are concerned, it appears that some among them are apprehensive that His Majesty's Government may depart from the policy embodied in the Declaration of 1917. It is

---

(1) *British White Paper*, Cmd. 1700.

necessary, therefore, once more to affirm that these fears are unfounded, and that that Declaration, re-affirmed by the Conference of the Principal Allied Powers at San Remo and again in the Treaty of Sèvres, is not susceptible of change.

During the last two or three generations the Jews have re-created in Palestine a community, now numbering 80,000, of whom about one-fourth are farmers or workers on the land. This community has its own political organs; an elected assembly for the direction of its domestic concerns; elected councils in the towns; and an organisation for the control of its schools. It has its elected Chief Rabbinate and Rabbinical Council for the direction of its religious affairs. Its business is conducted in Hebrew as a vernacular language, and a Hebrew press serves its needs. It has its distinctive intellectual life and displays considerable economic activity. This community, then, with its town and country population, its political, religious and social organisations, its own language, its own customs, its own life, has in fact "national" characteristics. When it is asked what is meant by the development of the Jewish National Home in Palestine, it may be answered that it is not the imposition of a Jewish nationality upon the inhabitants of Palestine as a whole, but the further development of the existing Jewish community, with the assistance of Jews in other parts of the world, in order that it may become a centre in which the Jewish people as a whole may take, on grounds of religion and race, an interest and a pride. But in order that this community should have the best prospect of free development and provide a full opportunity for the Jewish people to display its capacities, it is essential that it should know that it is in Palestine as of right and not on sufferance. That is the reason why it is necessary that the existence of a Jewish National Home in Palestine should be internationally guaranteed, and that it should be formally recognised to rest upon ancient historic connection.

This, then, is the interpretation which His Majesty's Government place upon the Declaration of 1917, and, so understood, the Secretary of State is of opinion that it does not contain or imply anything which need cause either alarm to the Arab population of Palestine or disappointment to the Jews.

For the fulfilment of this policy it is necessary that the Jewish community in Palestine should be able to increase its numbers by immigration. This immigration cannot be so great in volume as to exceed whatever may be the economic capacity of the country at the time to absorb new arrivals. It is essential to ensure that the immigrants should not be a burden upon the people of Palestine as a whole, and that they should not deprive any section of the present population of their employment. Hitherto the immigration has fulfilled these conditions. The number of immigrants since the British occupation has been about 25,000.

It is necessary also to ensure that persons who are politically undesirable are excluded from Palestine, and every precaution has been and will be taken by the Administration to that end.

It is intended that a special committee should be established in Palestine, consisting entirely of members of the new Legislative Council elected by the people, to confer with the Administration upon matters relating to the regulation of immigration. Should any difference of opinion arise between this committee and the Administration, the matter will be referred to His Majesty's Government, who will give it special consideration. In addition, under Article 81 of the draft Palestine Order in Council, any religious community or considerable section of the population of Palestine will have a general right to appeal, through the High Commissioner and the

Secretary of State, to the League of Nations on any matter on which they may consider that the terms of the Mandate are not being fulfilled by the Government of Palestine.

With reference to the Constitution which it is now intended to establish in Palestine, the draft of which has already been published, it is desirable to make certain points clear. In the first place it is not the case, as has been represented by the Arab Delegation, that during the war His Majesty's Government gave an undertaking that an independent national government should at once be established in Palestine. This representation mainly rests upon a letter dated October 24, 1915, from Sir Henry McMahon, then His Majesty's High Commissioner in Egypt, to the Sherif of Mecca, now King Hussein of the Kingdom of the Hejaz. That letter is quoted as conveying the promise to the Sherif of Mecca to recognise and support the independence of the Arabs within the territories proposed by him. But this promise was given subject to a reservation made in the same letter which excluded from its scope, among other territories, the portions of Syria lying to the west of the district of Damascus. This reservation has always been regarded by His Majesty's Government as covering the vilayet of Beirut and the independent Sanjak of Jerusalem. The whole of Palestine west of the Jordan was thus excluded from Sir H. McMahon's pledge.

Nevertheless, it is the intention of His Majesty's Government to foster the establishment of a full measure of self-government in Palestine. But they are of opinion that, in the special circumstances of that country, this should be accomplished by gradual stages and not suddenly. The first step was taken when, on the institution of a civil Administration, the nominated Advisory Council, which now exists, was established. It was stated at the time by the High Commissioner that this was the first step in the development of self-governing institutions, and it is now proposed to take a second step by the establishment of a Legislative Council containing a large proportion of members elected on a wide franchise. It was proposed in the published draft that three of the members of this Council should be non-official persons nominated by the High Commissioner, but representations having been made in opposition to this provision, based on cogent considerations, the Secretary of State is prepared to omit it. The Legislative Council would then consist of the High Commissioner as President and twelve elected and ten official members. The Secretary of State is of opinion that before a further measure of self-government is extended to Palestine and the Assembly placed in control over the Executive, it would be wise to allow some time to elapse. During this period the institutions of the country will have become well established; its financial credit will be based on firm foundations, and the Palestinian officials will have been enabled to gain experience of sound methods of government. After a few years the situation will again be reviewed, and if the experience of the working of the Constitution now to be established so warranted, a larger share of authority would then be extended to the elected representatives of the people.

The Secretary of State would point out that already the present Administration has transferred to a Supreme Council elected by the Moslem community of Palestine the entire control of Moslem religious endowments (Wakfs), and of the Moslem religious courts. To this Council the Administration has also voluntarily restored considerable revenues derived from ancient endowments which had been sequestrated by the Turkish Government. The Education Department is also advised by a committee representative of all sections of the population, and the Department of

Commerce and Industry has the benefit of the co-operation of the Chambers of Commerce which have been established in the principal centres. It is the intention of the Administration to associate in an increased degree similar representative committees with the various Departments of the Government.

The Secretary of State believes that a policy upon these lines, coupled with the maintenance of the fullest religious liberty in Palestine and with scrupulous regard for the rights of each community with reference to its Holy Places, cannot but commend itself to the various sections of the population, and that upon this basis may be built up that spirit of co-operation upon which the future progress and prosperity of the Holy Land must largely depend.

### THE JEWISH AND ARAB REPLIES.

The British White Paper in which this statement of Policy is published also contains the replies of the Jews and Arabs to it.

The Jewish reply, in the form of a letter from Dr. Weizmann to the Colonial Office, transmitted the following resolution :

" The Executive of the Zionist Organisation, having taken note of the statement relative to British policy in Palestine, transmitted to them by the Colonial Office under date June 3rd, 1922, assure His Majesty's Government that the activities of the Zionist Organisation will be conducted in conformity with the policy therein set forth."

The Arab reply, on the other hand, declined to concur in the British Statement. It pointed out that the British document contained some mis-statements of fact to which those with local knowledge could not subscribe, notably that that the Zionists did not " possess any share in the general administration of the country." It went on to claim that the Arabs of Palestine, who formed 93 per cent. of the population, had as much right as had the Jews to be " confirmed in their national home." After reiterating that the McMahon promise included independence for Palestine, the Arab reply concluded by pointing out that the Mandatory was wrong in thinking that its policy was acceptable to all sections of the population. On the contrary, it caused discontent among 93 per cent. of the whole, who feared the Zionists, who " enter Palestine by the might of England against the will of the people who are convinced that they have come to strangle them. Nature does not allow the creation of a spirit of co-operation between two peoples so different. . . . The fact is that His Majesty's Government has placed itself in the position of a partisan in Palestine of a certain policy which the Arab cannot accept because it means his extinction sooner or later."