

# THE ECONOMIST

ESTABLISHED 1843

Vol. CXLVIII No. 5293 REGISTERED AS A NEWSPAPER FEBRUARY 3, 1945 Entered as Second Class Mail Matter at the New York, N.Y., Post Office ONE SHILLING

|  |     |   |     |
|--|-----|---|-----|
| Before the Conference - - -  | 137 | PMH Again - - - - -   | 148 |
| How Many Houses? - - -   | 138 | Reallocation of Labour - - -  | 152 |
| The Austrian Republic - - -  | 140 | American Farm Prosperity -  | 154 |
| <b>NOTES OF THE WEEK</b> - - -   | 142 | <b>THE BUSINESS WORLD</b>   |     |
| The German Retreat; Swan Song?; Free Generals; Confused Evidence from Greece; Air Policy Debate; OTA; More Money for the Colonies; War Crimes Dispute; Yugoslav Reconciliation; An Industrial Health Service; The ILO Meets; World Labour in Conference; The Great Freeze; Chinese WPB; Newfoundland's Future; Agriculture and Shipping; Scientific Research in India; Planning Pubs; Vital Statistics—Correction. |     | <b>BUSINESS NOTES</b> - - - - -   | 155 |
| <b>LETTERS TO THE EDITOR</b> - - -   | 147 | Flexible Control of Machine Tools; Post-War Problems; Bankers and Industrial Finance; Oil Refining in Britain; Tinplate Proposals; Shortage of Hard Fibres; North-East Development; An Austin Surprise; Towards Rubber Regulation; Milk and Beef; The New Herring Industry Board; Precious Potatoes; Diamond Group and Sherman Act; Larger Notes to Go; "Limitations of Actions"; Floating Debt in January; The Cost of Living Index; Marine Insurance Review; Shorter Notes. |     |
| Persian Oil; Domestic Service; Winter Generally; Unconditional Surrender; Monopoly in Embryo; Patent Medicines; The Coal Industry.   |     | <b>COMPANY MEETINGS</b> - - - - -   | 160 |
| <b>AMERICAN SURVEY</b> - - - - -   | 148 | <b>RECORDS AND STATISTICS</b> - - -   | 163 |
| PMH Again—An American View; The American Mood; A Bill of Divorcement; The Personal Element; National Service; Montgomery Ward Again.   |     |   |     |

THE ECONOMIST, BRETENHAM HOUSE, LANCASTER PLACE, STRAND, LONDON, W.C.2. TELE: TEMPLE BAR 3316. ANNUAL SUBSCRIPTION £3.

## Before the Conference

THE meeting of the three Heads of State will soon take place. Mr Harry Hopkins, the President's personal precursor, is already making straight his ways in London, Paris and Rome. Any day now, secret planes, laden with *incogniti*, will leave for unknown destinations. The world's triumvirate will again meet face to face to determine the last stages of the war and the first steps of the peace.

The troubled year since Teheran has brought forth enough political problems to occupy the attention of a series of conferences. The Americans' are known to be disturbed at the conduct of both British and Russian policy in liberated territory. The short-term dependence of Britain and Russia on America's economic resources offers an opportunity for forceful diplomacy—at great risk to long-term harmony. It is not certain, however, whether American dissatisfaction takes the form of a threatened withdrawal from Europe or of insistence on a larger hand in its problems. The other Allies can justly ask Mr Roosevelt to clarify this fateful point.

On this matter alone, it would be possible to draft a long and packed agenda. Yet it is questionable whether it will in fact occupy the centre of the discussions. It may well be that the actual subject-matter of the conference is being decided not in the Chancelleries of the nations, but on the battlefields of Pomerania and Brandenburg. Russian armies are already fighting on German soil. Their forces are

advancing on Berlin. It is not impossible that before the Big Three meet, the German capital will have fallen.

What then? Can the Russians, in control of such a key centre, shelve any longer the problem of the administration of occupied German territory? There will be no obvious precedent to follow. Every other enemy country has produced in the hour of defeat a government ready to collaborate with the Allies against the Germans. It is most unlikely, especially after the purge of July, that Germany can now throw up an acceptable administration ready to collaborate against the Nazis. Equally it is inconceivable that the Russians or their Allies should attempt to govern Germany without the aid of any sort of German administrative structure. What can they use to fill this gap?

There is little evidence to suggest that these urgent problems of government have already been thought out and settled on the basis of joint agreement. The European Commission may have evolved armistice terms. It is believed to have mapped out the different spheres of occupation for the three armies. But agreement on the future administration of occupied Germany is still to seek. Only if the Conference meets soon enough and works fast enough, can it still reach an agreed solution. The compulsion of time suggests that the German problem will stand at the head of the Allied agenda and that its urgency may exclude everything else.

building industry to a total of 1,250,000 men. A labour force of this size means about 400,000 houses a year. At this rate, the Armistice deficiency of a million would quickly disappear, and even if the preposterous figure of 4,000,000 slum houses be accepted and the determination made to wipe them off at heavy cost in public money, they would keep the industry busy for only another ten years. By that time, every house in the replacement of which public money could on any pretext be spent would have disappeared. From that time onwards—say from about 1960—the volume of building would depend on the amount of spontaneous, unsubsidised replacement plus such small amounts as are required owing to changes in the location of industry. Sir Ernest himself admits that unsubsidised replacement is a very difficult economic operation. It will always better pay the owners of existing houses to reduce their price or rent by just enough to undercut the new house than to abandon their assets by pulling them down or letting them stand empty. No more than a trickle of spontaneous replacement has ever existed in the past, and though that is no argument against its happening in the future, the onset of a decline in the population is hardly likely to provide propitious circumstances. It will certainly not produce circumstances in which the whole country can be entirely re-built every thirty years.

In short, the Government's cardinal error has been to decide on such a very large inflation of the building industry. It cannot influence the crisis years 1945-50, because the amount of building—or at least of traditional building—that can be done in those years will be the same whatever the ultimate target. In the intermediate period 1950-60, an industry of 1,250,000 could only be sustained by an outpouring of public money and by giving building a priority over all other forms of investment, such as, for example, the very badly needed industrial re-equipment of the country. And the longer the demand were thus artificially sustained, the more complete would be the collapse, and the larger the unemployment among trained and guaranteed workers, in about 15 years' time. The present policy thus ensures a serious misapplication

of capital resources in one decade and a mass of building unemployment in the next.

It would be far better to concentrate on a much more moderately-sized permanent industry and to admit, what is in any case the fact, that the only hope of meeting more than half the primary deficiency of a million houses within five years is to produce most of them by non-traditional methods—that is, outside the building industry. The Conservative Report is entirely right in laying strong emphasis on this. Factory-made houses have to meet a formidable confederacy of vested interests—the builders who fear a permanent rival, the engineers who have other uses for the steel, and a vast number of perfectionists who, consciously or not, take the view that no house at all is better than an imperfect house. But they are the chief hope for the crisis years.

The first step to wisdom is, therefore, to reverse the decision to inflate the industry to 1,250,000. A more reasonable average size for the industry would be about 900,000 men (though even this may be on the large side). And since, as Sir Ernest Simon now agrees, some expansion and contraction of the building industry must be allowed for as an anti-depression measure, the permanent garrison of the industry should not be more than about 700,000. To keep even these numbers employed would require a large subsidised replacement programme, which should be divided into two parts. The worst houses, the real slums, should be cleared by a steady programme, while the less urgent cases, the near-slums, should be held in reserve for clearance as an anti-depression measure. The total number of houses built in the decade 1950-60 would doubtless be fewer than Sir Ernest Simon's 4,000,000. But they would be enough to meet all really urgent needs; and they would leave some demand for houses over to sustain the industry in its very difficult decade of the 1960s.

If this is the size and shape of the programme, the other major issue to be settled is the financial means by which it is to be carried out—in other words, the form of subsidy required. This must be left for a second article.

## The Second Austrian Republic

WITH Budapest virtually in Russian hands, the battle for Austria will not be long delayed. The Russians have already appealed to the Austrian people to form Committees of National Liberation and to strike at the rear of the German forces. The immediate effects of such appeals may not be great; but they show that political warfare is playing a part in the fight for Austria. The basis of this appeal is the view that Austria is a subjugated country, and not part of the Reich. Such an approach first appeared in the declaration on Austrian independence issued on November 1, 1943, by the Three Powers at the first Moscow Conference. Unfortunately there is little evidence to show whether or not the general principle of independence has been translated into specific plans. If Austria is not to be treated as a province of Germany, will the military occupation of the country be of short duration? Will an independent Austrian administration be set up soon after liberation? If so, on which political groups do the Allies intend to base it? Have any attempts been made to bring together the representatives of the Austrian political groups in exile and to discuss with them the regime which is to be established in Vienna?

To a large extent these decisions will tend to be taken by the Power which first occupies Austria. The present military situation suggests that Russia will be that Power; and that the Russians may, therefore, assume the chief responsibility for the Austrian settlement. Yet earlier reports spoke of an agreement between the major Allied Powers on a joint occupation of the country. Whatever the present strategic circumstances, a joint occupation seems to be the more likely solution. Austria's position at the cross roads of Europe will certainly compel all the major Powers to interest themselves in its fate. The only sound solution would, therefore, be a joint agreement in

advance among the Allies on the shape the settlement will take.

The Allies' declaration that the restoration of Austrian independence is one of their war aims does not alter the fact that on the morrow of liberation Austria will have none of the attributes of sovereignty. No change of Government similar to those which have taken place in Budapest, Sofia, Bucharest or Rome can take place in Vienna; there can be no continuity of Government either with the Nazi administration or the old independent Austrian Government which preceded it.

This negative aspect of the problem—the lack of government—is obvious and raises no great controversy. It is much more difficult to answer the positive question: what sort of government can be installed in Vienna? Like most continental exiles, the Austrians are discussing which of their governments was the last legitimate and constitutional government. Austria's sovereignty was extinguished in March, 1938, when the Germans entered Vienna. On the face of it, the restoration of Austria's independence ought to mean a plain return to the *status quo* of 1938. Right Wing and Conservative opinion in Austria, in so far as it has not followed the Nazis, will certainly stand for this solution. On the Left the view has been advanced that a return to 1938 will not do. The Austrian Socialists regard the "Dollfuss interval" or the "Clerico-Fascist" system that prevailed in Austria from 1933 to 1938 as anti-constitutional and illegitimate. They demand a return to the *status quo* of 1933, in other words, to parliamentary democracy based on the constitution of 1920. From a strictly formal and legal viewpoint, Allied diplomacy may be inclined to go back to 1938 and to link up the threads of Austrian independence at the point at which they were actually severed. In spite of its failures

and eventual bankruptcy, the Dollfuss regime did preserve Austria's formal independence until 1938. On the morrow of liberation, however, the controversy will certainly sound like futile constitutional hair-splitting.

The system which, under Dollfuss and Schuschnigg, lasted from 1933 to 1938, was based on a relative balance of forces between the Nazis and the Socialists. The Nazis were still too weak to gain power, while the Socialists were no longer strong enough to exert the dominating influence which was theirs under the democratic Republic. This gave the Heimwehr the chance to gain authoritarian control over the country and to drive both Nazis and Socialists into a somewhat unreal underground. The Heimwehr has long since been swept away; and to a large extent it has been absorbed by the Nazis. The alignment of political forces on the morrow of Austria's liberation will be very different from its last days of independence in 1937 and 1938. The Austrian Socialists are probably not over-optimistic when they hope for an ascendancy of the Left, at least immediately after the war. Whatever the legal subtleties of the issue the popular mood in liberated Austria will probably demand a return to the democratic forms of the pre-Dollfuss period. It is for this reason, too, that the Monarchist plan to restore the Austrian throne to the Habsburgs seems quite hopeless.

\*

But what will an ascendancy of the Left mean in liberated Austria? Before the *Anschluss*—the union of Austria with Germany—the Austrian Labour movement was only very slightly affected by the split between the Socialists and the Communists—the Communists were a tiny sect and the Socialists spoke for the whole of the Labour movement. The fact that they were defeated by the Heimwehr in February, 1934, probably did not diminish their moral standing with the Austrian working classes; on the contrary, the fight itself, which contrasted so sharply with the sad passivity and capitulation of the German Left, surrounded the party of Otto Bauer and Julius Deutsch with a halo of heroism. The new prospect of strong Russian influence in Austria may, however, make it more difficult for the Socialists to take the lead. Their differences with the Communists may become more serious; although the Austrian Socialists were counted among the Left in the second International, they always insisted on their political independence *vis-à-vis* Moscow. In exile the controversy between Communists and Socialists has grown bitter, with the Communists laying stronger emphasis on Austrian nationalist feeling and coalescing with the Monarchists against the Socialists. In liberated Austria such a coalition may, perhaps, turn the balance against a revived Social Democratic Party.

Other reasons, too, will make the return to the *status quo* extremely difficult. The Austrian administration has been thoroughly nazified; and it will be a formidable task to reverse that process. In a recent statement on the second Austrian Republic,\* the Socialists outlined their programme for a purge in Austria's administration and economy. The problem that arises here is how to eliminate Nazi influence from the life of the second Republic and yet maintain the Republic's democratic character. Can a strong and influential body of opinion be put beyond the political pale without detriment to the working of a democratic system? On the other hand, can any democratic system be made to work at all, if the cadres of the Nazi movements—and they are by no means a small minority—are not rendered harmless? The dilemma is not confined to Austria; it is admittedly a European problem. It has already caused much trouble in the liberated Allied countries; and in the sharpest and most tragic form it will arise in Germany itself.

These are some of the problems that will exist immediately after liberation. In the long run, however, the really fundamental question is whether Austria will finally be content with the restoration of its independence. Will the

demand for an *Anschluss* not be raised again in the future? May it not in time disrupt the second Austrian Republic, as it disrupted the first? Immediately after the war the question may not be very urgent. The first reaction to the experience of Nazi rule and government from Berlin will, in all probability, be a strengthening of Austrian national feeling as opposed to pan-Germanism. Strong opportunist motives will also induce Austrians to opt for separation from Germany. As an independent State, Austria can at least formally disclaim responsibility for Germany's record in the war. It would clearly be inconsistent on the part of the Allies to regard the Austrians as having been a subjugated nation and also to demand reparations or indemnities from them. Austrian politicians who would otherwise perhaps be inclined to be rather sceptical about "Austrian nationhood" may, therefore, still regard independence as a convenient protection against the rigours of the peace settlement.

But the issue transcends opportunist and temporary calculations. The demand for the *Anschluss* is much older than the Nazis; it is likely to survive their collapse. Throughout the nineteenth century it was the Progressives, Liberals and Socialists who preached union with Germany, a union that was then obstructed by dynastic interests in the various German-speaking countries. After the collapse of the Habsburg monarchy in 1918, the Socialists were the flag-bearers of the *Anschluss*—the Socialist Otto Bauer framed the resolution for an *Anschluss* at the first session of the Austrian Constituent Assembly in 1919. It was only when the *Anschluss* came to mean the absorption of Austria into a nazified Germany, that the Austrian Left opted for independence.

\*

At present, uncompromising advocacy of Austrian separatism comes from the Monarchists and the Communists, while the Catholics and the Socialists seem more cautious in their approach to Austrian "nationhood." Socialists in particular seem to be confused on the issue. Their most prominent leader, Fritz Adler, has in commenting on the Allied statements on Austria's independence made some strong reservations. His view is that Austria ought to be granted the right of self-determination, which is the right to choose between *Anschluss* and independence. Other Socialists, headed by Oscar Pollak, seem to have accepted the gift of independence without reserve, but not without misgiving. It would certainly be a mistake to expect that, when the memories of the war and of Nazi rule have faded, a non-Nazi Germany will offer no attractions to Austria.

Sooner or later the Austrians will find that economically and politically they cannot stand alone. A customs union, if not a federation, between Austria and its Danubian neighbours—Hungary, Yugoslavia, Czechoslovakia—might be a possible alternative to a new *Anschluss*. It might revive in a republican form an economic unit that existed under the Habsburgs. But, so far, Russian policy has vetoed projects of Eastern European and Danubian regional federations; and Allied policy seems to have tacitly accepted this veto. Yet the "Neither-*Anschluss*-nor-Federation" attitude offers no positive and constructive solution to the Austrian problem.

In the years between the wars the lack of a practical solution to this dilemma made Austria a storm centre of European politics. As long as the former Central Powers lay prostrate after the defeat of 1918 the Western Powers insisted on the letter and the spirit of every provision and prohibition made in the peace treaties. Mild and peaceful attempts by Austria to enter into a customs union with Germany were effectively resisted and frustrated. Yet, when the *Anschluss* was achieved by force, Allied policy was paralysed and helpless. Will these mistakes be repeated after this war? Sovereignty, without a larger political and economic framework, can be a strait-jacket in which the Austrians find not independence but strangulation. The Allies have the chance in 1945 of rectifying the false settlement of 1919. But the evidence at the moment suggests that they will repeat it.

\* *Die Zweite Republik Osterreich*. By Karl Czernetz, Oscar Pollak and W. Rosenzweig. London, 1944. Price 1s. 6d.