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Title History of British Tariffs

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A HISTORY OF BRITISH TARIFFS

1923—1942

Continued from front flap

within the purview of this history. The formation of the National Government in 1931 was followed in rapid (and almost bewildering) succession by the Abnormal Importations and Horticultural Produce Acts, the Cabinet agreement to differ, and the Import Duties Act in February 1932. Then comes a long and detailed chapter entitled "Ottawa and After." An epilogue discusses the present-day implications of the Atlantic Charter (Clause IV) and the Lend-Lease Agreement (Article VII).

Deryck Abel recalls in this volume some lively episodes of inter-war history that many will have forgotten in the present turmoil. He gives a clear and authoritative narrative of British fiscal policy during the armistice years.

A HISTORY OF
BRITISH TARIFFS
1923-1942

by
DERYCK ABEL

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THIS BOOK IS PRODUCED IN
COMPLETE CONFORMITY WITH THE
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INTRODUCTION

Most schools of economic thought agree that the Hitlerian pronouncement, "We must export or die", applies to many other countries than Germany—not least to Great Britain. For indeed it is largely by the joint interaction and impact of export and re-export trade with internal trade that Britain has been able to achieve her twentieth-century population of forty-seven million souls. But for her Merchant Adventurers of all classes throughout six centuries and more, the British people would now form a peasant State perhaps some sixteen millions strong. Most schools of economic thought are similarly agreed that the maximum restoration and the eventual expansion of overseas commerce should be at least a major, if not the primary objective of Britain's post-war economic and fiscal policies.

The unhappy condition in war-time of our export trade, the very foundation of our living-standards, our population and our power, has been fully revealed in the Board of Trade comparative statistics for the years 1938-1943. The following are our export figures in terms of value during the past six years :¹

1938 .	£470,755,230	1941 .	£365,378,347
1939 .	£439,537,710	1942 .	£269,451,021
1940 .	£411,160,762	1943 .	£232,227,746

Contrasted with a figure of 25-30 per cent within the first decade of the present century, the following Board of Trade figures estimate the proportionate percentage of our exports to the total national income :

1938 .	10.2	1940 .	6.9	1942 .	3.5
1939 .	8.9	1941 .	5.3	1943 .	2.8

During these six years, the price level of all exports increased by as much as 71 per cent.

¹ Figures for 1943 include N.A.A.F.I. stores sent to the Mediterranean theatre of war. Figures for 1939, 1940 and 1941 include those for all forms of war equipment, whereas those for 1938, 1942 and 1943 exclude them.

Forty-five classes of goods are duly listed in the estimates under five main sections. Only one class has increased its export volume during this six-year period—namely, silk and rayon, which, allowing for a change in values, rose by one-tenth. Mainly on account of rises in benzol exports to the United States, dyestuff exports to India, and drugs and chemicals exports to India, the United States, Argentina and Brazil, chemical and dye exports generally increased from £22 millions in 1938 to £27½ millions in 1943—but their volume declined by nearly one-fifth.

Exports of woollen and cotton manufactures fell respectively from £263¼ millions and £49½ millions in 1938 to £18½ millions and £34 millions in 1943.

Coal exports fell in volume from 35¾ million tons to 3⅔ million tons and in value from £37½ millions to £6 millions.

Exports of machinery and vehicles declined from £58 millions and £44½ millions in 1938 to £28 millions and £8½ millions in 1943.

Iron and steel exports fell from £41½ millions to £6 millions.

It is a sad story, but it is more properly regarded as an incitement and an exhortation to fresh endeavour. Study of the problems arising from the resumption of our overseas trade will once more bring the fiscal question to the forefront of public discussion. If statesmen and business-men are inspired (as so many claim to be inspired) with the ideal of the maximum interchange of the world's goods and services, it will be found necessary to re-examine the fiscal policies of the nations, including Britain, during the years from Versailles to Munich. In view of the principles enunciated in the Atlantic Charter and recapitulated in the Master Lend-Lease Treaty, principles obviously emancipatory in letter and in spirit, there was considerable astonishment throughout this country at the Prime Minister's declaration during the House of Commons debate on the Empire on April 20-21, 1944:

"At my first meeting with the President of the United States in Newfoundland at the time of the so-called Atlantic Charter and before the United States had entered the war—a meeting of very anxious and critical importance—I asked for the insertion of the following words in the Atlantic Charter, which can be read in that document: '*With due respect for their existing obligations.*'"

"These are the limiting words, and they were inserted for the express purpose of retaining to the House of Commons and the Dominions the fullest possible rights and liberties over the question of Imperial Preference.

"Again, in February, 1942, when the United States was our closest Ally, I did not agree to Article VII of the Mutual Aid Agreement without having previously obtained from the President a definite assurance that we were no more committed to the abolition of Imperial Preference than the American Government was committed to the abolition of its protective tariffs."

Small wonder that *The Washington Post* should inquire "whether the end of war is going to witness a return to the pre-war days of discrimination and war, or to a serious effort to promote equality of treatment". Yet, less than five months later, undeterred by this incident, Holland, Belgium and Luxemburg joined in a tripartite customs union which may perhaps, in the long run, furnish a more durable model for the post-war world than anything yet conceived at Bretton Woods or Dumbarton Oaks. *The Times* newspaper of September 6, 1944, announced that Belgium and Luxemburg, which had already maintained a customs union since 1921, had entered on the previous day into an agreement with the Netherlands—a temporary agreement, devised as an intermediate step towards a lasting and complete customs union. The union, which is in sequence with the Atlantic Charter and the Lend-Lease Agreement as well as with a monetary agreement concluded by the three countries on October 21, 1943, provides for the admission, free of duty, of all produce, equipment and materials for relief and rehabilitation. More important still, it involves the abrogation of all payment of customs duties among the three States. Let us hope that, in the interests of the vigorous prosecution of the war and of the peace, Britain and the Allies will follow this admirable precedent by extending forthwith the policy of abrogating all payment of customs duties to Anglo-American trade and indeed to all inter-Allied commerce.

My aim has been to try to remedy the lack of a concise history in a single volume of the fiscal problem in Britain from 1923 until

the Lend-Lease Agreement of February 23, 1942. I have abstained from such a treatment of the theme as would necessitate my telling the story industry by industry, for that has already been accomplished, at least for the years 1931-8, by Dr. F. C. Benham in *Great Britain under Protection*. On the other hand, I have been at pains to outline the connection between purely economic data and the political, parliamentary and public atmosphere throughout the twenty years.

Mr. Francis W. Hirst encouraged me to begin writing this book during my convalescence from war wounds at Dunford House, Midhurst—on his kind invitation. To his friendship I owe an immense debt of gratitude. Mr. Hirst read through the book with me chapter by chapter and was an unfailing refuge in all difficulties. Mr. E. G. Brunker and Mr. Cecil Palmer read my typescript, offered invaluable advice and gave me generous assistance at every stage of the journey (doubly arduous in war-time) from manuscript to publication. I am also indebted to: Professor A. S. Turberville for help on a bibliographical point; Sir Gilbert Jackson for reading the earlier sections; Dr. G. P. Gooch and Mr. Casimir Smogorzewski for permission to incorporate on pages 125-8 and 142-3 certain paragraphs from articles of mine in *The Contemporary Review* and *Free Europe*; and Miss Florence Gott, Mrs. C. J. L. Brock and my sister, Miss Audrey Abel, for typing the manuscript.

DERYCK ABEL.

Highgate, 1945.

CHAPTER I

THE GENERAL ELECTION OF 1923 AND THE FIRST LABOUR BUDGET

AFTER the disruption of the Lloyd George Coalition ministry, Mr. Bonar Law assumed the Premiership in October 1922. Mr. Bonar Law has been described by Mr. J. A. Spender as "one of the supreme handy-men of politics",¹ but the combination of Poincaré with protectionist protagonists and the problem of the American war debt rendered impossible the fulfilment of his election pledge of "tranquillity" and "stability". The strain of office destroyed his health. In May 1923 he resigned, and five months later he died. Mr. Bonar Law had promised that there should be no fundamental changes in the fiscal order,² and so his relatively obscure lieutenant, Mr. Stanley Baldwin, the new Prime Minister, who was bound by the pledge, had to content himself with an examination of the circumstances. None the less, the McKenna duties with imperial preference and the Safeguarding of Industries Act, although unauthorized by the electorate, were in being long before the pledge had come into operation. Thus Mr. Baldwin was able in due course to argue that the pledge would not be infringed by "any slight extension or adoption of principles hitherto sanctioned in the legislature". When the Imperial Economic Conference met in October, Mr. Baldwin's non-committal presidential address only served to whet the fiscal appetite of Mr. Bruce, Prime Minister of Australia, and on October 9 Sir Philip Lloyd-Greame, President of the Board of Trade, offered proposals to the Dominions for new or increased preferential duties on dried figs, plums, apricots, peaches, apples, pears, raisins, currants, preserved fruits of all kinds, sugar and tobacco.

On October 25 the Prime Minister took the plunge, and although at Plymouth the water was pleasantly warm, he soon discovered that elsewhere it proved too hot for his complete com-

¹ *Great Britain, Empire and Commonwealth, 1886-1935*, p. 640. Cassell, 1936

² See *The Times*, November 8, 1922, for report of London speech

fort. Addressing the Conservative annual conference at Plymouth, he made three important declarations, and the tumultuous applause which greeted them took him entirely by surprise :

"There is the question of the export from countries where the currency has depreciated—a form of export from which we have suffered to some extent and are suffering even now. The whole problem is so new that it is difficult to see whence or how the attack on our markets may come, but we have seen quite recently that with the fall of the franc competition hitherto unknown in England from France has come to displace our own goods in our own markets. And no man can speak with certainty to-day as to the course of currency in any country, even in France, and we have to remember that, when our object is to safeguard our own people."

"The Board of Trade has been investigating certain distressed industries, and if the case is made out that on account of the grave unemployment and the nature of the competition to which they are subjected, special help is needed, I shall have no hesitation in asking my friend the Chancellor of the Exchequer to do what he can to safeguard those industries."

"Now from what I have said I think you will realize that, to me at least, this unemployment problem is the most crucial problem of our country. I regard it as such. I can fight it. I am willing to fight it. I cannot fight it without weapons. I have for myself come to the conclusion that—owing to the conditions that exist to-day in the world, having regard to the economic environment, having regard to the situation of our country—if we go pottering along as we are, we shall have grave unemployment with us to the end of time. And I have come to the conclusion myself that the only way of fighting this subject is *by protecting the home market.*"¹

Mr. Baldwin added: "I am not a clever man. I know nothing of political tactics, but I will say this: having come to that conclusion myself, I felt the only honest and right thing as the leader of a democratic party was to tell them at the first opportunity I had, what I thought, and submit it to their judgments."

The case was stated in greater detail on the same evening by Mr. Neville Chamberlain, Chancellor of the Exchequer, at Ply-

¹ Mr. E. G. Brunner points out that though the Protectionist agitation had been in full blast for two decades, this was the first occasion on which the term "protecting" was used by a leading protectionist statesman during the period.

mouth, and by Sir Samuel Hoare, Air Minister, at Salisbury, and next morning Mr. Baldwin awoke, like Byron, to find himself famous. He also found to his surprise that the press was speaking of the inevitability of a general election. At Manchester on November 2 Mr. Baldwin outlined a six-point programme, which included a tax on manufactured goods, especially those which he believed to cause the greatest amount of unemployment, a substantial preference to the Dominions, and the development of "our estate—our Empire". He emphasized that he did not intend to tax wheat, flour or meat, and in his speech to the House of Commons on November 15 he added cheese, butter and eggs to the list of exceptions. Eventually he decided that the "conclusions" which he had reached on the subject of unemployment, particularly with the forthcoming winter, were incompatible with the Bonar Law pledge, and therefore he advised the Crown to dissolve Parliament on November 16. Of his Cabinet colleagues, Mr. Neville Chamberlain, Sir Samuel Hoare, and Mr. L. S. Amery, First Lord of the Admiralty, were as happy as Mr. Baldwin about the programme, though Mr. Amery would have preferred a tariff on anything and everything. The Foreign Minister, the Marquis Curzon, who considered the reopening of the old conflict to be unnecessary and unwise,¹ maintained a stony silence. The Lord Privy Seal, Lord Robert Cecil, and the Secretaries of State for Colonies and War, the Duke of Devonshire and the Earl of Derby, indicated from the tone of their speeches that their approval was qualified and that they regarded the Baldwin policy as a temporary expedient permissible under abnormal conditions. The Lord President of the Council, the Marquis of Salisbury, visited the Continent. Three prominent Conservatives, the Earl of Birkenhead, Sir Robert Horne, and Mr. Austen Chamberlain who had refused to abandon Mr. Lloyd George at the Carlton Club meeting and had not held Government office since his fall, favoured the full programme of 1903.

Mr. Baldwin's personal difficulties in presenting his case to varied audiences were well expressed in the following lines :

"I'm a plain and simple countryman. This tariff bothers me.

I cannot make my meaning clear for other folks to see.

¹ See *Life of Lord Curzon* by Lord Zetland, Vol. III, p. 364.

For instance, when a heckler asks—and asking seems to scoff—

‘ Why put a tax on apples and from cider take it off? ’

I’m blessed if I can answer when I’m out of Worcestershire,
Where people grow the apples and so want them to be dear.

My Bewdley tariff works all right in Bewdley; but we find
That every other county seems to need a different kind.

Dundonians want free honey with a tax on marmalades;
Brum would prohibit foreign guns, and Sheffield razor
blades.

The politicians prime me, but their primings disagree.
On the one side there is Derby, on the other Amery.

I try to keep the whole thing vague; but through the screen
of smoke

A swarm of puzzling questions seems to penetrate and poke.

What taxes are protective, and what are preferential?

And will they yield a revenue if they are differential?

And what are raw materials, and what are foods essential?

And then at last a poser comes, perplexing and belated :

‘ If apples are protected, why are orchards compensated? ’

This is the ‘ mildewed straw ’ that breaks my patient camel’s
back.

So send me home to Astley Hall and let me have the sack.

Those diehards put me in this fix and made me tariff faker.

Better retire, resume the squire, and earn a pound an acre.”¹

Despite the disunity in the upper ranks of the party, the Prime Minister may have calculated that the differences between the two sections of the Liberal party, the use of the Bolshevik bogey and the capital levy against the Labour party and the presence of what then proved to be a very small protectionist element in the Labour party would altogether ensure a solid if reduced majority for his policy. Such hopes were disappointed. The manifesto published on November 19 by the Labour party strongly advocated free trade. Mr. Lloyd George returned from America and joined hands with Mr. Asquith for the first time since December 1916. The manifesto of the reunited Liberal party reasserted

¹ Quoted in *Safeguarding and Protection in Great Britain and the United States* by Francis W. Hirst, p. 19. Cobden-Sanderson, 1926

without reservation the case for free trade. The most conspicuous spokesmen for free trade were Mr. Philip Snowden, who inspired the Socialist rank and file with his own faith, and Mr. Asquith, Mr. Lloyd George, Sir John Simon, Sir Donald Maclean and Mr. Walter Runciman, who expounded the doctrine to receptive Liberal audiences all over the country. At Bradford on December 3 Sir John Simon made a striking appeal and a grim prophecy :

"I beg you, don't adopt a policy which is seriously calculated to reduce the whole standard of integrity and public spirit in our parliamentary life. Nobody who has any knowledge at all of the way in which a tariff is arranged and rearranged—the way in which a big business influence can bring its pressure upon a party to secure a little more on this or to take a little more off that—would doubt that we would be in for one of the gravest risks to our parliamentary standards that could possibly be presented. You will turn a great business community from the honest business of rebuilding British trade into a dirty business of attending in the corridors of the House of Commons, interviewing ministers, and bringing pressure on members, just in order to rig the tariff so as to make an artificial profit for a section of the community at the expense of its fellow countrymen."¹

Polling took place on December 6th, 1923.² At the dissolution the House of Commons had comprised 344 Conservatives, 144 Labour, 119 Liberals and 8 others. At the election the Conservatives, with 5,544,540 votes, obtained 258 seats. Although they gained 18 they lost 107 seats—40 to Labour and 67 to Liberals, who swept the west country. Despite losses amongst former supporters of the Lloyd George Coalition, the newly reunited Liberal party with 4,314,202 votes augmented its parliamentary strength from 119 to 158 seats. Labour, with 4,508,504 votes, secured 191 instead of 144 seats, and 8 Independents were returned. No less sensational than the defeat of several ministers

¹ *Yorkshire Observer*, December 4, 1923

² The general election of 1923 is often cited, even by some advocates of proportional representation, as the only election during the years of the armistice in which the distribution of seats accorded with the distribution of votes. This is not quite accurate, for if each vote had possessed equal value, the free trade majority would have been increased by seventeen seats. See the election tables in the *Liberal Magazine*, January 1924, pp. 22-25.

was the Labour victory at West Leicester over Mr. Winston Churchill, who, roundly condemning "the leadership of the March Hare and the Mad Hatter",¹ had fought his last fight as a free trade Liberal. Later Mr. Churchill, with a versatility that surprised old admirers, suddenly saw a new light, and within a year he was securely ensconced as the "safeguarding" Chancellor of the Exchequer in the second Baldwin ministry. However, in the meanwhile the electors had rejected the dose of protection prescribed as a remedy for unemployment, and the Conservatives were in a minority of 91 in the Commons. In a historic speech at the National Liberal Club on December 18, Mr. Asquith said, "For my part I tell you plainly I will not move a finger to continue or to connive at the prolongation of their disastrous stewardship of our national and international interests." Mr. Asquith stressed that the voice of the country had emphatically repudiated both protection and a capital levy. He declared, "If a Labour government is ever to be tried in this country, as it will be sooner or later, it could hardly be tried under safer conditions." Mr. Lloyd George and Sir John Simon expressed hearty agreement with the Asquith declaration. On January 8 the Government met Parliament, and on January 21 all the members of the Liberal parliamentary party except ten voted for the Labour Amendment to the Address, which was carried against the government by 328 votes to 256. Next day Mr. Baldwin resigned and the first Labour government was formed by Mr. Ramsay MacDonald. The constitutional implications and political consequences of Mr. Asquith's decision are rather inadequately discussed in the official *Life of Lord Oxford and Asquith*,² but suffice it here to say that the record of achievement of a "full-blooded" Labour-Liberal Coalition ministry would probably have been far more substantial than that of a Labour ministry dependent upon general Liberal support. With a common programme founded upon unswerving allegiance in foreign policy to the principles of the League of Nations, the liberation of internal and external trade, electoral reform and radical

¹ *The Times*, November 28, 1923.

² By J. A. Spender and Cyril Asquith. See Vol. II, pp. 342-6. Hutchinson, 1932.

measures of social reform based upon sound finance, a Labour-Liberal Coalition Government might have enjoyed several years of power and dispersed extremist dreams of a "planned economy".

With no previous ministerial experience whatsoever, Mr. Snowden, after only three months at the Exchequer, introduced his budget in a brilliant speech on April 29, 1924. The tariff changes which he proposed included the abolition of the 50 per cent additional duty on dried fruits, the reduction of the tea and sugar duties by 4d. and 1½d. respectively, the halving of the duties on cocoa, coffee and chicory, and the withdrawal of the duties on sweetened table waters. The depreciated currency duty was allowed to lapse. But the fiercest debates took place over the proposed repeal of the McKenna legislation which in 1915 had imposed *ad valorem* customs duties of 33⅓ per cent on specific luxuries—motor-cars, motor-cycles and their parts, cinematograph films, clocks, watches and musical instruments.¹ They were temporary war measures, calculated to reduce expenditure on luxuries, to save shipping-space, and to maintain the sterling exchange. As temporary war measures they had been defended in 1915 by so stalwart a free trader as Mr. Asquith, who had fully explained the nature of their origin in a debate in the House of Commons on June 12, 1923:

"The case as regards these duties is so patent, I may say so flagrant, that it does not admit of argument at all. Why and when were these duties imposed? They were imposed in the year 1915 by the government of which I was then the head, shortly after the first Coalition, and that government contained, as everybody knows, free traders and protectionists. They were imposed for one particular reason and one reason only. The question of revenue hardly came in; the revenue anticipated by the duties, and the revenue yielded by the duties, is really insignificant. They were imposed because the articles which were subject to these duties were articles of luxury imported from abroad, at a time when it was all important that the whole cargo-space of our carrying trade should be occupied, and occupied exclusively, by the necessities of life and of war, food, raw materials, and munitions,

¹ Hats and plate glass were also in the first list of McKenna duties, but were, in deference to public opinion, forthwith dropped.

without which we could not carry on the war. That was the sole reason for the imposition of these duties, and they were recommended by McKenna and the late Prime Minister, the one a convinced free trader and the other a convinced protectionist, on that ground and on that ground only. In other words, they were expedients to deal with the special emergency, for the successful prosecution of the war, and by universal consent, both of free traders and protectionists, they were to be abandoned when the war was over."¹

None the less it ought to be pointed out that since there were no corresponding excise duties, the McKenna duties were from the very outset bound to be protective. For five years after the armistice, successive Chancellors of the Exchequer, Mr. Bonar Law, Mr. Austen Chamberlain, Sir Robert Horne and Mr. Baldwin, in excusing their violation of the assurance given by Parliament when the McKenna duties were enacted, had pleaded that they were necessary for revenue. Short shift was made of this argument when the new Chancellor announced that the repeal was to cost only £2½ millions in the first year, and £2¾ millions in a full year. Mr. Snowden contended that the electorate had given a most decisive verdict against the proposal for a tariff on imported manufactured goods, and that therefore the Labour Government was under an obligation to repeal the McKenna duties. Unavailingly the protectionist press made full use of the counter-argument by Sir Robert Horne, that the electorate had repudiated only a general tariff. Despite official statistics which showed that one-fifth of a million people were employed in the motor industry and allied trades, leaflet literature stated that the proposal for repeal would throw two millions out of employment.² On May 13, the motion against repeal was defeated by 319 to 254 votes, and 1924 proved to be a prosperous year for the motor-car industry.

In his budget speech, Mr. Snowden disavowed his predecessor's proposals for the extension of imperial preference. He declared that his party had never considered that such a plan accorded with the best interests of the British Commonwealth, and ex-

¹ Official Report, June 12, 1923.

² For an amusing and instructive account of this campaign see *An Autobiography by Philip Viscount Snowden*, Vol II, pp 650-3. Ivor Nicholson & Watson, 1934.

plained that the previous ministry would have to bear responsibility for the disappointment in the Dominions and Crown Colonies.

"We do not propose," he continued, "to endorse or to offer any kind of guarantee in this connection over a period of years. All that we can say is, that, so long as we remain in office, we do not propose, in all the circumstances, to ask Parliament to abolish the preferences now accorded, which, we suggest, should remain on their existing statutory basis. But we wish it to be clearly understood that we reserve full liberty to propose to Parliament, whenever we deem it expedient in the general or financial interest, the reduction or abolition of the duties on all the commodities to which preference now applies."¹

The House debated this subject on June 17 and 18, when the Conservative party placed upon the Order Paper in Mr. Baldwin's name ten resolutions to seek parliamentary approval of the fiscal plan which the previous administration had submitted to the Imperial Economic Conference in October 1923. It was an astute move designed to play upon the divided loyalties of ex-Coalition Liberals, and here it partially succeeded, for Major-General J. E. B. Seely and Mr. H. A. L. Fisher, who had both held office under Mr. Lloyd George, argued that having once raised them it was wrong to dash to the ground the aspirations of public opinion in the Dominions. Mr. Asquith derided the resolutions as an "attenuated, emasculated, anaemic and even apocryphal version of the full-blooded doctrine of imperial preference". On the other hand Mr. Lloyd George was absent from the divisions and even paired in favour of the first resolution which proposed to exempt from duty empire figs, raisins, plums and currants, and was defeated by only 6 votes—278 to 272. This resolution attracted the votes of as many as 19 Liberals, who took no heed of Mr. Asquith's warning that if Parliament intended to make the preference in the first resolution really effective in favour of the Dominions and Colonies, as against Greece and the other countries which supplied Britain with currants, then it must raise the taxes on the imports of foreign currants at the risk of surrendering the advantage which Britain obtained from the Greek

¹ Official Report, April 29, 1924.

commercial treaty. But seeing that the majorities increased against the next three,¹ Mr. Baldwin abandoned the remaining six resolutions. Meanwhile Lord Birkenhead promised a gathering of Canadian editors that the decision of the Commons was not only not irrevocable, but that it should and would be revoked.²

After passing through its parliamentary stages the Finance Bill received the royal assent on August 1. In conclusion, the analysis by two learned historians of finance, Sir Bernard Mallet and Mr. C. Oswald George, may be quoted here :

"This budget was notable in many ways; it was . . . the first budget to be produced by a Labour Government in this country; it created a record by its sweeping reductions in indirect taxation; it reduced the total indirect tax burden to the lowest level it was likely to reach for many years to come; and finally it marked a turning-point in British tariff history, for with the repeal of the McKenna duties, the automatic lapse of the depreciated currency duty, the reductions in preference entailed by the reduced import duties, and the defeat of the Conservative preferential resolutions, the British tariff was nearer the free traders' ideal than it had been for many years. Protection and imperial preference seemed to have lost nearly all the ground gained during the war and post-war period, but the pendulum was soon to swing in the other direction."³

The first Labour Government lasted ten months. The resumption of diplomatic relations with Russia, the personal successes of Mr. Ramsay MacDonald in connection with the problems of the Ruhr and reparations, and the financial triumphs of his Chancellor were all warmly applauded by public opinion throughout the country. A proposed loan to the Soviet Government infuriated Tory opinion and alienated the sympathies of Liberals, many of whom were annoyed by the Prime Minister's unfriendly attitude towards proportional representation. In matters of social

¹ In favour of increased preferential rebates on empire tobacco and wines and the stabilization for ten years of the sugar preference.

² *Manchester Guardian*, July 7, 1924

³ *British Budgets, 3rd Series, 1921-1933*, p. 124 Macmillan, 1933. See also Francis W. Hirst and J. Ernest Allen *British War Budgets*, pp. 460-90, in the *Economic and Social History of the War Series* published on behalf of the Carnegie Endowment for International Peace. Oxford, 1934.

reform, other Liberal critics complained of the general incompetence of his colleagues, apart from Mr. Wheatley, who introduced a Housing Bill. In his biography of C. P. Scott, Mr. J. L. Hammond expressed the keen disappointment of the advocates of "Lib.-Lab." co-operation.

"Progressive politics," he wrote, "were perplexed by the problems arising from the relations of parties and the relations of persons. . . . All the more active Liberal elements were in sympathy with the Labour Government and ready to help it. For the first time since 1918 England had a House of Commons in which the parties of the Left were in the majority. . . . But the Labour Government, and in particular the Labour Prime Minister, were sensitive and suspicious, dreading and resenting Liberal patronage, and the Liberals on their side were often difficult, tactless and inconsiderate."¹

Liberal-Labour co-operation was finally wrecked by the Campbell prosecution. On October 8 the Government was defeated by 364 to 198, and the King granted the Prime Minister's request for a dissolution. Thus yet another quite unnecessary general election was forced upon the country.²

In the 1924 election fiscal policy was less prominent than in 1923. Excepting the statement that the Labour Government had swept away £30,000,000 of annual taxation on the people's food,

¹ *Life of C. P. Scott of the Manchester Guardian*, p. 293 Bell, 1934

² It will be remembered that on June 26, 1846, the House of Lords passed the Corn Bill and the House of Commons rejected the Coercion Bill. In a letter to Peel on June 23, Cobden had urged the Prime Minister, in the certain event of the defeat of the Coercion Bill, to dissolve parliament. The following extract from Sir Robert's reply dated June 24 is relevant to the constitutional discussion on the correctness of MacDonald's decision to dissolve in 1924 "I do not think a minister is justified in advising dissolution under circumstances as the present, unless he has a strong conviction that he will have a majority based not on temporary personal sympathies, not on concurrence of sentiment on one branch of policy, however important that may be, but on general approval of his whole policy." See John Morley, *Life of Richard Cobden*, Vol. I, Chap. 17, pp. 390-414 Chapman & Hall, 1881

King George V noted in his journal on October 9, 1924: "At ten received the Prime Minister, who informed me that the Government had been defeated last night over the Campbell question, and that he must ask me for a dissolution. I gave my consent with regret as it means an immediate General Election and the last one took place only nine months ago and the country is tired of these constant elections." Quoted by John Gore: *King George V A Personal Memoir*. John Murray, 1941. The Prime Minister's "must" was, of course, disputable.

the Labour manifesto did not refer to fiscal policy. In a four-paged manifesto Liberals allotted four lines to free trade. The Tories were more explicit. During the campaign, Mr. Baldwin at Gravesend on October 23 stated that the Conservative party was not going back on the pledges which it had given in office to the Dominion representatives in the previous year. He was therefore pledged to duties of 5s. per cwt. on foreign apples, 10s. per cwt. on foreign canned salmon, 10s. per cwt. on honey, 6d. per gallon on fruit juice, 10s. 6d. per cwt. on foreign dried fruits, and from 5s. to 10s. per cwt. on foreign preserved fruits of all kinds. But he also promised that if the Conservative party were returned to power, there would be no taxation of food. He justified the inconsistency by the plea that life could be sustained without the foods which he proposed to include in the preferential tariff. Fortunately for Mr. Baldwin the electors were so pre-occupied with the Zinoviev red herring that they neglected his views on their diet. The Zinoviev letter, denounced by Labour as an ingenious fabrication, fathered by the *Daily Mail* upon the Foreign Office and published by the latter, appeared five days before the election. Dexterous manipulation by their opponents of the so-called "Red Letter" helped to extinguish at the polls on October 29 three-quarters of the Liberal parliamentary party and one-quarter of the Labour parliamentary party. Conservatives, with 7,838,225 votes, obtained 415 seats.¹ Despite the difficulties confronting the defence of its Russian policy, Labour, with 5,423,589 votes, secured 152 seats. The Liberals were the chief sufferers from a dissolution, for which they were held partly responsible. With 2,925,142 votes,² they returned 42 strong. Their leader, Mr. Asquith, lost his seat at Paisley and accepted an earldom from King George V. On November 4, 1924, Mr. Ramsay MacDonald resigned. A reunited Conservative ministry was formed by Mr. Stanley Baldwin.³ The new Chancellor of the

¹ The Conservative total included three "Constitutionalist" members, Mr. Winston Churchill, Sir Hamar Greenwood and Captain A. H. Moreing.

² The slump in the Liberal poll was mainly due to their having nominated 111 fewer candidates than in the previous year.

³ Foreign affairs and India were consigned to Mr. Austen Chamberlain and Lord Birkenhead, who had both from a distance manifested towards the first Baldwin Government a general benevolence which recalls not only Pitt's attitude towards

Exchequer was Mr. Winston Churchill, a free trader, with the most ardent of the protectionists, Sir Philip Cunliffe-Lister, formerly Lloyd-Greame, at the Board of Trade. Mr. L. S. Amery went to the Admiralty. The Ministry of Health was accepted by Mr. Neville Chamberlain, who had led the campaign for the reimposition of the McKenna duties together with the Imperial Economic Conference policy.¹

the ministry of Henry Addington, later Viscount Sidmouth, but also Canning's now hackneyed couplet. In 1925 Lord Balfour succeeded Lord Curzon in the Presidency of the Council. Lord Derby, who although favouring a "preferential revenue tariff" had promised Lancashire that he would do what he could to take the protectionist sting out of safeguarding, remained outside the government with the Duke of Devonshire.

¹ See speeches at Rugby (October 6), Birmingham (October 14), Walsall (October 23).

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CHAPTER II

THE SAFEGUARDING EXPERIMENT: 1925-9

It was not long before ministers set to work upon the fiscal part of their election manifesto which had stated :

“The folly committed by the (Labour) Government of choosing such a time to abolish the McKenna duties and Part 2 of the Safeguarding of Industries Act, under which certain industries were rapidly expanding and giving increasing employment, and the even greater folly of wrecking the hopes of the rapid expansion of imperial trade which would have followed on the adoption of the proposals of the Imperial Economic Conference, are now only too evident. The Unionist party would be unfaithful to its principles and to its duty if it did not treat the task of grappling with the unemployment of our people and with the serious condition of industry as a primary obligation. While a general tariff is no part of our programme, we are determined to safeguard the employment and standard of living of our people in any efficient industry in which they are imperilled by unfair foreign competition, by applying the principle of the Safeguarding of Industries Act or by analogous measures. Without such provision, the carrying out of the policy embodied in the Dawes' report, in itself desirable as calculated to secure German reparation and to restore stable economic conditions in Europe, might only prove disastrous to ourselves.”

On December 17, during the debate on Captain Wedgwood Benn's Amendment to the Address, it became manifest, as Viscount Grey of Fallodon pointed out in a subsequent speech, that ministers, although they had taken a pledge against protection, had not taken one of total abstinence. Mr. Baldwin indicated that the sole means of promoting protection for the duration of the 1924 parliament would be through a safeguarding act. Accordingly a White Paper (Cmd. 2327) on procedure and enquiries, which was debated in the House of Commons on February 16, listed the conditions with which applicants for a safeguarding duty were obliged to comply before the President of

the Board of Trade would appoint a committee of enquiry. They had to demonstrate that the industry was of "substantial importance", that it had suffered from "exceptional" competition and serious unemployment, that there had been "unfair competition" on account of currency depreciation, subsidies or inferior labour conditions in competing countries, that in Britain the industry was reasonably efficient, and that other British industries using the product would not be harmed by a safeguarding duty. Prudently the White Paper did not attempt definition of terms—a puzzle for which doubtlessly Brigadier-General Sir Henry Page Croft and Mr. Herbert Williams would have discovered entirely different solutions from, say, Mr. Leif Jones and Mr. Richard Holt. In cases where Sir Philip Cunliffe-Lister favoured the applicants, he appointed a committee whose members determined their own procedure and sat in public except when they felt inclined to sit in private. Theoretically the committees heard evidence and reported to the Board of Trade. They had also to report whether, having regard to such conditions, the applicant industry had in their opinion established a claim to a duty, and if so what rates of duty would reasonably suffice to countervail the "unfair competition".¹

Mr. MacDonald's anti-safeguarding motion was defeated in the House by 335 votes to 148, but Sir John Simon was soon proved to be right in his contention in the course of the debate that an industry might obtain a tariff in violation of the conditions of the White Paper. The report of the Lace Safeguarding Committee concluded that imported laces were not retained for consumption in the United Kingdom in quantities that could be described as abnormal,² and admitted that in this respect the

¹ According to the White Paper of February 3, if the Committee recommended the imposition of a duty, and if the Board of Trade *and the Treasury* concurred, the duty should be proposed in a Finance Bill. This would obviously have been a serious departure from constitutional practice, for the function of a Finance Bill, strictly speaking, is confined to finance. Such a departure was suggested on February 3—less than two months after the Prime Minister's pledge to the House of Commons: "We have no mandate for Protection, and we have never asked for it. . . . So far as the protection of any industry goes in this Parliament, the only avenue open to them is the avenue through the new Safeguarding of Industries Act." (December 17, 1924.)

² The Board of Trade figures show that lace imports had dropped from £1,648,000 in 1910-13 to £748,000 in 1921-4.

applicants had failed to bring their case within the strict terms of the White Paper, yet it went on to recommend a duty. The first safeguarding duty under the new procedure imposed on July 1, 1925, for five years the $33\frac{1}{3}$ per cent *ad valorem* rate with a preference of one-third for empire products upon "lace or cotton, silk or other fibre, whether made by hand or machine; products (not being solid fabrics) of the machines known as the Leaver's lace machine, the lace curtain machine, the lace net machine, or the circular lace machine; embroidery manufactured on net or any fabric, which, or the main part of which, is eliminated before the article reaches its final stage".

The Chancellor of the Exchequer was content to leave lace to the tender mercies of the President of the Board of Trade, and for the sake of revenue he made silk his speciality. Mr. Churchill's custodianship of the national finances during the next four years was never characterized by the colourless mediocrity of most post-war ministries and ministers, for he regarded his tenure of the Treasury as yet another exciting adventure. Through all the vicissitudes of the years 1906-22, he had enjoyed long experience of most high offices of State, from the Chancellorship of the Duchy of Lancaster upwards, yet it was not until he introduced the budget on April 28, 1925, that he made his first incursion into the wider realms of financial and fiscal policy. His most sensational announcements concerned the return to the Gold Standard and the contributory pensions scheme for widows and orphans. Mr. Philip Snowden and others who led the free trade attack on the budget denounced the import duty of £4 per cwt. on foreign hops for the benefit of hop-growers in Kent and Sussex, the increased preference on sugar, wine and dried fruits, and above all the reinstatement of the McKenna duties, of which the new Chancellor said: "To some they are a relish, to others a target, and to me a revenue."

Controversy was, however, prolonged over the duties on silk and artificial silk. In his budget speech, Mr. Churchill explained that the silk duties were revenue duties, because excise duties almost equivalent in size were to be imposed on artificial silk manufactured at home, but nevertheless modifications during the debates rendered the duties definitely protective. On May 6

a strong resolution against the duties was passed by the Joint Standing Committee of the Cotton Trade, which represented all sections of the cotton trade in Lancashire and the adjacent counties. The value of artificial silk yarn as a supplementary fibre to cotton and its effect upon the cotton revival then in progress were demonstrated by Mr. John H. Grey of the Cotton Spinners and Manufacturers Association, who led a deputation to the Chancellor on May 15. Other business men in the textile industries spoke of the use of artificial silk together with wool in dress goods and knitted wear, especially jumpers, and together with alpaca for linings in men's suits. Messrs. Courtaulds, the largest manufacturers of artificial silk, in a statement on May 14, explained that artificial silk was a new raw material, chemically produced from wood or cotton pulp, and that it had nothing in common with silk except its lustre. They went on to say that it was manufactured and sold in the condition of yarn prepared for the weaver and knitter, that it was not much more expensive than the better qualities of wool and cotton, with which it competed, combined and supplemented, and finally, that the history of their industry gave an emphatic denial to the Chancellor's statement on May 11 that the silk duties would not affect the volume of trade.¹

When the silk duties came into force on July 1, 1925, the customs officials immediately initiated a hue and cry after strands of artificial silk in all types of garments. Thus cotton handkerchiefs adorned with a representation of Felix were taxed because the cat was the proud possessor of silken whiskers, just as the most unmelodious of squeaks in a child's teddy-bear was

¹ On May 20 the changes were embodied as follows in the tariffs on silk and artificial silk.

(a) On silk On silk yarn undischarged, 4s 8d per lb; noil yarn, 1s 5d. per lb; other yarn, discharged, 6s 8d. per lb; tissues, undischarged, 5s. 3d. per lb; discharged noil tissue, 1s. 7d per lb; habutai, 6s 6d per lb; all others, 7s. 9d per lb.

(b) On artificial silk waste, 1s per lb.; single yarn, 2s. per lb; other yarn, 3s. per lb; tissues, 3s 6d per lb.

(c) On manufactured goods containing silk and artificial silk If the silk contents were more than 20 per cent of total value of goods, 33½ per cent; if between 5 per cent and 20 per cent of value, 10 per cent; if up to 5 per cent of the value, 2 per cent.

Imperial preference of one-sixth for all three classes.

subject to a duty as a musical instrument under the reimposed McKenna tariffs. The new measures inconvenienced traders to such an extent that advertisements urged readers of colonial newspapers: "Why buy French silk in London? Send your enquiries to Lyons direct."¹ The *Daily Express* described the frequent delays: "Before the tax came in a model sent from Paris by the night mail reached the London dressmaker by 10.30 the next morning. Now even if a gown is sent by air, it usually takes five days to pass the customs. Often it has taken a fortnight."² Another illustration was provided by Sir John Barlow in a letter to the *Manchester Guardian*:³

"SIR,—My daughter arrived last week at Victoria Station, London, having travelled through from North Italy. Upon being asked by the Customs Officer if she had anything to declare, she replied, 'No; she had made no purchases abroad of clothes.' She opened her box and her dresses were taken out. He asked when and where they were bought. She replied, 'In France last spring.' 'Had duty been paid on them?' 'Yes.' 'Had she the documents with her?' 'No; they were at her home in the country.' 'What proof could she give that duty had been paid?' 'She had only her word to give.' The officer let her pass with the warning that on another occasion she would have to pay duty a second time—on clothes which had been worn for half a year—unless she could produce papers.

"She was also told that if she bought a dress in England and took it abroad she would be required to produce the bill in order to prove that it had been purchased in England. This procedure appears to involve travellers taking with them large quantities of receipted bills.

"The above facts, though comparatively trivial, yet typical of the working of the Silk Duties Act, are but a minor grievance as compared with the grave hindrance to commerce which those connected, like myself, with our overseas trade, are experiencing under this Protectionist Government."

It is significant that even after the duties were modified few business organizations beyond the Silk Association of Great Britain and London Chamber of Commerce expressed satisfaction.

¹ *Manchester Guardian*, August 22, 1925

² September 4, 1925

³ September 28, 1926.

There was general concurrence in business circles with the arguments brought forward by the two Oppositions in the House of Commons that the silk duties as taxes on clothing struck hard at women with the smallest means, that as taxes on raw material they constituted more of a hindrance than a help to a rising industry, artificial silk, and that as protectionist taxes, they provided the Exchequer with far less money than they appropriated in increased prices from the consumer. On the other hand, it was never denied that through a rise in prices, a diminution of supply and a decrease in the export and entrepôt trades, an industry could often enlarge its profits at the expense of a nation.

Nothing daunted, the Government went on to fashion more bricks for the safeguarding edifice. Before the end of the session of 1925, the committees on gas-mantles, gloves, cutlery and wrapping-paper issued their reports, which have been acutely analysed in detail by Mr. E. G. Brunker in the pages of *The Free Trader*.¹ The gas-mantle industry had had a troublesome passage for five years before its admission to the harbour of State aid. In 1921, Part 1 of the Safeguarding of Industries Act had excluded gas-mantles from the protection afforded to the 6,000 so-called key industries. The Board of Trade later appointed a referee to consider the application, and it was decided that gas-mantles should not be safeguarded, but that the cerium and thorium contained therein should be safeguarded by a duty of $33\frac{1}{3}$ per cent. Pleading "unfair competition" due to depreciated German currency, a further application finally succeeded through Part 2 of the Safeguarding of Industries Act, and an import duty on German gas-mantles had been in force till expiry in October 1924. On April 30, 1925, the safeguarding committee was appointed. On the same day, the President of the Board of Trade stated that the use of gas-mantles during the Great War had enabled the stripping of gas of various constituents essential to the manufacture of explosives and that the gas thus stripped would be practically useless for lighting purposes without the use of incandescent mantles. Though this was entirely irrelevant to the conditions of the White Paper, it fulfilled its purpose for an industry which had not been "substantially important" during

¹ See *The Free Trader*, January 1926, Vol. XVI, No. 57.

the previous three years to employ more than an average of 1,624 people. The committee eventually assented to the duty on the ground that it represented "practically the sole commercial outlet" for thorium and cerium, two chemicals which were required to make arc carbons for searchlights and would thus be fundamental to a successful anti-aircraft defence in the event of war. The committee finally recommended that if the Government could find no other method of maintaining the production of thorium and cerium, an import duty of 6s. per gross "would enable the mantle industry, reorganized and concentrated as it might be, to maintain itself in a healthy state".

The glove committee reported that the fabric glove industry had 1,800 employees, who, when added to 10,000 engaged in manufacturing leather gloves, became of "substantial" importance and thus fulfilled the White Paper conditions. It admitted that in 1913 74 per cent of our leather goods were imported and that in 1924 the percentage had fallen to $67\frac{1}{2}$. It overlooked the reduction during the eleven years of our imports from Germany by nine-tenths, from France by more than one-half, from Belgium by three-quarters, and from Austria from 370,000 dozen pairs to 679 dozen pairs. The committee stated that "as regards Italy, imports are being retained for consumption in abnormal quantities". The reduction of imports of fabric gloves from $2\frac{1}{4}$ million dozen pairs in 1913 to 841,000 dozen pairs in 1924 was taken to be of no account, for the committee held that it would be "unjust to assume that rigid regard must be had to the situation in 1913". Though the evidence of "unfair competition" was "very conflicting", it was deemed unfair enough to warrant a $33\frac{1}{3}$ per cent duty.

Mr. Philip Snowden declared that every single recommendation of the cutlery committee was a *non sequitur*. The committee reported that according to Scott's *Ivanhoe*, Sheffield was making knives during the reign of King John (1199-1216), therefore the industry was sufficiently important to merit a tariff in 1925. Indeed it deserved one still more, for in 1924 it employed 7,697 people. Moreover, even though 1913 figures were unavailable and retained imports had fallen from nearly $2\frac{1}{2}$ million dozens in 1921 to $1\frac{3}{4}$ million dozen three years later, figures provided by

the applicants, and never proved, revealed that the percentage in value of the approximate output had arisen from 6.2 in 1913 to 20.9 in 1924. Imports were therefore asserted by the committee to be abnormal. The committee, though it complained of the impossibility of securing unemployment figures for the cutlery industry, concluded that such unemployment should be attributed to competition. Official figures placed before the committee but ignored in the report indicated that 700 of the 980 cutlery workers unemployed at the time were makers of the old-fashioned type of razor blade and had lost work when safety-razors were introduced. Comparing and contrasting Sheffield with Solingen efficiency the report declared :

“ Machinery in Germany is used to a greater extent than Sheffield. . . . The greater application of machinery to the Sheffield cutlery trade would help considerably in meeting German competition. No advantage is to be gained from the use of machinery unless the machinery is kept constantly employed, and this is not possible when orders are few and far between. . . . It is clear that the Sheffield cutlery manufacturers are desirous of bringing their factories up to date in every possible respect. . . . They have not got the cash to-day for the purpose, and there is no prospect of their obtaining it unless there is a very marked improvement in trade.”

The report proceeded to recommend a $33\frac{1}{3}$ per cent duty.

The atmosphere and the work of the safeguarding committees were admirably depicted in a contemporary pamphlet by Mr. E. G. Brunker :

“ A visitor to one of our government offices might one day find himself straying into a somewhat dingy room, furnished with a long table at which four or five people are sitting, a couple of side-tables facing each other and similarly occupied, and a few chairs on which lounged gentlemen in various attitudes of repose, perhaps enjoying a pipe or a cigar. The intruder might hastily and apologetically withdraw, fearing that he had unknowingly disturbed the privacy of a somewhat informal board meeting or a gathering of the Committee of the Union of Public Benefactors or some other such organization, but he need not be so modest. He has a perfect right to remain if he wants to. He had unintentionally strayed into the room in which a committee duly appointed by the Board of Trade, and

publicly notified, is considering an application for the safeguarding of some British industry. He will not be actually welcomed, but nobody will turn him out, and he may sit and even smoke if the chairman is a good sort and has given permission. He must, however, keep silence, even when it dawns on him that what is happening there is going to affect him very intimately.

"The gentlemen (there may even be a lady) at the long table are the members of the committee and the Board of Trade officials; at the side-table sit the unrobed counsel for and against the application, facing one another, with their advisers; there is a witness chair and seats for an official shorthand-writer and a few press representatives. The rest of the company consists of a few people who have some business interests in the result of the proceedings, and perhaps one or two who, like the unwitting intruder, 'represent' the public at large. He may listen as long as he likes unless the chairman politely asks that those who are not engaged in his enquiry will kindly leave the room for a short time. Some confidential trade evidence is going to be given, and he has decided that it is to be given *in camera*.

"This is an unexaggerated description of the atmosphere in which a safeguarding committee carries on its deliberations. Nothing more unimpressive can well be imagined. But in this fuggy room a decision is being reached which will affect thousands or even millions of the community. Here a brick is being moulded to add to a tariff wall round our shores, if the committee so decides. Having moulded the brick, the committee passes it on to the Board of Trade, from which it passes to the Cabinet, and the final baking process is completed in the House of Commons."¹

In the House of Commons on December 9, 1925, the President of the Board of Trade introduced the three new series of tariffs when he moved the Second Reading of the Safeguarding of Industries (Customs Duties) Bill.² The measure proposed a 33½ per cent *ad valorem* duty on cutlery—fifty-seven classes of knives with one or more blades made wholly or partly of steel or iron,

¹ *The Safeguarding of Industries A Criticism* by E. G. Brunker, pp. 1-2. Published by the National Association of Manufacturers, 1925.

² "I do think that all supporters of the present system of free imports ought to be very grateful to us for bringing in this small measure of protection. I quite candidly admit that there is no distinction between safeguarding and protection. I do think there is a difference between safeguarding and a general tariff, but to safeguard an industry is to protect the industry, to pretend anything else is mere juggling with words"—Sir Frederick Meyer (Conservative) in the House of Commons, December 9, 1925.

other than surgical knives or knives for use in machines; thirty-seven classes of scissors, including tailors' shears and secateurs, made wholly or partly of steel or iron, safety-razors or component parts thereof and razors other than safety-razors, carving-forks, knife-sharpeners wholly or partly of steel, and handles, blades or blanks for any of the above-mentioned articles; on gloves made in whole or in part of leather or of fur, and of fur cut out ready for sewing into gloves but not including astrakhan gloves or gloves in which leather is used only as trimming or binding, and then finally on gloves cut or woven or knitted material consisting in whole or in part of cotton and sewn up and known as fabric gloves and material for such gloves, cut out and ready for sewing. A duty of six shillings per gross was recommended for gas-mantles for incandescent lighting, whether collodionized or not, and of four shillings and sixpence on impregnated hose for use in the manufacture of such mantles. The duties provided for colonial preference amounting to a reduction of one-third.

The Government in the following debate remained stonily indifferent to the criticism of a distinguished Unionist, Lord Hugh Cecil.

"There are tariff reformers," said Lord Hugh, "who seem to fall into the very lamentable error of supposing that if you restrict imports and thereby oblige the home consumer to purchase what he needs from home production, although he pays more for what he has to buy and the purchasing power of the country is reduced, yet that is a better thing to do than to let him have cheap imports. That is precisely the same fallacy as the fallacy of those who dislike labour-saving machinery, or the fallacy of those who work less hard than they might in order to make jobs for others. It is all the recommendation of restriction. . . . It is most lamentable to find in a Government paper purporting to deal seriously with economic questions that dreadful phrase 'unfair competition'. No human being knows what it means and it ought never to appear in a serious economic document. Of course the only purpose of having a foreign trade is to have things sent here more cheaply than we can produce them ourselves. We do not want foreign trade for any other purpose. The idea that you can make everything just as easily yourself at a cheaper rate, apart from being practically unattainable under the conditions of production abroad is not desirable. What we want from foreign countries are

the cheap things that they make cheaply in exchange for the cheap things that we make cheaply. A mutual exchange of cheapness is the purpose of foreign trade. . . . This present Bill appears to be framed on no economic principles in particular, and to make on the whole not for abundance but for restriction."¹

During the debates on the second reading, in committee, and on the third reading the Bill was under fire from Mr. Snowden, Mr. Runciman, Sir Alfred Mond, who next year transferred his talents to the protectionists and became Lord Melchett, Mr. A. V. Alexander, Mr. Sidney Webb, Dr. H. B. Lees-Smith, Captain Wedgwood Benn and Mr. Percy Harris. But Sir Philip Cunliffe-Lister, who plainly felt that numerical strength in the division lobby more than compensated for weak reasoning in the debating chamber, made no effective reply. Even the *Sunday Times* admitted that the heart of safeguarding had been "eaten out by acid logic" and commended a proposition that the President of the Board of Trade might grace the benches of the House of Lords.² On December 16 the third reading was carried by 247 to 134 votes, and six days later the proposed duties became law for five years.

The duty of 17½ per cent recommended in the report of the committee on packing and wrapping-paper was not allowed to be the object of special legislation and had to await the Finance Bill of 1926. Although the British Paper Bag Federation was not among the applicants for a safeguarding duty, the Federation adopted an attitude not provided for in the instructions to committees. According to the report, the Federation supported the appeal of the paper-makers, "on the assumption that the duty imposed on wrapping-paper would extend to the wrapping-paper in manufactured articles wholly or mainly composed of such paper. Failing such an arrangement they were opposed to a duty." The applicants represented only part of the industry and employed 4,350 workers, but claimed the addition of 60 per cent in order to cover the employees of the manufacturers not represented. They made a somewhat surprising reference to the many workers engaged in the collection and transportation of the raw

¹ Official Report, December 9, 1925.

² December 17, 1925.

material. The committee found that whilst home production had fallen, imports in 1924 had risen by one-twentieth during the past eleven years and were therefore abnormal. Summarizing the report Mr. E. G. Brunner wrote:

"Although 'there is a tendency for import prices to rise'; although 'we find it difficult to feel sure that cost and prices quoted for a few selected British papers are fully representative'; although 'it may be taken as established that there is a general belief in the superiority of the foreign papers'; although 'it would be unfair to consumers to take steps which might lead to the exclusion of the foreign product'; although 'Scandinavia has a natural advantage...';¹ although 'methods of marketing seem to be defective on the British side'; although 'the industry requires greater concentration and provision for specialization'; although many other circumstances arise which suggest very sound reasons why the applicants should have been sent home, without a tariff, to try and improve their business methods, the committee found that imported paper is being sold below our profitable production price and jump No. 3 was safely passed."²

Undeterred by the qualifications which dominated the report, the Chancellor of the Exchequer proposed a 16 $\frac{2}{3}$ per cent *ad valorem* duty on packing and wrapping-paper on April 26, 1926. He drew from Mr. Lloyd George a vigorous indictment of "this kind of leaping protection, this kangaroo protection, jumping here and there, making little advances here and there". It was generally felt on the Opposition Benches that although 7,000 paper-makers might benefit by protection against the import of Kraft paper from Sweden and Germany, a cheap supply was essential to a third of a million who handled wrapping-paper as a raw material.³ Indeed on July 15 there was some criticism of the measure by five Conservative members, Professor Sir John

¹ e.g. timber, water-power, "long experience, specialization, and machines suited for large-scale production".

² *The Free Trader*, January 1926, pp. 27-9.

³ See the memorandum of the Conference of Wrapping Paper Users, *Manchester Guardian*, April 23, 1926. The opponents of the duty claimed that the wrapping section was "relatively the most backward and inefficient portion" of the industry, and that a very large percentage of the machines owned by mills in the Wrapping and Packing Union were antiquated and capable of producing only thick wrapping and sugar papers.

Marriott, as representative for York, a centre of the chocolate industry, Mr. Kennedy (Preston), Commander Astbury (West Salford), Mr. Gerald Hurst (Moss Side), and Mr. Cyril Atkinson, K.C. (Altrincham), who as referee under Part 1 of the Safeguarding of Industries Act had favoured the removal of several chemicals from the key schedule. "I am personally quite convinced," said Sir John Marriott, "that the only result of applying protection in such a case will be to make the whole principle of safeguarding stink in the nostrils of the industrial community of this country."¹ On the report stage of the Finance Bill twelve Conservatives voted with the Opposition on July 15 in favour of Mr. Gerald Hurst's amendment to exempt from the duty "any wrapping-paper which is imported for the sole purpose of being used as raw material for the manufacture in Great Britain or Northern Ireland of carpets, matting, textilose, twine, boxes, bags". But the amendment was defeated by 221 votes to 139. On July 21 the third reading of the Finance Bill was carried by 326 votes to 118.

The likelihood of a social cataclysm provoked by controversy over the coal stoppage and the General Strike overshadowed the discussion of the 1926 Budget and of Mr. Churchill's Economy Act, whose most notorious feature was the appropriation of £1,100,000 of the £1,500,000 balance in the Navy, Army and Air Force Insurance Fund for disabled ex-service men. In general the budget was denounced by Mr. Snowden in terms scorned by Mr. Churchill as "parliamentary Billingsgate": "Twelve months ago I described the budget as a rich man's budget. To-day I describe this budget as the budget of a profligate and a spend-thrift." Despite the indefatigable Mr. Wedgwood Benn, the year 1926 witnessed the inclusion of commercial motor vehicles within the McKenna schedules² and the addition of four classes of articles, primarily scientific materials, to the taxes imposed by

¹ Official Report, July 15, 1926. Instancing 84,000 workers engaged in the production of chocolate and sweets, Sir John said: "It is not fair, in the interests of a very important manufacture in my constituency, to ask them to pay more for their own wrapping-paper and at the same time to compel them to submit to the competition of continental competitors whose wrapping-paper is specifically exempted from the duty to which the English manufacturers are to be exposed."

² Calculated to yield £300,000 in 1926 and £350,000 in a full year.

Part I of the Safeguarding of Industries Act which, passed in 1921, was due to expire in 1926, but was re-enacted for ten more years.¹ All the new tariffs involved colonial preference, the existing preference being stabilized for ten years.² However, in 1929 Mr. Churchill himself repealed both the tea duty and imperial preference on tea.

The next protectionist measure was a bizarre and complex concoction which went by the name of the Merchandise Marks (Imported Goods) Bill. To enunciate its provisions in intelligible terms is a thankless task, but the main lines of the Act may briefly be stated thus: Imported goods bearing the name or trademark of a British manufacturer must not be sold unless accompanied by an indication of origin. Two committees were to be appointed, one to cope with agricultural and horticultural produce and fish, the other to deal with goods of all other types, and in the event of a recommendation to that effect by one of the committees, an order in council might be issued to prohibit the sale of any goods of the type specified unless they bore an indication of origin which should take the form if necessary of some distinctive colouring. Persons who neglected to observe the regulations were liable to penalties. Decisions for administrative purposes were made by the committee, which bore no responsibility to the House of Commons. Opposition from the Chambers of Commerce of London, Birmingham, Manchester and Bradford contrived to secure several minor modifications, but the second reading was carried by 223 votes to 67. When Sir Burton Chadwick, Parliamentary Secretary to the Board of Trade, moved the third reading on November 24, Sir John Simon, discussing the question of fraud, expressed his astonishment at the ministerial belief that, where a public department could find a clear case of trade misdescription, there was not power under the law as it stood to grapple with it. On November 22 a Liberal amendment had

¹ The Key Industries Report of the Board of Trade Committee, which mentioned that the original thirty-nine classes of 1921 had already been expanded into 6,358 dutiable articles, recommended that in several cases the 33½ per cent rate should be increased to 50 per cent and urged the Board of Trade to make full use of its powers of definition.

² It was argued that since a British Budget operates only for one year, there was no constitutional reason why a new Parliament should not remove a duty imposed for a ten year period.

been moved by Mr. Percy Harris, urging that the sale of goods should not be prohibited which did not bear an indication of origin if it appeared that the interest of the consumers would be prejudiced by prohibition. It was defeated by 207 votes to 81. Next day a Labour amendment, moved by Mr. Sidney Webb, sought to exclude from the obligation to mark or to declare their place of origin "goods of a class or description which are not manufactured or produced in substantial quantities for sale in the United Kingdom". It was defeated by 252 votes to 103. Mr. Harris's next amendment, proposing to exclude raw fruit and raw vegetables, was also defeated by 270 votes to 111, and the third reading was carried on November 24 by 225 votes to 105. The main effect of the debate was to indicate that whilst ostensibly the ministerial objective was an assurance that buyers of imported goods should suffer no delusions as to the country of their origin, yet the real aim was further interference with imports. The argument against the Merchandise Marks Bill was well expressed by *The Economist*:

"The present moment, when Britain ought to be leading the fight for the reduction of trade barriers, is uniquely unpropitious for any attempt such as that made by this Bill, to restrict the free interchange of commodities between nations or to prejudice foreign goods. Secondly, it can hardly fail, in spite of a mitigating clause inserted by the President of the Board of Trade, to place obstacles in the way of our very important entrepôt trade. Thirdly, it lays upon importers, manufacturers and retailers a fresh burden of worrying detail, at a time when they especially need to be free to concentrate on bigger issues. Fourthly, it carried a step further the system of administration by committees not responsible to the House of Commons—a pernicious, and, unfortunately, a spreading system. Fifthly, apart from the aim of preventing fraud, its whole idea proceeds from false economics. Sixthly, and finally, it will cost money, put grit into the wheels of commerce, and will to a large extent prove unworkable."¹

Mr. Baldwin's Government then directed its attention to the subject of cinematograph films, since it deemed insufficient the protection already afforded by import duties on foreign films, amounting to 5d. per foot on negatives and 1d. per foot on posi-

¹ *The Economist*, November 27, 1926.

tives, with a preferential scale of two-thirds of the full duty for colonial imports. The Cinematograph Films Bill, of which the second reading was moved on March 16, 1927, by Sir Philip Cunliffe-Lister, aimed at the restriction of blind booking and advanced booking of films and provided that there should be no agreement for the renting of films to which the Act applied unless the film had already been registered. No agreement should be made for the exhibition of a film at a date more than six months from the time of the agreement. The penalty for infringing this part of the Act would be a fine up to £100. With a prescribed fee for registration, the Board of Trade would specify whether the film was British or foreign. Renters and exhibitors of registered films should acquire a proportionate quota of British films.¹ Exhibitioners would require a licence and would have to pay a £20 fine for every day without a licence. They must keep a book with details of exhibitions for inspection by Board of Trade officials and fines up to £500 would be imposed for non-compliance. The Board of Trade could make regulations in connection with any question that might arise from the operation of the Act.² Advising committees should comprise eleven members, including three with no pecuniary interest in the trade.³

A meticulous definition of a British film was provided :

"It must have been made by a British subject or by two or more persons each of whom was a British subject or by a British controlled company. The studio scenes must have been photographed in a studio in the British Empire, unless otherwise authorized by the Board of Trade for reasons connected with the nature of the story. The author of the scenario or the original work on which the scenario was based must have been a British subject. Not less than 75 per cent of the salaries, wages and payments for labour and services in the making of the film (exclusive of payments in respect of copyright and of the salary or payments to the film producer or to one actor or actress, but inclusive of the payment to the author of the scenario) must have been paid to British subjects or persons domiciled in the British Empire."⁴

¹ Sections 13 and 19 of Part 3.

² Section 28.

³ Section 29.

⁴ This definition was described in a letter to the *Evening Standard* on March 22, 1927, by Mr. T. A. Welsh, chairman of Welsh, Pearson & Co, an all-British film-producing company, as "a severe handicap and even a menace to British film

The *Daily Express* declared that of thirty British films shown during the previous year only three were first-class box-office attractions. The President of the Board of Trade himself, in moving the second reading, denounced as intolerable the fact that merely one-twentieth of the films shown in the British Empire were of British origin, for the modern cinema represented an important influence upon civilization. He received much support on the grounds that the Hollywood film monopoly was alleged to propagate a false interpretation of English life throughout the world, but even so the British film censorship could eliminate films which offended in this respect. The measure of regulation involved in a direct Government grant such as advocated by those who urged the creation of a national theatre might have met this criticism, but there was not a single clause in the Cinematograph Films Bill which improved the quality of films.

"I cannot look on the British film business," declared Mr. Walter Runciman in the House of Commons, "as though it were a thing that one could cut apart from international art. The picture-houses are very nearly akin to the theatre. They certainly impinge to some extent upon the music-halls. Who on earth would ever suggest that in the music-halls you should have quotas such as are set up in this Bill? Who would ever for a single moment suggest applying the quota system to the theatre? If the President of the Board of Trade were to suggest applying the quota system to Covent Garden, he would close down the coming opera season. The truth is that this Bill has been devised by those who have a commercial interest in the British film industry and have no consideration whatever for those who either get enjoyment or education out of attendance at the picture palaces. . . . It is because of the clarity of atmosphere that film production has found itself concentrated in a few—very few—districts in America and Europe. Whatever attempts have been made over here have been handicapped on the commercial side as well as the artistic side because of our atmosphere being so much against the production of clear pictures. What this Bill can do to deal with the matter I cannot

production". He continued: "This Bill threatens to tax British exhibitors by forcing them to take quota films regardless of their booking prices or box-office values. It threatens to handicap the British producer by imposing restrictions which would jeopardize the making of the best entertainment pictures. It threatens in consequence to destroy the interest of the world's cinema public in British productions."

understand. You cannot possibly deal with it. All that the Bill says is that good, bad or indifferent, from 1929 to 1936 and thereafter, we must have British films in a certain proportion placed before us in every one of the picture theatres."

On March 16 the second reading of the Bill was carried by 245 to 137. Three days later a supporter of the Bill, Mr. A. C. Bromhead, Chairman of the Gaumont Company, of London, a company which had made British films for nearly a generation and had made profits every year since its formation, admitted that the producers did not need the Bill, and the London, Manchester, Bradford, Leeds and Bristol branches of the Cinematograph Exhibitors' Association all protested against the compulsory quota. A circular accompanying the questionnaire of the Provincial Entertainments Proprietors' and Managers' Association declared that the Bill was nothing less than an "iniquitous attempt to deprive entertainment managers of their freedom to contract and trade, as all British citizens until now have been legally entitled to do".¹ In spite of protests the Bill became law at the end of November for ten years.

Meanwhile the third Churchill budget was introduced on April 11. It was distinguished for its ingenious and successful manipulation of temporary expedients to meet the deficit of £30 millions. Discussing the Chancellor's attitude towards his deficit, Mr. Snowden compared him with King Charles VII of France, of whom it was said that no man had ever lost a kingdom with greater dignity. The reception accorded to the budget by ministerialists constituted, according to Sir Herbert Samuel, "the amused applause that is given to some tight-rope walker who crosses a river with a burden on his back, and who, after pretending to slip once or twice, reaches the bank and makes his bow".² Its fiscal measures comprised the addition of motor tyres to the McKenna duties, the imposition of a new safeguarding duty of 28s. per cwt. on translucent or vitrified pottery to obtain a revenue of £150,000, and the revision of duties on matches according to a

¹ *The Times*, March 16, the *Daily Express*, March 19, and the *Westminster Gazette*, March 19 and April 27, 1927.

² Speech at City of London Liberal Association dinner, *Daily Chronicle*, April 27, 1927.

plan submitted by the British match industry which, while producing an increased revenue of £700,000 in a full year, would be "more satisfactory to them in relation to foreign competition than the existing scheme".

Mr. Churchill, complaining that his artistic sense was offended by a tariff system which admitted free of duty the tyres of a motor-car while it taxed the remainder of the production, proposed, alike in the interests of symmetry and revenue, to rectify such a glaring anomaly. Next day an effective point was made in the House by Commander Bellairs, who asked "why we have this elaborate safeguarding procedure when we can have a duty on tyres, to which the Chancellor of the Exchequer devoted one minute in his budget speech, and which came into operation the following midnight". Mr. Churchill answered, "The procedure under the Safeguarding of Industries Act arises from the general policy of the Government as declared at the last general election. Nothing in that policy ever impaired, or was intended to impair, the full freedom of the Exchequer to deal with these matters on a revenue basis." The Chancellor's irrelevant reference to the Act of 1921 revealed the intentional confusion created by ministerialists whenever they sought to keep up the farce of differentiating between customs duties imposed under the Acts of 1915 and of 1921 or in accordance with the White Paper of 1925.

When introducing the translucent pottery duty, Mr. Churchill caustically remarked that the tax might win the gratitude of his old party the Liberals by supplying them not only with a ground for moral indignation but with an additional reason, if such were needed, for their continued political existence. The opposition was supported by a difference of opinion on the safeguarding committee. Although two members, Sir P. Henriques and Lady Askwith, had answered all the White Paper questions in the affirmative, the last of the trio, Mr. Hayhurst, had replied in the negative to every one of them. On April 28 Sir John Simon, after exposing the anomalies of committee procedure, argued that the conclusions of the majority report had received no support from the material examined during the enquiry and ought never to have been accepted by the Treasury or the Board of Trade. He ridiculed the demand for safeguarding by the

manufacturers of the expensive bone china made by a special process which employed 8,000 people at Longton in Staffordshire but nowhere else. The common felspar china bore no resemblance to the expensive bone china and thus there was no effective competition between the two species. The committee had also thrown in a tariff on the popular and low-priced vitrified pottery which had not been asked for by the applicants. Criticizing the estimate of the committee that a duty of 28s. per cwt. would be equivalent to $33\frac{1}{3}$ per cent *ad valorem*, Sir John, in a reference to Messrs. Woolworth, said :

“ They say, take a comparatively ordinary staple line in china, and if you take thin tea-sets you will get a consignment for £10 4s. 2d. and the tax as at present proposed, 28s. a cwt., will work out at £5 2s. od., which is almost exactly 50 per cent. But, they say, if you will take a thick cup and saucer, the kind that you will get in the kitchen or in the poorest homes, you will find that you can buy an almost similar weight, rather more, for £5 4s. 2d., but it weighs rather more, and the tax on that will be £5 10s. od. Here is this precious committee recommending its 28s. per cwt. and, as a matter of fact, it is not putting on a tax of $33\frac{1}{3}$ per cent at all, but in the case of the simple thick, coarse, rough ware, which is presumably principally used in very humble homes, it is actually adding something like 100 per cent duty. . . . The truth is that this is a particularly odious form of tax. It puts, and deliberately puts, the heaviest burden upon the poorest person and the cheapest article. It is really a cruel tax, and unless it is justified up to the hilt by a series of facts and figures which I, for my part, cannot find, I cannot conceive that it is the duty of the House of Commons to do anything but to vote that it should be rejected.”

The speaker was well supported by Mr. Pethick-Lawrence and Mr. Percy Harris, but the resolution was carried by 247 votes to 145.

The last two safeguarding duties, which were imposed in 1928 on buttons and enamelled hollow-ware, were passed almost unnoticed by public opinion, engrossed as it was in discussion of the derating scheme whose foundations were laid in the fourth Churchill budget on April 24, 1928. Other features were a reform of the national accounts, the establishment of a fixed debt charge of £355,000,000 a year, a raid on the currency note

redemption account, a tax of 4d. per gallon on imported petrol and other light oils, and a tax of 6d. on all imported or home-made mechanical lighters for the purpose, according to the Chancellor, of preserving "the efficiency of the far more important match industry, from which we get several millions of revenue each year". Already a safeguarding committee had reported that the superiority of the home trade in buttons was acknowledged. Indeed the only protest made was that British workmanship was "too good for the low end of the trade, from which in most cases the great bulk of the demand comes". Thus in order to protect the British article, "too good for the low end of the trade", against the competition of cheaper foreign imports, and simultaneously to raise a petty revenue of £130,000 in the current year,¹ the Chancellor proposed a $33\frac{1}{3}$ per cent *ad valorem* duty for five years on imported buttons "made of any material, and whether finished or unfinished, of a description commonly used for the fastening or decorating of wearing apparel or household linen, not being buttons forming part of any other article". On June 26, an impressive speech against the new tax was made by Mr. Percy Harris during the committee stage of the Finance Bill, when on behalf of the Liberal party he supported Mr. Adamson's Labour amendment. He predicted that the duty would do nothing to open new factories and that the manufacturers in London, Manchester and Birmingham of costumes for export would, since no drawback was permitted on buttons attached to exported garments, henceforth pay a tax on part of their raw material. The bone button had been almost superseded by a button made from a South American nut, and the character of the nut required the manufacture to be performed in a dry climate like that of Italy, which possessed nearly the entire trade. Mr. Harris emphasized that the only species of linen button imported was of the cheapest quality and was purchased by the poorest people, whereas protection was unnecessary to the British trade in a superior type, since the depression in the industry was due to a fashion change. A similar comment applied to the mother-of-pearl industry. It was the cheap shell button that was to be protected. There again no aid was offered to a British

¹ £200,000 in a full year.

industry, for the shell from which it was made was either a Japanese or a Chinese product, and could not be economically imported in a raw state.¹ Nevertheless the amendment was defeated by 234 votes to 133.

The application for a safeguarding duty for enamelled hollow-ware had failed in 1926. Superphosphates, brooms and brushes, aluminium hollow-ware, ladies' dress fabrics, hosiery, light leather goods, ladies' hand-bag fittings, handkerchiefs and household linen, and monumental and architectural granite all failed. The enamelled hollow-ware industry succeeded in its second application and persuaded a safeguarding committee to reverse the earlier decision. The 25 per cent duty recommended on enamel hollow-ware was surreptitiously tucked into the Finance Bill and introduced with only a few hours' notice on June 8 not by the Chancellor but by Sir Philip Cunliffe-Lister, President of the Board of Trade. The statistics of the committee report, which Sir Philip found "very short and very convincing", were forthwith challenged by Mr. A. V. Alexander. The President was deaf to the remonstrance of Mr. Percy Harris and Mr. Tinker that the tax was an imposition upon poorest working women who could not afford aluminium, which was cleaner and healthier for cooking purposes, and had to be content with enamel ware. The original motion was passed by 232 votes to 86. Thus the last of the safeguarding duties was introduced with as little noise as possible. Even as late as July 24, 1928, Mr. Churchill, whilst deprecating doctrinaire attachment to any particular school of thought, declared in the House of Commons: "In the fiscal sphere it seems to me that we ought not to contemplate any fundamental reversal of the fiscal system upon which the whole industrial and economic structure of this country is erected and with which it is profoundly interwoven."

On the other hand, Sir William Joynson-Hicks, the Home Secretary, told a Hampshire Conservative demonstration on July 28, 1928:²

"We have had safeguarding in several of our industries. In two

¹ For further information, see a useful article by Lewis A. May in *The Free Trader*, June 1928, Vol. VIII, No. 85

² At Broadlands Park, Romsey, Hampshire. *Observer*, July 29, 1928.

years the imports in these particular industries have decreased by nearly one-third. In trades which are not safeguarded the imports have increased by nearly 10 per cent. Exports in safeguarded trades have gone up by 10 per cent; in non-safeguarded trades exports have gone down by nearly as much. Employment in safeguarded trades has gone up by 10 per cent. These facts will be put before the electors at the next election. . . . We have proved that this scheme is worth trying."

Sir John Simon replied to this claim in a lecture to the Liberal Summer School at Oxford six days later.¹ One fact, he said, which deserved consideration from electors, not only at the election but at other times, was that the alleged success of the safeguarding experiment was supposed to be proved on this minute scale. He recalled the statement of Mr. George Terrell, President of the National Union of Manufacturers, that the safeguarding industries employed only 50-60,000 workers—one-third of one per cent of the millions engaged in industry. Sir William had confused together the results in cases like motor-cars, which were subject to the McKenna duties, and artificial silk, which had a special duty of its own—trades whose rapid expansion was due to world causes—with the results in the trades which enjoyed a safeguarding duty on account of their depression. Examining the Home Secretary's statement that exports in safeguarded trades had increased by 10 per cent, Sir John Simon showed from figures given by the Parliamentary Secretary of the Board of Trade in the House of Commons on March 21, 1928, that exports of the six industries which enjoyed a safeguarding duty at the beginning of 1928, lace, gloves, gas-mantles, cutlery, packing and wrapping-paper and pottery were 11·2 per cent less in 1927 than in 1924, the year before the publication of the Safeguarding White Paper. Indeed Sir William Joynson-Hicks had been able to reach his conclusions only by introducing the boom in motors and gramophones and artificial silk, and the facts in regard to exports of the trades protected under the Safeguarding White Paper showed the exact opposite of what the Home Secretary claimed. Sir John added, "Anyone can make a speech

¹ See pp 18-20, *Safeguarding Examined*, Liberal Publication Department pamphlet, August 1928.

from a platform in favour of protection and appeal to every passion and prejudice in every one of us, but if you are prepared to deal seriously with the question as a scientific question, it is a very heavy burden which the advocates of protection have to discharge. I am prepared to listen, but I shall not be converted until after better argument."

To recapitulate: in 1929, the first year of the great depression, the following protective duties operated in Great Britain:

1. The New Import Duties, popularly known as the McKenna Duties, first imposed as from September 29, 1915, repealed by the Finance Act of 1924 but reintroduced by that of 1925, with the addition of commercial motor-cars in 1926 and rubber tyres in 1927.

2. The Key Industry Duties, affecting more than 6,000 articles, mainly chemicals and scientific materials, imposed by the Safeguarding of Industries Act in 1921, reimposed and augmented in 1926 for ten more years.

3. The Safeguarding Duties, imposed in accordance with the recommendations of Safeguarding Committees, between 1925 and 1928, on lace and embroidery, cutlery, gloves, gas-mantles, packing and wrapping paper, pottery, enamelled hollow-ware and buttons each for five years.

4. The special duties on silk and artificial silk, permanent till repealed, and on hops, imposed for four years then continued in 1929 for four more years.

Then there were further protectionist measures like the Merchandise Marks Act and the Cinematograph Films Act. No wonder that free traders were asking how many more protective duties could be introduced without violating the pledge against general protection.

During the winter of 1928-9, the intensified propaganda of the Empire Industries Association, and in particular the campaign of General Page Croft and his circle, showed that even though in domestic matters the public was more interested in the famous Yellow Book, *Britain's Industrial Future*, and the Labour social and industrial programmes which outbid it, yet the fiscal controversy was far from dormant. Among Cabinet Ministers, Mr. Churchill held his ground against Sir William Joynson-Hicks and Mr. Amery. Mr. Neville Chamberlain was too much inter-

ested in his valuable work as housing reformer to devote the amount of time to fiscal policy that he gave in 1931-2. Extreme protectionists could derive little satisfaction from Mr. Churchill's fifth and last budget of April 15, 1929. The budget abolished the tea duty of 4d. per lb. at a cost of about £6 millions of annual revenue; it removed the betting tax; it anticipated derating relief to farmers by six months at a cost of £2½ millions. There was no new taxation beyond that imposed on brewers, distillers and manufacturers of tobacco as an offset against the gains which would accrue to them in consequence of derating legislation. No more safeguarding duties were introduced.

But the country wanted a change from the slogan "safety first". The last few years had witnessed the Locarno Pact and the entry of the Weimar Republic into the League of Nations. Friendly personal relations had developed between Austen Chamberlain, Aristide Briand and Gustav Stresemann. The Anglo-American conference had failed and Lord Cecil had resigned, but Geneva had solved several disputes that might have led to war. On behalf of Soviet Russia, Mr. Litvinoff had proposed the total disarmament of all States. Then there was the Briand-Kellogg Pact for the renunciation of war. Monetary instability had gradually lessened during the past five years. The stabilization of the German mark had followed the acceptance of the Dawes Plan in August 1924. Britain had returned to the gold standard at the old parity on May 1, 1925; Belgium returned to gold in October 1926, Italy in December 1927 and France in June 1928. These apparently hopeful developments did not suffice, however, to counteract the waning popularity of a Government which had failed to take bold measures for the improvement of trade and unemployment. The electors felt that the international situation was encouraging enough for England to turn from the slogan of safety first to radical reform. Mr. Baldwin, confronting unemployment with a supplementary estimate of £300,000, recommended the private charity which in the Scriptures was identified with love. At the election the country approved Mr. MacDonald's Persian proverb: "Charity is a virtue that is required to overtake neglect and indolence."

Unmarred by any such discreditable factor as the "Red Letter "

of 1924, the general election was fought well and strenuously by all parties. Mr. Snowden fought his own contest at Colne Valley mainly upon two subjects, national reconstruction and war debts. Meetings for retrenchment and free trade were addressed in the west country by Mr. Runciman and in the north by Sir John Simon. Another ex-Home Secretary, Sir Herbert Samuel, who had returned in 1925 from his governorship of Palestine to preside over the Royal Commission on the Coal Industry, planned a whirlwind campaign from Land's End to John o' Groat's on behalf of free trade and social, industrial and agrarian reform. Many an audience was captivated by Mr. Lloyd George, who undertook to abolish unemployment, while in his election address at Seaham Harbour Mr. MacDonald made equally attractive promises. The Labour party in its election manifesto pledged itself to attack unemployment by nationalizing mines and minerals and by developing housing and slum clearance, land reclamation, electrification, and afforestation associated with small holdings. It proposed the taxation of land values, the improvement of all pensions, the extension of the school-leaving age to fifteen with maintenance grants, and the development of facilities for free secondary education. It came out strongly against safeguarding and urged radical changes in the system of factory legislation, the Workmen's Compensation Act and the insurance scheme. Speaking in London on May 16 Mr. Baldwin promised a new safeguarding procedure. Six days later he told a Bradford audience that there were three good prescriptions for industry: rationalization, safeguarding and imperial development.¹ Polling took place on May 30, 1929. With 5,301,127 votes the Liberals increased their strength from forty-two to fifty-nine.² The Conservatives, with 8,664,243 votes, obtained 256 seats, and Labour, with 8,379,978 votes, returned 288 members. Thus whereas the average Labour member represented 28,996 voters, his Liberal and Conservative fellow members represented 89,850 and 33,845 voters respectively. On June 4 the Baldwin ministry resigned, and the amusing story of the forma-

¹ *Manchester Guardian*, May 17 and 23, 1929

² Eight days after his election as a Liberal M P for Preston, Sir William Jowitt became Attorney-General and joined the Labour party.

tion of the second Labour Government by the "big five" is well told in Chapter 44 of the Snowden Autobiography. After he had given way at the Treasury to Mr. Snowden in 1929, Mr. Winston Churchill, who had held office for twenty-one of the previous twenty-three years, remained an independent critic for the next decade until the fateful third of September 1939, when, two days after the German invasion of Poland, Mr. Neville Chamberlain invited him to become First Lord of the Admiralty in the new War Cabinet.

CHAPTER III

THE AGE OF BEAVERBROOK AND KEYNES : 1930 AND 1931

ON July 8, 1929, the safeguarding of industry was chosen by the Conservative Opposition as the subject of their Amendment to the Address. Sir Philip Cunliffe-Lister moved :

“We humbly represent to Your Majesty that the failure of Your Majesty’s Ministers to make any plain declaration of their policy in regard to the safeguarding, McKenna and analogous duties, and to the maintenance of imperial preference, creates a condition of uncertainty prejudicial to trade and to the employment of the people.”

The new President of the Board of Trade, Mr. William Graham, after pointing out that the election result had given an overwhelming majority for fiscal freedom, declared that Labour did not consider either free trade or protection to be a solution of the industrial problem. Mr. Thomas Shaw, the Secretary of State for War, indicated that the new ministry would accept no further application for protective duties and would renew no protective duties imposed under the White Paper. It would reserve to itself the right to propose reversal if necessary. Next day Mr. Amery appealed for the formation of an empire of real free trade like the forty-eight states of the U.S.A., and went on to criticize Mr. Churchill’s assertion that the gulf between Conservative and Socialist was wider than that between Conservative and Liberal.

“To my mind,” he said, “there is a certain amount of unreality in all this talk of an impassable gulf between individualism and socialism, of a capitalist system of civilization threatened with complete and irrevocable annihilation if once the party opposite gets a clear majority. I cannot altogether share those somewhat mid-Victorian apprehensions. To me the difference is largely one of degree. . . . Where there is really a fundamental difference, an unbridgeable gulf, is between those who believe in practical measures, who are prepared in a new world, in a situation of unparalleled difficulties but also of

unexampled opportunities, to take whatever practical measures the situation demands, and of those who against all reason, without enquiry, and in face of all the facts, are determined to veto every measure that departs in the slightest degree from the shibboleths of their ancient and obsolete and dismal theories. There is the real gulf. That is what will continue to divide us from members below the gangway and from a great many hon. and right hon. gentlemen opposite, whose socialism I am far less afraid of than their doctrinaire liberalism. If the practical members of the party opposite are prepared to take a lead in the matter, are prepared to do what the country and the empire needs to-day, then they can reckon on a very wide measure of support from these benches."

In reply Mr. Snowden rather curtly reminded Mr. Amery of Joseph Chamberlain's admission that imperial preference was impossible without a food tax, and declared that on such a basis no *rapprochement* could be effected between their two parties. The amendment was defeated by 342 votes to 222.

An illuminating speech was delivered in the same debate by Mr. Runciman :

"Free trade within the empire would be a most glorious thing for the empire and for ourselves, and a very great achievement for our politicians. I only wish there were enough wisdom in the Dominions and in this country to achieve it. If we could do that we should certainly be able to extend a great many of our industries. No free trader is fool enough to believe that these tariffs do not interfere with our prosperity. We should see a great extension of our prosperity if free trade within the empire became possible, but do not let us overlook the difficulties that stand in the way. First of all, they desire in the Dominions to look after their own affairs. Secondly, in India there is a growing self-consciousness which is not likely to be easily overriden. . . . But it is not really within the empire that we can afford to restrict our trade. Three-quarters of our raw cotton comes from outside. We cannot afford to do without any of these. Some of the most important customers who buy our goods are foreign governments, foreign firms and foreign individuals. Do not let us do anything to frighten them off. We cannot afford to lose a single customer in these days. It would be absurd of us not to direct our gaze on the markets on the other side of the world . . . but do not let us lose sight of the European market. It may have been very greatly depressed. One of

the reasons why it is depressed is to be found in the very subject-matter of this debate. Tariffs have been built up recklessly under a sort of false nationalism, perverted patriotism and ignorance of economics which really amaze those who go to the international conferences. I believe 12,000 miles of new tariff barriers have been created since the war. . . .

"If in Europe there had been a lowering of tariffs since the war instead of a raising of tariffs, there would have been prosperity in nearly every one of its constituent countries, and we should have seen a much larger volume of trade. The clearances at the ports would have been larger. We should have been producing for their benefit the articles that we can produce more cheaply than they can, and we likewise should have been buying goods which we can obtain more cheaply from them than we can produce ourselves—thoroughly good sound business. . . . I am all for extending trade within the empire, but if we had depended on the empire in the past we could not have supported more than two-thirds of our present population. We have never been satisfied with anything less than world trade in the past and it is world trade that we demand to-day."

Meanwhile on July 7 Lord Beaverbrook launched a campaign for Empire Free Trade. Writing in the *Sunday Express*, he proposed free entry for the British manufacturer into the Dominions and a tax on foreign meat and wheat. The Board of Trade's statistics showed that over the three previous years we had taken more than half of our average annual £60 millions of imported wheat from the United States, Argentina, and other non-empire countries, and these imports Lord Beaverbrook wished to tax. Over the same period we had taken nine-tenths of our average annual £30 millions of imported chilled and frozen beef from Argentina, Uruguay, the United States, and other non-empire countries, and this too Lord Beaverbrook wished to tax. Over the same period we had taken more than half of our average annual £18 millions of frozen lamb and mutton from New Zealand, and another third from Argentina, Uruguay and non-empire countries, and the latter Lord Beaverbrook also wanted to tax. Over the same period we had taken four-fifths of our average annual £46 millions of imported ham and bacon from Denmark, the United States, the Netherlands, Sweden, and non-empire countries, and this too Lord Beaverbrook wished to tax. Poultry

from France, Latvia and Hungary, and tinned beef from Argentina, Uruguay, and the United States, came within the purview of his scheme. Welcoming the reproduction of "this antiquated boggy", dear food and the small loaf, Lord Beaverbrook expressed his conviction that this cry was never an election winner in any great industrial centre when it was boldly faced as part of an imperial policy, and that men cared more for steady employment at high wages, which the empire policy offered, than no work and no money to buy the cheap loaf. In Canada, the country of Lord Beaverbrook's birth, the party leaders were unattracted by his proposals which Mr. H. S. Gullett, the Australian Minister for Trade and Customs, characterized as "old and discredited" and "insufficient to overcome local conceptions of vested interests".¹ Later the Federal Premier, Mr. Scullin, declared in Parliament at Canberra, that as the plan required the removal of protection of Australian manufactures it was hopeless to expect Australia to agree to Empire Free Trade.² At home in the Twickenham by-election, caused by the elevation of Sir William Joynson-Hicks to the peerage, the Conservative candidate, Sir John Ferguson, claimed that what he termed the "free trade entity of the empire" could be created only by a tariff against non-empire countries. He continued, "That the British Empire should thus set the universe a glorious example of unfettered fiscal freedom in a world ridden by tariff barriers seems to me an ideal worthy of the very best energies that each and all of us can devote to its realization."³ Defying the Conservative Central Office ban several M.P.s connected with the Empire Industries Association, Mr. P. J. Hannon, Sir George Hamilton, Sir Basil Peto, Captain A. C. N. Dixey and Captain Victor Cazalet, gave their services to Sir John Ferguson. On the other hand, Sir Herbert Samuel prophesied that the Empire Free Trade crusade would meet the disaster that attended another of seven hundred years ago, the Children's Crusade, "in which tens of thousands of children set out from France and Germany expecting through their sweet innocence to be wafted by a

¹ *Daily News*, July 11, 1929

² *Morning Post*, February 1, 1930.

³ *Daily Express*, July 17, 1929.

miracle across the sea and peacefully to conquer the Holy Land".¹ Meanwhile, however, Twickenham returned Sir John Ferguson with a reduced majority of 503 over his Labour opponent. Later in October Lord Beaverbrook presented his case more fully in a pamphlet in which he wrote :

"It is the belief of the Empire Crusaders that the fostering of key industries in the Dominions is of vital importance, not only to the prosperity but to the safety of the empire as a whole, and that every effort should be made to maintain those that already exist and encourage their growth where as yet there are none. For this reason a measure of protection for certain industries is absolutely essential, even as against imports from other portions of the empire. There are, moreover, in many parts of the empire, import duties which are levied for purely revenue purposes, and it is no part of the proposals that these should be repealed."

Next month Lord Beaverbrook generously offered "to obliterate" himself² if Mr. Baldwin would declare for his programme, but in an address to the Conservative Conference which opened on November 21 Mr. Baldwin went no further than to pay a tribute to Lord Beaverbrook's courage, to assert that the only expanding markets in the world lay in the empire, and to commend the terms of a resolution moved by General Page Croft. This resolution favoured imperial preference, safeguarding and empire development, and pressed the parliamentary leaders to resist any attempt to repeal the McKenna duties or the safeguarding duties then in force.³ On November 19 Lord Beaverbrook initiated a useful debate in the House of Lords, illustrating his argument with the analogy of the German *Zollverein*. He was followed by Lord Arnold, Lord Cushendun, and Lord Beauchamp, who appealed to him to address his articles not so much to Britain as to the self-governing Dominions, India, and the overseas colonies. In a letter to *The Times*,⁴ Mr. Amery

¹ *Manchester Guardian*, July 30, 1929

² *Sunday Express*, November 10, 1929

³ *The Times* and *Morning Post*, November 22, 1929. General Page Croft indicted "a small minority of free traders in key positions" in the Conservative party.

⁴ November 22, 1929.

wrote that the real issue of the debate had been raised by Lord Arnold when he had said that there could not be free trade in the empire unless Britain herself became a protectionist state. During the next few months Lord Beaverbrook, turning aside from his main objective, concentrated his fire upon subsidized German and American wheat. At the time when neither Germany nor the United States paid bounty or subsidy on wheat, he urged in the *Farmer and Stockbreeder* of January 13, 1930, that empire free trade would prohibit the dumping of subsidized wheat from East Prussia and would prevent the United States Federal Farm Board from dumping subsidized wheat on the British market. This particular line of argument only served to injure his cause, for the wheat supply from Germany, which is primarily a wheat importing country, then represented only little more than one hundredth of the whole. Secondly, the functions of the American Federal Farm Board, established by the Agricultural Marketing Act of June 1929, had nothing to do with either price fixing or subsidization of exports.¹ On January 29 the crusaders returned to the main issue. A private member's motion for the Beaverbrook policy by Mr. Remer, M.P. for Macclesfield, began an instructive debate in which Mr. Lloyd George, Mr. Snowden and Major Tryon participated, but Mr. George Balfour, Conservative M.P. for Hampstead, in spite of three attempts by the Chief Liberal Whip, Major-General Sir Robert Hutchison, to move "that the question be now put", insisted on talking out the motion.

Dissatisfaction among empire free traders increased after Mr. Baldwin's appeal at the London Coliseum on February 5 for a programme based upon "rationalizing imperially", and so ten days later at Belfast he became slightly more conciliatory and proclaimed: "Free trade within the empire is a great ideal; freer trade within the empire is practical politics." Then came the announcement of the formation of the United Empire Party on February 18 by Lord Rothermere, and his threat to find candidates for half the constituencies with a special concentration in the southern counties. Mr. Baldwin, in *Home and Empire*, defined his position more clearly: "In face of such declarations from

¹ See *Liberal Magazine*, February 1930, pp. 58-9.

Dominion statesmen—declarations in which there is complete unanimity—no political party in this country can honestly press empire free trade as a platform on which to fight the next general election.” He went on to say that the safeguarding policy, combined with imperial preference, imperial rationalization and imperial co-operation, would prove the truth of what he had said at Belfast. In another passage he wrote that as a propagandist Lord Beaverbrook might have done a great work for the Empire, but as the leader of a new British party he might undo much of the good work that had been done during the past few years. Mr. Baldwin was strongly backed by Lord Salisbury, Sir Austen Chamberlain, Sir Arthur Steel-Maitland and Mr. Ormsby-Gore. An intermediate position was occupied by Mr. Amery and Sir Philip Sassoon and by several Conservative back-benchers like General Page Croft and Mr. Percy Hurd, who lightly rapped the knuckles of the two newspaper peers and took the general view that their policy could be advocated within the structure of the Conservative party. On the other hand, Sir Godfrey Dalrymple-White held that the Harmsworth press would continue to attack the leader of any party who would not bend the knee and any Prime Minister who would not go down to the *Daily Mail* office and take his orders for the day as to how the country should be run.¹ On February 24 Lord Rothermere prepared for the United Empire Party a programme whose outstanding feature was its prevalence of negations. He called for “100 per cent conservatism of the real kind”, protection for British and imperial industry and agriculture against foreign competition, a subsidy for British farmers, a “popularly elected or selected” second chamber, ruthless economy in national and local expenditure, no more £850 million budgets, no more superfluous government departments or officials, no extension of doles or pensions under any pretext, no more factory bills, no more bureaucratic interference, no more surrenders in India, and no more bolstering up of Arab kingdoms in Iraq or elsewhere. In an important address on March 4 to the Central Council of the National Union of Conservative and Unionist Associations, Mr. Baldwin, after once more pressing for safeguarding as a weapon for restoration,

¹ *Manchester Guardian*, February 20, 1929.

negotiation and retaliation, advocated a referendum on the question of a food tax. The conference unanimously passed a resolution welcoming "the declaration of the leader of the party that when a Conservative Government is returned to power, a special Imperial Conference, representative of the Dominions, Colonies in all parts of the Empire, shall be called without delay, and that in order to lift empire policy above party differences, any constructive proposals affecting the British fiscal system which may come from this Imperial Conference shall be submitted for the sanction of the nation by means of a referendum".¹ "In less than a year the flickering flame of imperialism has become a torch which will never again be put out," wrote the *Daily Express* next day. It also proclaimed that the days of the Little Englanders were numbered and that March 4, 1930, would be remembered in British political history for generations to come. Three days later the trustees of the United Empire party decided to return all donations. But Lord Eustace Percy, ex-President of the Board of Education, told his Hastings constituents that a food tax would be of comparatively little assistance to agriculturalists at home or overseas. Crusading zeal waned after the Conservative leader in the Lords, the Marquis of Salisbury, in a letter in *The Times* on March 25, had relegated imperial preference to a position subordinate to economy and to policies calculated to extract Britain from "the rut of industrial stagnation". On April 3 Lord Beaverbrook reopened his fund.

Lord Beaverbrook contended that since there would be no tax on empire food his policy would involve no rise in food prices.² But the proportion of foods imported from non-empire countries was sufficiently large to render such an increase practically inevitable, for a contemporary Blue book entitled *The Agricultural Output and the Food Supplies of Great Britain* revealed that 39 per cent of our food supplies were home produced, 39 per cent came from foreign countries, and 22 per cent from the Commonwealth. Thus of every £1 spent in Britain on food, 8s. was paid for home produce, 8s. for foreign produce, and 4s. for Dominion or Colonial produce, and Lord Beaverbrook proposed to tax the

¹ *Morning Post*, March 5, 1930.

² See speech at Stroud, February 28, 1930.

8s. out of every £1 spent in the aspiration that it would be replaced by home or empire produce. From the viewpoint of an imperial economic strategy planned in anticipation of total war, much might have been said for the plan. But few empire crusaders used this argument in 1930. With the unfettered importation of Dominion produce and with a subsidy for the British farmer, the combined empire percentage was estimated to increase from 61 to 100. Such a programme manifestly required several decades of very high prices. On the other hand, on February 27 Mr. Baldwin, receiving an agricultural deputation, made the counter-offer of "a system which would ensure to the farmer a guaranteed price for all home-grown wheat of milling quality offered for sale". Thus the official policy would require either the State purchase at a given figure of home-grown wheat or a State subsidy to level up any decline in the market price.

Another contemporary Blue book, a *Memorandum on the Trade of the British Empire*, prepared by the Imperial Economic Committee and published by H.M. Stationery Office, contained some calculations which are worth reproducing here :

1. Total world trade increased by 20 per cent between 1913 and 1927.
2. The share of world trade possessed by the British Empire increased from 27.25 per cent in 1913 to 29.48 per cent in 1927.
3. Of the whole imperial trade, about one-quarter was inter-imperial trade and about three-quarters was with foreign countries, the proportion with foreign countries having imperceptibly risen from 75.4 per cent in 1913 to 75.7 per cent in 1927.
4. United Kingdom imports and exports comprised 84 per cent of the total inter-imperial trade.
5. The proportion of United Kingdom trade with the Commonwealth was larger in 1927 than in 1913, but, however, in actual values, even though the exports of the overseas empire to the United Kingdom rose by 40 per cent, United Kingdom exports to the overseas empire fell by 9 per cent.

In proposing his safeguarding motion in the Commons on July 16 and at meetings in Worcestershire Mr. Baldwin consistently maintained that the only fair and business-like policy for his party was to avoid raising the issue of food taxes until after

conference with the Dominions. He held that the working classes in the industrial areas should know, in the event of concessions, what was to be the *quid pro quo*.¹ But crusaders could derive little satisfaction from the results of the Imperial Economic Conference of October, 1930. Mr. R. B. Bennett, the Canadian Premier, suggested a preference for Canadian wheat in the British market in return for the addition of a 10 per cent increase in prevailing general tariffs and tariffs yet to be created. In the Commons debate, Mr. J. H. Thomas, the Dominions Secretary, described this offer as "humbug", an expression which Mr. Snowden elucidated and softened by a reference to Murray's Dictionary. Before closing, the delegates resolved to hold another Imperial Economic Conference at Ottawa on a date within the next twelve months. It was also announced that Mr. MacDonald's Government had declared that the existing preferential margins accorded by the United Kingdom to other parts of the empire would not be reduced for a period of three years or pending the outcome of the suggested conference, subject to the rights of the United Kingdom Parliament to fix the budget from year to year. "Careful examination" of a quota for Dominion or United Kingdom wheat was also promised. On November 20, Mr. Snowden, in reply to a question, assured the House that the conference decisions did not imply the continuance of the safeguarding duties beyond the statutory terms for which they were imposed and that the duties on cutlery, gas-mantles, and fabric gloves would therefore lapse on December 22, 1930. Answering another question on the same day, Mr. Snowden said that since the present margin of preference given to the Dominions on the McKenna duties represented 11 per cent, the Government would be keeping its promise if it were to reduce the McKenna duties on foreign goods from $33\frac{1}{3}$ to 11 per cent and abolish them altogether on Dominion goods.

The reconciliation between Mr. Baldwin and Lord Beaverbrook was of short duration, for Lord Beaverbrook, through Lord Elibank, indicated that he wished to participate in the construction of any future Conservative Government, while on May 2 Lord Rothermere gave notice that he would require to know the

¹ See speech at Worcester, August 2, 1930.

names of eight or ten members of the Cabinet. Sir Herbert Samuel told a Birmingham audience that for a country with the largest export trade in the world, safeguarding itself was a Little England policy and added :

"Lord Beaverbrook makes no secret of the fact that he regards Mr. Baldwin as inactive, ineffective, and possessing hardly the pretence of a policy. Mr. Baldwin makes it pretty clear that he regards the proposals of Lord Beaverbrook as impracticable and as likely to prove disastrous to the Conservative party if they are adopted. Both are quite right."

Even so, ten months elapsed before Mr. Baldwin's smouldering fires of resentment burst into flame.

"The papers conducted by Lord Rothermere and Lord Beaverbrook," he declared in the Queen's Hall on March 17, 1931, during the St. George's, Westminster by-election campaign,² "are not newspapers in the ordinary acceptance of the term. They are engines of propaganda for the constantly changing policies, desires, personal wishes, personal likes and personal dislikes of two men. What are their methods? Their methods are direct falsehood, misrepresentation, half-truths, the alteration of the speaker's meaning by putting sentences apart from the context, suppression, and editorial criticism of speeches which are not reported in the paper. . . . What the proprietorship of these papers is aiming at is power, but power without responsibility—the prerogative of the harlot throughout the ages. This contest is not a contest as to who is to lead the party, but as to who is to appoint a leader of the party. It is a challenge to the accepted, constitutional parliamentary system, and that is why Liberals and Socialists alike resent this interference with the liberty of a political party, just as much as we do, because it may be their turn to-morrow to suffer for what we have to suffer to-day. . . ."³

Yet on March 30 the press announced another reconciliation; Mr. Neville Chamberlain invited Lord Beaverbrook to state the terms on which he would support the Conservative party. The reply

¹ *Birmingham Gazette*, June 23, 1930.

² The polling result was Mr. A. Duff Cooper (Conservative) 17,242, Sir E. Petter (Empire Crusader), 11,532. March 19, 1931.

³ *Morning Post*, March 18, 1931.

demanding the increase of agricultural production "by quotas, prohibition of, or duties on foreign foodstuffs", and a mandate to "put all or any of these methods into efficient operation". After Mr. Chamberlain had consulted Mr. Baldwin, who agreed to "all or any" of the methods enumerated, the Conservative party was henceforth definitely committed to the taxation of food when it returned to office.

On April 14, 1930, Mr. Philip Snowden introduced the first budget of his second Chancellorship. Prospects were bleak. The economic blizzard, starting from the great Wall Street collapse, had crossed the Atlantic and was daily gathering momentum. Our unemployed had increased in number from 1,122,700 at the time of the assumption of office by the Labour party to 1,660,000 in April 1930. The financial condition of the country was such as to preclude any first-class measures of social reform, whether of a socialist or a liberal character, and left-wingers both on the back benches of the House of Commons and in the industrial areas of the north were increasingly disgruntled at the inability of the Ministry to keep its election pledges. The last Conservative budget had estimated a surplus of £4,336,000, but the financial year closed with a deficit of £14,523,000. Expenditure exceeded the estimate by £6,748,000, whereas revenue was £11,871,000 short of the estimate. The net result was that Mr. Churchill's calculations had failed to the extent of £18,619,000. Mr. Snowden, who, in view of the depression, was obliged to anticipate a lower yield from taxation and increased expenditure on unemployment benefit, estimated that for the year 1930-1 he would have to meet a total deficit of £42,264,000. His chief financial measures were an increase in the standard rate of income-tax from 4s. to 4s. 6d. in the £1, an alteration in graduation whereby only 2s. in the £1 would be payable on annual incomes of less than £250, an increase in the graduated surtax on annual incomes of more than £2,000, an increase of death-duty rates on estates of over £120,000, a penny per gallon rise in the beer duty, the abolition of bookmakers' certificates, and a reduction of the duties on certain types of motor-cycles and goods-vehicles. He also announced a bill for land values taxation. Opposition newspapers vied with one another in seeking the choicest epithets for

the budget, for indeed, as Mr. Lloyd George said, "it was the same miracle of compression as a six-inch shell, and it had the same shattering detonation in its effect upon some of my honourable friends on this side of the House". The total estimates were £94,000,000 more than in Mr. Snowden's 1924 budget, yet no measures for departmental economy were proposed. Mr. Snowden's announcement that he had no intention of renewing the safeguarding duties gratified free traders, but they were disappointed at the continued operation of several tariffs which brought in only a negligible revenue, in particular the duties on buttons and enamelled hollow-ware, by repealing which he would have lost only £200,000.

Mr. Snowden's statement of his financial principles was such as to alienate the extreme left of his party, which sought its inspiration in Karl Marx and Frederic Engels and wanted at least £200 millions of additional annual taxation to be imposed on "the idle" rich :

"In facing the inevitable increase of taxation I have been guided by two principles. As long as I hold this position, I am determined, however burdensome it may be, that the country shall pay its way by honest methods. I will not leave my successor to meet my bills. In imposing additional taxation I have done so by placing the burden on the shoulders best able to bear the weight. I have imposed no direct burden on industry; neither have I taken from the poorest of the land any part of their inadequate means. The additional taxation will fall upon a class to whom it will mean no deprivation of the necessities of life nor even of reasonable luxuries and amenities. I am asking only that the favoured section of the community shall contribute to the needs of the State in proportion to the benefit the State has conferred upon them."

He added: "On the other hand I realize the imperative need of the strictest national economy in the present state of trade and industry, not only to provide employment and comfort for our people, but because primarily it is only from trade and commerce that the national revenue can be derived."

In March, 1931, Professor J. M. Keynes published his scheme for a revenue tariff. He enunciated his proposals in the *New Statesman and Nation* of March 7, and discussed them in an

article in the *Daily Mail* of March 13 and in a letter to *The Times* of March 21. They were further developed in economic notes on the export industry, the effect of a revenue tariff on the cost of living, and the reaction of imports on exports, published in the three following issues of the *New Statesman*. His first article, which coupled an exposition of the industrial situation with the advocacy of the revenue tariff, was described by Sir William Beveridge as "a judgment without reasons". Mr. Keynes held that two remedies were available: contraction—for example, economies in national expenditure and the reduction of wages; or expansion—for example, borrowing to finance public works schemes. The policy of expansion, though desirable, was then neither safe nor practicable, unless accompanied by other measures which would neutralize its three main dangers: the burden on a trade balance, the burden on the budget, and the effect on confidence. After urging the reform of unemployment benefit and the postponement of new charges to the social services, he declared that the main decision which seemed to him absolutely forced on any wise Chancellor of the Exchequer, whatever his beliefs about protection, was the introduction of a substantial revenue tariff. Having repudiated discriminating protective taxes, he recommended one or two flat rates of tariff, with rebates framed on broad and simple lines for imported raw materials used in exported goods, but without provision for rebates on semi-manufactures. "The amount of revenue," Mr. Keynes continued, "to be aimed at should be substantial, not less than £50 millions and if possible £75 millions. Thus, for example, there might be import duties of 15 per cent on all manufactured and semi-manufactured goods without exception, and of 5 per cent on all foodstuffs and certain raw materials, whilst other raw materials would be exempt." In the *Daily Mail* of March 13, he wrote, "I do not deny the likelihood of some increase in the cost of living." It should, he said, be the "declared intention" of the free trade parties to repeal the tariff when prices resumed the 1929 level. In conclusion, he made four claims for his proposition: first, that it would balance the budget; secondly, it would restore business confidence; thirdly, it would be the substitution of home-produced for foreign-produced goods,

improve employment; and fourthly, it would reduce the adverse trade balance and permit Britain to finance loans abroad. In reply Professor Lionel Robbins, of the London School of Economics and Political Science, substituted the figure of £35-£40 millions, while Mr. G. L. Schwartz contended that the diminution of imports which the tariff would cause and the scheme of rebates which Mr. Keynes himself outlined would together with imperial preference reduce the sum to £30 millions. On March 21 Mr. Keynes accepted Professor Robbins' upper limit of £40 millions as a "safer and more cautious estimate" than his own original figure of not less than £50 millions and if possible £75 millions.

The Keynes plan reawakened public interest in the fiscal question. It elicited many letters in the *New Statesman* from Mr. L. J. Cadbury, Professor Ramsay Muir, Mr. Tremlett, Mr. Ernest Simon, Mr. E. M. F. Durbin, and Mr. R. F. Kahn. Professor Robbins pointed out that in 1886, towards the end of the great depression, in circumstances comparable to those of 1931, the *Minority Report* of the Royal Commission on Depression of Trade recommended a tariff of 10-15 per cent on imported manufactures, and that in support of its recommendation the *Minority Report* had adduced such reasons as prices falling more rapidly than costs, increased tariffs abroad, foreign export bounties, the development of "surplus capacity", the decline of basic industries, the "parlous condition" of iron and steel. He said that in 1931 the recommendation no more merited adoption than in 1886, and that long period expedients should be applied only "when the long period situation has revealed itself".¹ Mr. Herbert Williams ably summarized the controversy from the conventional protectionist standpoint:²

"SIR,—Mr. J. M. Keynes' somewhat crude protectionist proposals have at least had the advantage of attracting to your columns a vast number of letters, and I hope that you may find room for one from a good old-fashioned protectionist. Most of Mr. Keynes' critics base themselves on the price effect of a tariff, overlooking the fact that the larger scale of production rendered possible by the existing safeguard-

¹ Letter to the *New Statesman and Nation*, April 4, 1931, page 214, col. 1.

² Letter to the *New Statesman and Nation*, April 4, 1931, page 214, col. 2.

ing duties has enabled us to reduce our costs, and has enabled the safeguarded industries as a whole to maintain a much more favourable position in the export trade than is true of the non-safeguarded industries.

"Mr. Ramsay Muir, using the old argument, professes that middle men's costs, etc., will be added to the tariff, and that the actual cost to the consumer will be something very much greater than the import duty: but this, however, entirely begs the question, and Mr. Ramsay Muir cannot quote me any examples, except that of one size of gas-mantle, where particular circumstances apply, in which the prices of safeguarded articles have not declined since they were safeguarded at least as much as the general decline in manufactured goods as a whole.

"Mr. E. M. F. Durbin, in criticizing Mr. Keynes' view on the balance of trade, entirely forgets that a purchase has to be paid for whether made from a foreigner or from a Briton, and when it is made from a Briton, both he and the Briton who purchases find employment; whereas in the former case one Briton and one foreigner find employment.

"It really is time that a few free traders started to think the whole problem out *ab initio*, instead of repeating the rather absurd un-intellectual phrases which for three generations have done duty as arguments in defence of free trade. Yours, etc.,

"HERBERT G. WILLIAMS."

In *The Times* much correspondence was provoked by Mr. Keynes' contention that his plan would, by excluding foreign goods, increase employment—a claim which eight years earlier he himself had ridiculed as "the protectionist fallacy in its grossest and crudest form".¹ His opponents argued that since imports could be paid for in no other way than by exports, reduced imports involved reduced exports and reduced employment, unless trades which previously exported were able to improve their sales in domestic markets or unless foreigners levelled up the difference by borrowing from us. In *The Times* on March 26, 1931, Sir William Beveridge, then Director of the London School of Economics and Political Science, wrote that the first theoretical possibility—of maintaining exports by increased lending after a tariff—could be dismissed briefly. It rested on two assumptions, one of which was unproved, while the other was almost ludicrous.

¹ *The Nation*, November 24, 1923.

It was unproved that an increase of lending abroad could take place without harmful contraction of lending at home. It was almost ludicrous to anticipate as an immediate sequel to our injuring the trade of a foreign country by a tariff that we should increase our loans to it. Sir William compared such a proposition with dismissing a servant and lending him a year's wages. Equally unpractical, he said, was the second theoretical possibility—that of employing hitherto unemployed labour by the exclusion of imports and switching to home production the labour displaced from the export industries. Mr. Keynes had himself suggested that the possibility arose only with a surplus of unemployed labour and plant—but such a surplus did not always arise. Two further conditions required to be satisfied: first, the surplus had to be in trades which protection could stimulate, and secondly, the labour and plant in the export trades which were to lose their foreign markets by the reduction of international trade had to possess the capacity of switching over to meet the demands of the protected trades at home. The second condition was always hard to satisfy and the first did not operate at that time, for the bulk of our chronic unemployment lay not in trades affected by imports but in trades either specialized for export or already secure of their home market. “The inference”, added Sir William, “which Mr. Keynes appears to make from unemployment to a tariff is a glaring *non sequitur*. The existence of prolonged widespread unemployment is by itself no reason for trying protection as a remedy. Everything turns on the nature and causes of our unemployment; as to these, one generalization is irrefragable. The plight of Britain's principal industries to-day is due, not to more imports, but to fewer exports, not to an increase of our international trade, but to the decrease of it. Almost certainly it could only be made worse, not bettered, if international trade were hampered still further by a British tariff.”

Mr. Keynes regretted his inability to state in a letter the economic arguments which were at the back of his mind in the degree of detail which Sir William would properly require from him before he made up his mind. In reply to critics who remained unconvinced that a tariff introduced on account of special circumstances would pass away with the special circum-

stances, Mr. Keynes recorded that "the Hicks-Beach duty on wheat was abolished, and the McKenna and safeguarding duties have been repealed, though one of them was subsequently re-imposed". He was reminded that except for the year 1924, the McKenna duties had remained in force since their imposition half-way through the first World War, and that none of the safeguarding duties had been repealed, although the Labour Government intended them to lapse when the date of expiry arrived. It was also recalled that the removal by Mr. Ritchie in his budget of 1903 of the corn registration duty imposed by Sir Michael Hicks-Beach in 1902 had precipitated a split in the Conservative Government and started the Chamberlain campaign for tariff reform and imperial preference. In view of their previous experience the free trade parties felt unable to support a revenue tariff merely because Mr. Keynes had promised them that it could be repealed when prices returned to the 1929 level. On March 13 Sir Herbert Samuel, the deputy leader of the Liberal parliamentary party, in a speech at the Manchester Reform Club,¹ paid tribute to Mr. Keynes as "a brilliant experimentalist" but refused consent to "vivisectionist experiments on the living body of the nation". He pointed out that if the Keynes tariff were only for revenue, without any protective element, it ought to be accompanied, as had always been done in earlier days, by corresponding excise duties, which would bring in much more revenue.² But that was not the plan. The fiscal duties then proposed might have revenue for their justification, but they were likely to have a permanent protective tariff as their result, and the vested interests which they would create would fight to the death for the retention of the privileges accorded them at the expense of the community.

In his budget speech on April 27 Mr. Snowden flatly refused to consider the plan. He declared:

¹ The principal passages from this speech were reproduced in the *Liberal Magazine*, May 1931, pp. 218-22.

² On July 14, 1931, six members of the Macmillan Committee on Trade and Industry, including Mr. Reginald McKenna and Mr. J. M. Keynes, urged a general 10 per cent revenue tariff on imports with an equivalent subsidy on exports, in order to reduce the adverse trade balance whilst maintaining the gold value of the pound.

"We are asked by this proposal for a revenue tariff to go back to the pernicious taxation methods of a century ago, which were graphically described by William Pitt when he said:

"There is a way in which you can tax the last rag from the back and the last bite from the mouth without causing a murmur against heavy taxation, and that is by taxing a large number of articles in general use. The tax will pass into the price of the article. The people will grumble about high prices and hard times, but they will never know that the hard times are caused by heavy taxation."

"A revenue tariff, apart from its protectionist object, is a means of relieving the well-to-do at the expense of the poor, and is an indirect method of reducing wages. I shall never be a party to any such imposition. Taxes which would reduce the main consuming power of the masses of the people, apart from all other considerations, must be harmful to trade, and I have explained on several previous occasions my desire to avoid, if possible, all forms of taxation which, whether from the economic or the psychological point of view, would have a depressing effect on industry, and which might retard recovery in trade and employment. Moreover, it is only too clear that in many directions increased rates of taxation would at this time produce a disappointingly low increase in yield."

Meanwhile during these months several economists had agreed to think out the problem *ab initio*. Sir William Beveridge presided over a committee which included Dr. Frederic Benham, Professors A. L. Bowley, T. E. Gregory, Arnold Plant and Lionel Robbins, Dr. J. R. Hicks, Mr. W. T. Layton, and Mr. G. L. Schwartz. Of these nine, only Mr. Layton could be called a party man. In August 1931 they produced a remarkable book entitled *Tariffs: The Case Examined*. Professor Lionel Robbins and Mr. G. L. Schwartz in Chapter 14 of this volume examined the theory and practice of a revenue tariff. They showed that to the extent that a duty protects—that is, prevents foreign produce from entering—it fails as a revenue-producing instrument, and that conversely, to the extent that it produces revenue—that is, taxes in-coming produce—it fails as a protective agency. A tariff schedule as a whole could attain both objectives, but the condition of attainment was infinite complexity in the tariff rate book, accompanied by differentiation not only as between commodities, but as between grades and qualities of such commodities. A

second condition of attainment for a tariff schedule which sought both revenue and protection was uncertainty of yield—the result not only of the ill-defined character of the object of assessment, but also of the perpetual disturbance of its framing by factors other than fiscal—in particular, temporary conditions in trade and industry. Professor Robbins and Mr. Schwartz, after pointing out that the states which relied upon revenue tariffs had shown the least capacity to adjust revenue to expenditure, quoted the verdict of Professor R. F. Hoxie that the instability of United States budgets was largely attributable to dependence for income upon import duties. They argued that if tariffs were desired only for revenue purposes a few well-devised rates on a small selection of commodities on the lines of the British tariff were least costly and most efficient, and that if they were desired to be both protective and revenue-producing, they had, if they aimed at efficiency, to be elaborate and extensive. Any scheme with a dual aim, having two flat rates, an occasional exemption, and a few rebates framed on “broad and simple lines”, was, from all viewpoints, “pure folly”. From the protective view-point, it failed to protect adequately the industries which were alleged to be most in need of protection, and imposed disabilities upon industries dependent on raw materials or semi-manufactures. From the political view-point, its admission of the principle of exemption and rebate would develop sectional privilege and sectional prejudice. From the technical view-point as a revenue-producing instrument, it would be administratively wasteful, irritating to travellers and manufacturers, and unfairly differentiating as between industry and industry.

“If the collection of a given revenue,” they added, “by means of import duties is the end in view, what is required is a policy of taxing comparatively few commodities by means of differential rates, having regard to the elasticity of each type and quality imported. Nearly a hundred years ago, Great Britain found out that it does not pay to tax a great variety of imports. Mr. Keynes is merely leading a return to early Victorian practices. But it is surely possible to admire Lord Melbourne without imitating his fiscal policy.”¹

¹ The argument is fully developed in Chapter 14, *Tariffs The Case Examined*, pp. 170-84, Longmans, Green & Co., 1931. Professor Robbins and Mr. Schwartz quote Professor R. F. Hoxie, *Journal of Political Economy*, Vol. III, pp. 43-64.

CHAPTER IV

THE SNOWDEN BUDGETS AND THE FORMATION OF THE NATIONAL GOVERNMENT : 1931

MR. SNOWDEN presented his next budget on April 27, 1931. He anticipated a second budget in the autumn, for he was obliged to await the report of the May Committee on National Expenditure, to which the task of recommending economies had been entrusted in February on the motion of Sir Donald Maclean. In consequence of the depression and the vast unemployment which it produced, Mr. Snowden was confronted not with an estimated surplus of £2 millions, but with a deficit of more than £23 millions. He calculated that increased expenditure would amount to £14 millions and that declining revenue, in particular from income-tax and stamp duties, would cause a total deficit of £37 millions. He appropriated £20 millions from the Dollar Exchange Fund and obtained £10 millions more by an arrangement that three-quarters instead of half of the income-tax should be paid in January. He expected £7½ millions of revenue through an increase of the petrol duty from 4d. to 6d. per gallon. On these figures Mr. Snowden anticipated a surplus of £134,000. An alarming slump in sterling gold prices had taken place throughout 1929-30, and continued to prevail. *The Economist* index number of wholesale prices, with the basic figure of 100 for 1913, stood at an average level of 166 in 1924, 132 in 1929 and 111 in 1930. In December 1930 it had fallen to 98 and was still falling. On May 14 the Austrian Credit Anstalt failed, the financial fabric of Vienna crashed and a wave of bankruptcy broke over the whole Danubian Basin. Germany in dismay expected a repetition of the collapse of 1923. At Lausanne it was decided in June to relieve Germany from the burden of paying reparations, and President Hoover proposed on June 20 to suspend the payment of international debts for one year, but the Reichsbank gained a respite of only a few days by the rediscount credit of £20 millions granted by the central banks of France, the United States and

Britain in co-operation with the Bank of International Settlement. In mid-July the North German Wool Combine went bankrupt. Foreign withdrawals from German banks multiplied. On July 13 the Danat Bank suspended payments. Elsewhere the run on deposits intensified. Next day the Macmillan Committee report estimated the net short-term liabilities of London on foreign account in March 1931 at £254 millions. On July 14 the German Government decreed the closing of all banks and savings banks. The bourses at Berlin and Budapest closed. Banks suspended payments in Warsaw, Bucharest and Riga. The Santiago moratorium alone stopped the payment of interest on as much as £75 millions of British capital loaned to the Chilean Government. £100 millions of British short-term loans were closed in Germany. Even Americans and Frenchmen began to withdraw their personal savings, although France and the United States had imported gold till they acquired more than two-thirds of the world supplies. On July 30, when its gold had fallen to £132 millions, the Bank of England raised the rate from $3\frac{1}{2}$ to $4\frac{1}{2}$. Two days later the Bank of France and the Federal Reserve Bank of New York contributed £50 millions to the Bank of England. On July 31 the May Committee on National Expenditure issued its report, which estimated a deficit of £120 millions for the next year and outlined economies totalling £96 millions.

Throughout August the Cabinet Economy Committee, which comprised the Prime Minister and the Chancellor of the Exchequer together with Mr. Arthur Henderson, Mr. J. H. Thomas and Mr. William Graham, deliberated upon the May Report. Mr. MacDonald and Mr. Snowden interviewed Mr. Baldwin and Sir Herbert Samuel, who both returned from holiday. At Brighton, the Home Secretary, Mr. J. R. Clynes, proclaimed that parties must co-operate when the nation was faced with "a financial crisis or a crisis of any other kind".¹ In a letter to *The Times* of August 19, Sir Godfrey Collins, formerly Chief Liberal Whip, demanded a powerful National Government composed of all three major parties. On the same day the *Daily Herald* said :

"The proposal for a revenue tariff will receive support from ministers who have hitherto been rigid free traders. They will urge

¹ *The Times*, August 15, 1931.

that the necessity of balancing the budget is so paramount that a temporary departure from orthodox fiscal policy will be fully justified. It is calculated that a 10 per cent tariff on retained manufactures, including those imported partly finished, would yield, on the basis of 1931 imports, something like £20 millions. A further 10 per cent on food at present untaxed ought to yield about £25 millions."

On August 20 Mr. MacDonald and Mr. Snowden consulted Sir Herbert Samuel, Mr. Neville Chamberlain, Sir Donald Maclean and Sir Samuel Hoare before receiving, with other Ministers, the Consultative Committee of the Labour parliamentary party. Later on the same day they accompanied the Cabinet Economy Committee to Transport House for a meeting with the General Council of the Trades Union Congress and the Labour Party Executive. An evening Cabinet meeting was held after the sitting of the T.U.C. General Council which sent a deputation of five to interview the Cabinet Economy Committee. There were more meetings of the Cabinet, the six party leaders and the T.U.C. General Council next day, and on August 22 the King left Balmoral, where he had arrived from Sandringham on the previous day, in order to return to Buckingham Palace. On Sunday, August 23, the Prime Minister, then Sir Herbert Samuel and later Mr. Baldwin, who had returned once more from Aix-les-Bains, were received by the King, and late at night a meeting of the party leaders followed another Cabinet meeting at Downing Street. The late Lord Snowden, explaining in his Autobiography that the developments towards an all party government, which followed the Prime Minister's audience with the King, came to him quite unexpectedly, recalled that Mr. Chamberlain stated publicly a few days later that he went to bed on Sunday, August 23, expecting Mr. Baldwin to be Prime Minister next day.¹

¹ See the Snowden Autobiography for the story of the crisis and the formation of a National Government, Ch 76-8, pp. 929-61. "The Prime Minister acted not in co-operation with those who made him their leader, but against them," according to Professor Harold Laski. "He built his strategy not on the forces of his friends but on the strength of his enemies. The underlying thesis of his action was no doubt that he was himself indispensable in a position of national emergency, but it is a dangerous thing in a democratic state when any man, however eminent, builds his strategy upon the basis of his own indispensability." *The Crisis and the Constitution 1931 and After*, 1932, page 16. See also Sidney Webb (Lord Passfield), "What Happened in 1931: A Record", *Political Quarterly*, Vol. III, 1932.

The Foreign Secretary, Mr. Arthur Henderson, took the line that no Labour Government should pursue a policy in opposition to the T.U.C. The majority of the Cabinet supported him. However, as Dr. Christopher Addison, the Minister of Agriculture, told a Swindon meeting on August 26, the Labour Cabinet had accepted economies totalling £56 millions. These included the limitation of insurance benefit to twenty-six weeks, a means test for transitional benefit, increased contributions, and the reduction of expenditure on education, with 15 per cent cut in teachers' salaries, on defence, with a cut in the pay of the forces, on roads, police pay, agriculture, afforestation, the Empire Marketing and Colonial Development Boards, and the salaries of ministers, M.P.s, judges, and civil servants. The Independent Labour party, led by Mr. James Maxton, held that there could be no equality of sacrifice without equality of income. The split in the Labour party took place over the question of a 10 per cent decrease in unemployment payments, to which Mr. Henderson and several colleagues preferred a 10 per cent revenue tariff.¹

On August 24 the King accepted the resignation of the Labour Government and entrusted Mr. Ramsay MacDonald with the task of forming a National Government on a comprehensive basis in order to meet the financial emergency. Mr. Baldwin, as Conservative leader, and Sir Herbert Samuel, as Liberal deputy-leader, co-operated in its constitution. A statement from Downing Street declared: "The specific object for which the new government is being formed is to deal with the national emergency that now exists. It will not be a Coalition Government in the usual sense of the term, but a government of co-operation for this one purpose. When that purpose is achieved the political parties will resume their respective positions." After having been given definite assurances, Mr. Snowden agreed to continue at the Treasury. Lord Sankey and Mr. J. H. Thomas remained Lord Chancellor and Dominions Secretary. Two free trade Liberals, Sir Herbert Samuel and the Marquis of Reading, accepted the Home and Foreign Offices. Four Conservatives, Mr. Baldwin, Lord President of the Council, Mr. Chamberlain, Minister of

¹ Speech at the Trades Union Congress, Bristol, *Manchester Guardian*, September 11, 1931.

Health, Sir Samuel Hoare, Secretary for India, and Sir Philip Cunliffe-Lister, President of the Board of Trade, completed the small Cabinet of ten, announced on August 25. The names of nine other ministers, not in the Cabinet, which were announced on the same day, included four more free traders, the Marquis of Crewe, War Minister, Sir Archibald Sinclair, Secretary for Scotland, Sir Donald Maclean, President of the Board of Education, and the Marquis of Lothian, Chancellor of the Duchy of Lancaster. Mr. L. S. Amery, who in a letter to *The Times* of August 27th urged the complete reversal of fiscal policy, was not included. On August 28 a Conservative rally in the Kingsway Hall, London, unanimously carried a resolution in support of the new government moved by Lord Hailsham, who in his speech, after demanding a general election, urged his hearers to make people understand that Socialist legislation was destroying the national credit and free imports were destroying the national trade. At the meeting, Mr. Baldwin, after referring to "two fatal things", borrowing for unemployment benefit and the gradual loss of the old trade balance, maintained that a tariff was essential to complete the work begun by the rectification of budgetary finance. "When this Parliament dissolves," he added, "when the economies are carried and the budget is balanced, you will then have a straight fight on tariffs and against the Socialist party."¹ On the same day the parliamentary Labour party met privately in London to elect Mr. Henderson as its leader, with Mr. Graham and Mr. Clynes as deputy-leaders. The six dissentients included Mr. Maxton. Later, on September 28, the party executive decided that the two peers and thirteen members who had supported the new administration had ceased to be members of the Labour party. On August 28 Lord Reading presided over a representative Liberal meeting at the National Liberal Club, supported on the platform by all his ministerial colleagues together with Viscount Grey of Fallodon. Lord Reading, in a sympathetic reference to the illness of Mr. Lloyd George, explained that he was in complete accord. As acting leader of the party, Sir Herbert Samuel stressed that the new government was "not intended to be a long continuing combination, still less a

¹ *Manchester Guardian*, August 29, 1931

permanent coalition". He added, "This government is a temporary combination, but in my own view it cannot abandon the task which it has undertaken until it has seen it well on the way to completion."¹ A resolution in support of the action taken by the Liberal leaders was carried with one dissident.

The Government met Parliament on September 8 and was supported by 311 votes to 251. Two days later, Mr. Snowden, in a speech of one hour's duration, introduced what he described in his Autobiography as "the most momentous budget ever submitted to the House of Commons in peace-time". His revised estimates for the current financial year 1931-2 anticipated that revenue would be £744,200,000 and expenditure £818,879,000. Thus if the previous budget were left unaltered the deficit on March 31, 1932, would be £74,679,000, and for the next financial year from 1932-3 it would amount to the "appalling figure" of £170 millions. Mr. Snowden estimated that the economies which he now outlined would furnish £22 millions in 1931-2, and £70 millions in 1932-3. He proposed to reduce the Sinking Fund provision for the National Debt from £50 millions to £32½ millions, thereby obtaining £13,700,000 in 1931-2 and £20 millions in 1932-3. This left him with a deficit of £79½ millions to be raised by additional taxation. He raised the standard rate of income-tax from 4s. 6d. to 5s. in the pound, reduced income-tax allowances, added 10 per cent to surtax, and increased the beer, tobacco and petrol duties and the entertainments tax. Mr. Snowden finally anticipated a surplus of £1½ millions for the current year. Of the increased taxation 70 per cent was direct, 30 per cent indirect. Drastic and disagreeable for millions of people as was this combination of reduced salaries with increased taxation, public opinion warmly applauded the budget for the simplicity and courage of its conception and the solidity of its structure. In Parliament applause such as never before had greeted an increase of taxation followed the Chancellor's fine peroration:

"These proposals that I have submitted give everybody the opportunity of contributing. I have tried as best I could to spread the burden of the sacrifice as fairly and as evenly as human ingenuity can devise. To balance a budget with a deficit of £170 millions, to spend

¹ *News Chronicle*, August 29, 1931.

as we are doing this year, at the expense of the Exchequer, something like £100 millions for the relief of unemployment, is an achievement which no country in the world has ever attempted. The House of Commons will, I believe, accept these proposals. The country will accept them, and in so doing they will show to the world an example of the indomitable British spirit in the face of difficulty.

“ ‘ All our past proclaims our future;
Shakespeare’s voice and Nelson’s hand,
Milton’s faith and Wordsworth’s trust
In this our chosen and chainless land,
Bear us witness; come the world against her,
England yet shall stand.’ ”

The budget debates elicited declarations of changing faith from Mr. Walter Runciman and Sir John Simon. On September 10 Mr. Runciman, after speaking of the decrease in visible and invisible exports, said :

“ I have been a free trader all my life and I am still a free trader. I am not sure that I am not the most bigoted free trader in the House, but I am not so much a free trader as to shut my eyes to the terrible risks we are running at the present time in a failure to balance our trade budget. There is nothing unusual therefore in going to extremes. May I say to hon. gentlemen who sit behind me, I do not think that they are going to get over this trouble with the tariff. If you are going to balance your trade budget, absolutely prohibit the importation of those luxuries as you did in war-time. You have the list to work on. The war-time list will do for many purposes. You may have to revise it. You will have to examine it with very great care. You will have to see that an honest man is put at the head of the licensing department, but the thing is far better worth doing than any attempt to peg the exchanges. My suggestion to the Government to-day is that they should at once set on foot an enquiry by means of which they can exclude from this country luxuries purchased from abroad.”¹

In the resumed debate on September 15, a note of hesitancy was introduced by Sir John Simon, who had in the previous June left the Liberal parliamentary party with Sir Robert Hutchison and Mr. Ernest Brown, ostensibly on the question of an eighth

¹ Official Report, September 10, 1931.

of a penny tax on the site value of land. He had informed Sir Archibald Sinclair that he no longer desired his official Whip.¹ Sir John said :

"I find myself—I take no pleasure in it—driven to the conclusion, as I can see it, by a pure course of deduction and reasoning, that if it is true that our broad condition has changed in connection with our overseas trade, if it is true that even when you bring in the whole sum total of invisible exports and add it to our sales you cannot make a figure which pays for our imports, and if it is further true that it is absolutely necessary to stop the consequences which might follow, I ask myself and I ask my colleagues, if these facts are true, is there any alternative but to insist upon putting at once some block in the way of the flow of free imports?"²

Meanwhile the monetary situation worsened. Lord Hailsham and Mr. Amery continued to press Mr. Baldwin for an election. From his sick bed at Churt, Mr. Lloyd George issued a message denouncing as "unpatriotic lunacy" any faction fight among ourselves, and pointing out that the mere threat had precipitated a second graver crisis. By September 21 American and French credits amounting to £80 millions were almost exhausted, and next day the Gold Standard Suspension Act passed through all its stages and received the royal assent. According to the political correspondent of the *Daily Express*, the 1922 Club meeting on the same evening decided to force an immediate appeal to the electorate. Mr. Baldwin eventually agreed, but in the Cabinet Sir Herbert Samuel and Mr. Snowden continued to oppose the idea until further resistance was futile.

During September and October many politicians and business men expressed concern at the adverse balance of trade; that is, the excess of visible and invisible imports, comprising merchandise, bullion and specie, over visible and invisible exports, comprising merchandise, bullion and specie, government receipts, shipping income, overseas investment income and commissions. In 1926, the year of the coal strike, the Board of Trade had calculated that the balance had been favourable to the extent of

¹ Sir John Simon's letter and the reply by Sir Archibald Sinclair are reproduced in the Snowden Autobiography, Vol. II, pp 912-14

² Official Report, September 15, 1931.

£9 millions, in 1927 £114 millions, in 1928 £137 millions, in 1929 £138 millions, and in 1930 £39 millions. Free traders argued that since the Trade and Navigation Accounts for our commodity trade for August 1931 showed that during the first eight months of the crisis year the decline in imports was £100,000 less than the decline in exports, the protectionist contention that the balance of trade had been thrown into disorder by a flood of imports accompanied by a considerable fall in exports, was false. They argued that the adverse balance in bullion and specie, which was £27 millions more than the 1930 figure, was a corollary to the drain on London. They argued further that the reversal of the fiscal system could not redress any adverse balance in invisible exports, and would indeed only reduce their sum total. Meanwhile, after the departure from the gold standard, the campaign for a revenue tariff lost strength, and Mr. Keynes, in a letter to *The Times* of September 29, urged that a rational discussion on fiscal policy was impossible whilst monetary policy remained unsolved, but on the other hand the agitation for a tariff to rectify the balance of trade intensified. In the *News Chronicle* of September 22, Sir William Beveridge, examining the problem as to how the suspension of the gold standard affected the issue between free trade and protection, dealt with both arguments:

“One of these is the argument set out by Mr. Keynes and others in the addendum to the Macmillan Report, leading to a proposal for taxing imports and giving a bounty on exports. This was put forward as an alternative to devaluation of the pound as a means of keeping British currency on the gold standard at the former level without lowering money incomes. Unless and until we return to the gold standard at pre-war parity such proposals are relegated to the shelf of academic curiosities. To all intents and purposes the case for tariffs involved in them is dead. Dead also is the second argument, allied to this, which bulked largely in the discussions of last week—the argument for redressing an adverse balance of trade by a tariff restricting imports. It is probable that even before the break from gold, any tariff that could have been devised for this purpose would have proved a boomerang—yielding small, uncertain net gain on the balance of imports and exports of goods at the expense of greater harm, through loss to shipping freights, through reprisals from other countries and

through blocking the way to international co-operation. But the question is not now one of probabilities. The whole case for a tariff to redress the balance of trade is gone. As soon as a country is off the gold standard the balance of exports and imports gets adjusted rapidly and automatically by the exchanges. If more sterling is offered on the exchange market than is asked for, as will happen if imports are too high for exports, the value of sterling in other currencies, no longer sustained by gold, must sink; imports are rapidly made dearer and exports cheaper and equilibrium of the trade balance comes automatically. The problem for the Government becomes not that of balancing the exchanges, but of avoiding at all costs internal inflation. Its primary duties are a balanced budget, severe control of credit, a veto on the printing press and avoidance of a tariff. For to impose a tariff when the exchange is fully free to fluctuate is to deprive ourselves of the one obvious benefit which the break with gold confers—the stimulus to export. If in such conditions we tax imports the exchange moves in our favour; but it does so directly at the expense of exports; as it becomes more difficult to import so it becomes more difficult to export. Tariffs and setting the exchange free from gold are mutually exclusive policies.”¹

On October 7 Parliament was dissolved and the Prime Minister issued his appeal to the nation. As the general election of 1931 was the last to be held in Free Trade England, certain declarations of the party leaders deserve to be recorded here.

The Prime Minister, Mr. Ramsay MacDonald, told an audience at Easington, Seaham, on October 12 :²

“I do not believe anybody in his senses, the strongest tariff reformer in the world, would suggest that by a tariff the government should increase the cost of living at a time when the devaluation of the pound is now threatening of itself to increase the cost of living. But facing the actual problems of to-day in the new circumstances in which this country finds itself, I shall reject on theory, or on account of my dogmas, no proposal which can bear examination as to its goodness or badness and I find, after that examination, shows a balance on the side of good. I shall reject nothing simply because old theories are against it. The case must be made out, and the case must be made out on this condition—that it is not going to be an extra oppression upon the lives of the mass of the working people of this country.”

¹ See also Professor Robbins in the *Manchester Guardian*, September 28, 1931.

² *Manchester Guardian*, October 13, 1931.

At Wingate, Seaham, on October 24, Mr. MacDonald said :¹

" So far as I personally am concerned, I am not going to be run by any party. I should not like to turn your attention to considering what might have happened if an election had been fought by the Conservatives standing alone. But ponder it over. It may be they might try to put something over us. I am not their man. I am going to enquire into tariffs with an open mind, and if there is going to be any partisan manœuvring, then I am not their man."

Broadcasting on October 17, Mr. Philip Snowden declared :²

" If free trade or protection were the issue at this election I should be on the side of free trade. I do not believe that the Conservative leaders would regard a majority obtained in the circumstances of this election as giving them a mandate to carry a general system of protection in the new Parliament. Such a radical departure from our established fiscal system could not be made without an emphatic and unequivocal decision of the electorate."

In a press statement issued at the end of his electioneering tour on October 24, Mr. Stanley Baldwin asserted :³

" Perhaps I should say a word about those who have tried to confuse the issue with attempts to revive the free trade-protection controversy of twenty-five years ago. Now this is not the real issue. Here the Prime Minister and Mr. Snowden have both stated the position fairly accurately—that the National Government must be free to consider any and every expedient which may help to establish the balance of trade. Mr. MacDonald said in a broadcast address that this may mean tariffs. As for the Conservative party—it is convinced of the supreme value of the policy of tariffs in the present trade crisis. It will accordingly press that this policy should be examined by the National Government with an open mind and without any hampering pledges, and put into force if, as we believe will be the case, it is found to be the best means of restoring a favourable trade balance."

On October 10 the official Liberal manifesto, signed by Sir

¹ *The Times*, October 26, 1931.

² *Yorkshire Observer*, October 19, 1931.

³ *The Times*, October 26, 1931.

Herbert Samuel, the Marquis of Reading, the Marquis of Crewe, Sir Archibald Sinclair, Sir Donald Maclean, and the Marquis of Lothian, ran as follows :

"We feel bound to declare our view that whatever emergency measures might be found to be necessary to deal with the immediate situation, freedom of trade is the only permanent basis for our economic prosperity and for the welfare of the empire and of the world. Protection has not saved those countries that have adopted it from more acute unemployment than ourselves. Taxation on the staple foods of the people has always been opposed by the Liberal party and would lay fresh burdens on those least able to bear them."

At a Sheffield rally on October 15 Mr. Neville Chamberlain said :¹

"We must remember the psychological effect a tariff would be likely to have. I believe it would be followed by the placing of orders which would give not only a fillip to trade in this country, but might well prove to be the self-starter for the world engine. Trade recovery has got to start somewhere, and the imposition of a tariff here might well be the means of stimulating trade in this country and lead to a revival all over the world. It is essential to establish a system of mutual preference between the Dominions and the Motherland, and this can only be brought about by putting a duty on goods which come from outside the Empire."

But on October 26 he told a Dudley audience :²

"All these matters are going to be examined carefully, thoroughly, exhaustively, impartially, by the National Government when it is formed again. But you have not got to decide to-morrow whether you are going to have a tariff or free trade."

Mr. Lloyd George wrote in the manifesto which he issued at Caernarvon on October 10 :

"No reason has yet been shown why we should incur the tremendous risks of throwing over a system which has given us the greatest mercantile marine in the world and has made us the wealthiest country

¹ *Manchester Guardian*, October 16, 1931.

² *The Times*, October 27, 1931.

in Europe, even to-day, and enables us to pay higher wages than any of our protectionist neighbours on the Continent. Surely such a system is not to be flung out without a hearing. In this election I shall therefore stand for free trade, and were it possible for me to do so, I should accord wholehearted support to every free trade candidate without reference to party. I shall be happy to do all in my power in the next Parliament to assist any Government or any party which is striving faithfully and effectively to get us through our troubles, but I decline to assist a mere Tory ramp to exploit a national emergency for Tory ends."

At Spen Valley, on October 7, Sir John Simon issued a personal statement :

"As for our financial policy, what is needed is a calm and resolute judgment, undeterred by fiscal prepossession or tradition. When the election is over, these things will take their proper place in the general policy of a National Government, for they only form a part of a much wider whole. It is my own belief, reached after anxious study of the existing situation, that some application of tariffs will be found to be necessary, and in that case I am prepared to see them applied."

At Burnley, October 20, Mr. Arthur Henderson, leader of the Parliamentary party, said :¹

"I am standing in this election as an unqualified free trader. I have stated before that when we were discussing alternative proposals for balancing the budget, one of my colleagues said, 'What about a 10 per cent revenue tariff?' I said, 'If I am faced with the alternative of large cuts in the unemployment rates and a 10 per cent revenue duty as an emergency expedient, the money accruing from it to be used for unemployment purposes, and if it is possible to put a limit of two or at the most three years on the duties, I am prepared to risk the operation of such a duty.' I did not want a revenue tariff, but I wanted very much less a cut in unemployment pay.

"It is difficult to reconcile the position of some members of the present Government in regard to tariffs. Mr. Snowden says free trade is not an issue. Others say that tariffs are the issue, and the Prime Minister himself appears to be puzzled, for he is now declaring that no sane man would suggest the application of a tariff in view of the

¹ *Manchester Guardian*, October 21, 1931.

change which has taken place by our going off the gold standard. Yet when the Labour party says that tariffs are no cure for unemployment and that they stand for free trade, they give serious offence. I should have thought that every member of the present Government who stands for free trade would welcome the attitude of the Labour party on this question instead of wishing to bring about its defeat and with it the defeat of free trade."

The general election of October 1931 was perhaps the most hotly conducted since 1906, owing to the personal acrimony of the Labour party against its former leaders. Electioneering methods for explaining the intricacies of monetary policy were often ludicrous. At Seaham the Prime Minister appealed to his constituents by frantically waving German notes issued in 1923 when a million mark note was worth three farthings. On the other hand there was some justification for Mr. Runciman's hint at Newcastle that post office savings would be unsafe in the hands of a Labour Government, which, he said, had used deposits for current expenses.¹ The fiscal issue was blurred, and relations between the Conservative and Liberal rank and file were embittered by the appearance of Conservative candidates against Sir Herbert Samuel, Sir Donald Maclean and three others among the eleven Liberal ministers who were seeking re-election. Of thirty Conservative ministers seeking re-election, not one was opposed by a Liberal candidate. Of the 615 constituencies, 517 were contested by the Conservatives, with whom were closely associated 21 National Labour men and 40 more candidates who, following Sir John Simon, had pledged unconditional support to the National Government. The Liberal party, despite its empty exchequer and the retirement of many of its candidates in constituencies held by National Conservative members, put up 120 candidates. Led by Sir Herbert Samuel and supported by all its representative organizations, it denounced the idea of an election,

¹ In *Honest Doubt or, The Price of Politics* (1932), pp 98-100, Sir Ernest Benn described "the way in which the savings of the working classes were applied by us to the payment of our own doles". His view was officially confirmed by a written reply of the Chancellor of the Exchequer in November 1931 to questions on Treasury borrowing from the Post Office Savings Bank deposits. The reply is reproduced in full as Appendix 4 in *Honest Doubt*. The main point is that the debt of the Treasury to the Post Office Savings Bank had risen by £111,602,000 in the seven years from 1925-31.

but supported the National Government with a reservation in favour of free trade. The Labour party, shaken though it was by the loss of its leaders, and dismayed by the injustice of an electoral campaign which recalled the tactics of the Red Letter Election of 1924, succeeded nevertheless in bringing forward 513 candidates. The Labour manifesto declared for free trade. Labour rebutted the charge that it had caused the crisis, but only began more trouble for itself by attributing the crisis to the bankers. Alarmed by the Labour proposal for the nationalization of banks, many electors sympathized with Mr. Runciman's plea for notice in order to have time to withdraw deposits.¹ Mr. Lloyd George, supported by his family, Mr. Edgar Wallace and one or two others, came out as an uncompromising free trader, and withdrew the support of his fund from the Liberal party. He went into opposition. Polling took place on October 27. In a new House of Commons the Conservatives were the only powerful party. With 11,926,537 votes, they secured 471 seats, and could count upon support from two Nationals, 13 National Labour men, and 35 followers of Sir John Simon, who later formed a Liberal National Council in 1936. In spite of the loss of three junior ministers who were defeated by Conservatives, the Liberal party obtained 33 seats. In opposition there were 4 Independent Liberals, led by Mr. Lloyd George and the remnants of the Labour party, which had opposed proportional representation and now suffered the extreme penalty for its refusal to adopt it. Labour obtained as many as 6,648,023 votes and yet only 52 instead of 288 seats. In the landslide Mr. Henderson was heavily defeated at Burnley; the Labour party lost all its ex-Cabinet Ministers except the new parliamentary leader, Mr. George Lansbury, who had been First Commissioner of Works. His principal colleagues on the front Opposition benches were Major Clement Attlee and Sir Stafford Cripps.

Mr. MacDonald reconstructed his Government immediately. The Cabinet was restored to the conventional number of ministers. At the Foreign Office and the War Office, two free trade Liberals, Lord Reading and Lord Crewe, were replaced by Sir John Simon and Lord Hailsham. Sir Austen Chamberlain

¹ *Yorkshire Post*, October 21, 1931.

retired. Lord Londonderry took over the Air Ministry from Lord Amulree, a National Labour peer. Three free trade Liberals, Sir Herbert Samuel, Sir Archibald Sinclair and Sir Donald Maclean, continued in office as Home Secretary, Secretary for Scotland and President of the Board of Education. Mr. Snowden became Lord Privy Seal and was raised to the peerage on November 17. Mr. Neville Chamberlain succeeded him at the Exchequer. Viscount Snowden, insisting that two key offices like the Exchequer and the Board of Trade should not both be occupied by protectionists, persuaded the Prime Minister to promote Sir Philip Cunliffe-Lister to the Colonial Office and to offer the Board of Trade to Mr. Walter Runciman, who in spite of his opposition to the free import of luxury goods still possessed the reputation of a free trader.¹

¹ Later Lord Snowden commented in his Autobiography, "I hope that the Recording Angel has kept no note of my responsibility for Mr Runciman's appointment to this office." Vol II, p. 999

CHAPTER V

BRITAIN RETURNS TO PROTECTION : 1931-2

THE new Parliament assembled on November 3, 1931. A week later the King's Speech was delivered. It included the sentence, "The Nation was also invited by my Ministers to empower them to pursue a policy designed to fully establish [*sic*] confidence in our financial stability and to give them authority to frame plans for ensuring a favourable balance of trade." But the full enquiry into the problem of rectifying the adverse balance—an enquiry which had been repeatedly promised at the election and represented the condition under which several million free trade electors had voted for protectionist candidates—was never allowed to take place. Instead of the impartial scientific enquiry which the Premier had promised, his President of the Board of Trade, Mr. Runciman, produced on a sudden the Abnormal Importations Bill immediately after the debate on the Address. In a speech in the House of Commons on November 16, Mr. Runciman, after premising that in dealing with fiscal problems we could not ignore a great industry like shipping without depressing perhaps a hundred more industries, went on to say how foolish it would be to copy American fiscal policy. He then complained of "clever folk abroad" who, anticipating that the imposition of customs duties might be part of Government policy at an early date, had tried to get their goods into Britain before they became subject to duty. As a result, imports in the third class of the trade and navigation returns had increased since October from £27 to £35 millions.¹ Mr. Runciman concluded that the best

¹ General Page Croft assured the House of Commons on November 18 that many goods under Class 3 had been imported in abnormal amounts during the past seven years. "In the first eight months of 1924," he said, "we imported four million bricks. In the first eight months of 1931 we imported 137 million—i.e., an increase of 3,300 per cent. . . . In domestic and fancy glass in the same period the imports have gone up by 2,871 per cent."

In the *Manchester Guardian* of November 19 Mr. Vivian Phillipps wrote:

"The following are the official Board of Trade returns of imports of bricks for the first eight months of 1924, 1928 and 1931 respectively:

way of coping at once with abnormal imports was for the House to give the Board of Trade the power to issue an order imposing upon articles to which the Act applied a duty not exceeding 100 per cent of the value of the article. "There is no use in doing things by half," he added. "You must do it so effectively as to reduce the strain upon our purchasing capacity and without injury to any of our people or industries." Next day Mr. Runciman briefly moved the Bill, which was ably opposed by Major Gwilym Lloyd George and Mr. D. M. Mason, but the second reading, moved by Mr. Leslie Hore-Belisha on November 18, was carried by 376 votes to 47. The Act was to apply for six months only. Curiously enough, it failed to define the term "abnormal". Three series of orders, dated November 20 and 27 and December 17, imposed duties upon a wide variety of manufactures which in 1930 had totalled £50 millions in value.¹ The restlessness which the new measure caused among many government supporters was reflected in a speech to the Eighty Club on December 7 by the Home Secretary, Sir Herbert Samuel, who said:

"We must be careful to see this is not made the excuse and the occasion for extending the method that has been employed far beyond the needs and justification of the case. In stopping the flood of abnormal importations from abroad we seem to be letting loose a

	1924	1928	1931
Bricks	47,663,000	179,950,000	137,356,000

"I insert the 1928 figure as covering a midway period between 1924 and 1931 and as showing that the 1931 importations manifestly do not represent a 'fore-stalling' rush.

"With regard to domestic and fancy glass, the official returns for the period in question are as follows.

	1924	1928	1931
Glass, domestic and fancy	360,626 cwt.	426,718 cwt.	419,965 cwt."

¹ The first order levied 50 per cent duties on many important goods in addition to existing duties. They included domestic pottery and glassware, sanitary ware, tiles, metal furniture, cutlery, tools, typewriters, woollen manufactures, carpets, stockings, linen goods, gloves, paper, tyres, toilet requisites, linoleum.

Goods affected by the second order included glass bottles and jars, woollen yarn, coir mats and matting, domestic metal utensils, sporting guns, household linen, and jute carpets and rugs.

The third order comprised illuminating glassware, cameras, wireless components, electric lamps and fittings, lawn-mowers, cotton manufactures, ropes, fertilizers, cartridges, and cases and miscellaneous garments.

This was Protection under the cover of the manipulation of the exchanges; it naturally sharpened the appetite of other industries.

flood of abnormal importunities at home. Every interest seems to be eager to take advantage of the occasion, and it is thought that those who speak loudest and who speak first are surest to obtain the favourable attention of Parliament. I venture to say that it is time that industrialists and agriculturalists whose welfare is injured, or may be injured by such restrictions, that economists and business men who put national interests above sectional interests, should make their voices clearly heard."

Meanwhile the Runciman tariff was given prominence on the front pages of all the Norwegian, Danish and Swedish newspapers, the Danish Export Company felt obliged to suspend its campaign for increasing British imports, and a demand for reprisals was immediately made by Dr. Ludwig Kastl, an executive member of the Federation of German Industries.¹ In October Argentina imposed a surtax of 10 per cent *ad valorem* on the majority of imports, and even South Africa applied a 5 per cent surtax to both British and foreign goods. In November France imposed as an exchange compensation surtax a 15 per cent *ad valorem* duty on most imports from the United Kingdom. Poland, Finland, Colombia and Uruguay all became more and more protectionist during the autumn of 1931.²

On December 4, when moving a resolution approving the first order, Mr. Hore-Belisha, Parliamentary Secretary to the Board of Trade, boasted that the measures taken against abnormal imports had been so successful that since the period of the operation of the first order, we had taken only £30,000 in customs duties. On the other hand, Mr. Percy Harris argued that the duties, innocent as they might seem, calculated to stimulate trade and employment and to redress the balance of trade, were already upsetting many employers. Criticizing the inclusion of paper on the list, he continued :

"It may be that the paper-bag industry is not a very important one, but paper bags are essential in retail trade. A few months ago there was a strike in Norway and the paper trade there was closed down. During the strike there was naturally a stoppage of imports, and after-

¹ *Yorkshire Post*, November 23, 1931.

² Parliamentary answer, December 9, 1931.

wards users of paper for bag-making found it necessary to make up the leeway by taking a large quantity of imports. The right hon. gentleman saw that and put a 50 per cent duty on this imported material, which costs something like £15 a ton. I am assured that at present, whatever may happen in the future, there is insufficient raw material here, and, in fact, insufficient plant to produce the raw material, to supply manufacturers of bags with what they require. The result is that 4,000 people in this industry are confronted with unemployment."

After other examples, Mr. Harris concluded that the Runciman tariff was no remedy for the adverse balance of trade. In reply to the debate Mr. Runciman said that they were not dealing with matters of general principle but with some awkward facts. He remonstrated with Mr. E. Williams, who had attributed the French discriminatory duty against British coal to British measures against abnormal imports. When he was interrupted because of his assertion that the French decree had been published on November 14, two days before the announcement of British policy, Mr. Runciman continued, "If the French Government anticipated it I can only say that when we announced our policy it took hon. members opposite by surprise, and I think they were more surprised still when they found that I was the author of it." Mr. Runciman complained that the new French discriminatory duty against coal did not allow Britain the most favoured nation treatment which France had accorded for nearly two generations. He went on to say that the French decree was not responsible for British policy nor was British policy responsible for the decree. Mr. Runciman asserted that the question of foreign exchanges and the strain upon sterling was in the minds of Cabinet Ministers when they decided on the duties against abnormal imports, but now they could not ignore the action taken by France. The resolution was carried by 230 votes to 38.

On December 7, Sir John Gilmour, Minister of Agriculture, moved the second reading of the Horticultural Products (Emergency Provisions) Bill, whose duties were later continued under the Import Duties Act. This Bill formed the basis of three new series of orders issued in January, February and March 1932 and

expanded on July 28, 1932. It enabled the minister to impose for a period up to twelve months duties not to exceed 100 per cent *ad valorem* or according to weight, on various classes of fresh fruit, fresh vegetables and flowers. The duties varied in extent according to season, since they sought to prevent continental growers of fruit and vegetables from reducing the British market price before the British varieties were in season. Mushrooms and certain cut flowers were given preferential treatment since every year they were permitted to enter duty free for a fortnight. Duties imposed under the first order were to last for a period of from two to six months on a dozen different vegetables, sixteen types of flowers, and cherries, currants, gooseberries, grapes, plums and strawberries. Mr. Percy Harris, on December 8, moving the deletion of tomatoes from the schedule, pointed out that in winter, when eggs were threepence each, tomatoes were a convenient substitute to eat with the morning rasher of bacon. He regarded the increased consumption of tomatoes as an important factor in the varied diet which had improved children's health during the past few years. Tomatoes worth £4 millions were, he said, imported annually, mostly from the Canary Islands. Mr. Harris appealed to Sir John Gilmour not to add to the cost of living. But the amendment was lost by 274 to 49 and the third reading was carried next day by 276-40. This intricate and irritating measure immediately caused resentment among many of our best continental customers.

Mr. Runciman meanwhile attempted unsuccessfully to persuade the Cabinet Committee on the Balance of Trade to adopt as its programme a 10 per cent revenue tariff. He held out as an inducement that it would enable the Government to make a popular reduction of one shilling in the income-tax.¹ In January the majority of the Cabinet Committee recommended a general protective tariff of 10 per cent *ad valorem*, with additional duties on the recommendation of an Import Duties Advisory Committee. The majority of the Cabinet itself endorsed the recommendation, but Lord Snowden, Sir Herbert Samuel, Sir Archibald Sinclair and Sir Donald Maclean threatened resignation. To avoid a break-up of the Government, a statement issued from 10 Down-

¹ Snowden Autobiography, Vol. II, p. 1007.

ing Street on January 22, 1932, announced a startling departure from precedent.¹

The statement ran :

"The Cabinet has had before it the report of its Committee on the Balance of Trade, and after prolonged discussion it has been found impossible to reach a unanimous conclusion in the Committee's recommendations. The Cabinet, however, is deeply impressed with the paramount importance of maintaining national unity in presence of the grave problems that now confront this country and the whole world. It has accordingly determined that some modification of usual ministerial practice is required, and has decided that ministers who find themselves unable to support the conclusions arrived at by the majority of their colleagues on the subject of import duties and cognate matters are to be at liberty to express their views by speech and vote. The Cabinet, being essentially united on all other matters of policy, believes that by this special provision it is best interpreting the will of the nation and the needs of the time."

On behalf of the dissentient ministers, Sir Herbert Samuel issued an explanatory statement to the press next day. He pointed out that there were four choices : first, the subordination by the minority of their opinions out of deference to the majority standpoint; secondly, the subordination by the majority of their opinions in deference to the views of the minority; thirdly, the acceptance as inevitable of the Government's disintegration, and fourthly, the temporary suspension in this instance of the rule of ministerial collective responsibility. The Cabinet had decided on the fourth. After agreeing that the plan was unprecedented, anomalous and illogical, Sir Herbert went on to praise the elasticity and adaptability of the British Constitution. He contended that withdrawal from the Government would not prevent the passage of the measures to which the dissentient ministers objected; another dissolution was unjustifiable, and any change of Government then practicable would only strengthen the tendencies to which he and his colleagues took exception.

Although resolutions of censure were overwhelmingly defeated,

¹ In 1935 Professor George Burton Adams wrote in the new and revised edition of his *Constitutional History of England*, p. 552 (Cape): "No parallel to this 'agreement to disagree' can be found in modern British Constitutional practice."

this constitutional device did not really heal the differences in the Cabinet, nor did it diminish personal and party animosities. The Labour party and the Liberal *Manchester Guardian* denounced Mr. MacDonald as the instrument for carrying through within six months two constitutional revolutions—the break-up of the party system and the break-up of the Cabinet system. It was pointed out that the dissentients could take advantage of the agreement to differ only because the vast Conservative majority in both Houses made the result of the fiscal debates a foregone conclusion. Mr. George Lansbury, Leader of the Opposition, told a Manchester meeting that if world conditions were not so tragic, “the latest buffoonery of the Government might be treated as a screaming farce”. After indicting “this coalition of pinch-beck statesmen, all of them little men”, Mr. Lansbury continued:

“I am no stickler for constitutionalism as such. I am no lover of the Cabinet system. In fact I think we should be wise to abolish it. But Tories, Liberals and most Labour men do believe in Cabinet responsibility, and men and women who accept the pay and privilege of being Cabinet Ministers have no right to claim at the same time freedom to fight and quarrel among themselves.”¹

Sir Stafford Cripps, in his Bristol constituency,² expressed the hope that the ministry would be turned out by “wholehearted” Tories like Mr. Amery and General Page Croft, who accorded such epithets as grotesque, unworkable and absurd to the Cabinet solution. Mr. Amery informed *The Times* on January 23 that the situation bore no resemblance to that of 1917, when Lord Carson voted against his colleagues on women’s suffrage, or to that of 1904, when ministers voted in different directions on the Irish Universities Bill, for, said he, neither of these was a major issue of policy. At a Birmingham meeting on January 22, Sir Austen Chamberlain and Viscount Hailsham, the new War Minister, both strongly supported the agreement to differ, which, among representative Liberals, received the approbation of Viscount Grey, the Hon. Geoffrey Howard and Mr. Ronald

¹ *Manchester Guardian*, January 25, 1932

² *The Times*, January 25, 1932.

Walker, and the fierce denunciation of Professor Ramsay Muir.¹ Provincial newspapers like the *Birmingham Gazette* were disposed to give the innovation a fair chance. The Conservative *Daily Telegraph* recalled that Sir William Harcourt had attributed the establishment of the principle of Cabinet Solidarity to Pitt, whereas the late Lord Oxford had dated the doctrine from the Wellington ministry of 1828-30.²

Public opinion was fairly accurately reflected in *The Times* leading article on January 23:

"Nothing could possibly be simpler than to pour sarcasm upon a decision which so clearly contradicts Lord Melbourne's celebrated dictum that it does not matter what a Cabinet says so long as its members all say the same thing; and both the majority and the minority of the Cabinet no doubt expect to suffer from this obvious kind of comment. But second thoughts, such as the Cabinet itself has already taken, should convince everyone—with the exception, of course, of those who at any time would rather see the National Government collapse than continue—that the decision taken is in reality neither humorous nor humiliating. The divergence of opinion has taken place on what, after all, is only one item of the Government's

¹ *The Times*, *Daily Telegraph* and *News Chronicle*, January 23, *Yorkshire Post*, January 25, 1932.

² Lord Oxford wrote in 1926: "In the Cabinets of the first thirty years of the nineteenth century, though with the exception of that of All The Talents in 1806, and possibly that of Canning in 1827, they should all be called Tory Governments, there were questions of what would appear to us to be of vital importance—such, for instance, as Catholic Emancipation (where Canning and Castlereagh were in opposition to the majority of their colleagues) and (within limits) Parliamentary Reform—in regard to which there were openly avowed and tolerated differences of opinion. The convention of what Harcourt calls Cabinet Solidarity—that is, of such an appearance of unity as compels a dissident to resign his office before he openly speaks and votes against the policy of the Administration—may be said to date from the Duke of Wellington's Government in 1828"—*Fifty Years of Parliament*, Vol II, p. 191.

The seventh chapter of Morley's *Walpole* (Macmillan, 1889) was the first important contribution to the study of the growth of the Cabinet and of ministerial collective responsibility. Mr E. R. Turner's work takes the lead in modern historical research on this question and such kindred subjects as the Privy Council and its Committees, *The Privy Council of England*, 2 vols., 1927-8 and *The Cabinet Council of England*, 2 vols., 1930. An excellent synopsis may be found in Dr. Mark A. Thomson's *Constitutional History*. The contributions of Anson and Holdsworth form the basis from which most modern historians have worked. See also Dr Ivor Jennings *Cabinet Government*, Sir A. Berriedale Keith: *The British Cabinet System, 1830-1938* and *The King and the Imperial Crown*; Trevor Williams. *The Cabinet in the Eighteenth Century*, *History*, December, 1937.

policy, however large the fiscal issue may loom in some quarters. The alternative, therefore, before the dissentient ministers, who will have to bear the brunt of any adverse comment, was to resign, to oppose a Government with which they are in broad agreement, and to rank themselves in effect with a section from which they differ *toto caelo*. Such divergence in the Cabinet, even upon far less important topics, would of course have dictated resignation under a party system and in normal circumstances. Indeed the party system is itself the nurse of Cabinet solidarity, because open disagreement in a party Cabinet means a split in the party, and in normal circumstances the preservation of distinct dividing lines between parties is the very foundation of our political system. But an overwhelming popular majority has decreed departure from the party system for the very reason that circumstances are not normal."

From much of this comment there will be no dissent, but it is incorrect to suggest that there was broad agreement between the Conservatives, the Liberals and the Labour members of the Cabinet who had joined together on the single issue of balancing the budget. As soon as the question of the trade balance emerged, a vital difference arose on which there could be no compromise.

The Import Duties Act, which received the royal assent on February 29, 1932, and came into operation on March 1, was the statutory keystone of the new protectionist arch. It imposed a general customs duty equal to 10 per cent *ad valorem* on all imports, with the exception of goods already dutiable under earlier measures or goods specified on the free list. Empire goods should be exempt till November 15 or a later date if so decided by a resolution of the House of Commons. A drawback might be permitted on re-exports. For the purpose of administering the Act, the Import Duties Advisory Committee, composed of three members, was set up under the chairmanship of Sir George May. His colleagues were Professor Sir S. Chapman and Sir Allan Powell. The Committee's function was to consider representations made to it on all matters arising from the administration of the Act and accordingly to make recommendations to the Treasury, which should duly make an order to carry the recommendation into effect. The Committee was empowered to recommend a further duty additional to the general 10 per cent duty on what its members deemed luxury goods or articles of a

kind "which are being produced, or are likely within a reasonable time to be produced, in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption".¹ This further duty might be *ad valorem*, or specific, temporary, permanent or seasonal. It had to consider the advisability in the national interest of restricting imports and at the same time the general interest of commerce, industry, consumer and producer. Power was accorded to the Board of Trade, with the concurrence of the Treasury, to impose retaliatory duties against states which discriminated against British exports. A duty imposed by any Order of the Treasury or of the Board of Trade should cease to have effect after twenty-eight days unless approved by a resolution of the House of Commons. The free list comprised about forty types of goods, of which eighteen items were inserted during the Committee and Report stages in the Commons. At the same time the House withdrew sisal hemp and balata from the free list. It was provided that an Act of Parliament could remove any item from the free list, but it could not be expanded for six months. During the passage of the Bill, Parliament secured only one change, for whereas originally the Bill provided for a drawback of the additional duties only, it was conceded that a drawback might be allowed on the general 10 per cent *ad valorem* duty in the case of re-exports.

The Financial Resolution of the Import Duties Bill was moved by the Chancellor of the Exchequer, Mr. Neville Chamberlain, on February 4, 1932. Discussing the trade balance, the Chancellor observed that the difference in the balance in 1931 compared with 1930 was almost identical with the amount by which

¹ The Act, on account of the high 33½ per cent surtax duties imposed by The Three, has become a classic case of parliamentary delegation of powers of taxation. On delegated legislation and administrative justice, the essential books are: Sir C. T. Carr, *Delegated Legislation*, 1921; Lord Hewart, *The New Despotism*, 1929, Dr Carleton Kemp Allen, *Bureaucracy Triumphant*, 1931; and Committee on Ministers' Powers, *Report and Minutes of Evidence*, H M Stationery Office, Cmd. 4060, 1932. Two pamphlets of the Individualist Bookshop deserve close study: Lord Perry, *Beware Bureaucracy* (No. 9) and Dr. C. K. Allen, *What Price the British Constitution?* (No. 10), 1941. For rather a different interpretation, see Sir C. T. Carr: *Concerning English Administrative Law*, Columbia University Press, 1942.

invisible exports had fallen. After describing as "complicated" the problem of how to diminish imports while increasing exports, he continued :

"The effect of the too sudden closing of the market of this country to one class of goods from another country may easily produce such a reduction in the purchasing power of one of our customers in another class of goods as to have serious results upon our export trade. If we are to increase our exports, we must necessarily contemplate that at the same time there must be an increase in imports, because it is certainly the case that the raw materials required for imports would not be producible in our own country."

Mr. Chamberlain then outlined the seven aims of the Government's fiscal policy.¹ They were :

1. To correct the balance of payments by diminishing imports and stimulating exports.
2. To fortify the budget by raising fresh revenue through methods which would place no undue burden upon any section of the community.
3. To insure against a rise in the cost of living which might easily follow an unchecked depreciation of currency.
4. By moderate protection, scientifically adjusted to the needs of industry and agriculture, to transfer to British factories and fields work then done elsewhere, thereby decreasing unemployment.
5. To render more efficient British methods of production and distribution.
6. To negotiate with foreign countries and to arm Britain with an instrument which should at least be as effective as those which might be used to discriminate against us in foreign markets.
7. To offer advantages to the Empire in return for similar advantages.

Having explained the details of the measure, Mr. Chamberlain concluded with a filial peroration which contrasted with the dry and unemotional tone of most of his speech.

"Nearly twenty-nine years," he said, "have passed since Joseph Chamberlain entered upon his great campaign in favour of imperial

¹ The late Dr. Ramsay Muir closely analysed each of these claims in turn in *The Record of the National Government*, pp. 98-160. Allen & Unwin, 1936.

preference and tariff reform. More than seventeen years have gone by since he died, without ever having seen the fulfilment of his aims and yet convinced that, if not exactly in his way, yet in some modified form his vision would eventually take shape. His work was not in vain. Time and the misfortunes of the country have brought conviction to many who did not feel that they could agree with him then. I believe he would have found consolation for the bitterness of his disappointment if he could have foreseen that these proposals, which are the direct and legitimate descendants of his own conception, would be laid before the House of Commons, which he loved, in the presence of one and by the lips of the other of the two immediate successors by whom his name is carried on."

The next speakers were Major Clement Attlee and Mr. Amery, but the principal contribution to the debate on February 4 was made by the Home Secretary, Sir Herbert Samuel, who amazed some of his colleagues by taking the fullest advantage of the opportunity afforded him by the agreement to differ. As to this remarkable deviation from recognized practice, he claimed that censure should be distributed all along the Government front bench. Sir Herbert vigorously indicted a policy which taxed nearly all imports as a means of excluding a small proportion of them in order to restore the balance of trade. He asked why it was wrong to exempt flax, hemp and jute, all of which would be taxed, if it was right to exempt cotton and wool, presumably for the reason that to tax them would burden manufacturers. He did not know whether Mr. Chamberlain intended to exempt iron ore, but in any case ores like copper, manganese and tin were twice the value of the iron ore imported into Britain. Two-thirds of our imports in Class 2 and a larger proportion in Class 3 were foreign raw materials and yet would be subject to tax. Sir Herbert asked why the boot and shoe industry and the leather trades should have to pay 10 per cent on their hides, skins and leather, half of which came from abroad, and why the building and furniture trades should be taxed 10 per cent on their timber, nine-tenths of which came from foreign countries. He pointed out that there was daily competition for tenders for foreign contracts in which our industrialists were keenly engaged; two or three per cent added to the price made all the difference between

getting or losing the whole order. Sir Herbert then considered the effects of the Bill upon $2\frac{1}{2}$ million unemployed and upon the many people who were working short time and had already made sacrifices. An unemployed man with his wife and three children had to subsist upon 29s. 3d. per week—about 3s. per day for food for five persons. The tea of this family was untaxed, its bacon was (as yet) untaxed, but its sugar was already taxed more than its value, its bread would be raised in price one-halfpenny for the four-pound loaf under the quota scheme, and henceforth 10 per cent was to be added to the cost of flour, rice, margarine, condensed milk, tinned salmon, and all the day-to-day food of working people. Finally Sir Herbert asked whether standards of living in Protectionist Europe were so much higher than ours that we should accept its systems as better than our own way of living.

On February 9 the debate on the financial resolutions of the Import Duties Bill was resumed. Mr. Walter Runciman argued that formerly our balance of payments was automatically adjusted by the operation of the exchanges, but that had passed. "Nobody," he said, "will be so foolish as to imagine that your exports do not pay for imports; they always do in the long run." But there would be a gap in which we should live on credit, and thus it was necessary to prevent importation in excess of our purchasing capacity abroad, for if we threw too heavy a strain upon our capacity it would be reflected in the value of sterling abroad and perhaps also at home. The Orders produced by the Abnormal Importations Act, "under which the trade of this country has been deliberately hampered", had never aspired to be scientific. The Orders under the Abnormal Importations Act constituted a surgical operation; the new Act was a slimming process. Neither increased exports nor industrial reorganization could be expected from the measure, but he (Mr. Runciman) believed that it would produce £30 millions of revenue and reduce imports without increasing the cost of living.

"I should like to remind the House," said Mr. Runciman, "of a fact which may have been forgotten in the last few weeks, that I am still a free trader, that I can still look at these things from the point of view of the free trader. I have not forgotten my free trade teachings

of the past; not at all. I can understand a free trader being opposed to all import duties. The old doctrine used to be that import duties were all right if a countervailing excise was imposed. There is no suggestion in the proposals of the Home Secretary last Thursday of a countervailing excise. I am not at all sure that I do not agree in the main with the free trade attitude he adopts. He does not want raw materials to be made expensive. Neither do I, and I think we can avoid it. The House is very anxious to know what we propose to put in the Schedule. All particulars will be given of what is proposed to be put in the Schedule when the Bill is circulated. It is not usual to give full details before, and we are not going to be so foolish as to destroy industries by making it impossible for them to buy their raw materials. . . . Practical tests and considerations made me in pre-war days a free trader. The same tests applied during the present emergency make me a supporter of these proposals. . . . It is easy to be a doctrinaire if you have not to act, but prompt action is our most urgent need."

After an opposing speech by Major Gwilym Lloyd George, Mr. Baldwin wound up the debate on the Resolutions on February 9. The first Resolution, authorizing the 10 per cent duty, was then put to the vote and carried by 454 to 78 votes. All the members of the Labour party voted *en bloc* against the Bill. Of the members who had been elected as Liberals, thirty-two supported the dissentient ministers, whereas thirty-two others adopted the attitude of Sir John Simon and Mr. Runciman and voted for Protection. Two further resolutions concerning additional and retaliatory duties were carried by large majorities.

Major Walter Elliot, Financial Secretary to the Treasury, moved the Second Reading on February 15. Its rejection was proposed by Mr. Lansbury. An effective maiden speech was delivered by Mr. E. L. Mallalieu, a Liberal who had succeeded Lord Snowden as member for Colne Valley. Next day Sir Robert Horne appealed for a return to the ratio of 1913, when, he said, our visible exports paid for 82 per cent of our imports and a large margin for investment remained. On February 16 Sir Archibald Sinclair, the Secretary for Scotland, contended that nothing would be achieved if we dissipated our energies over four different objectives—first, the protection of the home trade; secondly, the development of the empire as an economic unit; thirdly, the encouragement of exports through reciprocity treaties

—a policy which could make little headway in the face of agreements with the Dominions; and fourthly, the raising of the revenue—an objective incompatible with imperial preference and foreign reciprocity treaties. “Unfortunately,” said Sir Archibald, “the Balfour Committee, a committee of men of great practical experience and the highest credentials, who sat for a very long time considering the problems of British industry, and published their conclusions at no inconsiderable length in a series of volumes, strongly condemned any system of attempted bargaining by duties here. They say: ‘Experience shows conclusively that it cannot in the long run lead, and as a matter of historical interest, it has not led to a reduction in the general level of tariffs.’” In a later passage Sir Archibald reminded the House that food taxes were a kind of surtax, but graduated the wrong way round, and falling with most severity on the smallest incomes.

Speaking for the Labour party towards the end of the debate on February 16, Mr. Attlee made a significant declaration. “We have never professed,” he said, “to be in favour of *laissez-faire*. We say that tariffs are merely a weapon like any other weapon, and a Socialist Government might use a tariff under certain conditions. I have always said so. A Socialist Government might use a tariff if it pleased, to protect a nationalized industry. It might use it to protect even an industry in private hands, provided it was ensured that wages, hours and conditions, profits and so forth, were properly controlled in the national interest.” However, Mr. Attlee felt that the Bill would not solve but intensify the international crisis. It would raise up a host of vested interests which would render all the more difficult the transition towards “a corporate commonwealth”. Mr. Chamberlain, who wound up the debate, said that the proposals in the Bill had been carefully chosen in such a way that they would not raise living-costs by more than a few points in the index number. “But I wish to warn the House,” he continued, “that the present cost of living is artificially low, that many articles are to-day being sold at prices which are well below the cost of production, and that inevitably, and very likely before very long, the cost of living must rise as the cost of primary commodities rises. What our proposals will do will be to arm the people of this country with

a higher income so that they can meet that increased cost of living when it comes." The motion for the second reading was carried by 453 votes to 75.

During the latter half of February the Bill was in Committee. When Major Lloyd George (with the approval of sixty-two fellow-members) moved an amendment that an inquiry should be held before the imposition of the 10 per cent duty, Colonel Wedgwood observed that his proposition was unreasonable, since for the Government it would be suicidal. Sir Percy Harris, arguing that our fish imports came largely from Norway, a low-tariff country, and that fried fish constituted an important item of diet among poorer people, moved an amendment to exempt foreign fish from duty. Before it was negatived, he enjoyed a brief encounter with Mr. Patrick Hannon, who described the amendment as "cheek". A Labour attempt on February 24 to add "foodstuffs for human consumption" to the free list was defeated by 312 votes to 73. Next day on the Report Stage, the Chancellor of the Exchequer moved an amendment authorizing the Advisory Committee to recommend a drawback in respect of both the general and the additional duties. Mr. Dingle Foot succeeded in carrying an amendment to place true hemp on the free list. During the remainder of the Report Stage several Conservative members contrived to expand the free list. Maize was inserted, because, as Mr. Chamberlain admitted, farmers would otherwise be forced to pay a higher price for their feeding stuffs. Mr. Dingle Foot attributed the insertion of semi-precious stones—a Birmingham speciality—to a fear that "our tiaras will cost us more". Sir Herbert Williams, M.P. for South Croydon, wanted "hair used to make hats" placed on the free list. Mr. W. Allen (Burslem), Mr. Hales (Hanley) and Sir J. Lamb (Staffordshire, Stone) wanted flint and bone, underground and untreated, to be exempt from duty, while Mr. Denville and Sir N. Grattan-Doyle (Newcastle, Central and North) wished the same privilege to be accorded to "all timber for use in mines". Mr. Turton demonstrated with success that with a tax on soya beans there would be great danger of losing part of the export trade in the manufactured product, which amounted to £800,000–£1,400,000. Moving an amendment on February 25 to add zinc and lead to the free

list, Earl Winterton attributed to the new measure the "excessive premiums" already charged on lead and zinc and the loss of valuable export contracts. His seconder, Sir Arthur Steel-Maitland, argued that the value of pig-lead represented a figure between 70-75 per cent of the lead sheets and pipes when finished; an increase of 7 per cent on the raw material would (he thought) be equivalent to an increase of about 5 per cent on the finished article. The amendment succeeded, and the list, which originally included iron and tin ores, was expanded to include metallic ores, concentrates and residues. The debate on the Third Reading, though brief, was notable for an eloquent speech by the Mines Secretary, Mr. Isaac Foot. But it was carried by 444 votes to 64.

On February 29, 1932, by 129 votes to 12, the Import Duties Bill was read a second time in the House of Lords, where the Lord Privy Seal, Viscount Snowden, spoke in the last parliamentary debate on free trade before the change of fiscal policy.¹ The Bill received the royal assent on the same day, and Britain reverted to general protection for the first time since the days of Peel.

¹ This admirably reasoned speech is reproduced as Appendix 7 in the Snowden Autobiography, Vol. II, pp. 1669-80.

In a letter discussing the eleven General Elections held during the present century, with particular reference to those of 1906, 1923 and 1931, Mr. Brunner writes "Protection was always beaten when submitted to the electorate. I remember the old Duke of Devonshire [who left Gladstone's third Ministry over Home Rule in 1886 and Balfour's Government over Tariff Reform in 1903] saying that if Protection ever was restored in Britain, it would not be on its merits, but on the demerits of some other policy not connected with it; and here he was prophetic."

CHAPTER VI

OTTAWA AND AFTER

MR. R. B. BENNETT, the Prime Minister of Canada, presided over the Imperial Economic Conference at Ottawa, which lasted from July 21 to August 20. During the month of sessions, the Mother Country was represented by Mr. Baldwin, Mr. Chamberlain, Viscount Hailsham, Sir Philip Cunliffe-Lister, Mr. Runciman and Sir John Gilmour. All the British free trade Cabinet Ministers remained at home. Mr. Bennett, accompanied by Mr. A. Meighen, the former Prime Minister, headed the Canadian delegation, which numbered seven. Mr. S. M. Bruce and Mr. H. S. Gullett represented Australia, while New Zealand sent her Minister of Public Works, Mr. J. G. Coates, and Mr. W. D. Stewart, Minister of Finance and Customs. Mr. Sean O'Kelly, Vice-President of the Executive, led the three Irish delegates, and the South African representatives were headed by Mr. N. C. Havenga, Minister of Finance. Sir Atul Chatterjee, member of the Council for the India Office, and Sir George Rainy, of the Governor-General's Council, were among the six members of the delegation for India, while Newfoundland and Southern Rhodesia both sent their Premier and Treasurer. The Crown Colonies, the Dependencies and the Protectorates were inadequately, and, indeed, rather feebly represented by the British Colonial Secretary, Sir Philip Cunliffe-Lister.¹

Mr. Bennett, in his speech of welcome, recalled that in 1930 the Empire was not ready to adopt his plan for economic association by the general adoption of preference. He went on to suggest that the change of British fiscal policy removed the difficulty. Asserting that the Commonwealth States must maintain their own standards of living, he continued: "State-controlled standards of living, State-controlled labour, State-aided dumping, dic-

¹ Contemporary commentary in the Press of non self-governing colonies like Ceylon and Fiji makes interesting reading. For instance, it could hardly be expected that the Ottawa Agreements would appeal to Jamaica, who took three-tenths of her imports from the United States, her best market

tated by high State policy, conflict in theory and practice with the free institutions of the British Empire. Subordination of the individual right and liberty to national economic plans affronts our whole idea of national development." He proposed a reciprocal Canadian tariff in return for a British plan to extend her preferences to natural products and free entry in Canada to such British products as did not harm Canadian enterprise. Lastly, Mr. Bennett wished existing British preferences to be retained or extended "to those other and processed products of which the United Kingdom is an importer". Mr. Baldwin, who followed, pointed out notwithstanding mutual preferences, seven-tenths of imperial commerce was conducted with foreign traders and only three-tenths was inter-imperial. Thus, said he, the possibilities of future expansion were hardly measurable. The recovery of confidence by traders and producers was the prime factor in restoring price-levels. Mr. Baldwin argued that such an object could best be achieved by assuring traders of markets for goods by the removal or limitation of existing barriers to trade (particularly arbitrary and erratic quota systems and exchange restrictions), by finding a solution to the problem of reparations and war debts and by lessening the heavy burden of taxation and interest charges. Expressing the aspiration that as far as possible increased preference should take the form of lowering inter-imperial barriers rather than raising barriers against the non-empire trader, Mr. Baldwin declared the expansion of empire trade through lower inter-imperial trade-barriers to be the general objective of the United Kingdom Government. Mr. Coates came out strongly in favour of quotas against foreign imports, while Mr. Bruce, on behalf of Australia, suggested increased preference to non-competitive British commerce, removal of the prohibitions and surcharges which had accompanied the economic blizzard, and substantial reductions of the emergency tariff. He invited Britain to assist Australian meat-producers and to take action against Soviet wheat "dumping". Mr. Havenga, emphasizing that South Africa did not subscribe to the theory of a self-contained and isolated British Empire, pointed out very sensibly that none of its members, least of all the United Kingdom, could exist by trade within the Empire alone. He then reminded

his fellow-delegates that South Africa, since 1926, had allowed preferences averaging £9 millions annually, on textiles, machinery and iron and steel manufactures. "These," added Mr. Havenga, "are particular industries, requiring assistance, and the possibilities of giving new or additional preferences have been examined, but I must state quite frankly that where these are sought in order to secure a diversion of trade, consideration will have to be given to their effects upon foreign countries which now buy South African products freely and whose markets we must retain for the surplus that the Commonwealth is unable to absorb."

On July 28 Mr. Baldwin laid before the Conference a supplementary statistical memorandum on various aspects of inter-imperial trade. Its main points may be briefly summarized as follows: In 1930, Empire imports into the United Kingdom totalled £260 millions. Preferences under pre-1931 duties affected the sum of £48 millions and those under the Acts of 1931-2, £101 millions. The proportion of Dominion imports which continued to enjoy free entry sometimes exceeded nine-tenths. It fell appreciably below this figure only in the case of British India, of whose imports 37 per cent were accounted for by the revenue duty on tea.¹ Since the Import Duties Act only 30 per cent of British imports from non-empire states enjoyed free entry. None of the four major Dominions allowed United Kingdom imports to enter duty-free. Most preferences allowed by the United Kingdom took the form of the total remission of duties payable for foreign goods. During 1930 (in the case of Canada, 1931), the Dominions, together with British India, Southern Rhodesia and Newfoundland, imported from the United Kingdom goods to the value of £267,570,000, from the other British countries £64,470,000, and from foreign countries £347,541,000. The visible trade balance of the Dominions—that is, the difference between Dominion imports into the United Kingdom and Dominion exports from the United Kingdom—represented £95,700,000. Finally the Dominions had been accorded preferential access to the British investment market, and in consequence £848 millions of £1,401 millions invested between 1919-31 had

¹ On which India enjoyed a valuable preference.

gone to the British Commonwealth overseas. At the Conference the general reaction to the British statement was favourable.

During August business took place in the five secret committees and at private luncheons. Although no official reports were issued, the Press stated on August 5 that Canada had offered preferences of 100-200 million dollars to the United Kingdom. A day later the figure was given as 55-70 million dollars. On August 8 the figure suggested by the Press was 20 million dollars. These variations gave rise to a sustained onslaught against the British Civil Service. An example may be quoted from an article on August 9 by the Ottawa Correspondent of the *Daily Express*, whose proprietor, Lord Beaverbrook, had already warned readers of its Sunday counterpart to be on their guard against "the selling of the pass" by Mr. Baldwin :

"The bureaucratic Whitehall mind is the chief danger to the conference at the present moment. Mr. Baldwin is not the real head of the British delegation at all. The real head is Sir Horace Wilson, Chief Industrial Adviser to the Board of Trade. Britain to-day rejected Mr. Bennett's splendid offer as inadequate, but it was not Mr. Baldwin nor Lord Hailsham nor Mr. Chamberlain who really rejected it. It was Sir Horace Wilson. He and his cohort of advisers are the real menace to the Conference. It is not their business to take broad statesmanlike views. Accustomed to look at the world through narrow Whitehall peepholes, they are blinking in the sunshine of the Empire here."

In a letter of August 8 Mr. Baldwin bluntly informed Mr. Bennett that the Canadian concessions were inadequate return for the proposed British concessions. He asked for more. A week later, another difficulty arose between the tariff-bargainers, when a group of Canadian industrialists, aided and abetted by Canadian Conservative politicians, forced the Russian issue to the fore with such energy that even *The Times* denounced their campaign as a ruse to destroy the structure of the Anglo-Canadian agreement. *The Times* also suggested that the British elements, too, were exploiting the Canadian demand for an embargo on dumped imports from Soviet Russia in order to create fissures in the British Government.¹ On August 19 the Canadian Conservative

¹ August 15.

ministers launched a bitter attack which lasted till nearly four o'clock next morning against a series of resolutions, drafted by Mr. Chamberlain, seeking to announce freer trade within the Empire as the objective of the Conference and as the turning-point towards freer world trade. Exhausted and disgusted, Mr. Chamberlain finally left the contest.¹ However, on August 20, in memory of Joseph Chamberlain, he was invited before returning home to sign the Anglo-Canadian Agreement. The remaining six United Kingdom agreements were signed by the Lord President of the Council. Canada also signed agreements with South Africa, the Irish Free State and Southern Rhodesia, and South Africa with New Zealand and the Irish Free State.

The United Kingdom made six concessions of far-reaching significance. All Dominion products admitted free in August 1932 were to continue to enter British ports free of duty. This ruling covered four-fifths of all imports from the Commonwealth, for the remaining fifth was subject to revenue duties or to customs duties under the Acts of 1915, 1921 and 1925-8. The British delegation sought to tie the hands not only of the existing Parliament, but of the Parliament which was to follow, by promising, quite unconstitutionally, that the agreements should be binding for five years. There was one exception to the general rule—dairy produce. In this case, the agreement was to hold good for three years, after which Britain might make changes whilst preserving the existing preferential margin or imposing quantitative regulation. The revision of the British tariff against foreign

¹ A very fair impression of the atmosphere at Ottawa was given by Sir Ernest J. P. Benn in *This Soft Age With the Optimistic Theory of the 30-50 Man*. "Machiavelli would blush had he access to the twentieth-century records of our Foreign Office or our Board of Trade. His conceptions of 'how to overreach by cunning' would seem elementary after a perusal of the Minutes of the Ottawa Conference and those of the meetings with Danish, Argentine and other delegations at the Board of Trade. He would find the same government, indeed the same statesmen, explaining to the Empire how Ottawa gave them the foreigner's trade, while explaining to the foreigner that Ottawa was intended as a way of encouraging trade with him. Machiavelli would further feel himself to be a mediæval student of dishonesty in its most elementary forms, when he noticed how modern democracy, blinded by its good intentions, had been fooled by a new bureaucracy with a new technique capable of finding words to express and nullify any number of intentions, however contradictory they might be." Chap. 4, "The Morality of the State", p. 54. Benn, 1933.

goods, in which the Dominions were interested, led to a rise of 10, 15 or 20 per cent in the duties on eggs, butter and several fruits, while linseed, wheat and unwrought copper, which had previously entered British ports duty-free, were henceforward subject to duty. Britain also agreed to impose a 10 per cent duty for five years on many foreign goods. Classes in which the Dominions were interested amounted in 1930 to the sum of £101 millions. One-quarter had come from the Dominions, upon whom a double advantage was now conferred, for they had the right of free entry plus a 10 per cent duty imposed against the British consumer of the foreign foodstuffs or raw materials. The United Kingdom also concurred in a plan for a quantitative restriction of chilled and frozen beef and frozen lamb and mutton both from within and outside the Empire. Thus Ottawa gave its blessing to the quota system, which was rather fiercely described as "diabolic" even by Sir John Simon. Australia promised to try in future to limit her frozen mutton and lamb exports to the 1932 figure and her frozen beef exports to the 1932 figure plus one-tenth as much again. New Zealand pledged herself to estimate her meat exports as early as possible during each exporting season. Canada was permitted to export up to 2½ million cwts. of bacon a year and the New Zealand Government was notified that there was room, too, for expansion of its bacon exports. In the interest of Canada, South Africa and India, Great Britain stabilized the tobacco preference for ten years. She increased the Indian preference from 3s. 4d. to 9s. 4d. per lb. and accorded Southern Rhodesia the same preferences in coffee and tobacco as those given to India. But even so, Britain's concessions did not end here. The Anglo-Canadian Agreement stipulated the prohibition of imports from any country which by specific government action frustrated the operation of the preferential tariff. The 10 per cent preference on Canadian timber was described by Mr. Bennett as inadequate, while the Canadian Lumbermen's Association contended that the British timber trade was an "active partner" of the Russian trade and was financially interested in eliminating Canada from the United Kingdom market. Vested interests in Canada achieved heights of moral indignation over timber "dumping" and raged so successfully against

Russian wood that the MacDonald Ministry meekly denounced the agreement signed with Soviet Russia in 1930.

In return the Bennett Administration offered several concessions on Canada's behalf. It promised to abolish on British goods the surcharges imposed on all imports during the economic blizzard and to accord sympathetic consideration to the question of abolishing exchange dumping duties. It promised also to protect only industries capable of survival, to maintain quite low-tariff levels against the efficient British competitors, to establish an equitable Tariff Board and not to increase its anti-British duties without full rights of audience for the British manufacturer. Several British articles hitherto subject to duties of 5, 10, or 15 per cent were added to the free list, and the United Kingdom was allowed an increased preference on about two hundred items, usually by augmenting the tax borne by the Canadian consumer of the foreign article.

Canadian public opinion seized the opportunity to express its views on the Ottawa Agreements in October, when two interesting by-elections took place. Indeed Mr. R. J. Manion, Mr. Bennett's Minister of Railways, told the electors of South Huron, Ontario, that their contest would be a "plebiscite" on Ottawa. Accordingly on October 3 they returned the Liberal opponent of the Ottawa Agreements with an increased majority, and eleven days later another Liberal captured Summerside from the Government. In the Canadian House of Commons on October 17, a powerful speech against the change in imperial policy was delivered by the Leader of the Opposition, Mr. Mackenzie King, who had been Prime Minister in 1925-30.¹ He pointed out that whereas the Canadian Liberal party had sought to stimulate inter-imperial trade by decreasing tariffs, the Conservatives sought the same objective by their increase. The Canadian and British peoples were entitled to be consulted. His party would never force Canadian fiscal views upon the British people against their will, nor abandon Canada's unrestricted choice of her own fiscal policy. If returned to power, it would revert to the tariff-level of 1930 and would accord a 50 per cent preferential rate to British goods entering Canadian ports. The Dunning policy, based

¹ He returned to power in 1935.

upon voluntary fiscal concession made in good will, was infinitely more sound than the bargain-blasting policy of Mr. Bennett. A fortnight later Mr. Bennett asserted that tariff-reductions during the depression would dislocate business. He ignored the comment of Mr. E. J. Young, a member, that the dumping duty already increased the anti-British tariff to 21 per cent (as compared with 15-3½ per cent under the intermediate tariff) and that in consequence the rate was higher on British than on non-empire goods. He refused to give an assurance that the general anti-British import duties would not be increased. Mr. Bennett held up until February 1933 the announcement of the impartial Tariff Board, but when its members were appointed, the *Manitoba Free Press* proclaimed: "The confidence of Mr. Baldwin, Mr. Runciman and the rest in the capacity, wisdom, foresight and broadminded understanding which would be shown by the Canadian Tariff Board has been the most touching manifestation of artless political faith the world has seen in these days of cynical disillusionment."

A representative list of thirty-eight Canadian duties on British goods, predominantly textiles, was published in *The Economist* of November 5 which showed that in practically all cases the difference between the Bennett tariff and the Ottawa tariff could be dismissed as negligible. The only important exceptions were: wool blankets, on which the Dunning tariff had imposed a 21 per cent duty, the Bennett tariff 92 per cent and the Ottawa tariff 66.2 per cent; wool overcoatings, on which the respective percentages were 24, 89.5 and 75.7; and Axminster carpets, on which the duty had risen from 23 per cent to 92.5 per cent and had then fallen to 71.5 per cent. Ten months later, the *Financial Times*, conducting a similar investigation into the details of duties on ten British textiles, discovered that since 1928 the lowest increase of duty was 9.39 per cent and the highest 60.43 per cent. These figures excluded the dumping duty.¹ Mr. Ranald Findlay, in an examination of British protectionist policy, gave a useful illustration of the process in which the exchange dumping duty eliminated the preference. He quoted a letter from a Canadian importer to the effect that he had paid 69.64 per cent

¹ September 14, 1933.

in duty for British suits and 57 per cent in duty for German suits in a market where the United Kingdom was alleged to occupy a preferential position.¹

Even before Ottawa, Australia had developed one of the most vicious protectionist systems in the world. Partly on account of the fall in wool prices, Australian exports had fallen from £138 millions to £75 millions during the two years of the blizzard. Some imports had been entirely prohibited. Many "luxuries" were subject to 50 per cent surcharges and the primage duty on all imports had been raised to 10 per cent one year before the Ottawa Conference. Australia agreed at Ottawa to abolish import prohibitions and surcharges, and indeed she eventually removed the 50 per cent surtax in March 1933, but the same month witnessed the prohibition of tin-plates together with the imposition of a 90s. per ton tax on galvanized iron. At Ottawa, Australia also promised to reduce or remove the primage tax (a crisis measure) as soon as financial conditions permitted, and in October 1933 the Government halved the primage tax on British goods. It augmented several preferences to Britain by increasing the foreign duties. For example, machinery if foreign-produced became subject to a duty of 50 per cent, as contrasted with a 45 per cent duty on British machinery, and British woollen-piece goods "enjoyed" a 35 per cent duty while the foreign duty amounted to 50 per cent. But these concessions were really very petty.

In the Australian House of Representatives, on October 13, Mr. H. S. Gullett, Minister of Trade and Customs, admitted that the agreement did not call upon Australia to reduce the protective-level of her tariff. On the contrary, it generally increased the anti-British protective level.

"I am certain," he declared, "that when the British delegation came to Ottawa it had not the faintest intention in the world of granting to us in the British market a preferential position for Dominion meat. . . . We were fully conscious that nothing would so surely waken the great forces of free trade as a suggestion that the tariff would be used to add materially to the price paid by the British working man for his bacon, beef and mutton. Nor could we forget that at

¹ *Britain under Protection*, p. 149. George Allen & Unwin, 1934.

that time the British Cabinet included a number of free traders still unshaken in fiscal faith. But while we were alive to the embarrassment certain to be caused to the British Government, we were still more alive to the vital necessity of this particular preference to Australia. We had to tell the British people through their delegates that the present prices paid by them for our produce were so low as to be profitless to our producers and to ask them to take steps to increase those prices against themselves for our benefit."

The argument was clinched on November 3 by the Prime Minister, Mr. Lyons, who went out of his way to underline the fact that Ottawa had produced no tariff-reductions. He emphasized that the 15 per cent marginal British preferences were achieved by foreign increases and that the Industries Reservation Act, which provided against "dumping", remained unaffected by Ottawa.

The Lyons Ministry habitually followed one main rule: British preferences should apply only to non-competitive goods. On these the Mother Country was to enjoy a 17½ per cent preference when the foreign duties were 20 per cent or more, or 20 per cent when the respective figure was 50 per cent or more. When the goods were competitive, Australia charged Britain the full foreign rate. Before the complete withdrawal of the 50 per cent surtax in March 1933, it had already been removed from sixteen items, but on the other hand the general duties were raised on as many as four hundred and forty items and lowered on only twenty British preferential items and six general items. The Country party lost its parliamentary amendment in March 1933 to reduce anti-British duties to the 1921-30 level wherever raised above the level without a Tariff Board report. In reply to the debate, Mr. White, the new Minister of Trade and Customs, bewailed the fact that the average anti-British protection amounted to a paltry 75 per cent¹. Two months later, after a meeting of the Tariff Board, the Government increased its duties on five British classes. Meanwhile the Board itself recorded that the rate of duty on hosiery payable under the British preferential tariff represented from three to ten times the amount expended in direct labour in Australia. Despite the gallant endeavours of Sir Hal Colebatch and the Tariff Board's

recommendation to the contrary, the Lyons Ministry prohibited sheet glass imports. It was obviously undeterred by the fact that the Australian cost of production was nearly double the Lancashire cost. To his credit, Mr. Hawker took Sir Hal Colebatch's view that such a policy violated the spirit of Ottawa; he eventually resigned from the Lyons Ministry. Later Mr. Hawker told *The Times* on September 5, 1933, that the "raw deal" which the Australian Government was giving the Mother Country in return for "handsome benefits" blighted Australian opportunities by killing British hopes that Dominion trade was worth encouraging. "Broadly speaking", Australia had promised to reduce tariffs to a competitive level, but their revision had been paralysed by the delay due to the preliminary Tariff Board investigations. "The Government's policy," said Mr. Hawker, "seems to be to avoid really ratifying the Ottawa Agreements."

Until 1929 New Zealand had possessed a relatively moderate tariff with preferences to the United Kingdom, which took approximately nine-tenths of her exports. British iron, steel and machinery usually entered New Zealand ports duty free, whereas foreign iron, steel and machinery were subject to an *ad valorem* duty amounting to one-fifth. Foreign motor vehicles usually paid 35 per cent duty as against 10 per cent imposed on British motor vehicles, while woollen piece goods, if British-manufactured, were subject to a duty of one-tenth, and, if foreign-manufactured, to a duty of one-fifth. Between 1929-32 New Zealand had increased her tariffs with a surtax and primage duties, but the Mother Country was allowed to retain the preference. At Ottawa the Dominion consented to abolish the surtax on British goods, to abolish the 3 per cent primage duty on British goods as soon as her financial structure permitted the change, and to maintain existing preferences on British goods unless over one-fifth. She promised free right of entry to British silk and rayon piece goods and to reduce the duties on British clothing and hosiery from $32\frac{1}{2}$ to $27\frac{1}{2}$ per cent and on confectionery from 30 to $27\frac{1}{2}$ per cent. The Premier, Mr. Forbes, welcomed the solid advantages given by the United Kingdom to the Dominion's primary producers—dairy-farmers, fruit-growers, pastoralists and producers of honey. He demonstrated that the only sacrifices

were minor reductions in the duties on confectionery, clothing, silk and artificial silk goods. "We are asked," said Mr. Forbes, "to give away $2\frac{1}{2}$ per cent on confectionery, and the hon. gentlemen opposite are so worked up about it that they declare that the whole of our secondary industries would be destroyed. They make themselves absolutely ridiculous in the eyes of the people by making such extreme statements."

The Union of South Africa had maintained a system of quite moderate protection until 1925, when the new tariff imposed many duties up to 40 per cent, but even so a large number of imports were permitted free entry. Usually Britain was accorded a substantial preference on the tariff rates and the average preferential rate for New Zealand and Canada was 5 per cent. At Ottawa, Mr. Havenga and his colleagues agreed not to lower any South African preferences, and by a proportionately light increase of the foreign duties, to accord several new preferences of 5-10 per cent on a few manufactures like soap and wireless-sets. The South African Government abolished its $7\frac{1}{2}$ per cent surcharges and its 5 per cent primage duty at the time of its departure from the gold standard in January 1933. At Ottawa, too, Southern Rhodesia, whose practice it had been during the twenties to impose a 10 per cent duty on British goods and a 20 per cent duty on foreign goods, gave preferences to Britain on silk, cotton and rayon piece goods by increasing the foreign duties. The Newfoundland Government, which had hitherto obtained three-quarters of its revenue from duties, agreed to allow a 10 per cent preference on sixty-one classes of British goods. Before the Ottawa Conference, it had refused to adopt the preferential system. It now stipulated that the new preferences should be changed if revenue fell. Thus it recognized the difficulty of running a revenue tariff simultaneously with protective and preferential tariffs.

After the Morley-Minto administration, Protectionism in India began to make headway, and Whitehall conceded to Indian mills the right of imposing duties upon cotton and other manufactures. But Indian Nationalist leaders had no partiality for imperial preference. Before 1932 India had a 25 per cent general duty with 10 per cent on machinery. Preferences were few in num-

ber. They included cotton, which, if British, paid 25 per cent, and if foreign, 31¼ per cent. At Ottawa India and the United Kingdom concluded an agreement terminable at six months' notice. India, by raising foreign tariffs, accorded to British manufacturers a 10 per cent preference. For motor-cars, omnibuses and accumulators the corresponding figure was 7½. British Protectionists were displeased with the results. We gave free entry to Indian pig-iron and India allowed us only a nominal duty on galvanized sheets made from Indian material. Yet none the less our imports of Indian pig-iron increased despite the decline in our exports of galvanized sheets to India. The decline may be almost entirely attributed to the development, behind tariff walls, of a new industry by India. A similar comment applies to tin-plates. In 1936 India denounced the agreement, but as it proved difficult to come to terms once more, the first was provisionally retained until the conclusion of a second agreement in 1939.

At home Ottawa engendered a first-class political crisis which disrupted the Coalition. On August 23 Lord Snowden and Sir Herbert Samuel exchanged letters, whose terms, according to the Snowden Autobiography, were identical.¹ Six days later the Lord Privy Seal warned the Prime Minister of what was coming, but Mr. MacDonald refused to call the Cabinet together until Sir John Simon had returned from the Disarmament Conference and the League of Nations Council meeting in Geneva. The Cabinet meeting was eventually held on September 28, when three Cabinet Ministers and eight junior ministers resigned. Sir Herbert Samuel, in a public letter signed jointly by him and by Sir Archibald Sinclair and their eight junior Liberal colleagues, expressed in temperate language their reasons for a breach with the ministry. First, they held that the Ottawa policy, with its "hard bargaining" on trade matters between the different Governments, would not promote but imperil the harmony of the British Commonwealth. Friction would be produced by tighter bands and by pressing parts of the Empire to make unwilling sacrifices in order to induce other parts, equally unwillingly, to make counter-sacrifices. Secondly, the Liberal ministers con-

¹ Vol. II, pp. 1020-22.

demned as unconstitutional the undertaking made by the British delegates that the United Kingdom Parliament would not reduce certain duties on foreign imports during a term of years without the consent of the Dominion Governments. Parliament could not itself enact such a statute, for it would bar a subsequent Parliament from reducing taxes levied at our ports, unless the Dominion Governments had been consulted, even though there might have been a clear mandate from the electorate that it should do so. For his part Mr. Baldwin denied the charge that he and his colleagues had acted unconstitutionally. He told the Conservative Conference at Blackpool on October 7 that he always maintained the "familiar and fundamental law" that one Parliament could not fetter or diminish the powers of another Parliament. Thirdly, the retiring ministers held that Ottawa would tie our hands at the forthcoming World Economic Conference, prejudice the expansion of our foreign commerce, and preclude us from joining any group of foreign countries which agreed among themselves gradually to reduce the tariffs on their trade and ultimately to free it from restrictions altogether. Fourthly, they contended that the volume of British exports affected was too small for any possible advantages from the Dominion and Indian tariff-concessions to make any substantial difference to British employment. The worth of such tariff-reductions was very "problematical", for there had been no radical departure from Canadian or Australian fiscal policy and the advantages in India excluded the British cotton export trade to India. British agriculture had gained nothing. Fifthly, taxes or quota restrictions were to be rendered permanent on many foodstuffs and raw materials, thereby prejudicing the welfare of our working-classes and the prosperity of our manufactures, raising living-costs, lessening exports, increasing unemployment, social discontent and unrest. Sixthly, Ottawa had terminated the Anglo-Soviet agreement. "It is plain," declared the ministers, "that with differences so fundamental upon matters of such high importance, it is impossible for us to remain members of a Government which is intent upon giving to those agreements the force of law." This attitude was warmly endorsed by the Marquis of Crewe, Liberal Leader in the House of Lords, and by his two

predecessors, the Marquis of Reading and Viscount Grey of Fallodon.

As for Viscount Snowden, he, in resigning, informed the Premier that he could not expect "free traders to acquiesce, even passively, in such a policy of national humiliation and bondage". He advised him to address the Tories "the old appeal to subordinate personal views to national interests". Lord Snowden added: "It is not the free traders but the Tories who have broken the unity of the National Government by forcing their own policy for which they had no mandate; the Tories expect us to do all the sacrificing, while they sacrifice nothing, but use the majority we helped to give them to serve their party policy. . . . I am convinced that the tariffist and imperialist policies which the Tories are carrying through are more dangerous in their permanent effects than the crisis of last year, which was temporary and quickly yielded to drastic treatment."

Later a National Liberal Federation rally was held at the Queen's Hall on October 12, when Sir Herbert Samuel, Sir Archibald Sinclair, Lord Lothian and Mr. Isaac Foot all spoke on their resignations. The Liberal party, from which the supporters of Mr. Runciman and Sir John Simon had separated, endorsed the action taken by its official leaders over Ottawa. The rally was itself memorable for Mr. Foot's eloquence.

"We are now out," he said, "and why are we out of the Government? Our agreement was to get the ship off the rocks and not to take her into the Protectionist port. Our arrangement was to serve under the White Ensign and not under the skull and crossbones of Protection. They have got their Protectionist goods now over the political customs frontier; but they were smuggled, and they only got them across because they took off the Tory label and put on the National label.

'The merchant to conceal his treasure
Conveys it in a borrowed name.'

"The national advantage was exploited for party advantage and the huge Conservative majority used that opportunity because they thought they had precious little chance of getting any other, and the result was that within a month or two of the last election Mr. Neville Chamber-

lain went up to Birmingham and said, 'Free Trade is as dead as mutton.' If it is dead, how was it killed? When a man is on his trial he is allowed to put himself upon his country. Free Trade was never given that chance. Free Trade was killed by political lynch-law, and when the Third Reading of the Imports Bill came along and I was allowed by the grace of the Tory back-benchers to speak for about eight minutes in that great controversy, Mr. Neville Chamberlain turned to me after I had finished and after they had shouted 'Resign', and he said: 'We have had to-night the passionate and despairing cry of a man who is convinced that he has seen the last of Free Trade.' It was not despairing, but it was passionate, and it was passionate because of the way in which Free Trade fell. It did not fall in open battle. . . . The world is in trouble to-day, and the great thing is that in getting out of our trouble we get out the right way, and if we are in the Slough of Despond I suggest to you that unlike Phable we should not get out with our faces towards the City of Destruction, but we should get out with our faces towards the Celestial City."

The debate on the Financial Resolutions of the Ottawa Agreements Bill began on October 18, when Sir Herbert Samuel opened fire. Two days later he was reinforced by Sir Archibald Sinclair and Sir Francis Acland. On October 27, during the debate on the Second Reading, which was carried by 425 votes to 79, Mr. Isaac Foot recalled that the United Kingdom had pressed for tariff-stabilization and for the abolition of surcharges, arbitrary valuations and dumping duties by Order in Council. Such long-looked-for relief was conspicuous by its absence, because "Ephraim was wedded to his idols", the high tariffs in which consumers could find no hope. Mr. Foot contended that if the problem of the control of taxation by the Commons were taken out of British history, it would be largely unwritten, for they had made themselves masters against King and peers, sometimes after civil war, but with the passing of such a Bill their mastery would no longer exist. During the Ottawa debates, Sir Percy Harris dealt with meat supplies and prices and Mr. Graham White with the wheat duties. Sir Robert Hamilton concentrated upon the Conference's neglect of British agriculture, while Major Lloyd George criticized Mr. Baldwin for his failure to assist world trade by reducing inter-imperial barriers. The disastrous effect upon the British herring-fishing industry of the new blow

to Anglo-Soviet relations was emphasized by Sir Murdoch McKenzie Wood. He argued that without Russia the herring industry could never again achieve its pre-1924 prosperity. Since the 1930 agreement British herring-exports to Russia had doubled. The industry had sent 100,000 barrels to Russia in the early months of 1932 and had, until Ottawa, been looking forward with confidence to the dispatch of 30,000 more barrels, already sold at an exceptionally low price by the fisherman to the fish-curer. Some pointed observations on the rather incongruous copper duties were made by Mr. Harcourt Johnstone during the Committee Stage on October 31. He argued that Britain used one-tenth of the world production of copper, which amounted to 1,500,000,000 tons. Approximately two-thirds was electrolytic, and although the Dominions could produce electrolytic copper in substantial quantity, the British Empire was unable to match this achievement in regard to Bessemer and fire-refined copper, as used in shipbuilding, engineering and housebuilding where electrolytic copper was not used. The President of the Board of Trade might secure safeguards in regard to quantity and world price, but a safeguard of quality was humanly impossible, for the simple reason that non-electrolytic copper could not be produced in the British Commonwealth in sufficient quantity or in requisite quality. A Labour amendment moved by Mr. Cocks to exclude the copper duty was defeated by 222 votes to 52. Mr. James de Rothschild proposed an amendment to remove duties when empire produce could not supply the article in sufficient quantity at world-price—a proviso which the Bill had limited to wheat, copper, zinc and lead. This motion was defeated by 230 votes to 52. The Bill passed without amendment through the Committee Stage on November 2. Thus there was no Report Stage and in consequence the Third Reading was carried next day by 417 votes to 70. The Labour deputy-leader, Major Clement Attlee, gave notice on October 19, that, like Mr. Mackenzie King, Mr. Scullin, Sir Herbert Samuel, and their parties, he himself and the British Labour party refused to be bound by the five years' agreement. Several Labour back-benchers moved unsuccessful amendments to exclude duties on wheat, fruit, dairy produce, and linseed and certain other oils,

but on the whole the Labour party made a negligible contribution to the fiscal debates during the vital years. To sum up: the public reaction in 1932 to the parliamentary debates was epitomized in the question which Mr. Baldwin asked himself and the House on October 20: "What have we got out of this? What does it mean in trade? I do not know. No one knows."

It was a tragedy that during the four years before the outbreak of Hitler's War, Britain's agricultural policy rendered her more nationalist at a time when commercial developments in the Dominions tended towards greater freedom. In Canada, the Liberals won a sensational election victory in 1935.¹ In Australia, the Country party entered the Government. In South Africa, General (now Field-Marshal) Smuts returned to office and the Smuts-Hertzog Coalition was formed. A new Imperial Conference in 1937 continued the 1932 agreements, but in the same year Mr. Mackenzie King made new concessions in the Anglo-Canadian Trade Agreement which he signed at Ottawa on February 23 with Sir Francis Floud, the British High Commissioner, and Mr. Charles Dunning, the Minister of Finance. Canada lowered the British preferential duties on about 150 items in her

¹ Fiscal problems were rarely to the forefront in the General Election of November 14, 1935, at home in Britain, which was fought mainly on foreign policy with particular reference to the Italian aggression against Abyssinia and the question of sanctions. On November 26, 1935, *The Times* analysed the results as follows:

GOVERNMENT:

Conservative	515 candidates	10,488,626 votes	387 seats
National Labour	20 "	339,811 "	8 "
Liberal National	44 "	866,624 "	33 "
National	6 "	97,271 "	3 "
TOTAL		585 "	11,792,332 "
			431 "

OPPOSITION:

Labour	552 candidates	8,325,260 votes	154 seats
I. L. P.	17 "	139,517 "	4 "
Liberal	157 "	1,377,062 "	17 "
Independent Liberal	4 "	65,150 "	4 "
Communist	2 "	27,117 "	1 "
Republican	2 "	56,833 "	2 "
Independent	29 "	217,666 "	2 "
TOTAL		763 "	10,209,505 "
			184 "

tariff, including cotton and woollen goods. She reduced her anti-British duties, mostly by $2\frac{1}{2}$ -5 per cent, some by 20 per cent. These reductions covered 40 per cent of the value of all British imports previously taxed. There were some additions to the free list, and many commodities were transferred from the list guaranteeing a minimum percentage margin of preference to a list guaranteeing that the preferential duty would not exceed a certain rate. It was thus open to Canada to reduce her duties against foreign imports. Britain pledged herself not to reduce existing foreign duties, to limit the duties on Canadian motor-cars to $22\frac{2}{9}$ per cent, to lower the preferential duty on silk stockings, and, for some strange reason, to place on the free list reed-organs, of which only one had been imported during the previous year! While Canada promised to continue to extend preferences to the non-self-governing colonies, Britain agreed to "invite" Crown Colonies not pledged to the open-door policy to grant specific preferences to the Dominions. This new treaty was modified by the Anglo-American Trade Agreement in 1938, when Canada reduced the preference on timber and apples and the United Kingdom concurred in a $2\frac{1}{2}$ per cent reduction of several Canadian preferences. The new measure applied to Diesel engines, tin-plates, chemicals and some iron and steel products. Two further results of the reciprocity treaty between Canada and the U.S.A. were that Canada consented to the reduction of the British preferences accorded her on patent-leather, honey, pears, apples, wheat and chilled or frozen salmon, and that the United Kingdom, refusing to discriminate between Dominion and Dominion, abolished the wheat duty.

In spite of the agricultural policies undertaken by Major (now Colonel) Walter Elliot, then Minister of Agriculture, the Canadian Government obtained two minor concessions. First, Canadian bacon exports to Britain would not be subject to the British quota system until and unless they attained the upper limit of $2\frac{1}{2}$ million cwt. decided upon in 1932. Secondly, there should be no duty, levy or quota reduction of Canadian beef and cattle exports to Britain beyond the existing level. This provision had been secured by New Zealand and Australia in 1936.

One novelty, so vaguely termed as likely to produce both con-

tention and confusion, dealt with the possibility of Canadian "dumping" into this country of non-dutiable produce. If and when the United Kingdom Government notified the Canadian Government of such cases and it was admitted as a valid subject of complaint, the Canadian Government undertook to correct the situation even to the extent of exempting similar British goods from its own measures against "dumping". Another novel provision was the reservation by the contracting parties of the right to suspend or modify any tariff preference which it accorded to imports from the other State on proof that a predominating share of the trade concerned was controlled by an organization or combine of exporters which was pursuing its own advantage "to the detriment of consumers and users".

At Westminster on April 27, 1937, Mr. Dingle Foot introduced an amendment during the Budget Resolutions to refuse assent to Article 3, which provided that for three years Canada should be granted a fixed minimum preferential rate on many foodstuffs and commodities. He also urged the House should refuse its assent to Article 15, which planned to continue till 1940 duties imposed upon the dependent Empire in 1932. Mr. Foot pointed out that every private M.P. had always possessed the right to move a reduction of taxation. Henceforth it would still be in order to move the reduction or abolition of such taxes, but it could not be done without involving a breach with the Government of Canada. However, the amendment was lost by 227-120 votes. The motion approving the agreement was carried by 266-128, the Labour and Liberal parties voting in the minority. This brief examination of the 1937 Agreement may be concluded with the comment made by the *Manchester Guardian* on February 26:

"On the British side the agreement is in essence a repetition of the Ottawa Agreement of 1932 with a few trimmings and some restrictionist reserve powers. On the Canadian side there is distinct advance towards the lowering of Mr. Bennett's 'Canada first' tariff; the troublesome definition of 'reasonable protection' goes, and the fixing for the next three years of maximum duties on most British exports to Canada reduces greatly the field in which the Tariff Board, with its unworkable terms of reference, can operate."

Next let us try to answer Mr. Baldwin's question, "What does it mean in trade?" Some idea of the reply may be found in the Statistical Abstract of the British Empire for 1938, and it is appropriate here to quote the conclusions reached in *Great Britain under Protection*, by Dr. Frederic Benham, the Cassel Reader in Commerce at the London School of Economics and Political Science. He calculated that the approximate percentages of British imports from Canada, Australia, New Zealand and India stood at the respective figures of 8, 7, 4 and 7 in the year 1938. The corresponding figures in 1930 had been 4, 5, 4 and 5. The approximate percentages of British exports to Canada, Australia, New Zealand and India stood at the respective figures of 5, 7, 4 and 8 in 1938. Dr. Benham also showed that the United Kingdom's exports to South Africa in 1938 exceeded 8 per cent of her total exports, but on the other hand British imports from South Africa fell from 2 per cent in 1929 to 1½ per cent in 1938. The proportion of British imports from the Commonwealth rose from 29 per cent in 1930 to 38 per cent in 1935 and to 40 per cent in 1940. The proportion of British exports to the Commonwealth rose from 43·5 per cent in 1930 to 48 per cent in 1935 and 50 per cent in 1938.¹

Thus Ottawa succeeded in its main purpose. It diverted trade channels from foreign countries to the British Commonwealth. But the gallant way in which Canada, Australia, New Zealand and South Africa rallied to the Mother Country and stood side by side with the Polish Republic in the path of the Nazi aggressor in September 1939 offset the harm done to Empire unity at Ottawa. So did Canada's handsome and princely gifts in January 1942. Now we are told by J. A. Spender that Anatole France once said in conversation with him that most of the superficial ideas of the British were shallow and vulgar, but their subconscious thoughts were subtle and profound. "He illustrated this observation from the British Constitution, in which he saw the reflection of many centuries of subconscious British thought yielding a result which was incomprehensible to foreigners but thoroughly understood by the slumbering meta-

¹ *Great Britain under Protection*, pp 105-8 Macmillan, London and New York, 1941.

physician who dwells in the British body.”¹ Anatole France, if he had lived, might also have chosen as examples the formula of “equal status” adopted by the Balfour Conference in 1926 and the Statute of Westminster of 1931. But Ottawa defied history. In 1932, the Commonwealth exchanged its links—the links which Edmund Burke described as light as air yet strong as links of iron—for fetters of a harder but more brittle and less durable kind. Wags who read the proceedings of the Ottawa Conference even advised the Mother Country to apply for Dominion status!

What was the cost of the fiscal revolution of 1932? The Ottawa Agreements erected round the British Commonwealth a Maginot Line bristling with an economic armament of tariffs and quotas, but unhappily it was a Maginot Line which could not be circumvented, for it had no abrupt end, no Montmédy. The U.S.A. and the vast French Empire had even higher Protection. These imperial tariffs provoked a new hunger for colonies. They accentuated the European relapse into autarky and totalitarianism. They strengthened the movements for Nazi and Fascist aggression which now threatened civilization. The land surface of the globe comprises 68 states, which cover 55 million square miles. In 1935, 60 states possessed only one-third of the earth and the British Empire alone covered one quarter. Altogether the empires of Britain, France, the United States, Belgium, Portugal and the Netherlands had a total area of 23 million square miles and a population of 770 million. Excluding India, these empires had a total area of over 21 million square miles and a population of 420 million. In March 1935, before Mussolini treacherously assaulted Abyssinia, Germany with the Italian and Japanese Empires had a total area of little more than $1\frac{1}{2}$ million square miles and a population of 210 million. Consider these facts side by side with the analysis of British protective duties in the Ottawa Supplement of *The Economist* (May 1, 1937). *The Economist* showed that after Ottawa the percentage of foreign imports taxed at 10 per cent fell from 32.9 to 28.3, whereas the percentage taxed at between 11–20 per cent increased from 15.3 to 21.8 and the percentage taxed at more than 20 per cent rose from 4.6 to 7.7.

¹ *Great Britain, Empire and Commonwealth: 1886-1935*, p. 740.

Obviously the discriminatory system of colonial preference intensified the colonial demands of hungry Powers, who in the days of British Free Trade were far less ill-disposed towards a Britain which maintained the policy of the open door over one quarter of the earth. The "Have-nots" did not possess the gold to buy what they wanted, and the "Haves" discriminated against their goods in vain imagination that they could sell without ever buying. Thus the "Have-nots" began to argue that they must export or die, and Fascist neo-philosophers recommended war not only as glorious but as preferable to starvation. It was aptly said at the time that the road to Addis Abbaba began at Ottawa. As it proved, the road led to other and far more formidable aggressions.

Meanwhile the World Monetary and Economic Conference had been held in London. Opened by King George V on June 12, 1933, it was attended by eleven Prime Ministers, twenty-four Foreign Ministers, and seventy-three Cabinet Ministers, representing sixty-seven countries. In a "Draft Annotated Agenda", a Preparatory Commission of Experts, recommending "a programme of economic disarmament", pointed out that unemployment involved at least thirty million workers throughout the world. Wholesale commodity prices, expressed in gold, had declined since October, 1929, by roughly a third, and raw material prices by one-half to three-fifths. World stocks of agricultural produce and of other raw materials had accumulated and the index of world stocks had doubled in eight years. Industrial production had fallen so low that the total value of world trade in the third quarter of 1932 was only about one-third of the figure for the corresponding quarter in 1929. The quantum of goods in foreign trade had apparently fallen by at least a quarter. National incomes of several countries had fallen by two-fifths. Budget deficits had reached "unprecedented proportions". Half the world had left the Gold Standard. Forty States had imposed exchange restrictions. For the most part, the experts of 1933 made the same recommendations as their predecessors at a World Economic Conference in May 4-23, 1927—stabilization of exchanges and customs tariffs, abandonment of discriminatory policies, and above all, action, whether autonomous or bilateral or

multilateral, towards the abolition of restrictions. Every statesman present, with the exception of M. da Matta, the Portuguese Foreign Minister, reaffirmed his faith in economic liberalism. But the ascendancy of autarky was challenged only by word. President Roosevelt, despite his encouraging communiqués during the Washington visits of M. Herriot and Mr. MacDonald, and in spite of Mr. Cordell Hull's remonstrances, declared his opposition to any stabilization of the dollar. The World Conference adjourned on July 27, 1933. It never met again.

In March 1935, Dr. Nicholas Murray Butler, head of Columbia University and President of the Carnegie Endowment for International Peace, presided over an important international conference at Chatham House.¹ The conference sought to direct all Governments from the paths of tariff warfare to those of freer trade when it advocated the formations of unions for free trade or low tariffs. The practical model which the conference chose was the Ouchy Convention drafted on July 18, 1932, by the Netherlands, Belgium and Luxemburg. The three governments agreed, first, not to add to existing tariffs, and, secondly, to reduce their tariffs against each other by 10 per cent each year for five years till a low general level was attained. They agreed that the treaty should be open to other states on the same terms. But the British Government led the way, in demanding, in virtue of the most-favoured-nation clause, the lower tariffs of the three countries, without itself offering corresponding reductions. The treaty had to be abandoned.

¹ Sixty-six statesmen, economists, historians, bankers and business men from ten countries took part in the proceedings. The Belgian Prime Minister, M. Paul Van Zeeland, M. Jacques Rueff, Directeur-Adjoint du Mouvement—General des Fondes in the French Ministry of Finance, M. René Sevdoux, Sous-Directeur de L'Ecole Libre des Sciences Politiques, Dr. F. Heldring, former President of the Amsterdam Chamber of Commerce, and Mr. F. M. Sackett, former U.S. Ambassador to Germany, were among those present. A contingent of British statesmen included the Marquises of Crewe and Lothian, Sir Herbert Samuel, Sir Austen Chamberlain, Viscount Cecil and Mr. Arthur Henderson. Among the historians and economists were Professors W. A. Mackintosh of Ontario, Philip Jessup of Columbia University, Arthur Bowley, T. E. Gregory, Gilbert Murray and Lionel Robbins, Sir Arthur Salter, Dr. G. P. Gooch, Mr. Francis Hirst and Commander Stephen King-Hall, M.P. Here I have incorporated material from my article, "Economic Causes of the War", in *Contemporary Review*, June 1941, and *International Conciliation*, New York, May 1941.

Ever since Cobden negotiated the Anglo-French Treaty with Napoleon III in 1860, the most-favoured-nation clause has normally been used in commercial agreements in preference to the parity clause or the reciprocity clause. Free traders like Lord Farrer always regarded the unconditional form of the most-favoured-nation clause as the "sheet-anchor" of free trade and indeed as a most powerful influence upon the vast expansion of world commerce before 1914. It usually ran thus: "Articles produced or manufactured in the territories of one of the two contracting parties imported into the territories of the other, from whatever place arriving, shall not be subjected to other or higher duties or charges than those paid on the like articles produced in any other foreign country."¹ When the fiscal policies of governments were actuated by broad and liberal principles, the clause worked well. It functioned so well that the reduction of a single duty would strike at privilege, monopoly and exclusiveness everywhere. It would help to liberate the trade of all states with commercial treaties and automatically to lower the protective and preferential tariffs of all nations. For indeed, as John Morley wrote, "it is not free trade between any two nations that is the true aim, but to remove obstacles in the way of the stream of freely exchanging commodities, that ought, like the Oceanus of primitive geography, to encircle the whole habitable globe". But the new systems of discriminatory quantitative restrictions, or quotas, as they are more usually called, were themselves incompatible with the most-favoured-nation clause and its successful operation. Britain, as a Protectionist State, which had already by the Abnormal Importations Act and the Import Duties Act, struck heavily at Holland and Belgium, invoked the most-favoured-nation clause in order to defeat the attempt by three small democracies, all future allies, to free commerce among themselves. Again Britain, as a Protectionist State, adopted a similar attitude towards a Danubian pact when it was pro-

¹ On the other hand, the conditional form, which was deservedly less popular, provided that any concession which one state made to a second state in return for a concession from the latter would be extended to a third state only if the third granted an equally valuable concession. The conditional form was always introduced into United States treaties until 1922, when the unconditional form was adopted.

posed at the Stresa Conference. It was felt in many quarters that such a pact, without interfering with the Succession States or preventing them from satisfying their nationalist aspirations, would partially restore in Central Europe the economic unity which had collapsed when the Treaties of St. Germain and Trianon dealt the death-blow to the Austro-Hungarian Empire. Accordingly the advocates of the pact suggested that wheat-importing countries should allow subsidies to such States as Hungary, which then had a pro-British and anti-Fascist regime, in the form of a preference on their wheat. This would assist them to pay their debt charges, to reduce their barriers against manufactures, and to concentrate their energies upon occupations like agriculture, in which they could develop to the full their natural climatic advantages. But the MacDonald-Baldwin Ministry gave it out that such preferences, under a regional entente, were incompatible with the most-favoured-nation clause. It was inevitable that informed public opinion among the Dutch and the Scandinavian, the Slav and the Magyar peoples, wondered why the Ottawa Agreements should be regarded as the quintessence of economic morality, whereas a regional entente for Central Europe or a free trade group for the small democracies of the North-West involved a breach of faith under the most-favoured-nation clause.¹

In 1937, after more gallant endeavours by the statesmen of the seven little democracies, and after conciliatory words and deeds by M. Bastid, the French Minister of Commerce, the Governments of France and Britain invited the Belgian Prime Minister, M. Van Zeeland, to visit most of the capitals and to draft what proved to be a useful report on the subject of freer trade. But Mr. Baldwin, paying lip-service to the most-favoured-nation clause, objected that a free trade entente would involve its modification. He also asserted that practical results would come only from bilateral agreements. Actually the Runciman agreements had so

¹ Mr Douglas Jerrold aptly describes continental reactions to Ottawa in *Britain and Europe, 1900-1940*, Collins, 1941. The student of bilateral treaties will find a valuable estimate of the Anglo-Danish Trade Agreement of 1933 in Part 4, *Hard Times Ahead?*, by Sir Ernest Benn, in the Post-War Question Series of The Individualist Bookshop, No 16. *Great Britain under Protection*, by Dr. F. C. Benham, gives an objective account.

far yielded few results and they were seldom of much practical value. The only successful statesman with bilateral agreements was Mr. Cordell Hull, who claimed with some justification that his treaties with Canada and Cuba were free trade agreements.

Thanks to him and to Mr. Mackenzie King, the Anglo-American Trade Agreement achieved a certain degree of success despite the opposition of the vested interests and the Board of Trade bureaucrats.

The British Government promised :

1. To stabilize the imperial preference on tobacco until 1942 and then to consider its reduction.
2. Not to increase the duty on cars of 25 horse-power.
3. To abolish the duty of 2s. per quarter on wheat.
4. To abolish the 10 per cent lard duty and the duties on canned grapefruit, grapefruit juice and orange juice.
5. To reduce the duties on apples, canned and dried fruits and soft wood.
6. To continue the free entry of raw cotton, resin, skins and sulphur.
7. To increase the American quota of hams.

But these reductions of duties affected only £10 millions of American exports. Before the Trade Agreement, Britain exports to the U.S.A. had amounted to £40 millions, of which £17 millions remained on the free list and £11 millions were given reduced duties. For its part, the U.S. Government reduced the heavy duties on most cotton goods by 20-30 per cent, on a few classes of woollen goods from 60-35 per cent, on most linen goods from 35-20 per cent, and on marmalade, glass, china, earthenware, metal and leather goods and pipes.

The two Governments accorded most-favoured-nation treatment to each other, but each retained the right of granting more favourable terms to its Empire. Washington could also grant more favourable terms to the Cuban Republic. Any concession might be altered if some third country to which it was extended obtained the major benefit and if, as a result, increased imports injured domestic producers. But the most important fact about the Anglo-American Trade Agreement was that it did not lead to any increases of duty. However, no further progress was effected

before the war, and the next two years were lost. In Downing Street Mr. Neville Chamberlain did not realize until after the outbreak of war in 1939 that economic nationalism was among its contributory causes.

EPILOGUE : 1939-1942

"If I were not convinced that the question comprises a great moral principle, and involves the greatest moral world's revolution that was ever yet accomplished for mankind, I should not take the part I do in this agitation. Free Trade? What is it? Why, breaking down the barriers that separate nations; those barriers behind which nestle the feelings of pride, revenge, hatred and jealousy, which every now and then burst their bounds and deluge whole countries with blood; those feelings which nourish the poison of war and conquest, which assert that without conquest we can have no trade, which foster that lust for conquest and dominion which sends forth your warrior chiefs to scatter devastation through other lands, and then calls them back that they may be enthroned securely in your passions, but only to harass and oppress you at home."—RICHARD COBDEN, Covent Garden, September 28, 1843.¹

Men and women of the generation which had known a golden age of advancing prosperity and which had lived through the four years of the First World War often say that August 4, 1914, rang down a curtain which divided one epoch from its successor. For they knew a Britain which owned nearly half the world mercantile marine with a navy which guaranteed peace to the Commonwealth and to the entire Western hemisphere. Thanks largely to the technological progress achieved during a series of "industrial revolutions", Britain had, according to Lord Lothian's estimate, raised the standard of living fourfold during three-quarters of a century. The prosperity, which free trade inevitably encouraged, extended to all classes; individualism was

¹ This was chosen by Edgar R. Jones, M.P., as one of nineteen "outstanding examples of English speeches which illustrate the highest attainment in oral expression". *Selected English Speeches from Burke to Gladstone*, World's Classics, Oxford, 1913. Mr. Francis W. Hirst traced the Cobdenite elements in the Atlantic Charter in the twelfth Cobden Lecture to the Dunford House Association, September 6, 1941. The lecture, together with the presidential remarks of Viscount Simon, the Lord Chancellor, was subsequently published under the title, *Richard Cobden and John Morley*. See also Professor Moritz J. Bonn's *The World Crisis and the Teaching of the Manchester School* and Professor Gustav Cassel's *From Protectionism through Planned Economy to Dictatorship*. Cobden-Sanderson, 1932 and 1934.

enshrined as the motive power of public life; man's rights and man's responsibilities were taught with equal vigour; the conditions of equality of *opportunity* were slowly being hammered out, and the class warfare which embittered and empoisoned continental politics hardly affected Britain. They knew a Britain which had almost consolidated a glorious heritage of political, civil and personal liberty—a Britain whose material welfare was accompanied by a moral and spiritual grandeur, which had enabled her to become a leader among the nations. Finally, they knew a Britain which had possessed a social and financial fabric strong enough not only to bear grievous national burdens but those of European Protectionist allies during the years of trial. For them the world after 1919 had lost its bearings. They were confronted by a Europe inflicted and infested with Fascism, Nazidom, Communism and all the other forms of collectivism, each varying only in the degree and the scope of the evil which it propagated. It was the world in which Hitler and Mussolini came to be deified and in which Tojo would have been deified if only the rite had not been reserved for the Mikado Hirohito. They came to know the world so aptly portrayed by the late Lord Lothian, who was the most popular British Ambassador in Washington since Bryce. In his last American speech, Lord Lothian said :

“The triumph of Hitler no doubt grew out of the despair which settled on Central Europe in the long years of the war, defeat, inflation and revolutionary propaganda, and grew out of the unemployment and frustration which followed the absence of any real unity in Europe, the sudden restriction of immigration overseas and the attempt to combine the collection of reparations and war-debts by the Allies with the imposition of unjust tariffs after the war. That was what gave Hitler his chance.”¹

Now war is the supreme destroyer of conventional modes of thought and habits of mind. Under its influence the outlook of

¹ Lord Lothian's last address was read on his behalf by the Counsellor of the British Embassy in Washington, Mr. Neville Butler, to the American Farm Bureau Association on December 11, 1940. It should be studied in *The American Speeches of Lord Lothian*, published with a memoir by Sir Edward Grigg, under the auspices of the Royal Institute of International Affairs. Oxford, May, 1941. An abridged edition is available in pamphlet form.

many undergoes transformation, and many minds become as pilotless vessels buffeted by tempestuous and uncharted seas. In the mental turmoil which war produces, old principles are repudiated, new philosophies hold fresh attractions, and many are stirred to what might perhaps be rather unctuously termed repentance. Even the Prime Minister, Mr. Neville Chamberlain, completely changed his mind, for discussing peace and war aims on January 28, 1940, he said :

“ We made an agreement with the U.S.A. a little over a year ago which we thought at the time pointed the way to better things in international trade. It was the very negation of that too prevalent system of bilateralism, of exclusive advantages, of discrimination carried to the pitch which clogs the wheels of commerce, and which promotes ill-feeling among the nations. It was based upon the principle of the most-favoured-nation clause, a principle which in our view in normal times was the best way of promoting international trade. And we mean when this war is successfully concluded to return to that idea. We recognize that for the full development of international trade it must flow along multilateral channels, and that we must put an end to that vicious policy of economic nationalism and autarky which did so much to upset the last great peace settlement. One of our foremost aims will be the restoration of international trade, which seems to us to present the best opportunity for restoring in turn the standard of living and the consuming power of nations. That is a policy that we have in mind when the time comes to turn once more from war to peace.”

But meanwhile sixty Acts of Parliament consolidated the bureaucratic power during the first two weeks of September 1939. Seven new government departments were entrusted with powers to veto commerce. Sir Andrew Duncan accepted the Presidency of the Board of Trade. On November 15 the British Chamber of Commerce in Paris and the French Chamber of Commerce in London issued a manifesto complaining that the ministerial departments of the two Allies had imposed harmful restrictions on Anglo-French commerce. Sir John Simon, then Chancellor of the Exchequer, immediately flew to Paris, conferred with MM. Daladier and Reynaud, and announced an Anglo-French agreement for the pooling of financial resources and for currency

stabilization. But on fiscal policy the Allies confined themselves to the declaration that there should be no increase in their protective tariffs or revenue tariffs. In particular, the pernicious French import quota system, which affected three hundred classes of articles, remained in operation against Britain despite the "total war effort" against Hitlerism. When the French Government withdrew sixty quotas in the previous May, French protectionists explained that the tariffs were themselves sufficiently high to fulfil the same purpose. The sorry story lasted until the capitulation of Bordeaux. In June 1940 the new British Prime Minister, Mr. Winston Churchill, after a month in office, proposed federal union and free trade with the French Republic in a vain effort to persuade defeatist elements to honour treaty pledges and continue the struggle.¹ The reactionary Vichy capitulationists, then plotting their *coup d'état* against M. Paul Reynaud, argued that the British intended to make France a dominion. They succeeded in frustrating the project.

The most important historical events of the war during the two years after the fall of Paris were five in number. First the glorious defiance after Dunkirk and the decisive victory of the Royal Air Force in the Battle of Britain gave hope of ultimate victory first to Greece, next to Yugoslavia, and finally to Russia. But the idea of ultimate Allied victory was really an act of faith until the advent of Russia. The second fundamental event was, then, Hitler's invasion of Soviet Russia on June 22, 1941. Thirdly, there was the drafting of the Atlantic Charter on the high seas by President Roosevelt and Mr. Churchill on August 12, 1941. Fourthly, the attack on Pearl Harbour on December 7, 1941, assured final Allied victory by transforming the non-belligerent United States of America into a belligerent ally and by reinforcing our strength through alliances with the Chinese Republic and the Caribbean and Central American states. Fifthly, the new Lend-Lease Agreement was signed in Washington on February 23, 1942—an agreement in which Article 7 pointed the way to a new world.

¹ On French fiscal and economic policy during the inter-war years, the authoritative books in English are by the Hon. George Peel, e.g. *The Economic Policy of France*. See also his article, "A Suggestion for France," *Contemporary Review*, June, 1943.

The Eight-Point Declaration of August 12 was described in a House of Commons speech a month later by Mr. Churchill as "a milestone, or a monument which needs only the stroke of victory to become a permanent part of the history of human progress".¹ He and the President explained the purpose of the joint declaration in the preamble: "to make known certain common principles in the national policies of our respective countries on which they base their hopes for a better future for the world". The student of fiscal history is primarily concerned with Clauses 4-7 in general and Clause 4 in particular. Their full text runs thus:

4. They will endeavour, with due respect for their existing obligations, to further enjoyment of all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

5. They desire to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement, and social security.

6. After the final destruction of Nazi tyranny they hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want.

7. Such a peace should enable all men to traverse the high seas and oceans without hindrance.

One point was elucidated by the Prime Minister, who in a broadcast on August 24, deprecated the mood of 1917, which had produced the Paris Resolutions. He drew attention to the fact that instead of trying to ruin German trade by all kinds of hindrances, he and the President had definitely adopted the view that it was not in the interests of the world and of their two countries that any large nation should be unprosperous or shut out from the means of making a decent living for itself and its people by industry and enterprise. The praise which greeted this declaration was accompanied by two criticisms. First, it was contended that the principle should apply as much to small nations as to large nations. Secondly, many people like, for example, Mr.

¹ September 9, 1941.

James de Rothschild, felt that the principle would give Germany unprecedented opportunities for commercial expansion while the Allies were burdened with the cost of policing her territories.

If the qualifying phrase, "with due respect for their existing obligations" had been omitted, Clause 4 would have been given a more enthusiastic reception in most quarters. Even so, this defect was remedied six months later in the new Lend-Lease Agreement. Meanwhile, on September 24, Mr. Anthony Eden, the British Foreign Secretary, presided over an Inter-Allied Conference at St. James's Palace, London, where the Atlantic Charter was unanimously endorsed by the delegates of the United Kingdom, Canada, South Africa, Australia, New Zealand, Soviet Russia, Belgium, Czechoslovakia, Free France, Greece, Yugoslavia, Luxemburg, the Netherlands, Norway and Poland. The exchange of views elicited a remarkable statement from Dr. Van Kleffens, the Dutch Foreign Minister, who warned his fellow-delegates that the limitations reserved in the fourth clause might possibly render the Charter worthless. Dr. Van Kleffens said:

"I should like to add a statement, asking that it be put on record, on one specific point. The words 'with due respect for their existing obligations' appear to be in the nature of a reservation, and in their strictly legal sense these words seem natural enough. But it seems to us equally natural that, if the object expressed in this fourth point of the Declaration is to be achieved, such existing obligations should not be perpetuated, even as exceptions, when it is clear that their continued operation would seriously impair or diminish the beneficial effect which is to accrue to all from the application of the general rule.

"In our present world, which is only the morrow of yesterday's world with its nefarious autarkic tendencies—the very opposite of the spirit expressed in the Atlantic Charter—we shall all have to do away, to some considerable extent, with measures designed to protect existing economic units. This will mean sacrifices for all, though these sacrifices will be worth the price if, as we confidently anticipate, greater national and international stability and greater prosperity are the result.

"Since in the economic field protection engenders protection, there should not be left in being, in our opinion, important exceptions to the general rule of free access to trade and raw materials on the basis of equal opportunities for all. Otherwise this fine principle, to which

the Netherlands, who have always stood for freedom of commerce, profess full adhesion, would degenerate into a fine phrase. It does not seem to us out of place to state this explicitly; at the end of the last war, the same principle found solemn expression in almost identical terms, and we all know what became of it when the snowball of Protection was set rolling until it became so large that it was a serious obstacle in the path of international trade.

"My Government therefore takes the reservation in Point IV to mean that, just as no existing obligation is invalidated by that point *ipso facto*, so no such obligation is thereby to be perpetuated. Further, I should like to place on record the view of my Government that the highly important aims enunciated in Point IV of the Declaration cannot be attained if considerable exceptions thereto are left in being. For that reason we express the earnest hope that, desirous as we are to see trade barriers removed and discriminatory treatment in international commerce abolished, a serious common effort be made to that end for the ultimate benefit of all."¹

The next important contribution to discussion of the fiscal clauses in the Atlantic Charter was made by Mr. Sumner Welles, the American Under-Secretary of State, in a speech delivered in New York on October 7, 1941. Admitting his own country's partial responsibility for the collapse of international trade during the armistice years, Mr. Welles said:

"Trade—the exchange of goods—is inherently a matter of co-operation, but a glance at the past is enough to show that in the policies of nations this simple truism has been more often ignored than observed. Nations have more often than not undertaken economic discriminations and raised up trade barriers with complete disregard for the damaging effects on the trade and livelihood of other peoples, and, ironically enough, with similar disregard for the harmful resultant effects upon their own export trade. They have considered foreign trade a cut-throat game in which each participant could only profit by taking undue advantage of his neighbour. Our own policy at times in the past has, as we all know, constituted no exception.

¹ *Free Europe*, October, 1941. Presumably the "solemn expression" to which the Dutch Foreign Minister referred was a resolution of the Brussels Conference (1920), which declared for the progressive restoration of the freedom of commerce prevalent in 1914. On the Brussels Conference and its successors, the reader should consult *Post-War Efforts for Freer Trade*, by Professor William Rappard, Geneva Research Studies, March 1938.

"After the last war, at a time when other countries were looking to us for help in their stupendous task of economic and social reconstruction, the United States, suddenly become the world's greatest creditor nation and, incomparably strong economically, struck heavy blows at their war-weakened, debt-burdened economic structures. The shock was heavy, morally as well as economically. The harmful effects of this policy on the trade, industry, and conditions of living of people of many other foreign countries were immediate. Our high-tariff policy reached out to virtually every corner of the earth, and brought poverty and despair to innumerable communities.

"But the effects on American importers, and on American industries dependent upon imports, were likewise immediate

"Unfortunately, the inevitable effects on our export trade were obscured and put off for a number of years by lavish foreign lending, both public and private. The most important normal source of foreign purchasing power for American exports—other countries' exports to us—was being dried up, but what was really happening, as we all know, was that countless American investors were in effect paying American exporters for billions of dollars worth of goods sent abroad.

"If the deficiency in normal foreign purchasing power derived from sales in this country had not been covered up by such vast sums advanced by American investors, we might have realized much earlier that our tariff policy was striking at the very roots of our entire export trade. We might have avoided the colossal blunder of 1930 and the less serious but equally misguided action of further tariff increases under the guise of the so-called excise taxes in 1932. Many foreign countries, which had not recovered from the shock of our tariff increases in 1921 and 1922 and were tottering on the brink of economic and financial collapse, were literally pushed into the abyss by our tariff action of 1930. Throughout the world this withering blast of trade destruction brought disaster and despair to countless people.

"The resultant misery, bewilderment and resentment, together with other equally pernicious contributing causes, paved the way for the rise of those very dictatorships which have plunged almost the entire world into war.

"When human beings see ahead of them nothing but a continuation of the distress of the present they are not apt to analyse dispassionately the worth of the glittering assurance of better times held out to them by a self-styled leader whom they would under more normal circumstances recognize as the shoddy adventurer which in reality he proves to be.

"We thus helped to set in motion a whirlpool of trade-restricting

measures and devices, preferences and discriminations, which quickly sucked world trade down to such low levels that standards of living everywhere were dangerously reduced."

The speaker pointed out that in consequence foreign countries erected high tariffs and established restrictive quotas designed to keep their imports of American products within the limits of their reduced dollar-purchasing power. They desperately sought other markets, made all sorts of preferential arrangements, resorted to primitive barter, and adopted narrow bilateral trade and payments agreements. The opportunity was seized by the totalitarian states to impose political pressure through economic policy and to substitute coercion for negotiation. The victims were forced to spend the proceeds of their exports in the countries where such proceeds were blocked. They could not even choose the goods which they were forced to accept. They were prevented from entering into beneficial trade agreements with states unwilling to sanction discrimination against their exports. In particular, American export trade, unsupported by foreign lending on the part of American investors, was disastrously affected. A remedial policy was adopted in the Trade Agreements Act of 1934—a policy associated with the name of Mr. Cordell Hull. It simply accepted the truism that a nation could not continue to sell if it did not buy. Finally, Mr. Welles suggested that the United States post-war fiscal programme would be far more substantial than that of 1934, for he declared :

"The basic conception is that our Government is determined to move towards the creation of conditions under which restrictive and unconscionable tariffs, preferences and discriminations are things of the past, under which no nation should seek to benefit itself at the expense of others, and under which destructive trade warfare shall be replaced by co-operation for the welfare of all nations."¹

From the Vatican Pope Pius XI issued a Christmas Encyclical which warmly approved Clause 4 of the Atlantic Charter, but

¹ Address at the World Trade dinner of the National Foreign Trade Convention, Hotel Pennsylvania, New York, *New York Times*, October 8, 1941. Mr. Winthrop Aldrich, Chairman of the Chase National Bank, presided.

in the meanwhile a divergence of opinion arose between British Ministers over its interpretation. On October 15 Mr. Eden said that if our future policy was to be shaped aright we must review among ourselves the mistakes arising from the wrong turnings taken in economics and politics during the past twenty years. But a month later, on November 19, Mr. R. S. Hudson, the Minister of Agriculture, proclaimed that the cry of cheap food had depressed agricultural wages and kept them depressed. Cheap food, he said, had involved sweated labour and "sweated land" in the primary-producing countries overseas; it was largely responsible for the curtailment of our export trade and for much of the consequent unemployment. He was, however, glad to report that the new minimum wage for farm labourers, costing £15-20 millions a year, would raise food prices still more and "the consumers and the taxpayers will have to pay for that". Next the Minister of Agriculture informed Newcastle farmers on January 16: "Your markets are assured and your prices guaranteed. Marketing need no longer be an anxiety to you. With the increase in the labourer's wage will go higher returns for the farmer." But Mr. Hudson received little support for his view that increased prices for home-grown food would raise the standard of living in exporting countries to such a degree that they would be able to increase their purchases of our manufactures. Commenting in the *News Chronicle* on November 24, Mr. Oscar Hobson recalled that apparently during the years 1838-46 the Anti-Corn Law League had made one elementary mistake—they should have asked not for cheaper food but for dearer food. After the war our townsfolk would have to work twice as hard for the same amount of food or accept half the amount of food in recompense for the same amount of work! Another Minister, Mr. Harcourt Johnstone, Secretary of the Department of Overseas Trade, was annoyed by such Press headings as "Cheap Food Days will never return" which preceded the reports of his colleague's speech. He contended that if "cheap food days" never returned, neither would British export trades. The same applied to raw materials, which were often agricultural produce, e.g. wool, cotton, flax, silk. Britain could never afford to pay more than its competitors for imported food

and raw materials, and the war itself would increase competition in many directions. "Artificially high prices for this country," declared Mr. Johnstone, "mean what we have been fighting against for many a century; the prosperity of the few at the expense of the many, the gradual contraction of our export trade, a growing inability to buy, and in the end not only a permanent fall in the standard of life of the great bulk of our citizens but a rapid decrease in our population and the end of our power." Mr. Johnstone gave an assurance that so far as he understood, it was not part of Government policy to promote an artificially high level of costs in Britain as against our export competitors in other countries.

It is here appropriate to examine the war-time history of British exports. Early in the war an Export Council was formed to act in liaison with export groups. The general feeling of business men during the winter of 1939-40 may be summarized from their pronouncements. First they believed that Britain, to avoid inflation, could only pay her way from production. Secondly, the decline of our invisible exports required that our visible exports should be encouraged to pay for the difference. One consequence of protectionist policy was that we could not depend upon our investment income to play the part played during the years 1914-1918. A striking illustration of this point was given in the *South American Journal*. It calculated that in 1913 British investments in Latin America totalled, at face value, £999 millions, yielding an investment income of £47 millions, but £82 millions, or 4·7 earned no return. In 1929, the total, at face value, amounted to £1,214 millions, yielding £55 millions, or an average of 4·5 per cent, but £288 millions earned no return. In 1939, the total, at face value, amounted to £1,127 millions, yielding £19 millions, or an average of 1·6 per cent, but £698 millions or 62 per cent earned no return. Thus the net result after seven years of protection was that only 38 per cent of our total investments in the Central and South American Republics yielded any return and the investment income itself had fallen to less than one-third of the 1929 figure.

During 1940 exports were encouraged in order to furnish currencies to pay for necessary imports. At first the policy was not

based on discrimination against neutrals. Later the Government enunciated the principle of "selectivity" or priority in order to secure dollars and "hard currencies". Within eighteen months the status of exports underwent complete transformation; for in 1940 they were regarded as second only to munitions, but the changing conditions of total war ordained that no work, plant or material required for the prosecution of the war should ordinarily be available for the export industries. "Selectivity" reigned until Cash and Carry gave way to Lend-Lease. In March 1941 the Lend-Lease Act provided that United States war supplies need not be paid for in cash. Henceforth dollars were necessary only for orders made prior to the Lend-Lease Act and hard currencies only for Latin American supplies. In July a British White Paper agreed that Lend-Lease precluded Britain from competing with American exporters in neutral markets in goods in short supply. According to *The Economist Commercial History* of 1941: "The corollary of this, that the U.S.A. and Britain should together finance essential imports from Latin America, though expected, has not been made public." It was, of course, still necessary to pay for essential imports outside Lend-Lease. It was still necessary to provide the Commonwealth and nations well disposed towards us with civil supplies. By the end of 1941 the only European states which contrived to maintain a precarious neutrality were Switzerland, Sweden, Portugal, Spain and Turkey. Trade with these countries sank to almost insignificant proportions, and the entry of Japan into the war involved not only the loss of Malaya but the temporary destruction of our trade with the Netherlands Indies. Thus the fortunes of war and the economic strategy devised by the new bureaucracy at home eliminated exports from the major industries.

The situation became clear to everybody when in January 1942 Canada made a handsome gift to the Mother Country. Canada gave us 1,000,000,000 dollars' worth of food and munitions and loaned 700,000,000 dollars in cash, free of interest for the duration of the war. In addition she bought from us 295,000,000 dollars' worth of Canadian Government and railway securities. Nor did Canada make any claim upon the Mother Country for the large armies, mechanized and unmechanized, which she maintained

with full equipment upon British soil. The United States followed the Canadian lead. Already on November 8 the National Foreign Trade Council had declared the Anglo-American Trade Agreement of 1938 to fall short of Clause 4 of the Atlantic Charter. The Council had recommended a conference between the two Governments for the revision on the basis of the Charter of Anglo-American commercial treaties. The historic event of the period since the attack on Pearl Harbour was the Agreement of February 23, 1942, between the Governments of the United Kingdom and the United States on the Principles Applying to Mutual Aid in the Prosecution of the War Against Aggression. Three days later, Lord Halifax, who, together with Mr. Sumner Welles, had appended his signature, informed the Academy of Political and Social Science of Philadelphia that the new Lend-Lease Agreement constituted "the greatest piece of imaginative statesmanship in history".

Articles 1-6 and 8 may be briefly summarized. The United States Government promised to continue to supply the British Government with such defence articles, defence services and defence information as the President should authorize to be provided. The British Government promised to continue to contribute towards American defence, not to transfer any supplies lent it under the Act passed by Congress on March 11, 1941, to support the patent rights of American citizens in defence materials, and, at the end of the present emergency, to return all the remaining supplies likely to prove useful to American defence. Services rendered by Britain to the United States from March 1941 onwards would be taken into account in the final settlement. (This provides for "Reverse Lend-Lease".)

The essence of the new agreement was, however, Article 7, which requires quotation in full:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of the 11th March, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include pro-

vision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on the 12th August, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

"At an early convenient date conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments."

The phrase "the elimination of all forms of discriminatory treatment" caused consternation among the vested interests which had developed behind the high American tariffs and the discriminatory preferential system enshrined at Ottawa. In Parliament on February 24 Sir Patrick Hannon asked Mr. Attlee if the phrase involved the abolition of imperial preference and if the Dominions had been fully consulted. Mr. Attlee replied that the two Governments had not entered into any commitments in advance of the discussions envisaged in the document. The Dominions and the Allies had all been fully consulted. When Lord Winterton mentioned Soviet Russia and the Chinese Republic, Mr. Attlee indicated that he hoped they would be covered by the term "like-minded Governments". For their part free traders were heartened because Article 7 of the Lend-Lease Agreement had ended the doubts arising from Clause 4 of the Atlantic Charter. Henceforth Anglo-American aims, definitely and irrevocably, included co-operation towards free trade.

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