

It was announced that the views of the Cabinet on the application of Article 15 of the Covenant to the Manchurian dispute had been communicated to the Powers.

League of Nations.

March 31st.—The Secretariat issued a report from Sir Miles Lampson, dated March 29th, stating that reports from neutral observers along the Chinese front confirmed the impression that incidents were occurring between the two sides, more especially in the Tahsing area, and a Japanese patrol had made a strong attack on a Chinese escort accompanying a neutral observer at a place near Tahsing. Japanese air reconnaissances were intensified over the Chinese lines, but the Japanese Staffs had issued orders with a view to preventing incidents such as those reported.

April 1st.—The first section was published of the Financial Committee's Report on Austria, Hungary, Bulgaria and Greece. (A short outline of the recommendations was published on March 24th, and was printed in the *Bulletin* of March 31st, page 20.)

The Report referred to the inability of all four countries to meet in full the service of their foreign debt in foreign currencies, and stated that this inability was not peculiar to Europe. The fundamental causes of the failures were not to be sought in defects in internal administration or policy. Some countries might have over-borrowed; others might have failed to maintain budgetary equilibrium or to reduce costs. But neither of these events, if they had occurred alone, would have been so serious had it not been for the collapse in world prices. Wholesale prices of raw materials and foodstuffs had fallen 40 per cent. in 1928, materially increasing the burden of the fixed charges of producers. The volume of Bulgaria's exports, for example, increased in 1930 by 80 per cent., but their value dropped by 3 per cent. In 1931 the weight again increased 40 per cent., but the value dropped 4 per cent. This had involved a vast change in the distribution of national income, and internationally it had imposed on debtor countries the need of transferring to their creditors an equivalently larger portion of their products. At the same time the demand for such products had declined.

The Committee was fully conscious of the fact that the measures of exchange control it had hitherto recommended and supported could be effective only for a relatively short period. The expectation that steps would be taken meanwhile to deal with the fundamental causes of the difficulties had not been fulfilled, and the Committee now considered that it was urgently necessary that positive action should be taken. At the moment, the bases for a final solution were unknown and it would, therefore, not be possible for the States in difficulties to formulate any final settlement—the immediate problem was to gain a breathing space, and for this there was urgent need for collective action in the form of loans to be raised in international markets under Government guarantees. The form of these should be the same as that used in the case of the 1923 Austrian Reconstruction Loan.

April 12th.—A special meeting of the Council opened to discuss the report of the Financial Committee on the proposals for concerted economic action in the Danubian States. It was decided that the report should be examined at once by the experts of the Governments of Great Britain, France, Germany and Italy. M. Tardieu, who presided, gave an account of the Four-Power Conference. Referring to the League Committee's suggestion for the floating of a guaranteed loan, he said this raised a problem of great importance and the four Governments considered that, before a decision was taken, it would be