

SAFEGUARDING AND PROTECTION

IN GREAT BRITAIN AND THE UNITED STATES

By

FRANCIS W. HIRST

*Author of "The Life of Thomas Jefferson" and
"The Early Life and Letters of John Morley"*

The first object of this book is to present to English readers at home, in the United States and in the British Colonies, a clear statement of the modern theory and practice of Protection, as they appear in the policy of Mr. Baldwin and the Fordney Tariff of the United States. A chapter on War Debts and another on European Tariff Walls will help to shew what benefits British and American statesmen, if they could perceive the truth of Political Economy, might reap upon a distressed and disordered World.

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THIS BOOK IS INSCRIBED
BY HIS FRIEND AND ADMIRER THE AUTHOR
TO SIR HUGH BELL, BART.

PREFACE

THE first object of this book, which originated in a pamphlet written at Sir Hugh Bell's request a year ago, is to present to English readers at home, in the United States and in the British Colonies, a clear statement of the modern theory and practice of Protection as they appear in the Safeguarding and Preferential policies of Mr. Baldwin and in the almost prohibitively protectionist (Fordney) tariff of the United States. A chapter on the War Debts and another on European Tariff Walls will help to show what benefits British and American statesmen, if they could but perceive the Truth and the Light of political economy, might bestow upon a distressed and disordered world.

The Appendices and a very complete Index will, I hope, add considerably to the utility of the work.

F. W. H.

LONDON, *March 1st, 1927.*

INTRODUCTION

AS a general defending a territory varies his formations to meet the changing tactics of invading armies, so the free trade argument has to be reshaped from time to time against the old sophistries disguised under new masks and new names to conceal their identity with a discredited past.

After the repeal of the Corn Laws no practical British politician of the last century dared to call himself a protectionist. Memories of the Hungry Twenties and Thirties and Forties were too fresh. Fair Trade, Reciprocity or Retaliation were the words employed to hide the old policy of robbing everybody in order to enrich a privileged few. Even so "Fair Traders" and "Retaliationists" proposed universal free trade as their ultimate object. We were to close our ports in order to make other nations open theirs. We were to raise prices in Britain, in order to induce the German and American Governments to lower prices in Germany and the United States. We were to erect a protective tariff and enact artificial scarcity, in order that our trade rivals and commercial "enemies" might demolish theirs and adopt the gospel of free exchange and untaxed plenty. It reminds one of the military theory that you should declare "preventive" war on a neighbour in order to make him peaceful.

After "Fair Trade" came "Tariff Reform," with Mr. Joseph Chamberlain as its standard-bearer. When that had been exposed and defeated, the Great War

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afforded another opportunity to our protectionists. Betrayals of free trade by its leaders gave them new heart, till at last in 1923, encouraged by the trade depression, Mr. Baldwin came boldly into the open with a Protective and Preferential Tariff as a cure for unemployment. The people's answer was decisive; and before the red letter business gave them another chance the Conservative Party very wisely announced that they had accepted the verdict and would not seek another mandate for protection. But, thanks to the elections in 1924, Mr. Baldwin now commands a large parliamentary majority who are mostly protectionists, though they won their seats as Anti-Communists. So the blessed word "Safeguarding"—first adopted by the post-war Coalition Government—has been resurrected for the purpose of concealing from the public eye a new series of protective and preferential duties.*

This brief glance at recent history explains why a new book was thought requisite to elucidate new fictions, reaffirm old truths and rouse Englishmen from a false sense of security. The price of freedom in business and trade, as well as in the political sphere, is eternal vigilance. In the eyes of too many statesmen, representative institutions exist in order to be "wangled." For them politics is the art of dissembling. Political words in their mouths are like bad coins in the hands of cheating money-changers. True the country voted only two years ago against protection. "It did not vote against safeguarding," is the reply. "But," we rejoin, "there is no difference between a protective duty of 33 per cent. and a safeguarding duty of the same

* The very first meaning given for "Safeguard" in Murray's Oxford Dictionary happens to be "Protection."

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amount." Our statesmen answer, "That's as it may be. We have carried out our pledge *to the letter*."

Even that statement is not true. In his first budget Mr. Churchill included a number of protective duties without passing them through the sham process which goes by the name of safeguarding. In his second (1926) budget he played the same game by a new protective duty on commercial motor-cars as well as by re-enacting and raising the so-called Key Industry duties.

It is our duty as free traders to make all this plain to the country. At the same time we have to examine the nature and extent of the mischief, and let it be seen how much of the poison of corruption and favouritism has been injected into our industrial and fiscal system since the General Election of 1924.

In order that a small book may serve a large purpose I have also presented in a popular form the scientific foundation for free trade as well as a brief refutation of some fashionable fallacies by which simple folk are sometimes beguiled. An additional chapter on the American Customs Union may serve to show why that immense political and commercial federation of forty-eight states gains more from free trade than it loses by protection.

Common sense tells us that restraints on business are generally bad, that red tape strangles enterprise, that taxes on goods in transit will reduce the volume of transactions, that wage earners will suffer if the things they buy are made artificially dear, that legislation to increase the cost of living and production must be especially disastrous to a populous manufacturing and commercial country like ours—and so on and so on.

But not every one who feels all this can explain the

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faith that is in him or expose the verbal tricks and sleek illusions of a plausible protectionist. I have therefore tried to set out in simple language the philosophy of free trade—how men and nations gain by exchanging their surplus products and why tariff barriers are impediments to peace and goodwill.

The mischief already done is substantial; the danger is great and pressing. Men and women of public spirit, citizens of the world, who see the mischief and recognise the danger, should bestir themselves to recover lost ground, ere it is too late.

Not long ago, in a suggestive and scholarly address to the Classical Association, the Prime Minister touched on the causes of the fall of the Roman Empire. Among them he mentioned the over-taxation of the provinces and the decadence of the Roman character. When the Roman word ceased to be trusted, he remarked, it was not surprising that the Roman Empire fell to pieces. Nor did he fail to apply the moral. The British Empire has been built up by similar virtues, by the strength of the British character, by faith in the British word. The analogy he thought was near enough to convey a lesson. Let us not fall away from the qualities of our ancestors, nor fail to take warning from "the danger signals of history." Perhaps, then, Mr. Baldwin is really beginning to feel his financial policy and the safeguarding measures are shaking public faith in his pledged word. If so, he will prohibit any further encroachment on free trade and repair as soon as may be the damage done.

The substitution of the word "safeguarding" for "protective" has been supposed to exonerate the Prime Minister and his supporters from the charge that, in

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spite of all their assertions to the contrary, they are in fact undermining our free trade system. Yet it is only a little more than three years since their own proposals for a protective tariff were submitted to the country and decisively rejected. As for the General Election of 1924, we all know that it turned on Communism and Socialism. Consequently the present Administration has neither political mandate nor moral authority to reverse piecemeal that liberal policy of free trade or free exchange which the people of Great Britain have consistently supported for the last eighty years.

Of the four new classes of protective duties, which were recommended to Parliament in the autumn of 1925 and, with one exception, carried in December, those on cutlery will constitute a pretty heavy tax on every household, and especially upon young people who are setting up in married life. They impose a new burden on the breakfast table and the dinner table. The duties on wrapping paper imposed in the budget of 1926 constitute a burden on every shopkeeper as well as upon many wholesale merchants and manufacturers. The glove taxes penalise hundreds of thousands of women who can ill afford to increase their clothing bills. Finally, the tax on gas mantles is a tax on artificial light, which is surely an essential of existence in a civilised community.

If free traders had required working models of protection over and above the duties on clocks and watches, silk, motor-cars, etc., imposed by Mr. Churchill in his first budget, their needs have been amply supplied in his second.

Every protectionist success since 1914 has been won with the assistance of war, waste or public extravagance.

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It is by this unholy alliance that our tariff reformers hope to overthrow the financial system established by the constructive genius of Sir Robert Peel and Mr. Gladstone under the inspiration of Adam Smith and Richard Cobden. That system was marked by strict economy, justice and impartiality. The old practices of jobbery and favouritism were swept away. The use of public loans, or customs duties, or subsidies, to reward the relatives and friends and supporters of a ministry or to induce wealthy tradesmen and manufacturers to contribute to the party funds was put an end to. Titles were not sold to the highest bidder. All the servants of the State were encouraged to be economical, and every form of waste and extravagance was severely discountenanced. By these means the indirect taxes were reduced far below their present level, so that in respect of taxation the middle and working classes of Great Britain in the 'eighties and 'nineties of the last century were far better off than they are now. Before the Boer War the purchasing power of the pound was nearly double what it is to-day.

British credit was in such esteem that in 1897 our $2\frac{1}{2}$ per cents. rose to 110—of late they have been below 55! Our revenue system, the envy and admiration of the world, was based on the four practical maxims or canons of taxation formulated by Adam Smith:—

(1) The subjects of every State should contribute in proportion to their respective abilities.

(2) A tax should be certain, and not arbitrary.

(3) A tax should be levied at the time and in the way most convenient to the taxpayer.

(4) Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury.

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A Government which applies the fourth maxim to its customs tariff is bound to eliminate the protective element from every duty. It was a new idea to the contemporaries of Adam Smith. But it was obviously true and right. There was soon a general agreement among economists that the sole purpose of a tax should be to bring in revenue; but it was left for Sir Robert Peel and Mr. Gladstone between 1842 and 1860 to achieve that purpose by repealing protective Customs duties or by adding a corresponding excise duty upon the same article produced at home, as in the case of beer and spirits. Bounties and subsidies were abandoned. They have been revived—with what mischievous results I have tried to set forth in Chapter VII. The result of the financial measures taken by Peel, Gladstone and their successors was to reduce enormously the burdens upon our people, to free commerce from a multitude of vexatious restrictions, and to raise by means of a dozen indirect taxes a far larger revenue than had previously been raised from thousands. It is a sad commentary on our supposed progress in the art of government that a financial system so scientific and so perfect as ours should be sinking back, degraded and debased, into the wasteful inefficiency and corruption from which it was purged by the heroic labours of Peel and Gladstone.

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THE TRUTH AND THE LIGHT

SOME people imagine that economics and finance are complex, mysterious and almost incomprehensible subjects; but they really constitute the science of common sense, and their central truths are plain and simple. Of these, free trade stands first in practical importance, and once you have mastered the free trade principle in all its bearings you possess the elements of political economy. Free trade, or free exchange, is in reality the internal law of every progressive and prosperous human society. The most reactionary Protectionist in England does not propose to "safeguard" the manufacturers and farmers of Yorkshire from their competitors in Lancashire by a tariff. The most reactionary of American Tariff-mongers does not suggest that the forty-eight states of the Union should be protected from one another. Within the Union free competition and free exchange are the touchstone of prosperity and progress. Thus in a limited sense the wisdom of free trade is universally acknowledged, and there is no logical argument against its extension from counties to countries or from interstate to international commerce.

Free trade is based on the principle of division of labour—a principle as old as human society—which was explained at Athens more than two and twenty centuries

ago by Plato, the Greek philosopher. In Plato's *Republic*, the most famous perhaps of all political books, we read how a growing society divides its labours; and the story is told in language as clear, as natural and as beautiful as the principle which the writer was unfolding.

Men first gathered together in village communities for security. But no sooner was a society established than division of labour came into being. Plato sketches the growth of a primitive society. The first necessities of primitive man are food, houses, and clothing. Living in isolation like a wild beast in a state of war, he procured food, shelter and clothing, each for himself. After joining a community he had the choice of remaining in economic isolation or sharing with the labours of others. In the first case he would spend part of his time in agriculture, part in building, part in making clothes. Which course would be best? Should each villager pursue one occupation or try to be a jack of all trades? The answer of course is that the workman who specialises and sticks to one job, and then exchanges his surplus for the other things that he wants, will be far better off than the man who tries to pursue several trades at once. Thus our villagers, living together in peace, thrive by co-operation. The very smallest village community will require several men and women—some to grow food, others to spin and weave and make clothing, others to build houses, and so on. How will they proceed? Instead of dividing their time, they will divide their labour. They will barter their surplus products or bring them into a common stock for distribution.

Here then we have the economic reason and justifica-

tion for men coming together instead of living in solitary isolation. The arguments are overwhelming. In the first place, nature has provided men and women with a diversity of gifts and capacities and tastes. One may prefer an open air life; another may prefer to spin or weave under cover; another may like to keep a shop; another may choose to fetch and carry, transporting the goods which others produce. But besides these diversities of nature, it is obvious that work is better done when the workman has one occupation than when he has many. Practice makes perfect. Things are produced more plentifully and easily and better, when one man follows the calling for which he is best fitted and leaves other jobs to others.

From this first little Village community there is a natural expansion of wants and services. The agriculturist must not be diverted from his work to make his own spade or plough or the other implements of agriculture. Similarly the builder, the shoemaker and the weaver will want others to make their tools and machinery. In this way carpenters and blacksmiths and many other artisans and mechanics will be called to share in the needs and tasks of the Village, which is now growing into a small town or City State.

Besides the ploughman and digger there will be required herdsmen to keep sheep and cattle and horses, in order to provide wool, milk, meat and hides, and animals for the plough and for transport. In course of time it will be found impossible for the city to supply all its own wants. For however well it may be situated—so Plato remarks—“to find a place where nothing need be imported is well nigh impossible.”

So there must be another class of citizens to bring

supplies from other cities. But these merchants must not go out empty-handed ; for if they do they will come back empty-handed. They must take with them something which some of the citizens of the other city want for the purposes of exchange. Therefore what they produce at home must be not only enough for themselves ; there must be a surplus, to accommodate and supply their foreign customers.

Thus the expanding needs of the City have brought into existence the class of importers and exporters, who may be called merchants to distinguish them from the shopkeepers at home, whom they supply with foreign goods.

Plato, we must remember, lived at Athens, a city state with a harbour and a large overseas trade. So in constructing his Republic he assumes that there will be sea transport as well as land transport to be provided for, and this made it necessary that a number of the citizens should be seamen.

Besides all this, for the purpose of exchange, the citizens of the state must have a market-place and money, and dealers, who will frequent the market-place giving money in exchange for goods to those who want to sell and taking money from those who want to buy. Thus we have our City complete, with its food producers, clothiers, shoemakers, mechanics, shopkeepers and merchants ; and we see in a quite simple and intelligible way how the vast intricate system of the modern world is developed, under which each of us is dependent upon myriads of other human beings, not merely in his own village, or town, or county, or country, but in all parts of the world, for the things we use and consume every day of our lives.

For more than two thousand years the science of political economy made no advance. The advantages to human society of the division of labour and of the free exchange of surplus products had been amply demonstrated, one would have thought, in this famous Greek masterpiece. But commercial jealousy, short-sighted greed, political and religious dissensions, tyrannical ambitions, racial animosities and the natural pugnacity of mankind all contributed to obscure plain elementary truths and to prevent the diffusion of common sense and commercial wisdom. In the Middle Ages a multitude of fallacies were invented; and even astute statesmen were led to believe that trade regulations, and commercial restrictions, and cunningly devised taxes upon imports and exports would enrich instead of impoverishing a state. Wonderful ingenuity was expended on diverting business from its natural channels and depriving industry of its just rewards. Then at last in the eighteenth century there was born in the little Scottish town of Kirkcaldy Adam Smith, the great practical philosopher of modern times, who took up again the principle of division of labour and made it a key to unlock the science of political economy. He found in all civilised countries a system of so-called "protective" tariffs and restraints on trade. In most European countries there were trade guilds, and close corporations which hampered enterprise and hindered labour from finding a free market. Many cities were surrounded with walls, and at the gates stood officers to impose taxes or tolls upon everyone who brought food or goods to sell in the town. At the frontiers or ports of every country most of the products of foreign countries were prohibited or taxed. Everywhere the

gospel of scarcity was proclaimed, the gospel of freedom and abundance rejected.

After many years of thought and careful study in Great Britain and France Adam Smith published in 1776 his masterpiece, *The Wealth of Nations*, which shows the folly of taxing or forbidding the free flow of goods and services, and traces the principle of the division of labour into every branch of business and commerce. One single passage may serve to exemplify the argument that gradually induced his own countrymen to adopt his policy and so made Great Britain, a hundred years after his death, the foremost manufacturing and commercial nation of the world, with a mercantile marine equal to that of all other nations combined :—

“ It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their own interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.

“ What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.”

Adam Smith's wonderful book, the most fascinating that has ever been written on trade, and on the rules which should guide public economy and finance, had immediate and extraordinary success; for it converted before his own death two Prime Ministers, Lord

Shelburne and William Pitt. Indeed there can be little doubt that a long step would have been taken by Great Britain under Pitt towards a free trade system but for the French Revolution and the terrible wars with France, which lasted from 1793 to 1815. The restoration of peace found British commerce hampered and harassed by taxes, prohibitions and restraints of all sorts and descriptions. Some reductions and relaxations were made; but the British tariff remained highly protective until the reforms of Sir Robert Peel, which took place during "the Hungry Forties." In spite of a rapid increase of population British exports, which were valued at about an average of 37 millions a year from 1821 to 1825, fell to 36 millions between 1826 and 1830. Protection was strongly entrenched until at last a widening of the franchise in 1832 made it possible to reform the fiscal system.

The Anti-Corn Law League was established at Manchester. Richard Cobden translated Adam Smith into the language of the platform, and converted the country to free trade. In 1846 the Corn Laws were abolished by a Conservative Prime Minister, Sir Robert Peel, and a complete free trade system was established by Mr. Gladstone's famous budgets of 1853 and 1860. British trade and British revenue advanced by leaps and bounds, as the protective shackles were removed; and by the year 1870 the value of British exports had risen to 199 million sterling. In 1850, when the Navigation Laws were repealed, the British Mercantile Marine totalled 3,565,000 tons; in 1870 it totalled 5,691,000 tons. In 1880 it totalled 6,574,000 tons. Meanwhile the mercantile tonnage of the United States, which had been our chief competitor, declined as ours increased;

and it is fair to assume that this was due to the adoption by that country of an increasingly protective tariff, which made ship-building expensive and restricted overseas trade. From a total of 1,586,000 tons in 1850 the mercantile marine of the United States was reduced to 1,353,000 tons in 1880. The proportion of American trade carried in American vessels sank from 82 per cent. in 1840 to 16 per cent. in 1885! Meanwhile the proportion of British trade carried in British ships rose from about 58 per cent. in the fifties to 72 per cent. in 1885.

We need not multiply commercial statistics. They all confirm the cardinal economic truth established and formulated in *The Wealth of Nations*: "In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest."

Here it is enough to note how completely Smith's theories and the arguments of his disciples from Shelburne and Pitt down to Cobden, Peel and Gladstone were justified by the results. If there were space, it could be shown how these statistics of expanding trade and capital were accompanied by a rapid improvement in the wages of the working classes* and by a general rise

* The trade cycles chart compiled by Mr. Joseph Kitchin, F.S.S., shows that in 1850 the overseas trade of the country was 171 millions sterling, or £6.2 per head. In 1900 the respective figures were 877 millions, and £21.1. Wages in 1850 were 100, and in 1900 179; real wages rose in the same period from 54 to 100. Incomes assessed for income-tax rose from 259 millions to 867 millions—from £10.5 per head to £20.8 per head. Prices of commodities, according to Sauerbeck, fell in the same period from 77 to 75. According to the Board of Trade's calculations, wholesale prices fell from 135.6 in 1871 to 100 in 1900.—See *Times*, Jan. 20, 1926, and for later statistics of Great Britain's overseas trade, the tables in Appendix II at the end of this book.

in the standards of living and comfort. From the growing surplus vast sums were found not only for railways and roads but for public health, education, parks, baths, libraries, art galleries, museums and all the amenities of modern life. It requires some imagination to recall the miseries of the people eighty years ago. Under the Corn Laws wages in most of the English counties ranged from seven to nine shillings a week for agricultural labourers, and in periods of depression there were few working class families in Great Britain and Ireland which did not feel the pinch of starvation.

Is it not strange in the light of these experiences, 150 years after the publication of Adam Smith's *Wealth of Nations*, and eighty years after the Repeal of the Corn Laws, that a Conservative Premier, blind to the teachings of theory and history, should be endeavouring, in defiance of his own pledges and the repeated verdicts of General Elections, to re-introduce by side doors and back doors, disguised under new names and formulas, the old discredited system of a protective tariff, which would substitute scarcity and high prices for cheapness and abundance? Has he learnt nothing and forgotten everything?

II

BRITISH PUBLIC OPINION ON THE FISCAL ISSUE: 1846 TO 1925

IN our first chapter we saw how the theory of free trade, implied in Plato's Republic, was developed by the genius of Adam Smith. By his hands it was shaped into the central doctrine of a new science—the science of political economy.

Free trade is neither an empty formula nor an impracticable ideal, but a natural and logical system founded on common sense. It is almost self-evident that if commerce is free and untrammelled its volume will be larger than if it is strangled by restrictions and burdened with taxes. It is equally obvious that if prices are artificially raised, consumption will be decreased; the people will buy less in the shops; the shopkeepers will buy fewer goods from the merchants, and the merchants will have to reduce their orders to the manufacturers. Consequently employment will be diminished, because necessarily the volume of production depends on the volume of consumption. Taxes on consumption therefore—and especially taxes upon food, clothing, boots and other articles which are bought by the working classes—must reduce the manufacturing output, and so diminish wages and employment.

This surely is an overwhelming objection alike to taxes on consumption and to extravagant public ex-

penditure, which must lead in the long run to an increase of direct and indirect taxation. Although indirect taxation by customs and excise duties is worse than the direct taxation of income, because it raises prices and diminishes consumption, free traders raise no objection to the taxation of luxuries such as beer, spirits, wine and tobacco so long as the whole produce of these taxes apart from the cost of collection goes into the public Treasury. From 1860 to 1914 this was the case with practically the whole of the indirect taxation of the United Kingdom. The duties imposed by our Customs Tariff were either on commodities such as tea, wine, and tobacco not produced at home; or else on articles such as beer and spirits, in which corresponding excise duties were laid upon the home brewers and distillers. But the object of the protectionists and of a protective tariff is to divert customs revenue from the Exchequer into the pockets of the home producer or manufacturer. The protectionist asks for customs duties, without a corresponding excise, on a foreign product which competes with a home product. Under protection, while prices rise, the revenue may decline; for the more protective the tax the less the revenue. The effect of increasing the price at home is to increase the profits of the home manufacture in the home market, and to diminish the home consumption. Exports fall with imports. Trade is diverted from its natural channels; inefficiency is encouraged; trusts and monopolies are fostered; the cost of living and production is raised; and all the industries that flourish in a free market are depressed.

In 1846, when the Corn Laws were repealed, the British system of protection received its death blow.

Under the Corn Laws high protective duties had been imposed (by a sliding scale rising as the market price of cereals fell) on all kinds of foreign corn, the object being to keep up agricultural rents. The Corn Laws were the keystone of the arch of protection, because at that time the landlords, being by far the most powerful class in England, controlled politics. Their power, however, had been shaken by the Reform Bill of 1832, and the Anti-Corn Law League, founded by Cobden, converted not only the middle classes and working classes, but also a number of liberal-minded landlords to the policy of free trade.

From 1846 down to 1903, when Mr. Joseph Chamberlain started his "raging, tearing propaganda" for Tariff Reform, the free trade system was never seriously challenged. The protectionist party in the House of Commons dwindled to a tiny group. Disraeli, the Conservative leader, abandoned protection as a hopeless cause, declaring it to be "dead and damned." Occasionally in times of depression, notably in 1884 and 1885, a few "Fair Traders" came forward to denounce foreign competition and to advocate reciprocity or retaliation.* But it was not, as we have said, until 1903 when Chamberlain, the ex-radical free trader, came forward with a scheme of Imperial Preference and Protection, including duties on imported meat and wheat, that the Tariff question became again a living issue in British politics.

A telling exposure of Mr. Chamberlain's speeches, with their tissue of fiction and fallacy, entitled *Fact versus Fiction*, was prepared for a Committee of the

* See for a crushing reply to their arguments, *Free Trade versus Fair Trade*, by Sir T. H. Farrer (3rd edition), London, 1886.

Cobden Club by Mr. Shaw-Lefevre, now Lord Eversley, and published by Cassell & Co. in 1904.

Imitating a speech made by Lord Randolph Churchill twenty years earlier, Mr. Chamberlain declared that most of our staple trades were dead or dying. Agriculture, he said, had been "practically destroyed." Silk had gone; "iron is threatened; wool is threatened; cotton will go! How long are you going to stand it?" (Speech at Greenock, October 7th, 1903.)

We need not enter into details or recite the lugubrious speeches he made in various towns about our ruined industries. They all survived his funeral orations. His facts were as bad as his logic. His export statistics were obtained by comparing a year of depression (1902) with a year of inflated prices (1872). On this comparison he complained that the population had increased faster than the exports, and his remedy was to diminish both exports and imports by taxing and restricting imports!

Unfortunately for Mr. Chamberlain his statistical comparison was riddled by Mr. Gerald Balfour, then Conservative President of the Board of Trade, who gave the following table, showing not only the money value but also the real movements (allowing for the fall in prices) of British exports for the period 1873 to 1902:—

EXPORTS OF BRITISH PRODUCE AND MANUFACTURES				Value given in	Value based on
				Trade Returns	Prices of 1873,
				£ millions	£ millions
1873	...	...	...	255	255
1883	...	...	...	240	295
1893	...	...	...	218	329
1902	...	...	...	278	416

Apparent increase of 1902 over 1873	23 millions
Real increase of 1902 over 1873	161 millions

Though the real facts and figures of national progress under free trade were crushing, Mr. Chamberlain collected a huge fund from manufacturers who expected to profit from a tariff; and the Birmingham Tariff Reform League hired a large band of speakers who travelled up and down the country to spread the new gospel of scarcity. Mr. Arthur Balfour hesitated and dallied. A small but influential section of his party, including young orators like Lord Hugh Cecil and Mr. Winston Churchill and powerful statesmen like the Duke of Devonshire and Lord Goschen, maintained the free trade doctrine. Mr. Chamberlain won over a majority of Unionist candidates to his views; but he met his Waterloo at the General Election of January, 1906, when a huge Liberal and Free Trade majority was returned to Parliament. The Unionist members of the House of Commons were reduced to 158, of whom sixteen were pronounced Free Traders. After Mr. Chamberlain's illness Mr. Bonar Law became the Protectionist leader, Mr. Balfour remaining a doubter and a casuist. But Tariff Reform made the chances of a return of the Unionist party to office hopeless. They were again defeated at the two General Elections of 1910 in spite of various promises and pledges given by Mr. Balfour, who even offered (at the Albert Hall, November 26th, 1910), before introducing Tariff Reform, to submit its principles to a referendum. Next year Mr. Balfour was forced to resign his post by the Tariff Reform League,* and

* It has since been wound up.

Mr. Bonar Law was made leader of the Unionist party in the House of Commons. He promised to keep the flag flying; but by-elections were unfavourable, and before the beginning of the Great War the Unionist party agreed to drop the taxation of food, which had been the foundation of Imperial Preference and of the whole scheme of Tariff Reform.

From that time up to the present free trade has only once been challenged at a General Election. Nevertheless, without any mandate from the electors of Great Britain, a number of protective duties were imposed during and after the war (along with a small instalment of Imperial Preference) by the Coalition Governments of Mr. Asquith and Mr. Lloyd George. The first real breaches in the free trade system were the McKenna Duties; so called because they were introduced in the budget of 1915 by Mr. Reginald McKenna, until that time a strict free trader, who became Chancellor of the Exchequer when Mr. Asquith formed the first Coalition Government. These high protective duties of 33.3 per cent. *ad valorem* were laid upon motor-cars and motor-bicycles, cinema films, clocks and watches, musical instruments and phonographs. Both the free trade and tariff reform ministers assured the House of Commons that they were not imposed for protective purposes but in order to keep out luxuries and to save ships' space for necessary imports. From this latter point of view indeed the import duties on watches seemed to be a strange selection, even if watches could be called a luxury. But the uneasiness of the House of Commons was allayed by an assurance that the duties were only imposed for the period of the war. Nevertheless free

traders protested against these duties and also against the Paris Resolutions, which foreshadowed protective measures against enemy countries after the war. When the war was over Mr. Lloyd George and Mr. Bonar Law, having won the so-called Coupon Election on promises which it was impossible to redeem, not only ignored the pledge to repeal the McKenna Duties but made them preferential by allowing a reduction of one-third on these and other dutiable articles when produced within the Empire, thus discriminating against our foreign customers, and creating a great deal of ill-feeling among friendly nations—some of whom, like the Dutch, imposed much lower duties on British goods than did our own self-governing colonies.

This Coalition Government of Mr. Lloyd George and Mr. Bonar Law, backed by the "coupon" majority (obtained at a General Election immediately after the war, by promises to try the Kaiser and to make Germany pay for the cost of the war) went on to further protectionist measures. First came the Dye-Stuffs Import Regulation Bill, which has proved a dismal failure. It made dye-stuffs scarce and expensive and so injured our textile manufacturers. This unlucky attempt to create an efficient British Dye Industry has inflicted heavy losses on taxpayers and private investors.

The Dye-Stuffs Act was followed by a Safeguarding of Industries Bill, passed in August, 1921, and consisting of two parts. The first part imposed protective duties on a number of so-called key industries, which claimed to manufacture special articles necessary in time of war. A schedule containing thousands of articles was compiled by the Board of Trade. It was compared by Mr. Baldwin, who took charge of the measure, to an

old marine stores' collection, and included such absurdities as dolls' eyes, magic lanterns and patent medicines.

The second part was said to be for the prevention of "dumping"; under this one or two feeble industries like fabric gloves and gas mantles were propped up by protective duties. A year afterwards a quarrel broke out between the Liberal and the Conservative wings of the Coalition. Mr. Lloyd George resigned, and Mr. Bonar Law becoming Prime Minister dissolved Parliament in November, 1922. But so conscious was he of the unpopularity of Protection that he promised, if his party was returned to power, not to disturb the fiscal system. Great Britain still remained in the main a free trade country.

On this programme of tranquillity and stability Mr. Bonar Law and his Chancellor of the Exchequer, Mr. Baldwin, were returned to power with a substantial majority of about seventy in the new Parliament. The pledge was kept. No new instalments of protection were introduced in the Budget of 1923. But unfortunately Mr. Bonar Law fell ill and was compelled to resign. He was succeeded by Mr. Baldwin, and in the autumn of 1923 Mr. Baldwin was captured by a group of Tariff Reformers, who persuaded him that the only efficacious cure for trade depression and unemployment—the natural consequences of war—was to introduce a protective tariff and to extend Imperial Preference. Mr. Baldwin recognised that in view of Mr. Bonar Law's pledge he could not overthrow the fiscal system without a mandate from the electors. Accordingly, after an Imperial Conference in October—at which Sir P. Lloyd-Greame,* then President of the Board of

* Now Sir P. Cunliffe-Lister.

Trade, promised new preferences to the colonies—the Prime Minister took the plunge on October 25th at an annual meeting of the Conservative Caucus in Plymouth. He told an enthusiastic audience that foreign competition was the real cause of industrial distress and that he could not restore prosperity unless he had power to erect a tariff against foreign goods. When he arrived at his conclusion, “The only way of fighting this subject is by protecting the home market,” there was a great outburst of cheering, and in a few days’ time arrangements began to be made for a General Election.

Moderate Conservatives were astonished and dismayed; even zealous protectionists were afraid that prospects of food taxation would be unpalatable to the electors. So Mr. Baldwin, after appointing Lord Milner and one or two other Tariff Reformers to prepare a Secret Tariff (which has never been divulged), gave out that if his proposals for protecting British manufacturers were approved by the electors, he would not tax “essential foods.” In other words, farmers would be left out in the cold. But among non-essential foods, on which he at the same time promised to impose protective and preferential duties, were apples, dried fruits, tinned salmon, and some other popular delicacies. These indications, with the certainty of higher prices for clothing and boots and indeed for everything except bread and butter, caused general consternation, and the Liberal and Labour parties immediately denounced Mr. Baldwin’s programme root and branch.

It was evident from Mr. Baldwin’s speeches and replies to questions that he had not thought out the subject, and was not at all familiar with the free trade argument which he was called upon to answer. The

apple growers of Worcestershire and Herefordshire were well pleased, but the manufacturers, not knowing what the tariff would be, or how it might affect particular trades, were much divided. Lancashire, whose great cotton industry could not be protected, was up in arms. A rhyming critic put into Mr. Baldwin's mouth the following speech on the "Bewdley Tariff" which may serve to illustrate the pitiful confusion of Mr. Baldwin and his supporters at this election:—

"I'm a plain and simple countryman. This Tariff bothers me.
I cannot make my meaning clear for other folks to see.
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 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 die-hards put me in this fix, and made me tariff faker.
Better retire, resume the squire, and earn a pound an acre."

It should be explained that much discontent was visible among the farmers and agricultural landlords

when they discovered that all the advantages of protection were to go to manufacturers, and all the disadvantages to farmers in the shape of high prices for all the things they had to buy—machinery, tools, boots, clothing, etc. Mr. Baldwin's neighbours and constituents, the apple growers, were, however, specially favoured. In his budget Mr. Baldwin had removed the excise duty on cider, and had made it the only untaxed alcoholic liquor in the kingdom. He had also announced that apples would not be treated as "essential food," and that a high tariff with a preference rebate for colonial apples would be placed upon imported apples. As the election campaign proceeded, the outcry of the farmers and the county constituencies made it necessary to do something for the agricultural interests. So it was announced that in order to compensate arable farmers for the absence of a corn law they were to receive out of the revenue from protective duties a subsidy of £1 an acre. This attractive bribe was extended to the lucky apple growers; for it was announced that orchards would be counted as arable land, in order that they might receive a subsidy as well as a protective duty! The sheep farmers and dairymen were left out. Altogether these proposals constituted a gigantic scheme of bribery for favoured interests. The refusal to disclose any details of the tariff left the door open for secret negotiations with manufacturers; and it was reasonable to infer from the example of the United States and from the history of Protection in other countries that the tariff rates would largely depend on contributions to party funds. The bribe offered to arable farmers, and the subsidies actually given in 1925 to sugar growers and the coal trade, show how taxpayers may be fleeced

where tariffs are not available. Here is one of the worst features of the protective system. Injustice and favouritism, jobbery and corruption, are inextricably bound up with it. When it comes to making a fiscal policy to catch votes and fill the party chest, all the fine talk about a scientific tariff vanishes into thin air.

It is immensely creditable to the self-preserving instincts and common sense of the British democracy that the general interests of the consumer prevailed over these appeals to the greed of the interests which were to be favoured at everybody's expense. Able speakers on the free trade side, among whom Mr. Asquith, Mr. Philip Snowden, Sir John Simon and Mr. Winston Churchill were conspicuous, backed by economists and statisticians, explained that the great mass of the working classes had little to gain and much to lose from protection. It turned out that four-fifths of the unemployment was in trades which could only suffer from a general tariff. Some of the biggest trades and employments such as clerks and railway workers, the shipping interests, the shipbuilders, and the textile workers of Lancashire and Yorkshire had nothing whatever to gain and everything to lose by the imposition of a general tariff on imports, which would restrict overseas trade, raise prices in the home market, and diminish the purchasing power of all wages and salaries. It was shown that a reduction of imports must be accompanied by a corresponding reduction of exports, for the simple reason that if we refuse to buy from our overseas customers they cannot buy from us. To every import, it has been said, an order for an export is attached. The shipping trade would therefore suffer a double loss; while the demand for British ships would naturally

fall off, the cost of building them would be artificially increased.

After a short but sharp campaign the General Election took place at the beginning of December, 1923. The Protectionists had the immense advantage of three-cornered contests in all parts of the country, the free trade votes being divided between Liberal and Labour candidates. In spite of this a crushing disaster was inflicted upon the Conservative Party. Their majority of seventy was converted into a minority of over ninety; though a number of the old Coalition Liberals were to prove themselves very weak-kneed supporters of Free Trade. The new House of Commons consisted of 259 Conservatives, 191 Labour members, 155 Liberals, and 10 nondescripts. A Labour Government was formed by Mr. Ramsay MacDonald; and Mr. Philip Snowden, the new Chancellor of the Exchequer, carried out the clear mandate of the country by the free trade budget of 1924, which swept away the McKenna duties and practically all traces of protection and imperial preference.* Once more free trade had been vindicated; once more the people of Great Britain, having the plain issue of free trade or protection presented to them, had given a decisive and overwhelming verdict for free trade.†

The lesson was not lost on the Conservative party. They accepted the verdict of the country and announced that they would drop their proposals for protection until the country had changed its mind. Their change

* Except Part I. of the 1921 Safeguarding Act, which did not expire till 1926.

† For a much fuller account of the Tariff Reform Movement in Great Britain down to Mr. Snowden's Budget, I may refer readers to a little book of mine entitled *Adam Smith to Philip Snowden*, published by T. Fisher Unwin, London, 1925.

of tactics was speedily rewarded. Russian communism suddenly came into British politics ; the Labour Government floundered into a quarrel with its Liberal supporters ; and in the autumn of 1924 Mr. Ramsay MacDonald suddenly dissolved Parliament. The result was a foregone conclusion, for the people generally had no appetite for socialism ; they were sick of elections, and were quite ready, with the tariff question again in abeyance, to vote for a Conservative régime of " stability, tranquillity and economy." The Conservative triumph which followed was magnified and exaggerated by the publication on the eve of the poll, with Foreign Office sanction, of the notorious Red Letter attributed to Zinovieff. Whether it was a forgery or not remains a disputed question. But it undoubtedly won Mr. Baldwin and his supporters a very large number of seats. On the fiscal issue there was practically no discussion. The manifesto of the Labour party did not even mention the subject. Conservative platforms resounded with " Bolshevism " ; and the results were hailed as a national triumph over the red peril and a national repudiation of the communist propaganda against private property and the British Constitution. The Conservative party claimed, probably with truth, that it had received about a million Liberal votes ; but even so its candidates obtained less than half the votes polled, although in the new House of Commons two-thirds of the members are Conservatives ! The actual figures are worth recording. No fewer than 415 Conservative members were returned by 7,838,225 votes ; 152 Labour members were returned by 5,423,589 votes ; 42 Liberal members were returned by 2,925,142 votes ; and 6 nondescripts by 197,673 votes.

Such is the situation in the present Parliament. Mr. Baldwin, reinstalled in office as Prime Minister, is supported by an overwhelming majority in the House of Commons, most of whom are protectionists, though they won their seats as anti-communists. To quote Mr. Baldwin's own words when the new Parliament opened on December 17th, 1924: "We have no mandate for Protection and we have never asked for it."

III

TARIFF POLICY AND THE THREE BRITISH PARTIES

OUR last chapter made it abundantly clear that since the Repeal of the Corn Laws the electors of this country, whenever consulted, have invariably given a decisive verdict for free trade. It is only by an extraordinary accident that in the present House of Commons the Conservative Whips can muster in the Lobbies large majorities for the imposition of protective duties. Even so they do not call these duties "protective," for the Prime Minister has given a pledge that he will not introduce a protective tariff. He is therefore compelled to state when challenged that he is only "safeguarding" industries and not "protecting" them. If he is in fact introducing a protective tariff, then he is breaking a pledge and discrediting the representative institutions of his own country, which after all are founded on the assumption that ministers abide by their spoken and written word, and that the pledges of parties and candidates made before and during the General Election are not dishonoured in the new Parliament, or in the policy of the party which by that election has been installed in office.

No doubt, since Mr. Chamberlain's Tariff Reform agitation, Conservative opinions on fiscal policy have been regarded with suspicion, and in some parts of the

country, particularly in Lancashire, Conservative candidates have found it necessary to explain that they are free traders. Yet Mr. Baldwin is almost the first Conservative Prime Minister in the last 150 years who may go down to history as a prophet of protection. The first of the great Conservative Premiers, William Pitt, was also the first of Adam Smith's disciples, and the first British statesman to apply the principles of the *Wealth of Nations* to fiscal policy and commercial treaties. Addington, his successor, made no mark either as a statesman or a financier; but he wrote an ode in honour of Adam Smith and free trade—admirable in sentiment though execrable as poetry. Lord Liverpool, Tory Prime Minister for nearly fifteen years, from 1812 to 1827, was a convinced free trader and encouraged Huskisson to liberalise the tariff. Sir Robert Peel, as we have seen, though he started by accepting the protectionist system, was so thoroughly convinced by experience and argument that he ended by destroying it. Disraeli, having made his mark and delighted the Tory squires by opposing the Répeal of the Corn Laws in a series of brilliant speeches, soon afterwards abandoned the cause and never attempted to revive Protection, describing it as "dead and damned." The Marquis of Salisbury adhered to a free trade policy, though he occasionally deviated from the strict faith when addressing deputations of fair traders or protectionist farmers. Mr. Balfour, who followed, fenced with Tariff Reform; but his speeches and writings gave more encouragement to Conservative free traders than to the Tariff Reform wing of his party. Finally Mr. Bonar Law, for many years an ardent Tariff Reformer, dropped protection when he became Prime

Minister and pledged himself, with the general approbation of his party, not to disturb the fiscal system.

As for the Liberal party, it has always gloried in the achievements of its great statesmen and orators—Cobden, Bright and Gladstone, who brought about the overthrow of protection and completed the free trade edifice. When Mr. Chamberlain introduced his tariff reform proposals, the whole Liberal party united against him, thereby gaining the confidence of the country and a lease of power which lasted from 1905 to 1914. Largely in consequence of the weakness shown by its leaders during and after the war in compromising their free trade principles the party lost its predominance and dwindled in strength, until it was revived and reunited by the old battle-cry at the General Election of 1923. Mr. Asquith has recently said that it is the only party which can be trusted to maintain free trade. If that should prove to be true, we might safely predict its return to power at no distant date.

But it must be admitted that in 1925 and 1926 Mr. Lloyd George, as Chairman of the party in the Commons, displayed little zeal in resisting protectionist and preferential legislation; whereas Labour, which now (1927) constitutes the main body of the opposition, has voted pretty solidly for free trade. Moreover it has Mr. Snowden's Budget of 1924 to its credit. Whether any system of socialism is ultimately compatible with the policy of free imports and the open door may be doubted. Mr. Wheatley, Mr. Hayden Guest and several other Labour Members display protectionist leanings. But if the next Election is again fought on the free trade issue, it looks as if the Liberal and Labour candidates will again compete for the free trade vote. Nor can

there in that case be much doubt that the verdict of 1923 will be repeated.

It is possible of course that Mr. Baldwin and the Conservative managers may withdraw from the new fiscal policy, which in conjunction with subsidies and an increasing expenditure on armaments is already exciting grave apprehensions not only among important business men like Lord Inchcape, but also among some of their ablest supporters. Speaking in the House of Commons (December 9th, 1925) Lord Hugh Cecil deplored the lack of any grasp of economic principle in the case put forward by the President of the Board of Trade for the safeguarding duties. He said—and his words made a deep impression :—

“ I earnestly hope that the Government will be on their guard against, for the third time, ruining the Conservative party. Even if I were not sure that the policy was economically unsound and entirely unsuited to the industrial and financial conditions of our country, I should, as a mere politician, earnestly deprecate starting once more the dreary fiscal controversy which has never brought to the Conservative party anything but disaster. It was dreadful two years ago to see my right hon. Friend the Prime Minister and his then colleagues stumbling about like men who had lost their way on a heath, going from one bog into another and falling into the old controversial snares and traps into which, twenty years before, much more distinguished people had fallen. The moment you start anything of that kind you find that there are great masses of the people of this country who do not say much as long as they think nothing serious is intended, but who are violently opposed to anything like a general Protectionist policy. They are the preponderating body of those engaged in distribution, in sheltered trades, in trades like the cotton trade, which depends on export, and the body of people concerned with directing financial matters. They are all against Protectionist theories and a Protectionist policy.

“ The truth is that our industrial and financial machinery has been developed in the tradition of free imports, and, whatever may be said, in the abstract, of the theory of protected production becoming more prolific than production which is exposed to

competition—which is the only argument worth considering on that side—it cannot apply in our country, because the general structure is so identified with free imports that to go back upon that policy would at once arouse opposition in all sorts of quarters and would be fatal to the party which proposed it. Let us remember that the Conservative party never succeeds in attaining office except by the help of a certain number of left-centre votes. It is the great canon of Conservative tactics and strategy that they should lay themselves out to obtain the support of those who, if they called themselves by any name, would call themselves moderate Liberals. . . .

“I earnestly hope, therefore, that this is the last Safeguarding of Industries Bill which we shall see. If you go on along this path, I am sure you will get into a position that is controversially indistinguishable from Protection, not because the Government have the slightest intention of breaking their pledges, but because they do not really quite know what their pledges economically amount to. If you strictly keep yourselves to safeguarding industry from temporary inroads by imports of the continuance of which there is no assured prospect, then, indeed, there is little danger; but this present Bill does appear to be framed on no economic principles in particular, and to make, on the whole, not for abundance, but for restriction.

“I cannot help recommending the President of the Board of Trade, the next time he goes to church and hears a dull sermon, to read from the Prayer against Dearth and Famine. He will find there that the prayer supplicates that scarcity and dearth shall be turned into cheapness and plenty. That is the essence of sound economics. We want always cheapness and plenty, never scarcity and dearth, and it is because I am afraid that this Bill, on the whole, is one which will make more for scarcity than for plenty that I, for my part, cannot vote for it.”

Another effective speech against this Safeguarding Bill was contributed by Sir Alfred Mond, who argued that protective duties always restrict trade and increase the cost of living, and by reducing imports are bound to reduce exports. He thought these new duties especially inopportune just then because, as he said:—

“There is a movement on foot to-day on the Continent of Europe in the direction of Free Trade, more universal, more deep-rooted than it has been for many years. Necessity is forcing the

populations of those countries who have been economically depressed to reconsider economic conditions, and they have more and more come to the conclusion that the abolition of tariff barriers and the free interchange of goods is the only way of restoring economic stability. I heard only to-day that even in Germany industrial magnates, who formerly were certainly advocates of tariffs in favour of their own industries, are turning in a free trade direction. The question of a Customs Union for Europe is beginning to loom on the horizon; yet this is the moment we choose to drop Free Trade. We have kept alive and held aloft the torch of Free Trade economics throughout the world all these years, and the moment when our teaching has at last begun to bear fruit is the moment when we are going to hand over the results of generations of practice to those who have always been opposed to it and who are opponents of it still. It seems to me, looking at it from a wider, larger, world-point of view to be the most foolish proceeding."

In the course of his argument that tariffs on imports hamper the export trade Sir Alfred Mond—whose business connections are world-wide—stated that even the great manufacturers of the United States are coming to realise that if they want to increase their export trade they must decrease their tariffs. Since then Sir Alfred Mond has changed his party. But that does not affect his argument, and since he spoke the greatest of all American manufacturers, Mr. Henry Ford, has declared for Free Trade.

IV

THE NEW PROTECTION

The Pledges of 1924 and the Performances of 1925

WHEN the new Parliament met in December, 1924, the King's Speech announced that reductions of public expenditure and taxation were imperatively necessary in order to enlarge trade and employment. The actual words were:—

“Estimates for the public services will be laid before you in due course. Every effort will be made to reduce public expenditure to the lowest possible limit consistent with the security and efficiency of the State. The present heavy burdens of the taxpayer are a hindrance to the revival of enterprise and employment. Economy in every sphere is imperative if we are to regain our industrial and commercial prosperity.”

Nothing was said about “Protection,” but there was the following announcement:—

“A Bill is under consideration, and will be submitted to you at an early date, for safeguarding employment in efficient industries, where, after inquiry, the need for such exceptional action is established.”

Neither the promise of economy nor the promise of a Bill to safeguard efficient industries was carried out! Instead of reductions in public expenditure, the estimates proved to be nine millions in excess of those submitted in the previous year by the Labour Government—the increase being mainly for armaments—and as the year wore on they were enormously augmented by a huge subsidy to the coal trade and by additional

expenditure on armaments in the shape of a new cruiser programme which is to cost £58,000,000. In Mr. Churchill's second budget the consequences of extravagance appeared in the shape of a large actual and a still larger prospective deficit, which he used to justify his additions to taxation.

On December 17th, 1924, Captain Wedgwood Benn moved a Liberal amendment to the Address, which ran:—

“But humbly regret that, while making no mention of constructive proposals for dealing with unemployment, the Gracious Speech foreshadows the introduction of tariffs and preference which will increase the burden of taxation, raise prices, increase the cost of living, hamper industry, and reduce employment.”

Mr. Baldwin's reply exhibited the confusion of a statesman who had given two pledges—a major pledge to the electors that he would not introduce Protection and a minor pledge to a section of his supporters that he would introduce it—under another name. He said on the same day (December 17th): “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.” In this speech Mr. Baldwin assumed that the Bill which he had promised to introduce had become an Act. By a slip of the tongue he admitted that Protection, for which he had no mandate, would be afforded to certain industries by the Safeguarding Act. But he promised quite definitely that, except through this Safeguarding avenue, no protective duties should be imposed.

Shortly afterwards the Government changed its mind.

A Safeguarding Bill would have to be drawn with legal precision, and the proceedings under it would have to be decently judicial. The industries which ministers wanted to favour would probably not be able to make out a good case. So a new strategy was devised. On February 3rd the Board of Trade issued a Safeguarding White Paper, and invited any industry desiring to be "safeguarded" (by a protective tariff) from foreign competition, to apply to the Board of Trade, which would then of its own discretion either reject the application or pass it on to a Committee. This Committee—appointed by the Board of Trade—would then, after hearing evidence, either recommend or decline to recommend a safeguarding tariff.

This White Paper was the protective wedge which Mr. Baldwin had promised not to introduce, or the back door to Protection which he had promised not to open.* And—as if to make the contrast between promise and procedure even more glaring—he announced that the new safeguarding would differ from the old in that all the protective duties imposed would be "general"—not merely against the country whose competition was pronounced "unfair" but against all imports from all countries.

But a much worse thing was to follow. On April 28th Mr. Churchill, with the ardour of a pervert, brought forward in his budget a whole series of high protective duties—all except the duties on lace (which had been recommended, or half recommended, by a Safeguarding Committee), being in flat violation of Mr. Baldwin's avenue pledge.

* This backdoor metaphor suggests the old riddle: "When is a door not a door?" and the answer, "When it's ajar."

Here is the complete list of protective and preferential duties imposed by the Churchill Budget :—

(1) 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. For Imperial imports there is a reduction of one-sixth of these duties.

(2) On artificial silk. On artificial silk waste, 1s. per lb. ; single yarn, 2s. per lb. ; other yarn, 3s. per lb. ; tissues, 3s. 6d. per lb. Preference of one-sixth on the duty on Empire produce.

(3) On manufactured goods containing silk and artificial silk. If the silk contents are more than 20 per cent. of total value of goods, 33½ per cent. ; if between 5 and 20 per cent. of value, 10 per cent. ; if up to 5 per cent. of the value, 2 per cent. Preference of one-sixth on Empire produce.

(4) On imported hops a duty (which Mr. Churchill described as "nakedly protective") of £4 per cwt. on foreign hops, with a preferential reduction of one-third on Empire hops.

Then followed duties of 33½ per cent. *ad valorem* with a preference of one-third for Empire products, on :—

(5) Clocks, watches and component parts thereof.

(6) Motor-cars and cycles, including accessories and component parts other than tyres (except for use in trade or husbandry).

(6) Musical instruments, including gramophones, pianolas, and similar instruments, and accessories and component parts thereof, including records and other means of reproducing music.

(7) Cinematograph films :—

Blank : the foot of 1½ inches wide	...	½d.
Positives :	do.	... 1d.
Negatives :	do.	... 5d.

(8) Finally came a group of "safeguarding" duties of 33½ per cent. *ad valorem* (imposed for five years with a preference of one-third for Empire products) on lace and embroidery which are thus defined : "lace of 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."

Excluding the disastrous consequences of war and war legislation, we may say with confidence that during the last fifty years nothing so mischievous and menacing

to British commerce, so partial and unjust in their incidence or so subversive of established principles and traditions, has been presented to Parliament by a Chancellor of the Exchequer as this chaotic, haphazard jumble of protective duties. Even if we agreed with the Tory Socialist that depressed trades ought to be assisted by the State at the expense of consumers and taxpayers, there was nothing to be said (even on "Safeguarding" principles) for subsidising in this way the two most flourishing manufactures in the country—artificial silk and motor-cars.

In the United States they have a Tariff Commission, which was designed to check corruption and partiality. Its chairman in 1921 was Professor T. W. Page, a well-known economist. In an important book based on his observation and experience* he refers to the means at the disposal of Big Business for obtaining high duties. Among these means are "liberal campaign contributions, expensive and misleading propaganda, costly and expert lobbying, astute distortion of evidence." Obviously a rich and profitable manufacturer can subscribe more to the fund of the party in power—which now dispenses protection as well as titles—than a distressed industry. Mr. Philip Snowden had experience of what certain motor-car manufacturers could do in the way of deception when he repealed the McKenna duties. Mr. Morris, for instance—for whom Mr. Baldwin made a special appeal†—declared that the repeal of the protective

* *Making the Tariff in the United States*, by Thomas Walker Page; McGraw-Hill Book Co., New York, and 6, Bouverie Street, E.C.2, price 12s. 6d. Some useful extracts have been published by the Cobden Club (Broadway Court, Westminster), price 2d.

† See *Hansard*, May 13th, 1924.

duties on motor-cars would throw a million men out of work and adversely affect four million more. He also claimed to employ 40,000, whereas the true figure (according to the British Motor Manufacturers Association) should have been 4,949. The total for the whole industry and the allied trades was about 200,000.

A manufacturer out for protection in any part of the world is apt to be quite shameless. No wonder that Protection is always accompanied by political corruption as it is usually followed by industrial inefficiency.

In the case of the $33\frac{1}{2}$ per cent. duty on motor-cars imposed in 1915, repealed in 1924 and reimposed in 1925, Mr. Snowden gave the following facts and figures:—

“The exports of British cars were less now than they were before the existence of the McKenna duties. The number of cars exported [from Great Britain] in 1913 was 8,829, and the number in 1923 was 3,041. Nor had the Duties stopped imports. In 1913 the number of cars imported was 14,728; and the number in 1923 was 30,025.”

The import duty of course was paid by the British buyer of foreign cars, and, whenever he bought a British car, he had to pay an invisible tax of similar amount, not to the Government, but to the manufacturer. The consumer and the unprotected producer always suffer from protective duties. The industry protected may or may not gain. What usually happens is that the protected manufacturer makes more profit on a smaller output, so that the workpeople, even in the favoured industries, are apt to suffer. Mr. Snowden's repeal of the motor car duties was followed by a boom in the trade; and in the winter after the reimposition of the duties business fell off.

We must now conclude the story of Protection for the year 1925. The Safeguarding scheme had got to work in the spring, and eventually by hook or by crook three more protective duties (in addition to the eight imposed in the Budget) were placed on the Statute Book, each for five years, under the Safeguarding of Industries (Customs Duty) Act, 1925. Here are the details :—

(1) On cutlery, comprising knives with one or more blades made wholly or partly of steel or iron, other than surgical knives or knives for use in machines (57 classes); scissors, including tailor's shears and secateurs, made wholly or partly of steel or iron (37 classes); safety razors and 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.

The cutlery duties are $33\frac{1}{3}$ per cent. *ad valorem* with a preference of one-third on Empire cutlery. These duties have every possible vice. A knife is as essential as the meat which it cuts. Scissors are as essential as clothing.

Last come the duties on gloves and gas mantles :—

(2) On gloves, made in whole or in part of leather or of fur, and leather or fur cut out ready for sewing into gloves, but not including gloves known as astrakhan gloves or gloves in which leather is used only as trimming or binding; gloves cut out of 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 ready for sewing. The glove tax is also a $33\frac{1}{3}$ per cent. duty with a Preference of one-third on Empire gloves. It may be compared with the tax on silk and artificial silk stockings.

(3) Gas mantles, for incandescent lighting, whether collodionised or not, 6s. *od.* the gross; impregnated hose or stockings for use in the manufacture of such mantles, 4s. 6*d.* the lb.

This last is a tax on light—surely one of the essentials. It should logically be followed by taxes on candles, oil

lamps and electric light and by the reimposition of the old window tax.

The duties on cutlery, gloves and gas mantles were embodied (along with a duty on wrapping paper) in a Bill which the Government presented to Parliament towards the end of the autumn session.^c The Bill was hotly contested and the Government, hard pressed for time, dropped the duties on wrapping paper. With this omission the Bill passed into law. A few months later Mr. Churchill included the wrapping paper duties in his budget.

One more fact must be added. In April, 1926, Sir Philip Cunliffe-Lister, President of the Board of Trade, had to confess to the House of Commons—that a restrictive five years' agreement (to the obvious detriment of consumers) had been made between British and German manufacturers of gas mantles. Under the terms of that agreement the German concerns promise not to sell their mantles in the United Kingdom or in certain other parts of the British Empire while British manufacturers agree not to compete on the Continent or the United States. Thus Protection ends in Prohibition, and British consumers are left at the mercy of an inefficient gas mantle monopoly. In 1920—such was their superiority—16 millions of German mantles were imported into Great Britain. The gas mantle duty yields not a revenue but a monopoly.

V

SAFEGUARDING PROCEDURE AND PRACTICE

REFERENCE has been made to the first fiscal debate in the House of Commons when the new Parliament met. It took place on December 17th, 1924, on Captain Wedgwood Benn's free trade amendment to the address. Mr. Baldwin, in his reply, gave a sketch of what the Government intended to do, starting with some remarks on the Safeguarding of Industries Act, which he had himself conducted through the House of Commons three summers before as a Minister in the Lloyd George Coalition Government. He referred to Mr. Lloyd George as "the father, or shall I say the grandfather, of that Act, who kindly asked me to take charge of the Bill in this House."* So it cannot

* See *Hansard*, May 9th, 1921, when, as President of the Board of Trade, Mr. Baldwin introduced the Safeguarding Bill, "which I found fatherless upon the steps of the Board of Trade when I had the honour of first entering that building." He said that the list of key industries had been "cut down to the narrowest limits"—only some 6,000!—though "it might appear at first glance as though we were merely presenting the catalogue of a marine store dealer." Yet he claimed that the Articles scheduled constituted "the scientific foundation of British industry." One member remarked that the only real key industries were agriculture and coal, and that neither was scheduled! Among the articles scheduled as necessary to the safety of the country by the pundits of the Board of Trade were included toy magic lanterns, soothing syrup, glass berries for millinery, toy magnets for the fishpond game, and hosiery latch needles.

be pleaded by way of excuse for Mr. Baldwin that he knew nothing about the subject on this occasion, when he told the House of Commons that the Government were going to introduce "next summer" a new Safeguarding Act, under which industries suffering from exceptional competition might "try their luck." He then went on to say :—

"With regard to the Safeguarding itself, I take exception to what the Hon. and gallant member for Leith has said about our having no mandate for the Safeguarding of industry. We have no mandate for Protection, and we have never asked for it. I have said already, and I do not think I need repeat it, that I have no intention of using Safeguarding as a wedge by which to introduce Protection; but for Safeguarding we have a perfectly clear mandate."

It might have been supposed by any simple citizen, uninitiated in the misuse and abuse of political and economic terms by statesmen who trade in ambiguity, that the Prime Minister after this explicit denial of any such intention could not possibly be contemplating a Safeguarding Bill for the sole purpose of imposing protective Customs Duties. For if a protective duty is not protection, what is it?

But a few sentences later Mr. Baldwin proceeded to lay down certain "principles," which showed clearly that protective duties were intended—and not merely (as in the anti-dumping part of the Lloyd George Act) against the "unfair" competition of a particular country, but against the "fair" competition of all countries. He said :—

"Any industry which might desire to be Safeguarded under the Safeguarding of Industries Act must be one of substantial importance, and it must be efficient. It must be subject to exceptional competition arising from such things as depreciated ex-

changes, bounties, or subsidies, and lower wages in foreign countries or longer hours.”

Yet before the Session was over Mr. Baldwin's Government had given from the pockets of British taxpayers a bounty to British sugar-growers and a subsidy to British collieries, which last has certainly hit continental collieries pretty hard; though the strike which followed hit our coal trade much harder. It is surprising that a serious statesman should base his policy on the absurd notion that low wages and long hours necessarily mean cheap production and severe competition. The cotton mills of India, where wages are very low and hours very long, cannot compete at all with the Lancashire mills in either the British or neutral markets. The most severe competition in motor-cars, typewriters, and many classes of machinery comes from the United States, where wages are the highest in the world. The most severe competition in paper comes from Norway and Sweden, where wages and conditions of labour are as good as in England, or very nearly so. Moreover, as every foreign manufacturer can attest from experience, and as every economist knows, the most formidable competitor in neutral markets for most classes of manufactured goods is Great Britain itself, which, according to Mr. Baldwin, suffers from the fact that wages and conditions of labour are better than in other countries! The truth of course is that, as a country becomes more successful and efficient in manufactures, it exports more, its wages tend to rise and its hours of labour to diminish. But to return to Mr. Baldwin's outline of Safeguarding policy:—

“ Any duty in my view levied under the Safeguarding of Industries Act should be a general and not a particular one. The

discriminating duty against a particular country has its drawbacks in working. If you put on a general duty there is no breach of the most favoured nation clause in Treaties, and you do away at once with the cumbrous vexatious machinery of certificates of origin."

Here is another pretty cluster of errors and confusion. One of the advantages of a free trade system is the most-favoured-nation-clause. If, after a tariff war between two protectionist countries, a treaty of reciprocity is concluded, all the concessions and reductions of tariff rates which they give to one another have to be given as a matter of course to a free trade country. Yet Mr. Baldwin evidently thought, or wished the House of Commons to think, that so long as a protectionist country has a general tariff, no matter how high, it benefits from the most-favoured nation clause, just as if it were a free trade country. But this is not the end of the muddle. For, after taking credit for avoiding discrimination in the famous Safeguarding Bill, which was never to see the light, Mr. Baldwin went on to announce in the very next sentence that he intended to introduce discrimination into every Safeguarding duty:—

"It would certainly be our intention in any duty we imposed under the Safeguarding of Industries Act that a Preference on those duties should be given to the Dominions."

In other words every Safeguarding duty would be marked by the objectionable feature which was to be avoided by making the duty general*; for of course if you have a higher duty for Germany than for Australia you have a discriminating duty, just as if you had a higher duty for France than for Holland. The British Customs officials find it quite as difficult to decide whether an

* The real reason for making the duty general was to make it *protective* all round—so a false reason had to be given.

article originates from Canada or from the United States as to decide whether an article originates from France or Germany. Yet just as Mr. Baldwin finds an all-important distinction *for political purposes* between a Safeguarding duty of 33 per cent. and a protective duty of 33 per cent., so he distinguishes between two kinds of discrimination. One, which is bad, between foreign countries, he calls discrimination; the other, which is good, between a British colony and a foreign country, he calls Imperial Preference. The reasons which he gives for rejecting discrimination are equally valid against Imperial Preference.

Every reader of fiscal literature knows that ambiguities and inconsistencies are essential ingredients in the speeches and writings of Protectionists; they have in Mr. Baldwin an ideal leader. But there is nothing ambiguous about the pledge (previously quoted) which he gave to the House of Commons on this occasion, that the only avenue to Protection in this Parliament would be through the Safeguarding Act. That pledge as we have seen, was broken before the summer, in Mr. Churchill's Budget.

It was also found expedient to drop the promised procedure by Bill, and the New Protection was entrusted to the discretion of a Protectionist Minister.

A White Paper (Cmd. 2327) on Procedure and Inquiries, issued in February, 1925, stated in a first clause the conditions with which applicants for a Safeguarding Tariff are supposed to comply before the President of the Board of Trade will appoint a Committee to inquire and report. Applicants for a duty must show:—

- (1) That the industry is of "substantial importance."

(2) That it has suffered from "exceptional" competition resulting in serious unemployment.

(3) That there has been "unfair competition" owing to currency depreciation, subsidies, or inferior labour conditions in competing countries.

(4) That the British industry is reasonably efficient.

(5) That a Safeguarding duty would not be injurious to other British industries using the product.

If these conditions, needful to establish a *prima facie* case for Safeguarding, had been embodied in an Act of Parliament and strictly applied by a competent and impartial judge or arbitrator, it is doubtful whether a single committee would have been appointed. Certainly the applications of the cutlery, wrapping paper, gas mantles, brooms and brushes, and superphosphate industries would have failed on the fifth condition. But the arbitrator was a politician—a protectionist President of the Board of Trade; out of thirty-four applications in the first year he only rejected thirteen.

The only rule regarding appointments to Safeguarding Committees is that a member of a Committee must not be a person "whose interests may be materially affected" by the action of the Committee. As for the procedure of a Safeguarding Committee the rules amount to nothing. A Committee is allowed to determine its own procedure. Its sittings are to be in public, unless it decides to hear evidence in secret! It is instructed to report to the Board of Trade,

(1) whether the Industry is of substantial importance by reason of the volume or nature of the goods produced,

(2) whether the importation of competing foreign goods is "abnormal,"

(3) whether the imported goods are being offered for sale here

at prices below those at which similar goods can be profitably manufactured in Britain,*

(4) whether such competition is seriously affecting employment in the home industry,

(5) whether such "exceptional competition" is rendered unfair by currency depreciation in a competing country; by subsidies, bounties, or other artificial advantages; or by inferior conditions of labour, such as lower wages or longer hours anywhere abroad,

(6) whether the applicant industry is being carried on "with reasonable efficiency and economy,"

(7) "whether the imposition of a duty on goods of the class or description in question would exert a seriously adverse effect on any other industry, being an industry using goods of that class or description in production."

(8) "whether, having regard to the above conditions, the applicant industry has in the opinion of the Committee established a claim to a duty; and if so, what rate or rates of duty, in the opinion of the Committee, would be reasonably sufficient to countervail the unfair competition."

How completely the balance of political power in the Conservative Party has been changed since the old Corn Law days, when the landlords and farmers were predominant, is shown by one hard and fast proviso in the first clause of the White Paper: "Applications will not be entertained in respect of articles of food and drink." It is true that the hop grower has been protected by a thumping duty in the first Churchill budget, and that the farmer is being bribed by a huge subsidy to grow sugar beet instead of turnips at the expense of the general taxpayer; but under the Safeguarding Inquiries no branch of agriculture, no food producer, need apply! And the worst of it is that every Safeguarding Duty on an article which a farmer or an

* This alone may serve to prove that the professed object as well as the obvious consequence of a Safeguarding duty is to raise prices in the home market.

agricultural labourer buys will inevitably raise his cost of living.

The farmers, however, had the satisfaction of seeing a Committee which inquired into superphosphates reject the application of that industry for a protective duty. But their gas mantles and knives will cost them more, to say nothing of their clocks and watches, their Ford cars and many articles of clothing, in consequence of the new Protection imposed since 1924. The Board of Trade also passed applications from the glass makers and the coffin-makers; but, fortunately for the living and the dead, both these industries were turned down by the Committee on the curious ground that neither is of substantial importance! For a full and lively description of the Safeguarding Committees' procedure, or lack of procedure, I would recommend an admirable pamphlet by my friend Mr. E. G. Brunker, the able Secretary of the Free Trade Union.* I cannot refrain from borrowing his account of what a casual visitor to one of these Committees may see or hear for himself:—

“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 lounge 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,

*“The Safeguarding of Industries: A Criticism,” by E. G. Brunker. Published by the National Association of Merchants and Manufacturers, 14, Mincing Lane, London, E.C.3. For further information on the whole subject see *The Free Trader*, published monthly by the Free Trade Union, 69, Victoria Street, London, S.W.1. The number for January, 1926, was devoted to “The Safeguarding Fraud.”

or some other such organisation. But he need not be so modest. He has a perfect right to remain, if he wants to. He has 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 Board of Trade officials; at the side tables 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 interest 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 this inquiry 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.”

The only people unrepresented at these inquiries are the shopkeepers and the shoppers, i.e. the whole body of the people.

The Committees have no fixed time or habitat. They seem to sit when and where they please and to delight in irregularity. An importing merchant, who has attended many of these sittings, describes it as a game of hide and seek. If you want to know when and where

any particular Safeguarding Committee will meet again you have to wait to the end for an announcement from the Chairman.

But it is time to ask what has been the upshot of these Safeguarding Committees. On February 6th, 1926, Sir P. Cunliffe-Lister (formerly Sir P. Lloyd-Greame), as President of the Board of Trade, informed the House of Commons that up to the end of January, out of thirty-four applications received, thirteen had been rejected for failing to disclose a *prima facie* case. Nine Committees had been appointed to consider eleven applications. Reports on nine applications had been received and published; one application had been withdrawn. The remaining nine were "still under consideration or in abeyance." In reply to a further question he explained "in abeyance" to mean that "the application is waiting, or has been temporarily withdrawn, pending the obtaining of further information." He declined an invitation to define what the Board of Trade meant by "a substantial industry."

Let us now turn to some of the reports that have been published. The first point to observe is that the members of the Committees are almost all unknown persons who have shown during these hearings that they are unfamiliar with the subject, with the science of economics, and even with the ordinary rules of procedure and evidence. It is the opinion of traders and experts, who have listened to the proceedings and heard the evidence given by applicants for the Safeguarding Duties, that if the shorthand report of the evidence given for and against the application (with the remarks of counsel and the questions put by members of the Committees) had been published, the reports

recommending a Customs Tariff would have been covered with ridicule and would not have passed muster even in the present protectionist House of Commons. Foreseeing no doubt how damaging an impartial and scientific inquiry would be to the object in view, a deputation of protectionist manufacturers, including makers of rubber tyres, surgical instruments, pins, hooks and eyes, weighing machines, glass bottles, etc., etc., waited upon the President of the Board of Trade on March 9th, 1925, to ask that the Committees should be composed of persons "who would take a sympathetic view of an applicant's case," and that "importers and merchants should not be allowed to appear before Committees of Inquiry, as the aim of the scheme is to safeguard employment." As if importers and merchants and shippers and ship-owners and shopkeepers were not employers of labour, and as if by ruining or injuring their business vast numbers of persons would not be thrown out of employment!

The first of the Committees to report in favour of a Safeguarding Duty was the lace committee. But they found that the importation of laces retained for home consumption had fallen by more than half since the war. Consequently there was no abnormal competition; so they recommended a duty on other grounds, which went outside the White Paper. Apparently the Government were anxious to show what it could do to get rid of unemployment in Nottingham. Accordingly, as we have seen, duties of 33.3 per cent. *ad valorem* were imposed in Mr. Churchill's Budget on foreign lace and embroideries. The consequences proved to be even worse than a scientific economist unaware of the nature of the lace trade might have predicted. For free traders admit

that high protective duties applied to a small number of trades, in which the imports under free competition are larger than the exports, may at the expense of the consumer be not only profitable to the home manufacturers, but may even in some cases increase the number of those employed. But, as it happened, the hands employed by the lace manufacturers of Nottingham actually diminished after the imposition of the duties, and a large *entrepôt* trade in re-exports of imported lace and embroidery was almost destroyed.

It will be convenient here to take the figures of the silk trade and the lace trade together, as both trades received the blessings of Protection in Mr. Churchill's budget. I take the months of September, 1924 and 1925. On the first date there was free competition. The ratios of unemployed to employed in the silk and lace trades in 1924 were 5.5 and 17.7 per cent. respectively. In September, 1925, the corresponding figures were 8.1 and 20.2. In other words, out of a hundred men and women employed under free competition, twenty-three were unemployed, and after protection had been applied, the number of unemployed per hundred rose to twenty-eight.

Our valuable re-export trade results from the fact that Great Britain under free trade has been a great open port, warehouse and market, in which foreign and colonial buyers have been able to get any articles they wanted from any part of the world. The effect upon this trade of a protective tariff on lace, may be judged from the following statistics for cotton lace and net:—

	Dec., 1924	Dec., 1925
Imports ...	£186,424	£35,752
Re-exports ...	£156,362	£3,851

	Dec., 1924	Dec., 1925
Retained imports ...	£30,062	£31,901
British exports ...	£213,984	£152,863

These figures are far more eloquent than words; and all the monthly official statistics for lace imports and exports from August to December, 1925, told a precisely similar tale. Every addition to these Safeguarding and protective duties will encroach more and more upon our re-export trade until it is at last destroyed. The commercial glory of London and the great ports will gradually vanish away; England will no longer be the world famous centre to which traders from all parts of the world resort, to purchase whatever goods they require in a free market.

In this connection it should not be forgotten that under the first part of the Safeguarding of Industries Act, carried by the Lloyd George Coalition Government in 1921, over 6,000 (!) distinct articles were still in 1926 subject to a 33.3 per cent. duty, granted on the preposterous pretence that they are all key industries, essential to success in war. They include thousands of chemical products, which may be very injurious to the stomach but will be equally so whether imported from abroad or manufactured at home. I am indebted to Mr. J. D. Kiley, who took an active part in opposition to this miserable measure in the House of Commons, for much valuable information about its iniquities and absurdities.

During the Parliamentary session of 1926 the Government not only carried a Bill to prevent this Act from lapsing, in spite of the mischief which it had certainly done to British consumers, but raised some of the duties to 50 per cent. The vexatious and costly delays of the

Customs, and the pilferings which constantly occur, have made many of these small safeguarding "key" industry duties (which provide altogether a paltry revenue of about £450,000 a year) practically prohibitive. On small consignments it is estimated that a 33.3 per cent. duty adds at least 50 per cent. to the cost of the article before the importing merchant can sell it to a British shopkeeper.

THE CASE OF GAS MANTLES

Besides lace, the Government before the end of the 1925 Session received reports recommending duties on gas mantles, gloves, cutlery and wrapping paper. The history of the protection of gas mantles is a curious one. Even in the autumn of 1923, when essential foods were excluded from Mr. Baldwin's project of a general protective tariff, we should have been surprised to hear of a tax on gas mantles, or candles, or illuminating oil, or oil-lamps, or electric light. For under the conditions of modern civilisation artificial light is obviously an essential of life and industry. To the poor seamstress or the small dressmaker, who may have to work hours in the winter during her working day by artificial light, it is surely of some importance that the light available should be as good and as cheap as possible. The tax on foreign gas mantles is a tax on quality, or cheapness, or both; it is bound either to raise the price or reduce the quality of the gas mantles used in Great Britain. But the British manufacturers of gas mantles seemed to have had from the first some sort of special influence on legislators. In 1921, when the first Safeguarding of Industries Bill was being concocted, the gas mantle men were well represented in the House of Commons,

and vigorous efforts were made by various members to get the products of this small but pushful industry included in the six thousand so-called Key Industries. When they failed to get gas mantles into the Act, they tried to get them added to the Schedule; their application was laid before a referee, who refused protection to gas mantles, but decided that the cerium and the thorium which is contained in them should be safeguarded by an import duty of 33.3 per cent. Having thus failed to procure a tax on light under Part I of the Safeguarding of Industries Act, the gas mantlers, nothing daunted, applied for protection under Part II, which offered protection to industries suffering from "unfair competition" in countries enjoying depreciated currency, low wages or other "advantages"! This time, as *The Free Trader* caustically remarked,* "persistence, if not reason, was rewarded" by an Order imposing an import duty on German mantles, the pretext being unfair competition caused by the depreciation of the mark. As a matter of fact throughout the period of the depreciating mark, German exports generally were much lower, and German competition much less severe in British and neutral markets than in the period before the war. This safeguarding duty on German gas mantles expired in October, 1924. On April 30th, 1925, Mr. Baldwin having returned to power, the taxation of light re-entered politics, under the old plea that gas mantles are a key industry essential to success in war. On that day a Safeguarding Committee was appointed to entertain an application for a duty on gas

* See *The Free Trader* for January, 1926, Vol. 6, No. 57, page 20. This excellent monthly (price 4d.) is issued by the Free Trade Union, 69, Victoria Street, London, S.W.1.

mantles. The President of the Board of Trade went out of his way to issue the following statement :—

“The use of gas mantles during the war enabled the stripping of gas of various constituents essential to the manufacture of explosives. The gas thus stripped would be practically useless for lighting purposes without the use of incandescent mantles.”

This statement was naturally taken by the Committee as an instruction—like that which had been given to the Lacey Committee—overriding the rules by which it was bound ; and the Committee tamely submitted. Its report shows that this petty gas mantle industry had only employed on an average for the past three years 1,624 hands. It was therefore not of substantial importance, and its application ought to have been refused on that ground by the President of the Board of Trade. But the Committee found that the industry was of national importance, as being “practically the sole commercial outlet for thorium and cerium,” which would be required to make arc carbons for our search-lights in the next war. As we have seen, thorium and cerium were already protected by a duty ; and if the supply is inadequate for war purposes, it is obviously the business of the War Departments to secure it, instead of charging the users of gas mantles, and taking their pennies or halfpennies for the purpose.

Finally the Gas Mantle Committee recommended that, if the Government could not maintain the production of thorium and cerium in any other way, an import duty of six shillings per gross should be imposed on foreign gas mantles. It may be noted here that the present output of cerium and thorium is valued at £35,000 a year ; the present consumption of gas mantles is about 400,000 gross per year ; and the new import

duty (which was imposed in the autumn of 1925) works out at one halfpenny on every gas mantle, so that British users have to pay about £100,000 a year to maintain a war industry whose total output is only valued at £35,000! The Committee, it should be added, did not think that German conditions amounted to "unfair competition."

THE CASE OF GLOVES

The report on British glove industries shows that 10,000 people are employed in making leather gloves, and 1,800 in making fabric gloves. In 1913, before the war, 74 per cent. of our leather gloves were imported, and in 1924 the proportion had fallen to 67½ per cent. On the whole therefore foreign competition was less severe; but the Committee had the hardihood to declare that, as imports from Italy had increased and were being retained for consumption in abnormal quantities, therefore imports of leather gloves are "abnormal"! Then, as regards fabric gloves, the imports retained for home consumption had fallen from 2¼ million dozen pairs in 1913 to 841,000 dozen pairs in 1924. The Committee got over this by the simple statement: "It would in our view be unjust to assume that rigid regard must be had for the situation in 1913."

After this humbug, we are not surprised to learn that, though the evidence of unfair competition was "very conflicting," the Committee "after careful consideration" was "strongly of opinion that competition may be deemed unfair." The British fabric glove industry was found to be efficient and economical, but then German industry was also very efficient; so a tariff would be useful. Accordingly a 33.3 per cent.

duty was recommended, and has been imposed on all sorts of gloves; but not on glove fabrics, though a tariff had been laid in the budget on silk glove fabrics as well as on silk gloves. A severe commentary on the utility (or futility) of glove protection in a protectionist country was supplied by *The Free Trader* :—

“President Coolidge has just refused an urgent request of the American fabric glove makers for an increase in the existing 75 per cent. import duty. He points out that in 1919 the home production of these gloves was $1\frac{1}{2}$ million pairs, and in 1924 it was 68,000 pairs. As they have a 75 per cent. protection in America, a $33\frac{1}{3}$ per cent. protection here is not likely to do more than raise the price of all gloves at least 50 per cent.”

It is possible, of course—though sensible people will find but cold comfort in the reflection—that the manufacturers’ profits on a reduced output of gloves may be much larger than before, at everybody’s expense.

THE CASE OF CUTLERY

The report of the Cutlery Committee, recommending duties on foreign cutlery, has been described as “a cameo of biased irrelevancy.” Its inconsistencies and absurdities were riddled by criticism in the House of Commons, when the Safeguarding Bill was introduced at the end of the 1925 session. Every single recommendation of the Committee, said Mr. Philip Snowden, is a *non sequitur*. To begin with, the Committee could not find out what was the quantity of cutlery imports in 1913; but it appeared that retained imports had fallen from $2\frac{1}{2}$ million dozens in 1921 to $1\frac{3}{4}$ million dozens in 1924. However, they found that imports were “abnormal,” because the applicants declared (though they were unable to prove it) that retained imports had risen from 6 per cent. of the home output in 1913 to

20 per cent. in 1924. As a matter of fact there is not very much competition with Sheffield cutlery in the home market. Sheffield does not produce the cheap low-grade cutlery (including boys' knives that won't cut) which is imported. But the Committee held that, as the low-class cutlery *looks* like the high-class cutlery, it must be treated as a competing equivalent. This finding was the exact opposite of the common-sense decision made by the Committee on brooms and brushes, which held that inferior brooms and brushes, though similar in appearance and much cheaper, do not compete with the superior, more durable and dearer British products. One class of customer buys one sort and another the other. The difference is perfectly understood by merchants, shopkeepers and buyers. If you want a poor cheap knife, or brush, you buy one; if you want a good and expensive one, you buy that. The folly of proclaiming "stinking fish" is obvious. Why need our Sheffield cutlers go about pretending that inferior foreign cutlery competes with their first-class cutlery, which has a world-wide celebrity? But having greedily swallowed the fallacy that low quality goods compete with high quality goods, and that therefore you will increase the demand for high quality by a tax on low quality, the Cutlery Committee (though unable to obtain suitable figures about unemployment) concluded that "the acuteness of present unemployment is directly due to the competition which we have found to exist." This part of the report is sheer rubbish. Official figures laid before the Committee indicated that about 980 (some 8 per cent.) of the cutlery workers were unemployed at the time; and of these 700 were makers of ordinary razor blades, who had

been thrown out of work by safety razors. A feeble paragraph about the unfair competition of Germany led the Committee into some futile observations on relative efficiency, from which an extract may here be inserted:—

“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.”

So far, even on protective and safeguarding principles, no case appeared for an import duty. Sheffield cutlery is supreme and has no competition to fear so long as it maintains its quality. But there is also a tremendous and overwhelming positive argument against taxing cutlery and knives; for the object of an import duty (as Mr. Balfour pointed out during the old Tariff Reform controversy) is to raise prices in the home market; if this object is not attained, the duty is useless. A knife is just as essential to the table of the humblest folk in the realm as the bread, meat, bacon, cheese or butter which it is used to cut; and if you raise the price of a knife by one-third or one-half, you are practically doing just what Mr. Baldwin said he would not do when he promised not to tax “essential foods.” The exception made in the cutlery duty, that it is not to apply to “surgical knives, and knives for use in machines,” shows that the Cutlery Committee, and the Government which endorsed its recommendations, be-

lieve that the duties imposed will raise the price of knives and cutlery. And in fact very many kinds of knives used in agriculture, gardening and other industries have been subjected to a duty of 33.3 per cent. *ad valorem* for five years.

BROOMS AND BRUSHES

The report of the Committee appointed to inquire into the application of the British Brush Manufacturers' Association was unfavourable, as well it might be ; since the case for "safeguarding" Britons against cheap brooms and brushes was quite as weak as the case for safeguarding us against cutlery. The broom and brush report is quite a refreshing document to turn to after reading the cutlery report. On examining the trade statistics the Committee reports that imports are not abnormal ; it explains that few of the brushes imported are of the superior grade manufactured by British makers ; it finds that foreign competition was not exceptional, that the home industry was reasonably efficient, that a protective Customs duty would raise prices, that in the case of tooth-brushes, of which imports from Japan have grown enormously, "a raising of the price would result in diminished use among the poorest classes of the population," and that even a 75 per cent. duty would not bridge the gap between a Japanese and a British tooth-brush.

ALUMINIUM HOLLOW-WARE

The British Aluminium Hollow-ware Manufacturers' Association, which had procured protection in 1921 against "unfair" competition under Mr. Lloyd George's Safeguarding of Industries Act, Part 2, presented so

poor a case for being safeguarded in 1925 that the application was rejected by a Committee. Compared with home production, imports of aluminium hollow-ware have been decreasing in recent years, and 80 per cent. of the home market is in the hands of British manufacturers, who are fairly able to meet competition except in some cheap grades.

Consequently, thanks to a welcome exertion of common sense by a few obscure individuals sitting on tariff committees, British housewives may for the present continue to boil, bake and fry in untaxed aluminium pots and pans; they may sweep or dust their houses and brush their clothes, and even their teeth, without paying a special duty to the Government or a concealed tax to swell the profits of a few British manufacturers. After two years of Mr. Baldwin's Government a woman's stockings and gloves and all her little fineries—if they contain any silk or any artificial silk—are costing her more than they would have done under free trade. So does her gas-light and her cutlery. She will also have found, if she happens to be a shopkeeper, or a shopkeeper's wife, that a very serious burden has been imposed on the profits of her business in the shape of duties on wrapping paper and packing paper—duties which must adversely affect almost all the retail trades of the country, and directly or indirectly an enormous number of British manufacturers.

WRAPPING AND PACKING PAPER

I examined the report of the Committee appointed to consider the application of the British manufacturers of white and brown paper for wrapping and packing purposes with much curiosity; for I have paid some

attention to the paper trade, and I knew that British protectionists were getting on to dangerous ground. The big newspaper owners and publishers may be ready enough to support the extension of indirect taxation in other directions, but there would be a terrible outcry from "public opinion" if printing paper were subjected to a duty for the benefit of British paper manufacturers. Yet on safeguarding principles, as outlined by the President of the Board of Trade, the home manufacturer of paper for books, magazines, or newspapers could probably make out a far better case for a protective duty on the score of employment than the Sheffield cutlers or the glove makers or the lace makers or the silk manufacturers. If a nice heavy duty were imposed on foreign-made paper and especially on news print, there is no doubt that a lot of new hands would have to be employed in the British paper-making industry; though doubtless many more now occupied in printing and publishing would lose their jobs through the high price of their raw materials.

The report of the Committee appointed by the Board of Trade to deal with an application from the wrapping and packing paper manufacturers is an interesting document, but it will convince any impartial reader that the application ought to have been rejected, if only because a safeguarding duty on these raw materials of other far more important industries is bound to entail more unemployment than the new employment which it can create. The report, which consists of thirty pages, is published by His Majesty's Stationery Office at the price of 6*d.* The application for a duty came from the Union of Wrapping Paper Makers, who only claimed to represent about half the industry. They were opposed

by a group of merchants, importers and industrial users of paper, by the envelope makers and manufacturing stationers, by the Manufacturing Confectioners' Alliance, and also by the British Paper Bag Federation, unless the duty could be so arranged as to protect paper bags as well as the material of which paper bags are made.

The brown paper and other thick paper, for which protection was sought, is made partly out of imported wood pulp and partly out of old paper, sacking and other waste. The "Kraft" paper, glazed and unglazed, is almost entirely imported, and always has been. The applicants only claimed an output of 8,000 tons, whereas the annual imports are about 70,000 tons. The total net imports of these classes of paper amount now to over 200,000 tons. The conjectural home output is thought to have been under 200,000 tons in 1923 and 1924. The duty of $17\frac{1}{2}$ per cent. (which was recommended) might therefore be expected to raise the cost of this important raw material by at least that amount; and it is doubtful whether any such duty will ever enable British manufacturers of Kraft paper to command the British market. As the evidence against the duty has been suppressed, and only little snippets of it admitted to the Report, my readers must judge for themselves by their own unaided common sense what will be the consequences for shopkeepers and their customers if all the paper used for wrapping is to cost nearly one-fifth more than the proper competitive price. Let them consider, too, what injury must be inflicted on industries of which this paper is a raw material. For example, there is the Union of Manufacturing Confectioners, who employ 84,000 workers, pay over 10 millions a year in

wages, and have a large but decreasing export business. We are told that their "whole case was put very fully before us." But the Committee, instead of stating the case, expressed their own "doubt if the cost of wrapping paper represents more than 1 per cent. of the aggregate turnover," adding that they have formed the opinion that "even in the case of the export trade the adverse effect of the duty would not be serious, while in the case of the home market it might well be regarded as negligible."

Some of the bag makers were squared by inclusion in the duty. The Committee admits that the envelope makers, who use 10,000 tons of imported wrapping paper, and export about 2,500 tons of envelopes, would be injured by a duty. They also agree that the export business of various minor industries "would be gravely prejudiced by a duty." For some incomprehensible reason they do not think that manufacturers who use these classes of paper would suffer much in the home market. But the chairman of the Committee was an ex-Indian civil servant; and possibly he has not had much experience of the home market or of the effect on British manufacturers of an artificial increase in the cost of their raw material. After a good deal of humming and hawing, and after "accepting much of the opponents' criticism," the Committee ended by recommending a duty of $17\frac{1}{2}$ per cent. *ad valorem*, subject to various exceptions, and extensions to manufactured articles. They say rather quaintly:—

"We have not felt justified in rejecting a case for a duty otherwise established on the somewhat speculative hypothesis that a duty would not do any substantial good. A duty if imposed, should perhaps be regarded as in some degree experimental, and its effects should be watched. But we have decided that it ought

on the whole, under the scheme laid down for our guidance, to be tried."

For lack of time (as we have seen, p. 38) the Government dropped these paper duties out of their Tax Bill at the end of the 1925 session. But they were revived and passed in Mr. Churchill's second budget.

* * *

It became known in the autumn of 1925 that some leading men in the iron and steel trade were pressing the Government to save the industry from its depression by clapping Safeguarding duties on pig iron and all classes of manufactured iron and steel. As Mr. Baldwin had said that he had no mandate for Protection and would not impose a protective tariff, and would not make Safeguarding a wedge for Protection, or a back door to Protection, we can imagine that he was a little staggered by this proposal. But there was a more effective barrier than his already broken pledges in a vigorous opposition from many important manufacturing interests (largely in Birmingham and the Midlands) which use iron and steel as raw materials. They wanted a free foreign competition, as otherwise they saw they would be mercilessly fleeced by monopolist combinations of pig iron and steel producers. Moreover, Sir Hugh Bell, the ablest and most experienced captain of the iron and steel industry, was dead against the proposal, and in a powerful address at Manchester declared quite frankly that if the British iron trade cannot exist without the assistance of the British taxpayers, either in the form of a protective duty or a subsidy, "the sooner it ceases to exist the better."*

* See Address by Sir Hugh Bell at Manchester, November 6th, 1925, republished by the Free Trade Union at 69, Victoria Street, London, S.W.1, price 2d.

Before the end of the session Mr. Baldwin announced that the Government had decided not to safeguard iron and steel, on the ground that such a proceeding might be thought to constitute an infraction of his fiscal pledges. The attempt made by a section of the Bradford trade to procure protection for worsteds and woollens was also rejected, and Safeguarding at the beginning of 1927 seemed to have lost favour with the Protectionists. Their hopes were again fixed on another budget deficit which may afford another pretext for extending the protective tariff.

Meanwhile, the new Irish Free State (with a population of less than three millions) has separated itself by a tariff wall from Northern Ireland, and has raised the cost of living by protective duties of from 15 to 33 per cent. on imported boots, wearing apparel, blankets, furniture, bedsteads, soap, candles, glass bottles and jars. Early in 1927 the Irish Government appointed a Tariff Commission, which is to examine and report on applications "for the imposition of new protective duties, and for the modification, abolition, or renewal of such duties." This is a welcome improvement on Mr. Baldwin's "Safeguarding" scheme in two respects. First those who suffer from a Protective Duty may apply for its repeal; and secondly the Tariff Commissioners, in considering applications for a Protective Customs Duty, are required to report on the effect it would have on consumers and on the public revenue.

FROM SAFEGUARDING TO SUBSIDIES

ANY truthful account of the first two years of Mr. Baldwin's second Administration will supply melancholy support to those who decry democracy and despise representative government; for in the course of a few months the Premier and his colleagues had by their own deliberate choice abandoned the two policies with which they set out, and falsified the two assurances given to Parliament in December, 1924. The General Election had been won by painting in lurid colours the extravagances and horrors of Red Sovietism, and by contrasting with these the moderation and prudence of a Conservative policy, which would reduce taxation by economy and leave our fiscal system undisturbed. These two policies, pledges, or assurances, were founded on sound political morality and good sense. They made it clear that, having no mandate for Protection, the Government would not introduce Protection. At the same time they conveyed to business men, harassed by rates and taxes, the gratifying information that economy would be applied to all branches of public expenditure in order that the burdens on industry might be reduced and prosperity restored to British trade. From the very start of the Session of 1925 it became painfully obvious that Mr. Baldwin was trying to wriggle out of his declaration that he had no mandate

for Protection and would not introduce it. He fell back on the stale device of granting Protective Duties under another name. But the old Safeguarding Act, which he sought to revive, would not serve his purpose, because the duties thereby imposed were not generally protective. The manufacturers who wanted to increase their profits by excluding competition from the home market, were quite as eager to exclude the competition of highly paid workmen in the United States as that of lower paid workmen in Germany, France, Belgium or Italy. And they did not care a snap whether the competition came from a country with a gold currency like Sweden, or from a country with a depreciated paper currency like Italy. So the Safeguarding policy of the old Safeguarding Act, which Mr. Baldwin as President of the Board of Trade in Mr. Lloyd George's Administration had introduced four years before, was abandoned, and a new Safeguarding policy, identical with and indistinguishable from Protection, was substituted for it under the fostering care of the President of the Board of Trade, Sir Philip Cunliffe-Lister, an ardent Tariff Reformer. The change was avowed with cynical candour to the House of Commons by Mr. Churchill on June 25th, 1925. "The original Safeguarding of Industries policy," he remarked, "proposed the Safeguarding of Industries by duties imposed from time to time against exceptional competition of particular countries. They were duties aimed only at particular countries. There has been a change in that respect, as was fully admitted to the House. . . . We therefore abandoned that principle of Safeguarding against particular countries by discriminatory duties, although the anti-dumping provisions embodied in the Safeguarding

of Industries Act still remained in full effect. Instead, we proposed to give effect to the Safeguarding policy by duties of a general character—general duties.”

Four days later Mr. Baldwin explained to the House another policy which under the old Mercantilist and Protectionist policy—the policy exposed and discredited in Adam Smith’s “Wealth of Nations,” and eventually removed from our fiscal system by Sir Robert Peel and Mr. Gladstone—had been linked with a Protective and prohibitive tariff. This is the policy of bounties or subsidies. When a great manufacturing and commercial country like Great Britain, a small island thickly populated, incapable of supplying itself with food and raw materials, and therefore dependent on overseas trade, finds itself enmeshed in a network of trade restrictions and regulations, its weaker and inefficient industries may profit in a small way by high protective duties, but the great staple exporting industries, such as coal, shipbuilding, steel, textiles, cannot thrive by exploiting the home market. Protection raises the cost of production and makes it more and more difficult for them to compete successfully with their foreign rivals in neutral markets. Their overseas trade dwindles, their output declines, and unemployment increases. With all his protectionist leanings Mr. Baldwin must surely have learnt by now that protective duties can only make the situation worse for these great staple trades. When Protection was suggested for pig-iron, the steel makers, the galvanised sheet-makers, and dozens of big subsidiary trades rose in arms. The Lancashire cotton trade remained solid against Protection. The mere thought of Protection as a remedy for the depression in coal mining and shipbuilding was farcical. So four days after Mr. Churchill’s

speech, Mr. Baldwin, troubled by the prevalence of unemployment,* told the House of Commons that the time had come to look for another remedy. "I think it would be useful," he said, "if the House itself in the course of this debate, would examine and consider, as the Government are proposing to do, whether by any form of subsidy it may be possible to give, as I said, that stimulus and lift in the region of those industries which seem at the moment beaten down into a position of hopelessness. The various forms in which subsidies may be given—and I can think of no others—are either by bounties on production, or on export, or subsidies of specific contracts or orders mainly for export, or subsidies in specially distressed districts in aid of rates, to take that burden off those who manufacture in that district, or a subsidy to help to bring down goods rates on the railways." A pretty comprehensive programme here of possible expenditures out of public money derived from increased taxation! But Mr. Baldwin was at the moment in earnest; for he wound up: "We are seriously going to explore the possibilities along these various methods of subsidy." This was on June 29th in the House of Commons. But three days later, speaking in Devonshire, he seemed to have changed his mind; for he told the farmers that they must rely upon themselves: "The heroic remedy of Protection is out of the field. Agriculture must depend, as all industries of this country must depend, upon itself." I for one cannot reconcile the two speeches. I cannot reconcile Safeguarding Duties for small depressed

* He had to admit that there were 1,250,000 on the unemployed register—an increase of about 228,000 on the corresponding figures of June, 1924. In January, 1927, several weeks after the end of the coal strike, the figure was nearly 1½ millions.

industries and the advocacy of subsidies for the big depressed industries with this speech to the farmers of Devon telling them "that Agriculture to exist in this country in common with other industries, must exist on an economic basis."*

But apart from the inconsistency and confusion of Mr. Baldwin's economics, what are we to say about the policy of subsidies as an outcome of, or a sequel to, the "Imperative Economy" Pledge, in the King's Speech of December, 1924, which based the revival of prosperity on strict economy in every sphere of Government, with a view to substantial reductions of rates and taxes? And what are we to say when we contrast the specific assurances of large annual reductions made in the early part of 1925 by his Chancellor of the Exchequer with those extravagances in actual performance which have raised the level of public expenditure far above that of the Labour Government?

There is no more alarming symptom in modern politics than the tendency of party leaders to bid against one another in the distribution of public favours, and of Ministers to use public funds for the distribution of bounties and favours to sectional interests. In these policies we sometimes see the unscrupulous demagogue seeking to catch votes, or to obtain contributions to a party fund. Sometimes this sort of philanthropy comes from those feelings of pity or charity which draw pennies from our pocket when we encounter the sturdy beggar or the persistent organ-grinder. Unfortunately, while private charity comes in pennies from the private pocket, the public charity of our openhanded, free and easy

* For these two speeches see *Hansard*, June 29th, 1925, and *The Times*, July 2nd, 1925.

ministers flows in millions of pounds sterling from the public purse, and is reflected in heavy additions to taxation, in a rise of prices, and in a depreciation of the public credit. During the debate on the 1926 Budget, Mr. Hilton Young entered a timely protest against "the tendency to treat public money as if it came from nowhere." As he well said:—

"It does not come from nowhere; it does not fall like a shower of gold in the lap of the Chancellor of the Exchequer. Public money is earned by somebody. It belongs to the man or woman who earned it in the first place, and you are only entitled to ask them to part with it if it is absolutely essential that they should do so for some vital interest of the nation. . . . It is the just due of each man to have that which he earns, unless it is essential for the purposes of the State. We are here in this House as the guardians of the taxpayers. As their guardians we should do justice; but we are sometimes perhaps led aside from this principle into forgetfulness as to the origin of the money we spend."

In this connection Mr. Hilton Young referred to a recent White Paper on Pensions, showing that the percentage of pensions for State employees had increased by 128 per cent. since 1914, and that the percentage in the case of teachers and police had increased by no less than 181 per cent, although prices had only risen by 70 per cent. And yet, as compared with 1914, the National Debt has been multiplied about eleven times, the standard rate of income-tax has been trebled, and the taxes on consumable articles are much heavier and much more numerous. It might have been supposed that after a war which had enormously diminished private wealth and capital, and had enormously increased unemployment, public servants would have been called upon to share in the national misfortunes, instead of obtaining larger and larger contributions from the public purse.

When Mr. Baldwin affirmed in the King's Speech

of 1924 that public economy in every sphere was imperative in order to diminish taxes and to restore prosperity to British industries, he was on the right track. Excessive taxation has diminished the purchasing power of the people and so reduced the home market. Less is bought from the shops in consequence; the shopkeepers buy less from the merchants; and the merchants give smaller orders to the manufacturers. At the same time less new capital is saved for business enterprise, and there is less demand for labour. But unhappily for the country, Mr. Baldwin and his colleagues forgot what they had said, and proceeded in their very first session to distribute tariff favours to a number of distressed or pushful industries in the shape of protective duties at the expense of the consumer, thus raising the prices of many luxuries and necessaries, such as pianos, watches, cutlery, silk clothing, lace, spectacles, and gas. On learning later that unemployment, dosed with the Safeguarding medicine, had increased instead of diminishing, and that the great staple trades of the country were depressed, Mr. Baldwin, in the summer of 1925, turned from Safeguarding to bounties and subsidies, and announced (as we have seen) to the House of Commons, June 29th, 1925: "We are seriously going to explore the possibilities along these various methods of subsidy." As if subsidies would come from nowhere! Mr. Hilton Young might have told him that they come from the public pocket; they mean high taxation; and so they diminish enterprise; they discourage business, they hamper and handicap all unsubsidised manufacturers and farmers in competition with their foreign and colonial rivals.

Subsidy, in the sense of a contribution from the taxes

to some favoured industry, which claims that it cannot otherwise exist and yet especially deserves support for some reason or other, is comparatively modern. The old subsidies were grants, or aids, from Parliament to the King. But some fifty years ago subsidy began to be used as a synonym for subventions, or grants from the Exchequer (i.e. from the pocket of the general taxpayer) to industries or private companies. At first, as in the case of shipping subsidies, these grants were justified, or excused, by some service which the subsidised liner might render as carrier of mails or as a swift unarmoured cruiser in time of war. But when Mr. Baldwin told the House of Commons on June 29th, 1925, that he and his colleagues were "seriously going to explore the possibilities along these various methods of subsidies," he was not thinking of exacting any service in return for State charity; he was merely wondering whether it would not be a good idea to subsidise with direct aid from the taxes industries which he could not safeguard by protective customs duties. One unfairness would thus balance another. Yet it should be clear that subsidies to particular industries are as unjust to the industries that don't receive them and to the general taxpayer from whom they are extracted as safeguarding duties. Of course the particular persons who draw the money, whether they are depressed, like the lace makers of Nottingham, and the beet sugar establishment at Cantley, or prosperous as were the manufacturers of motor cars and artificial silk, are entranced by the prospect of profiting at the public expense. But the system, besides being unjust, is manifestly absurd as a cure for unemployment. If you take money from one hundred income-tax payers in order to

subsidise someone who happens to be a shareholder in a coal mine or a sugar factory, you enrich the few at the expense of the many, and what one trade gains the others lose. If by excluding foreign competition with a protective duty of 33 per cent., you raise the price of cheap watches or gloves or hosiery in every shop throughout Great Britain, you may increase enormously the profits of particular companies or firms which make these articles; you enable them to exploit the home market. But everybody who has to pay more for watches, gloves and stockings, can spend less on boots, shirts, spoons, pots, pans, and other unprotected articles, so that all other manufacturers suffer because a few are "safeguarded"; and if particular manufacturers are able not only to increase their profits, but to employ more labour, the necessary and inevitable sequence is that general profits and general employment diminish. As every taxpayer is a consumer, a subsidy taken from his pocket has much the same effect as a protective duty in diminishing his purchasing power.

Curiously enough, the first step in the subsidy policy was taken as soon as the Government got into office. At the very time when Mr. Baldwin was preparing the "imperative economy" paragraph of the King's Speech and promising retrenchment "in every sphere," he announced a new and quite uncalled for piece of extravagance, which is already costing the country dear. On November 28th, 1924, a Conservative paper printed an official announcement that the new Conservative Government had decided to carry out a project of the Labour Government, which it had just ousted from office on the score of its extravagant socialism. This project was to be "the grant of a subsidy for a period

of ten years on a diminishing scale to sugar manufactured in this country from home-grown beet, coupled with a minimum price to the growers in the initial years." A measure had been prepared and would be presented to Parliament and passed into law as soon as possible :—

"The proposed subsidy, which will apply to sugar manufactured during the current season, will be at the rate of 19s. 6d. per cwt. for the four years 1924-5 to 1927-8 inclusive; at the rate of 13s. per cwt. for the three following years; and at the rate of 6s. 6d. per cwt. for the three final years. The subsidy has been fixed at a rate which will enable the sugar factories to pay excise duty at the preferential rate, which at present is 9s. 8½d. per cwt.; and the industry would not be adversely affected in future by any reduction in the customs duty on imported sugar, since the excise duty would be proportionately reduced at the same time.

"It will be a condition of payment of the subsidy that the sugar manufacturers should pay during the first four years a minimum price of 44 shillings per ton of beet of 15½ per cent. sugar content, with an addition or deduction of 3d. per ton in respect of each one-tenth per cent. of sugar contents above or below 15½ per cent.

"The Government proposes also that in the case of any new sugar factories it shall be a condition of the payment of the subsidy that not less than 75 per cent. of the value of the machinery and plant shall be of British manufacture."

This subsidy became law. Its effect is to induce farmers to grow at the public expense an unprofitable crop of beet sugar instead of growing at their own expense a profitable crop of turnips.

If anything more foolish and mischievous could have been devised than this, it was the coal subsidy granted in July, 1925. After nine months it lapsed. Its professed object was to allow of a breathing space during which the coalowners and colliers could settle their differences or have them settled by the Government. The differences were not settled. The coal strike—supported by the general strike—followed. The subsidy was sheer waste of public money, and is only valuable as a warning to governments in the future.

Mr. Baldwin has thus shown us by concrete examples that governmental favouritism to private persons and special interests at the expense of the community may take the form either of protective duties given to manufacturers for the Home Market or subsidies given to manufacturers for the Home Market or for both the Home and the Foreign Market. The effect of the first is to raise prices at home at the expense of the home consumer; the effect of the second is to lower prices at home and abroad at the expense of the home taxpayer, as in the case of the coal subsidy, or merely to hand over public money to a favoured interest as in the case of the sugar subsidy.

In old times, as the late Professor William Smart pointed out,* when a British monarch wanted to befriend a favourite he often gave him a monopoly of some article imported from abroad. The favourite made what he could by charging what he liked, and the inhabitants of this kingdom paid their monarch's subsidy to the favourite in high prices instead of paying it directly in taxes. In this way a worthless character was quartered on English homes. In modern States, where a protective policy has been adopted, the favourites are usually manufacturers, agricultural landlords, mine-owners, or shipowners, who can afford to subscribe to the funds of the ruling party in return for public aid. In a number of cases aid may be afforded indirectly by means of a tariff on foreign competitors. But such a tariff is not merely useless but positively injurious to shipowners, who flourish by carrying exports and

* In his admirable book on "The Return to Protection," published in 1904 "during the universal discussion which accompanied and followed Mr. Chamberlain's propagandism of Preferential Tariffs and Mr. Balfour's advocacy of Retaliation."

imports overseas, or to efficient manufacturers, miners and agriculturists who not only compete successfully with foreign competition in the home market, but export largely abroad. What they want is a free market at home and open ports, which ensure them a cheaper cost of living and production than that of their foreign competitors in protected countries, and thus give them a differential advantage as carriers or in neutral markets.

The position of the British coal industry resembles that of a Lancashire cotton manufacturer, or an American wheat grower, or an Australian wool grower. In ordinary times practically no foreign coal is imported, but an enormous quantity of coal is exported. It follows that every new protective or safeguarding duty granted to other industries is injurious to those who cannot be protected, because their prosperity depends upon the profitable export of their surplus. So the question comes: If Protection is to be given under the Safeguarding Scheme to a producer distressed by Free Trade, what is to be done for a producer distressed by Protection? Since the war by far the greater part of unemployment and short time among British workers has been in industries like ship-building, shipping, cotton, and coal-mining, which are bound to lose by every extension of a protective tariff. If it is the duty of the State to enrich, at the expense of the community, manufacturers of motor vehicles, clocks, gloves, cutlery, lace, or musical instruments, it must equally be the duty of the State to help those who live on shipping and ship-building, and coal-mining, and the spinning or weaving of cotton. But the Government cannot achieve this by "taxing the foreigner." Its only course is to go straight to the people and take from their pockets a huge

sum, which in bad times might run to countless millions in a year, and might be called the Industrial Subsidy, to be given to the distressed shipping and export industries in the shape of subsidies. This is the policy of Mr. J. Wheatley, Minister of Health in Mr. Ramsay Macdonald's Administration. Instead of drawing back he has been urging Mr. Baldwin to go forward along the broad path that leads to public bankruptcy. In an address to the Independent Labour Party at its Summer School in August, 1926, he took for his subject, "Socialism in our Time," and his modest proposals aimed at the immediate abolition of poverty. That, he said, could not be done by profit-sharing or by emigration, or even by nationalism. The way to do it was by an alliance between Socialists and Protectionists. Here is the substance of what he said, taken from reports in the *Manchester Guardian* and *Daily Herald* :—

"We have got to get rid of the old liberal ideas of Free Trade and of trade generally. This is a new world which we are living in, and we must not go back to the day of Cobden, Bright and Gladstone for our economics of trade."

Whatever may be said about Mr. Snowden, no one will accuse Mr. Wheatley of Gladstonian economics! And yet to a crude and uninstructed audience there must have been a certain plausibility and logical consistency in his argument, which ran on :—

"The subsidising of industries is socialistic. A policy that socialists can support is the subsidisation of housing, elementary education, and many other services. Why then boggle at a subsidy for the mining, or any other industry which is in economic difficulties because of foreign competition? It would be better to subsidise our foreign trade than to maintain an army of unemployed at home. The sooner Socialists get rid of Free Trade shibboleths the better it will be for the Movement."

It may be "better for the Movement"; but this combination of Protection and subsidies, if carried to a complete and logical conclusion, inevitably spells ruin to the People and bankruptcy to the Government of Great Britain. Let us look at Mr. Wheatley's policy in the cool light of statistics. In the first place, a protective tariff is to be laid on all imports which compete with British industries in order to increase employment in the home markets. Secondly, the principle of the coal subsidy is to be applied to all British exports in order to get rid of unemployment in the export trades. The import duties are to restrict imports while the subsidies enlarge exports! To appreciate the financial consequences let us take the year 1924, when British exports were valued at 800 millions sterling, to which coal contributed 72 millions, less than one-tenth. I assume that the coal subsidy in a full year would have cost about 30 millions. On this basis the cost of subsidising our export trades, in accordance with Mr. Wheatley's scheme, would be at least 300 millions a year, without counting the subsidies (which he would also support) to sturdy little infant industries like sugar beet, which have not reached, and are never likely to reach an exporting stage. Those who pretend that there is no room for a Party which looks after taxpayers and consumers, and no service it can perform to the public, will perhaps revise their opinion when they contemplate this proposed alliance between a Socialistic Labour Party and a Protectionist Tory Party on the basis of an all round scheme of Safeguarding and Subsidies.

The Sugar Beet Subsidy was introduced by the Government almost immediately after it took office, at the urgent and repeated request of a small group of

persons who had been investing money in an unprofitable venture at Cantley in Norfolk and one or two other places where they had erected Sugar Beet Factories. By this subsidy, as we have seen, British farmers are being bribed by British taxpayers to abandon turnips and other profitable crops in order to grow beet sugar for the factories, which however get the lion's share of the subsidy. The subsidy was estimated by the Chancellor of the Exchequer to cost $2\frac{3}{4}$ millions in 1926; and it may cost between three and four millions in 1927.

In 1925 54,750 acres were devoted to the cultivation of beet. The crop averaged eight tons. per acre, and as eight tons of beet are required to produce one ton of white sugar, the amount of sugar produced would be approximately the same as the acreage—namely 54,750 tons. The State assistance is paid to the factories and works out at a little more than £26 10s. per ton of white sugar, or a total for the 1925 crop of £1,450,000. What proportion of this amount reaches the farmer's pocket in the shape of financial benefit?

According to "Research Monograph No. 3, Sugar Beet," published by the Ministry of Agriculture, the farmer receives 54s. per ton of beet, and his gross profit is computed at 10s. 4d. On that scale the total amount of the farmer's share of this huge subsidy does not exceed £227,000. On the other hand, the proprietors of the beet sugar factories, by means of the subsidy, secure a gross profit of £16 to £18 per ton of sugar produced, a total of between £800,000 and £1,000,000. The magnitude of the financial assistance which the Government is affording to the beet sugar industry is sufficient to enable the factories to pay at least £4 per ton for beet and still obtain ample rewards for their

enterprise.* So far as I can understand we—the consumers and taxpayers—are paying in consequence of this absurdity twice as much for sugar grown in England as for sugar grown abroad. It is, let us hope, a final object lesson in the folly of subsidising Infant Industries.

Mr. Wheatley is not the only prominent member of the Labour Party who hankers after such a policy. Nor is he without encouragement from the other side. There has been more than one suggestion in Tariff Reform newspapers that Conservative Protectionists and Protectionist Socialists ought to combine (as they did in the case of the Sugar Subsidy) on a general policy of subventions to industry, which would take the form appropriate to each case of a protective duty or a grant in aid. Thus the whole of British industry and commerce would depend on the favour of the Government, and would come under the control of Government officials in the Board of Trade and other departments. This system, so far as I can see, is the logical sequel to the Safeguarding and Subsidising policy initiated by Mr. Baldwin and his colleagues since they took office. But we may hope that they have repented. The coal subsidy, after costing the British taxpayer about 23 millions sterling, was dropped. It was condemned by the Royal Commission on Coal on the general ground that it is indefensible to tax the community for the benefit of a particular industry. And this condemnation was endorsed by the Prime Minister himself in a letter (July 17th, 1926) to the Bishop of Lichfield. An application for a subsidy from the boiler-makers was also refused by the Government. But if a subsidy from the taxes is wrong for coal and boilers, it

* See letter to *The Times* by Mr. Bryce Kenyon, April 19th, 1926.

must be equally wrong for sugar. And Mr. Baldwin ought to be able to see that his withdrawal of the coal subsidy should in fairness to the community be followed by a withdrawal of the Safeguarding and McKenna duties, since their object is to tax the general consumer and all other industries for the benefit of favoured interests selected by ministers, or by their subordinate officials.

During the committee stage of the 1926 Finance Bill Mr. Churchill showed that the value of Protection depends upon selective favouritism. "It is obvious," he said, "if a few industries are selected out of all the industries of this country, and for various reasons are given this advantage, that they get the advantage of a protected tariff on their own production and do not get any of the disadvantages or conditions which would arise if Protection was extended to every other conceivable article."

In short, Protection for all is Protection for none, and Protection for some is an injustice to all.

The result so far of the Baldwin Government's Financial Policy is that the expenditure provided for in the Budget has risen from 790 millions in the Budget of 1924 to 826 millions in the Budget of 1926, in spite of automatic savings in war pensions, and the service of the debt, and in spite of the efforts of the Committees appointed to effect economies in other services.

But the actual expenditure has been much greater. In the financial year ending March 31st, 1926, Mr. Churchill spent 26 millions more than his estimates, and his first Budget showed a deficit of 14 millions. The estimated expenditure for his second Budget (April 26th, 1926), was 30 millions above the actual expenditure of Mr. Snowden's, two years earlier.

VII

FACTS, FIGURES AND FALLACIES

WE have seen how the "fair traders" and tariff reformers have always seized on periods of trade depression (usually following on war) to decry free trade—as if freedom of action in trade or anything else could preserve men from ill fortune or from the consequences of ignorance, waste, incompetence or rash speculations. Prisoners have happy moments, and persons not in prison are often miserable. But we do not recommend free men to go to gaol as a cure for misfortune or melancholia. It is just as absurd to charge a period of trade depression and unemployment to free trade as to charge our moments of unhappiness and misfortune to the fact that we live under free institutions, or that we are not being watched and cared for in one of His Majesty's prisons. This is a good enough reply to those who tell us that to cure a trade depression and to remove unemployment we must put trade in shackles and burden it with taxes, restrictions, regulations and prohibitions. Even a wise policy at home cannot assure us continuous prosperity; for, thanks to six decades of free trade, British commerce is world-wide; we cannot escape suffering from trade depression in other countries.

One such period of depression, beginning after the Boer War, encouraged the tariff reform movement of

Mr. Joseph Chamberlain. He warned us in 1903 and 1904 that British prosperity was on the wane, that our manufacturers were being ruined by foreign competition, and that our exports were declining in proportion to population. At the time it was possible to deal with his history and his arguments. Now we can deal with his prophecies as well, from statistics published by the Board of Trade in the Statistical Abstract for the United Kingdom for the years 1899 to 1913.* Table No. 32 (p. 69) gives "Value of the Total Imports, net Imports, and Exports of merchandise into and from the United Kingdom, with the proportion thereof per head of total population."

In 1899 the value of the total imports was 485 millions sterling, and the proportion per head of the population of the United Kingdom was £11 17s. 11d. In 1903 the corresponding figures were 542 millions and £12 16s. 11d.

In 1913 they had risen to 768 millions and £16 14s.

But these "Total Imports" include re-exports, which only give employment to the despised class of merchants, shippers and ship-owners! So let us turn to "net imports," which means total imports less re-exports.

In 1899 our net imports were valued at 419 millions sterling, representing a proportion of £10 6s. per head. In 1903 the corresponding figures were 473 millions and £11 3s. 11d.

In 1913 they had risen to 659 millions and £14 6s. 5d.

From imports we turn to exports. And here let us remember that tariff reformers, protectionists and "safeguards" are all for increasing exports at the same time that they would diminish imports. The economist

* No. 61 (1914), issued at 1s. 11d.

has to explain to them that trade is barter, and that in the long run imports and exports must rise or fall together, as the one pays for the other. The fact that the value of British imports has long been far greater than the value of British exports need not alarm us; it reveals the magnitude of our invisible exports—our banking and shipping profits and our investments abroad.

The total exports of United Kingdom produce in 1899 were valued at 264 millions sterling, the proportion per head being £6 9s. 9d. The figures for 1903 were 290 millions and £6 17s. 8d. The figures for 1913 had risen to no less than 525 millions and £11 8s. 3d. To these export figures we must add the despised re-exports of foreign and colonial produce, which were valued at 65 millions in 1899, 69 millions in 1903, and 109 millions in 1913.

The above summary shows how marvellously British trade under free conditions expanded in the decade following the Boer War, in spite of the 250 millions of taxpayers' money which had been squandered in South Africa. We now come to the Great War, which has cost us in debt and taxes more than 8,000 million sterling, besides the far more terrible loss of life, and has left us with a debt charge of 305 millions per annum instead of the 24 millions or thereabouts which was required before the war for the service of the National Debt. No wonder that the tax burden is three or four times greater, when the public expenditure has risen from 200 to more than 800 millions sterling. No wonder that when the tax collector takes so much more from our pockets we have less to spend in the shops, with the result that our shopkeepers buy less from our merchants and our merchants less from our manu-

facturers. The home market has therefore suffered, and at the same time our overseas markets are restricted by the impoverishment which the war has inflicted upon so many of our customers and also by the multiplication of foreign tariffs, following upon the provisions of the Peace Treaty of Versailles.

The Board of Trade, though it is far larger and more costly (including the Overseas Department) than it was before the war, is unable to keep the Statistical Abstracts up to date; but luckily we have an official *Survey of Overseas Markets*, issued in 1925 (at 6s. net) by the Committee on Industry and Trade, presided over by Sir Arthur Balfour. This enables us to refute completely and circumstantially the favourite assertion of "safeguarding" protectionists that our free trade policy, which exposes us to foreign competition, and not the war, or excessive taxation, is to blame for the abnormal unemployment that has existed since 1920.

Here are the facts, briefly given in a paragraph of the Introduction to this Report, for which the whole Committee and the officers of the Board of Trade, and of the Department of Overseas Trade, are responsible. As the figures are official and have not been challenged, they may be taken as approximately correct:—

"In 1913 the aggregate sterling value of the exports of the world was £4,035 millions. In 1923 (the last year for which figures for some of the countries can be obtained) the corresponding aggregate was £5,299 millions, an increase of 31 per cent. In the same two years the exports of the United Kingdom were valued at £525 millions and £743 millions respectively, an increase of 41 per cent. In other words, our proportion of the world's export trade (measured in sterling values) rose from 13 per cent. in 1913 to 14 per cent. in 1923."

Of course, the sterling values (i.e. prices) conceal a

serious diminution in the *volume* and real value of the world's trade. The Committee estimates the general rise in world prices—measured in sterling—for 1923 compared with 1913 at about 55 per cent. After allowing for this the Committee calculates that in 1923 the volume of British exports was 79 per cent., and in 1924 about 80 per cent. of its 1913 volume.

Anyone who has been accustomed to take part in economic and fiscal discussions will be familiar with two types of mind—those which are convinced by facts or figures, and those which are convinced by logic and by considerations of common sense. In this chapter I have so far been content to take the tariff reform case and show in the light of statistics how completely free trade has been vindicated by a history of our imports and exports. But before leaving this part of the subject I must advert to another favourite contention of the tariff reformers, that our fiscal policy should be directed not merely to diminishing our imports from, and increasing our exports to, foreign countries, but also to increasing our inter-Imperial trade at the expense of our foreign trade. This theory is part and parcel of the Imperialistic movement in politics, on which Mr. Joseph Chamberlain relied, when he urged his countrymen to make a sacrifice by submitting to food taxes for the sake of consolidating and cementing the Empire. "Your food," he owned, "will cost you more." To this we answer that a free market for Empire produce and a free market in London for colonial and Indian loans are far more likely to increase Empire trade and to attach the Overseas Dominions to the British Crown than any bargaining about a protective-preferential tariff on a few selected commodities such as tea, tobacco, wine and

currants, or even on wheat and meat. All the preferential duties now in operation date from the war; and it is a curious fact that the very same imperialistic governments which have introduced Imperial Preference have also authorised the erection in India of a protective tariff directed mainly against British manufactured goods, and especially against the cotton yarn and cotton cloth of Lancashire. During the last ten years the Indian tariff, which grants no preference, has been quadrupled; and that of Australia, which grants preference, has been raised by 50 per cent. Some foreign tariffs, notably those of France and Sweden, were considerably lower in 1925 than before the war; but the United States has raised its tariff by an average of 50 per cent., though at the same time it has demanded and is collecting from Britain interest and principle on a war debt, which can only be paid in goods or gold. The breaking up of the Russian and Austrian Empires and the erection of high tariffs by new states like Latvia, Hungary, Poland, and Czecho-Slovakia, are certainly responsible for increasing the financial misery, by diminishing the commercial intercourse, of Central Europe. Would it not be better for the peace and economic prosperity of Britain and the British Empire and the whole world if our Government, instead of adopting the gospel of tariffs and discriminations were to preach and practise the blessings of commercial peace and goodwill? Instead of erecting protective and differential tariffs against foreign nations, would not British diplomacy be far better employed in inducing foreign governments to lower their tariffs on British goods? British efforts through the League of Nations to reconstruct Europe in the "spirit" of Locarno will

never be successful if they are associated with the development of hostile tariffs and hostile armaments. If the influence of the League of Nations is not used to promote freer trade, and international commerce, how can it expect to bring about a new era of peace and goodwill?

From this moral and political standpoint preferential Customs duties—involving as they do discrimination against our foreign customers—are the worst form of protection. From an economic standpoint they are equally objectionable, because they reduce the yield of every Customs duty to which preference is applied; and the revenue lost, instead of going (as in the case of a purely protective duty) to swell the profits of a favoured British manufacturer, goes to swell the profits of favoured colonial producers, operating as a bounty on some particular class of colonial exports to Great Britain. The ideal of free trade, between the various countries composing the British Empire is fine and attractive; but it obviously becomes more and more impracticable if Great Britain builds around its shores a tariff wall and encourages India to follow its bad example. In any case the notion that these islands can live and prosper on Imperial trade alone is ludicrous. The volume of British exports to other parts of the British Empire has fallen considerably since the war, though their ratio to total exports (38%) shows a tiny rise of one per cent.

One may add that even if it were possible at the expense of the British taxpayer to divert exports of British yarns and textiles from Holland, Germany and Scandinavia to Australasia, Canada and South Africa, no advantage whatever would accrue to British manufacturers

and British workmen. The volume of employment in this country would remain the same.

A reader who has reflected upon the arguments and trade statistics which induced British statesmen to adopt and maintain a free trade policy, from the year 1846 onwards, down to 1914, when the World War put an end for a time to commercial freedom and intercourse, will have little difficulty in detecting and exploding protectionist fallacies. The idea that you can make everybody prosperous by making everything dear is on the face of it absurd. Equally absurd is the contention that trade is likely to be larger and more profitable if it is driven or coaxed by government from its natural channels. Every business man and every shopkeeper knows by experience during the war how trade can be hampered and harassed by state control and state regulations. The theory that the Civil Service clerks of a Government department (who have had no experience of business) should tell a business man how to conduct his own business, is a proposition altogether contrary to common sense. In truth red tape involves immense waste of time and money. The cost of maintaining these huge Government departments, including an ever-increasing swarm of Customs officials, is in itself a serious aggravation of the national burdens. The money taken from the taxpayer's pocket for the upkeep of unnecessary officials, and for enlarging departments which are already too large, is money deducted from the purchasing power and from the saving power of the community.

THE ADVERSE BALANCE OF TRADE.

In the City, and consequently among city journalists,

it has been customary from time immemorial to speak of an excess of imports over exports as an "adverse" or "unfavourable" balance of trade. The idea behind this expression is utterly false, and the expression is therefore misleading and fallacious. It would be more correct to describe an overplus of imports as a "favourable" balance. For, if your imports are really more valuable than your exports, you are getting the best of the bargain. Everyone in business naturally likes to receive more than he gives. If year after year our own country always gets more than it gives, Englishmen ought not to complain. Secondly, we know by experience and by statistics that a rich nation with a large foreign trade, a great mercantile marine, and capital investments abroad, invariably imports more than it exports. And why? An excess of imports is required in order that other countries may pay the freights charged by British ships for carrying their goods, and the annual interest on British capital which has been lent to them. A hundred years ago, when Great Britain was a poor country, our exports usually exceeded our imports in value. In those days in spite of the teachings of Adam Smith and Ricardo—so we learn from McCulloch—"we were annually congratulated by our finance ministers on the excess of the exports over the imports." Wealth was supposed to consist in gold and silver, and so one of the great objects of a government was to draw as much as possible of the precious metals (in coin or in bullion) into the country by duties on imports and bounties on exports. A favourable balance of trade was therefore supposed to arise when the export of *inferior* commodities such as food and clothing, exceeded the imports, because in that case foreigners would be forced

to send the balance in gold and silver.* This mercantilist fallacy, shattered at last by the logic of David Hume and Adam Smith, dates from the Middle Ages. It was set forth in 1519 by Clement Armstrong in his "Treatise concerning the Staple and the Commodities of the Realm."

To increase the nation's wealth, he argued, we must get "ready money" from other realms in return for our commodities; "so shall people in the realm be made rich therewith." The late Mr. Seddon, of New Zealand, inherited this opinion, and always maintained that Britain, owing to an excess of imports, was losing hundreds of millions of golden sovereigns every year. On this reckoning we must have lost 395 million sovereigns in 1925, and many millions more in 1926!

The reason why city bankers and cambists cling to the old nomenclature and still speak of an unfavourable balance is that gold exports often lead to a high rate of discount, which is unfavourable to trade, while gold imports often lead to a lower money and discount rate. Also a sudden influx of commodities, without a corresponding efflux, may very likely weaken the exchanges and cause gold or silver to flow out, diminishing the currency reserve and forcing up the bank rate. Every student of economics who has compared the classical chapters of Adam Smith, Ricardo and Goschen on international trade and the exchanges, will understand that, while it is wrong to speak of an unfavourable balance of trade, it may be quite correct to speak of an unfavourable state of the exchanges when imports suddenly increase, or exports diminish. But he will not share the alarm of some City writers when the

* The two precious metals were called "noble"; the other metals were called "base."

annual trade returns disclose a large excess of imports over exports.

Most of the current fallacies of protection and State control are made plausible by concealing ultimate effects and indirect consequences. Thus a favourite argument for not reducing public expenditure is that it would involve the dismissal of public servants and so add to the numbers of the unemployed. But at that rate the way to solve the problem of the unemployed would be by enlisting them in the army, navy or some branch of the public service ! The truth is that when a Government reduces an overgrown staff it is enabled to reduce taxes ; and the money thus saved goes to increase employment in profitable and self-supporting industry.

In the same way a protective duty may operate to increase the number of those employed in some particular industry, such as gas mantles ; but the increased cost of the gas mantles falls upon the users of gas mantles all over the country, and as each of them has to pay more for gas mantles, each of them has less to spend on food, clothing, etc. If you increase the price of artificial light by a tax you decrease at the same time the demand for other things. If all trades were equally protected or subsidised, protection would be useless. Everyone would demand free trade. Protection must be unjust, so that it may profit a few at the expense of the many. It is bound up with favours and privileges, and the clamour for it comes from interested parties, who want to be "safeguarded" from competition, not to increase wages or employment but in order that they may enjoy a monopoly of the home market at the expense of their fellow-citizens.

Sometimes British protectionists tell you that they

only want to raise our tariffs in order to punish the foreigners and compel them to lower theirs; but protectionist governments seldom attempt this kind of negotiation, and hardly ever succeed. The safeguarding duties were not imposed for that purpose. They were imposed for five years, without any suggestion or intention that they will be reduced or repealed if foreign countries reduce their tariffs on British goods. A protective duty, whatever its professed purpose, is certain to hurt the home consumer; and it is poor consolation that it also hurts foreign producers. The only sound and sensible method of meeting hostile tariffs is by free imports. This was the conclusion at which Sir Robert Peel and Mr. Gladstone arrived, after a long trial of the retaliation and reciprocity procedure, more than eighty years ago.

Another means which has been suggested for reducing unemployment is that our people should "Buy British Goods" or "Buy Empire Goods." It is obvious that the British unemployed would not benefit at all if £100,000 now spent on French wine or American tobacco were spent upon colonial wine or tobacco. Nor would there be any gain to employment here, if a purchase of colonial wool were substituted for a purchase of River Plate wool. The true policy is for the purchaser to buy what is most suitable for his purpose at the lowest possible price. One kind of wool is suitable for one purpose and another for another. And the British manufacturer would soon come to grief if he neglected the rule "Buy what you want, and buy it in the cheapest market." Trade in fact follows not the flag but the price list. Similar considerations apply to the slogan "Buy British Goods." Certainly

buy them in preference to foreign or colonial goods, if they are better or more suitable for the purpose. If there is nothing to choose, we naturally give a preference to the home or colonial product; for blood is thicker than water. But if the foreign article suits us better, and is equally cheap, or if it suits us equally well, and is cheaper than the home-made article, then we shall certainly be right to buy from the foreigner. Bearing this in mind we can understand how the Merchandise Marks Acts have served to advertise certain classes of foreign goods such as German razors or American typewriters. The Merchandise Marks Act of 1926 is one of the stupidest measures ever forced through Parliament. Its ostensible aim is to make sure that the purchaser of imported goods shall not be misled as to their country of origin; its real object is to interfere with imports. Its critics predict that, apart from providing berths for a number of new officials, it will be inoperative owing to its incomprehensibility.

When this Merchandise Marks Act went up to the House of Lords Viscount Inchcape, the greatest City authority on shipping and commerce, caused a sensation by a speech, from which the following extract deserves to be placed on record:—

“Under Free Trade the country has prospered for the last century beyond all bounds. I am getting on in years, and if the catastrophe of Protection comes it may not come in my time; but I venture to say that in my humble judgment if the Government interfere with the free exchange of commodities between this country and the world, Great Britain will become a mere cypher. Unemployment will increase; taxation, if we are to stand up to our obligations, as I hope we will, will wipe out the country's wealth; and these little islands in the North Sea will sink to a place of no importance in the world. . . . We are not a self-contained country, and we never shall be unless our population diminishes by three-fourths of what it is at present. We live by

what we manufacture and send abroad, and by the ships we build, and these are paid for by international trade. The result of this Bill when it becomes law, so far as I can see, will be to hamper trade. Think of the committees and the machinery which the noble Viscount (Peel) has just told us will have to be brought into force to carry through this Bill. The whole thing, to my mind, is absolutely preposterous. It will involve a huge increase of functionaries, who will fatten on the people until such time as the people will rise and rend them. I am convinced that those who are behind this Bill have nothing but the interests of their country at heart; but I am equally convinced that if their policy succeeds, and leads to the people of these islands purchasing and consuming only the products of this country and of the British Dominions, it will bring disaster to that world-wide trade and those exports which have been our sheet anchor for nearly a century. Do you believe that the people of these islands, or even your lordships, will refuse to buy Danish butter or China tea if they are cheaper than and as good as British butter or Indian tea, or that they will refuse to buy oranges from the Levant if they are cheaper than and just as good as oranges from any of our Dominions? Would your lordships or the people refuse to buy eggs laid on the Continent if they are as fresh as and cheaper than eggs which are laid by our own barndoor fowls? I do not believe it for a moment.

“The noble Viscount, Lord Peel, referred to the advertising of foreign goods. I remember that many years ago in India a Merchandise Marks Act became law, following a British Act. Everything had to be stamped with the country of origin. The consequence was that the goods that were coming into India from Germany were thereafter stamped ‘Made in Germany.’ These articles permeated all the bazaars, they were bought by the million and when the million came to replenish their stocks they had got accustomed to goods stamped ‘Made in Germany,’ and would buy no others. It was the very best advertisement German goods ever had. The proposal of the Government in this Bill may sound all right to those who know little, or it may be nothing, of business or political economy. To them it has an attraction. To me, if I may venture to say so, it has none.”

It is by competition that British manufacturers have won and kept their markets abroad. If once our people became bad buyers, and preferred inferior British goods to superior foreign goods, they would become bad producers and bad sellers. The quality of British butter has been much improved by the competition of Danish

butter, and the quality of British fruit has been much improved by competition with foreign and colonial fruit. It is in part at least to the spur of competition that British goods owe their world-wide reputation.

Illustrations might be multiplied; but the general principle is clear. Competition is the life-blood of trade. Protected manufacturers are certain to become inefficient, for protection fosters the survival of the unfittest. Of all countries in the world, a small island like ours, with an immense foreign commerce and a vast mercantile marine, can least afford such a policy.

Apart from economic results the worst and the most un-English feature of the Merchandise Marks Act and other Protectionist measures of Mr. Baldwin's Ministry is that they confer taxing powers on bureaucratic or nominated bodies. Thus the first Board of Trade Schedule of Key Industries contained 6,400 separate items, each dutiable at $33\frac{1}{3}$ per cent. A supplemental list, issued in January, 1927, added to the list the following new items, dutiable at the same rate:—

Scientific Glassware	16
Laboratory Porcelain	5
Scientific Instruments	11
Synthetic Organic Chemicals	464

Total New Duties	496
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None of these new taxes are subject to the approval of Parliament. The Board of Trade assumes the position of an uncontrolled taxing authority. The list—to quote *The Free Trader*—is simply one compiled by the manufacturers of the goods in question who wanted protection for themselves.

VIII

THE AMERICAN CUSTOMS UNION

A GOOD deal of curiosity, not unmixed with envy and other less Christian emotions, was evinced during 1926 in Britain and on the Continent by newspaper accounts of abounding prosperity in the United States. The man in the street on this side of the Atlantic is quite as ignorant about (say) Connecticut, Nebraska, Texas, Georgia and the other forty-four States of the American Federal Union as is the average American about Portugal, Jugo-Slavia, Hungary, Poland, or the other twenty-two independent States into which Europe has been divided since the Treaty of Versailles. In one sense, indeed, America knows more of Europe than Europe of America. New Englanders and Virginians take a pride in tracing their ancestry to England, Scotland and Wales. Many of the old French families connect themselves with the Huguenots who emigrated to Charleston or New York after the Edict of Nantes. Some of the most envied names in the United States are derived from the Dutchmen who founded the city of New Amsterdam, now better known as New York; and besides these you may find in most of the great American cities Germans, Scandinavians, Poles, Italians, Greeks, and indeed representatives of almost every country on the continent of Europe in large or small numbers. In the city of Detroit alone—so I was told when I visited Mr. Henry Ford's

works in the autumn of 1926—there are some 80,000 Polish workmen. Half the inhabitants of Newhaven are Italians. About one-third of the inhabitants of New York are Jews, most of whom have arrived during the last fifty years from Germany, Poland, Russia and other European countries. But in spite of all this it remains true that public opinion in America knows little of Europe, just as public opinion in Europe knows little of America. The mistakes of governments are not always corrected by the Press; indeed, there are only too many ignorant or malicious newspapers which help to create misapprehensions and ill-feeling. It may, therefore, be useful here, before entering upon the American Tariff, to sketch in brief outline a view of economic conditions in the United States as I found them during an extended tour of observation in the closing months of 1926. It was my fourth visit in the course of the last twenty years, and I was more than ever impressed by the size and resources of a Continent as large as Europe, with an equal diversity of soil, climate, mineral wealth and industries, whose forty-eight constituent States, linked together in a federal and economic union, are exempted from the curse of rival armaments, and enabled to trade freely with one another.

In contemplating these States, abounding in natural resources and in the energies of a restless population, the economist and the economic historian may well marvel that so vast a territory, with a good rainfall in most parts, a climate excellent in some, and almost everywhere tolerable, should have remained almost uninhabited, that its splendid forests should have been uncut, its rich soil virgin, its mineral wealth unexploited, for hundreds, nay, thousands of years, after the plough-

man, the woodman, the miner, the artificer, the spinner and the weaver had played their part in developing extensive regions of Asia, Africa, and Europe. The Red Indians may have entered Canada and the United States from Europe about the time of the Siege of Troy, when the Empires of Egypt and China were already old if not decrepit. But they never thrived or multiplied except as warriors and hunters. They barely scratched the soil ; and when in the sixteenth and early seventeenth centuries Spanish, English, French, Swedish, and Dutch adventurers began to explore and plant settlements in North America, they found the forest primeval, uncultivated prairies, and navigable rivers in a new world admirably suited to colonists who carried with them the arts and crafts of an ancient civilisation.

If there had been at that time a larger surplus of population in Europe with better means of transportation, or if the leading nations and their sovereigns had imbibed enough either of Christianity or common sense to pursue wealth and trade in friendly rivalry instead of endeavouring to oust one another by perpetual wars, the development of the North American Continent would have been much more rapid. Even after the middle of the eighteenth century, when the British had defeated the French in Canada, and established their rule from Charleston to Halifax and Montreal, the various colonies were still divided by commercial jealousies and tariffs. But the attempt of George the Third and his ministers to tax the American colonists without their consent united them in a political union which ended in the Federal Constitution and a Customs Union. From that time forward until now the United States of America have enjoyed complete Free Trade among themselves

and internal peace, with the exception of the Civil War period from 1861 to 1865.

When it is remembered that the original union comprised only thirteen States, and that the thirteen stars on the American banner have since multiplied to forty-eight, it will be evident to anyone moderately well acquainted with political economy and with the economic history of the North American Continent, why a population expanding in the course of 150 years from three or four millions to 120 millions, exploiting virgin lands and forests, coalfields and oilfields along with iron, copper, gold, silver and other metals, should have attained to its present extraordinary measure of prosperity, and why its aggregate wealth and income in proportion to population is now far ahead of the richest countries of the European Continent and ahead even of Great Britain. It should be remembered too that, in addition to the advantage of possessing the largest and richest free trade area in the world, the American people have emerged practically unscathed from the most disastrous war of modern times, a war which has reduced several of the great Powers of Europe to bankruptcy, and has left Great Britain and the British Empire with a load of dead-weight debt and oppressive taxation from which they can hardly hope to be delivered in the course of less than three generations.

In spite of these obvious facts and considerations, which I have barely sketched, Protectionists in America and all over the world are accustomed to find a causal connection between the tariff wall that has surrounded the United States since the formation of the Union and the progressive wealth of the American people. "*Post hoc ergo propter hoc*" is an argument which always tells.

If two things accompany one another, a mind untrained in logic or incapable of correct reasoning—as most minds seem to be—is apt to connect them as cause and effect.

Yet as a matter of fact, there has been no continuous unvarying tariff, or tariff policy, in the 150 years of American history. There have been tariffs for revenue, and tariffs for protection; tariffs reduced in the interest of the consumer, and tariffs raised in the interest of the manufacturer. Even industries like the textile manufactures of New England, which always had the strongest pull and received most favour from successive Governments, have had to submit to constant variations in the tariff. At the recent elections for the Senate, in the autumn of 1926, Mr. Wadsworth (who lost his seat) claimed in the course of his campaign in New York State that the present high Fordney-McCumber tariff is the only really well-balanced tariff in the whole history of the United States; and even this tariff, he admitted, is much too low on many agricultural products. When the Bankers' Manifesto appeared in October, 1926, with the signatures of Mr. Pierpont Morgan and other leading bankers, Mr. Coolidge and his Secretary of the Treasury, Mr. Mellon, repudiated the argument in its application to America, but were ready to admit that Europe is suffering from a multiplicity of tariffs. In defending the American system, Mr. Mellon went a long way towards an admission of the free trade argument. He maintains that American prosperity is due partly to the American tariff, partly to the immense area of free trade which it encloses. He would agree that a protective tariff is very bad for Ireland or Portugal or Latvia or any small country. According to this new theory, tariffs are only good for trade if they enclose an extensive

territory and a big population, partly industrial, partly agricultural, with complete freedom of exchange for its various products. Mr. Mellon was therefore able to bestow a limited approval on the Bankers' Manifesto and to support their main contention that the high tariffs, which interrupt the trade of the European continent, should be reduced and if possible removed in order to promote recovery and future progress. It would seem therefore that the economic ideal of an intelligent and up-to-date American Protectionist like Mr. Mellon is the establishment of a great free trade area for Europe like that of the United States, with a more or less prohibitive tariff, exchanging only those surpluses which the wisdom of its tariff-makers, assembled in a European congress, from time to time permitted.

But Mr. Mellon and most of his friends in President Coolidge's Administration, supported by the leading Republican newspapers—realising, I suppose, that if free trade is good between nations and states it must also be good between continents—have anchored their faith in Protection for the United States to another theory, namely that the tariff is necessary in order to maintain American standards of living and to protect American wages from the competition of goods manufactured in countries where wages are lower.

There is no rational or scientific foundation whatever for this theory that low wages produce cheap goods or tend to improve either the quality or quantity of an industrial output. Indeed, if we may learn from experience and history, the reverse would be much nearer the truth. Those manufacturing countries are as a rule most successful in commercial competition where wages are high; and in any given country those manufactures

which pay the highest wages are usually most formidable to their competitors at home and abroad. The spinning and weaving mills in Lancashire and Yorkshire have held a premier position in the textile trades of the world for the last seventy years or more ; and if factory conditions and real wages were taken into account, I have little doubt that any competent inquirer would agree that for the greater part of that period the textile operatives in those two counties have been better off than their competitors in other countries. And yet the goods they have produced have been exported in far larger quantities than the competing goods of their foreign rivals. In Bombay the cotton mills have very long hours and very low wages ; but though the Bombay mill owners ask for more and more protection against Lancashire, Lancashire mill owners have never asked for protection against Bombay. Again, in America very high wages are paid by the manufacturers of motor-cars, tools and machinery ; yet many of them have out-distanced their British, French and German competitors, whose wage scales have been much lower since the war.

There must be something seductive and plausible in the theory that low wages give an advantage to manufacturers ; but the manufacturers, who advance it as a plea for Protection before tariff committees in Washington or before Safeguarding committees in London have not been in the habit of raising their wages after their prayers are granted by the legislature. To say that you can increase efficiency or cheapen production either by merely raising or merely lowering wages would be untrue. But there can be no doubt that on the whole the manufacturing and commercial expansion in modern times of great industrial countries like Great Britain,

Germany, the United States, and even Japan, has been associated with remarkable improvements in the standard of living through rising wages, shorter hours, and better factory conditions.

Enough has perhaps been written to demonstrate that the prosperity even of those American trades which have been of late conspicuously prosperous cannot be ascribed to the "Prosperity tariff." It may be urged that the unprosperous textile trades would be still less prosperous if they were deprived of tariff support, and if their weak constitutions were exposed to the bracing air of competition. That is a proposition which can neither be proved nor refuted; but it can hardly be gainsaid that the great and efficient iron and steel, automobile, and machinery industries of America neither require a tariff nor would fail to benefit if the cost of living and production were reduced by a general lowering of the tariff wall. It is still more certain that the shipping and ship-building industries now in an almost pathetic state of helplessness and despair would gain enormously from an approach to free trade. Under free trade there is no reason why the American mercantile marine should not flourish as it flourished seventy or eighty years ago when the American tariff was as low or lower than the British.

Then there is the case of American agriculture, now admittedly suffering from depression. During my visit to the States in the autumn of 1926 I found that large tracts of land in many of the Eastern States have been going out of cultivation. In the wheat and barley growing areas of the Middle West, notably in Iowa and Kansas, thousands of farmers had gone bankrupt and hundreds of State banks which had lent out freely on farm and cattle mortgages had closed their doors. On

an average the value of agricultural land in the great farm belt has fallen about 80 per cent. in the last six years. Why? Mainly, it would seem, because the price of the agricultural surplus has fallen in the world market (and consequently in the American market) much more than the price of manufactured articles in the protected markets of the United States. The American farmer, whose meat and wheat and cotton and hide prices are governed by the world markets, because in these and many other agricultural products there is a surplus for export, finds that what he sells is cheapened by competition, whereas what he buys is made dear by Protection. No wonder if he complains that Tariff Protection is valueless, and asks for subsidies, or else that his Government should fix the price of his products in the home market on a remunerative basis at the expense of the general taxpayer and consumer.

A good third of the population of the United States is still engaged in agriculture, and a large proportion of its exports still consists of wheat and cotton, or other foods and raw materials. To placate the farmers and to induce the representatives of rural constituencies to vote high tariff rates on imported manufactures, American manufacturers have consented to grant high protection to small sectional interests such as the sugar growers of Louisiana, or the lemon growers of California and Florida. The present Fordney-McCumber tariff also gives a high effective rate on imported butter and a high ineffective rate of duty on imported wheat, and imported meat. With the price of butter thus artificially raised the dairy farmers are said to be moderately prosperous, though they are pressing for similar protection on milk and cream. On the other hand, during the last year or two

a severe depression has overtaken the sugar cane industry of Louisiana.

By way of illustrating the political psychology of tariff politics in the United States I may recall the lively meetings of Senator Wadsworth during his unsuccessful campaign for re-election among the farmers of New York State in October, 1926, when I happened to be stopping at Syracuse and Ithaca. The Senator was asked many searching questions. Did he approve of President Coolidge's attitude in raising the butter tariff from 8 to 12 cents. per lb., and would he support an equivalent duty on milk and cream? Had he voted for the duties on eggs and poultry, and if re-elected, would he vote to increase them? Would he support a bill to fix agricultural prices at a level which would remunerate the farmers? His reply to this last question was in the negative; but he endorsed President's Coolidge's action on butter, and favoured a higher import duty on milk and cream, "believing that this is necessary to preserve the American market for the American farmers." He had supported the poultry and eggs tariff, and felt that it was still inadequate to afford "the proper protection for the full development of the poultry industry of this country." He described the existing Fordney-McCumber tariff as "the first well-balanced law of its kind that we have had, in that it not only gives reasonable protection to our manufacturing industries, but takes into account the destructive competition which some branches of agriculture were feeling so severely before its passage." He made no reference to the interests of the consumer, or to the hardships inflicted on the working classes by a tariff which raises the price of almost everything they need except bread, meat and coffee. But he praised

the existing tariff as a producer of revenue, because it was bringing money into the Treasury at a rate which would soon reach 600 million dollars a year.* To this an American free trader might reply : " That may be so ; we are forced to import ; otherwise foreign countries could not pay for their imports from us ; but our imports of manufactures (with a third of the population) are mostly luxuries, and the enormous contributions of the working classes of the United States to the tariff are paid not in taxes but in high prices. The cost of their clothing, for example, is probably quite double what it would be if the prohibitive textile duties on cheap clothes were removed. After all, consumers and taxpayers are the same people ; and the total contribution exacted from the consumers is certainly enormously more than the amount collected by the Customs officials at the ports and on the Canadian and Mexican frontiers." But just now controversy over the tariff is mainly between the farmers and the manufacturers ; naturally every class of producer wants high prices for what he sells and low prices for what he buys.

These facts may explain why the Democrats, who stand generally for a lower tariff, and are opposed to high protection, won such a remarkable victory at the elections of November, 1926, which practically deprived the Old Guard Republicans of their control of the Senate. On the eve of the polling the Republican organisations published all over the country a statement crediting the tariff with all the blessings of unexampled prosperity. They ascribed the present happy conditions of the American worker to the high tariff and the restrictions on immigration. They stated that the high wage scales

* A small revenue (in proportion to population) compared with the Customs and Excise Revenue of Great Britain from a few luxuries.

are due to Republican legislation. A hundred Republican labour leaders led by James J. Davis, President Coolidge's Secretary of Labour, signed a long statement which included the following paragraph:—

“It is entirely as a result of a protective tariff enacted by the Republican party that machinists' average pay is \$33.60 per week in this country, as compared to \$13.97 in England; that the average wage per week for building trades is \$51.36 in this country as compared with \$7.14 per week in Germany; that plumbers receive \$67.20 per week in this country as compared to \$17.42 per week in England, and that workers in the metal trades in this country receive \$44.24 per week as compared to \$6.78 per week in Germany.”

At Springfield, the capital of Illinois, Abraham Lincoln's town, I was handed the day before the election a Republican leaflet which wound up as follows:—

“Approved policies of the Republicanism of Illinois demand: Maintenance of the Protective Tariff; full protection of agriculture and emergency legislature for the Americanisation of prices for farm products; promotion and protection of the interests of the Middle West; adherence to the doctrines of our forefathers in keeping America free from entangling foreign alliances; a square deal for all and a full dinner pail.

“To make these policies effective, to stand by the party which has accomplished your welfare, to approve the tax reductions and economies of the Coolidge administration—Vote the Republican Ticket—Straight!”

In contrast with these Republican views it may be useful to set out that part of the Democratic platform of 1924 which related to tariff and taxation:—

“The Fordney-McCumber Tariff Act is the most unjust, unscientific and dishonest tariff tax measure ever enacted in our history. It is class legislation, which defrauds all the people for the benefit of a few. It heavily increases the cost of living, penalises agriculture, corrupts the Government, fosters paternalism, and in the long run does not benefit the very interests for which it was enacted.

“We denounce the Republican tariff laws, which are written in great part in aid of monopolies and thus prevent that reasonable exchange of commodities which would enable foreign countries to buy our surplus agricultural and manufactured products with resultant

benefit to the toilers and producers of America. Trade interchange, on the basis of reciprocal advantages to the countries participating, is a time-honoured doctrine of democratic faith. We declare our party's position to be in favour of a tax on commodities entering the custom houses that will promote effective competition, protect against monopoly, and at the same time produce a fair revenue to support the Government.

"The greatest contributing factor in the increase and unbalancing of prices is unscientific taxation. After having increased taxation and the cost of living by two billion dollars under the Fordney-McCumber tariff, all that the Republican Party could suggest in the way of relief was a cut of 300 million dollars in direct taxes; and that was to be given principally to those with the largest incomes."

When the Bankers' Manifesto appeared, with the signature of Mr. Pierpont Morgan attached, some of the Republican newspapers were flustered, thinking that it might mean a change of tariff policy, but the momentary confusion was followed by a general rally of what is called the Grand Old Party to the articles of its commercial faith. The manifesto cited above indicates the line generally taken by Republican candidates. One need not multiply quotations. During an election campaign on the tariff in any country we may be sure that every protectionist fallacy will crop up, including misquotations from dead statesmen and appeals to their authority. We in England are familiar with the fictions periodically circulated about Cobden—that he advocated free trade in the hope of reducing wages, that he expected other countries to follow England's example, and would not have persisted in one-sided free trade, and finally that if he could have lived another half a century he would have been an enthusiastic supporter of Mr. Chamberlain's policy of tariff reform. In the United States the Protectionists are fond of circulating a mythical quotation from Abraham Lincoln: "I do not know much about the tariff, but I know this much; when we buy

manufactured goods abroad we get the goods and the foreigner gets the money. When we get the manufactured goods at home, we get both the goods and the money." According to Professor Taussig, who has made minute researches into Lincoln's recorded utterances, the history of the phrase begins in 1894, about twenty-eight years after Lincoln's death, and the credit for this profound economic discovery belongs to the *American Economist*, a Protectionist weekly published in New York. The actual words were printed in a work by Curtis, beneath a portrait of Lincoln in a three-volume publication entitled "Industrial Development of Nations, 1912." A delightful chapter on the myth will be found in Professor Taussig's little volume on "Free Trade, the Tariff and Reciprocity" (New York, 1923).

In the elections of 1926 some of the democratic candidates who took up the challenge were remarkably successful, and the prospects of a downward revision of the tariff to something like a revenue basis in the near future seemed to be fairly bright. It is not merely that the farmers are discontented. The development of automatic machinery and of standardised mass production has made many efficient manufacturers in the United States conscious that they can stand on their own legs. They are exporting successfully and they realise that a tariff which raises the cost of production and hinders imports is a heavy handicap on the development of their export trade. Another new argument, which has won over thousands of bankers and investors, is that since the war the United States is becoming more and more a creditor nation, and that billions of dollars of American capital invested in Europe and other foreign countries will be imperilled unless the United States is willing to

take European goods in exchange for its own exports. Ever-increasing numbers of intelligent Republicans are abandoning the crude theory that foreign trade is of no value, and the still cruder theory that exports are a blessing and imports a curse ; and that therefore the true wisdom of economic policy should consist in encouraging exports and discouraging imports. As if successful trade depended on presenting the fruits of your domestic labour and finest products of your mechanical skill to other countries without receiving payment in the things they can produce better and cheaper ! In this connection students of political economy in the United States and of the transformation of expert opinion there, might do worse than study a very able address on "The Future of our Foreign Trade," by Mr. Herbert Hoover, the indefatigable Secretary of Commerce, whose department has reached in recent years so high a state of efficiency as a bureau of statistics and of information on commerce at home and abroad. It was delivered to the Export Managers' Club at New York on March 16th, 1926, and was published by the Department of Commerce. One quotation will suffice for our purpose :—

"Absurd as it may seem to you, our Department is frequently asked 'Why all the worry about foreign trade?' and we are admonished to cultivate our domestic market, the biggest and most profitable market in the world.

"The immediate purpose of those engaged in foreign trade is remunerative adventure for the trader. But it has a far wider national importance than this, and the men engaged in it are engaged in a far more significant mission.

"Foreign trade has become a vital part of the whole modern economic system. The war brought into high relief the utter dependence of the life of nations upon it. The major strategy of war is to crush the enemy by depriving him of it. In peace time our exports and imports are the margins upon which our well-being depends. The export of our surplus enables us to use in full our resources and energy. . . . And we may quite well view our exports

from the other side of the trade balance sheet. They enable us to purchase and import those goods and raw materials which we cannot produce ourselves."

If Mr. Hoover had added to this last sentence "or which we cannot produce so well or so cheaply as others," he would have made his defence of foreign trade and his explanation of its utility perfectly satisfactory to the scientific economist. He was content, however, to point out that the United States is not self-sufficient. It lacks certain metals and fibres, and it cannot grow rubber, coffee or tea. But there is plenty of timber, and the continent could quite well manufacture for itself (at a price) all the paper that it wants. If the Protectionists who still dominate the Republican Party had been logically consistent, and if their tariff theory had been consistently carried out, they would have placed a high duty on pulp and a still higher duty on paper, just as they have done in regard to wool, yarns, and woollen goods. But when one looks at this extraordinary tariff one finds that it is not a scientific tariff at all. Like so many previous tariffs it was composed to please all the powerful and sectional interests which had gained temporary control of Congress. The articles which are to be protected and the rates of duty are settled by log-rolling. The sugar growers of Louisiana, and the textile manufacturers of New England who may agree in nothing else, agree in this, that they both want high tariff rates on foreign sugar and foreign textiles. So they trade their votes. When we look at the free list we find that small as it is—there are only about seventeen items!—it contains several anomalies. Under raw materials, for instance, rubber is included because the American farmer cannot produce rubber, and so there is nothing to protect.

But hides and skins are also on the free list, though wool is subject to import duties. Why? Because the manufacturers of shoes and leather want their hides and skins to be cheap and they are strong enough to refuse a protective duty on hides and skins to the cattle and sheep growers who would like their hides and skins to enjoy the high prices of a protected market. Among finished manufactures only two items are found on the free list—newsprint paper and art works. Newsprint paper is the only important fully manufactured article that is allowed to pass through the American tariff wall untaxed. Why? Obviously because the Press is an all important factor in public opinion; and though the paper manufacturers of the United States have as good a right to protection as any other manufacturers, the newspaper owners believe in cheapness and plenty. If paper were subjected to a high protective tariff, their party loyalty might be severely shaken; they might turn against the tariff itself and support the interests of the consuming public against the favoured interests who depend or believe that they depend for their profits on the tariff.*

* Those who wish to know more of American Tariffs and their history may be referred to Professor F. W. Taussig's "Tariff History of the United States," as well as to his "Free Trade, the Tariff and Reciprocity," previously quoted. But the literature on the subject is extensive, and a bibliography would fill many pages.

IX

WAR DEBTS AND OBSTRUCTIVE TARIFFS

IN 1919 after the war it was quickly found that most of the belligerent States were bankrupt. The only method of paying interest on the debts which they had contracted with their own citizens was by printing paper money; and this process in most cases went on until the whole or the greater part of the National Debt was confiscated by a depreciation of the public money in which the principal and interest were computed. In the case of Germany, saddled with a heavy indemnity as well as an enormous internal debt, the paper mark at length lost all value. And the confiscation thus effected, which practically obliterated the debts of the German Empire, the German States, and the German Municipalities, accompanied as it was by a similar process in Austria and Hungary, ruined public credit in Central Europe and for several years made public borrowing, even for useful and productive purposes, almost impossible. Foreign debts, in so far as they were contracted in gold or in currencies which had not materially depreciated, remained, along with the war indemnities imposed by the Treaty of Versailles. Since that time the financial history of Europe and the United States has been a long series of wrangling controversies between creditor and debtor governments and their financial experts, a long series of settlements and unsettlements

and re-settlements, of conferences and reports, and of discussions concerning justice, capacity to pay, and willingness to receive.

It must be remembered that all the war debts and indemnities arose out of destructive operations. The more money you lend for war the more difficult it is for the borrower to pay. In fact an external war debt on its economic side is hardly distinguishable from a war indemnity. The interest and capital repayment are really a tribute, because the spending of the money entailed constant and enormous loss of life and property, draining the debtor country of its capital and resources.

The British War Debt to the United States was fixed by the Treaty of 1923 at 4,604 million gold dollars, which was to be paid off in 62 years by instalments of 33 million pounds sterling a year for ten years followed by instalments of 38 millions a year for the remainder of the period. After thus extracting its full legal claims from Great Britain, and intimating that all its debtors would receive equally just and undiscriminating treatment, the United States Government, finding that its other European debtors would not, or could not, pay on the same terms, fell back upon the principle "of capacity to pay," under which very recently about six-sevenths of the Italian War Debt to the United States have been cancelled.

But capacity to pay depends not only on the wealth of the debtor country, but also on the willingness of the creditor country to receive. If Italy and France are unwilling to repay, the United States has also shown itself unwilling to receive. It lent to Great Britain and the Allies war materials and munitions at inflated prices entered in gold dollars. But it does not want

war materials or munitions back, it excludes foreign shipping from its coastwise trade, and it has erected a very high tariff to obstruct imports of the manufactured goods in which the British War Debt to the United States ought to be repaid. Obviously Mr. Baldwin should have stipulated that the goods in which we are to pay should be admitted free. We may submit it, not merely as a principle of common sense and morality, but of law, that a creditor who demands the repayment of a debt has no right to obstruct it, still less to tax it. If I ask a man to repay me a sum of money, I am not entitled to charge him an entrance fee when he comes to my office ; nor, if I have lent him goods, and he returns the goods to me by parcel post, am I entitled to charge him an extra 10, 20, 50 or 100 per cent. on the value of the packet. If this proposition is true of private debts, it is equally true of public debts and indemnities. And the principle might fairly be put in motion by Great Britain and Germany, which are now bearing almost the whole burden of war debts and indemnities. Yet the United States, the most pressing creditor, which began by demanding strict repayment in gold dollars of all its war lendings to its European Allies, has violated this elementary principle of justice ; for since the debts were contracted, it has enacted an enormously high protective tariff directed against the manufactured goods of Europe and even against many natural products such as lemons, though these surplus goods and produce constitute Europe's means of payment. Great Britain certainly has not deserved this treatment. For sixty years before the Great War it offered an invaluable free market to American producers and placed no restrictions on American shipping.

With these facts before us is it not deplorable that the tone and temper of the British Government should be Protectionist and should give encouragement to the United States and other nations including our own overseas Dominions, to maintain tariffs and obstruct the natural interchange of goods and services upon which a peaceful restoration of human prosperity depends?

Ever since Tariff Reformers and Protectionists crept into office (from 1915 onwards) British Ministries have been unable or unwilling to use diplomatic and financial pressure against the tariff barriers raised against us in America, and multiplied in the newly created States of Europe, which are so largely accountable for the mass of unemployment in Great Britain, Germany, Austria, Czecho-Slovakia, Poland and many other countries. Mr. Baldwin's conduct of his War Debt Treaty at Washington is for us the most disastrous case of short-sighted diplomacy. But there are many other striking examples. It would have been easy when the Great Powers at Versailles created the new States from portions of the old Russian and Austrian Empires, to have stipulated that only moderate tariffs for revenue purposes should be permitted. It would have been easy to attach similar conditions to the League of Nations Loans, and to have insisted that Dantzig and its corridor should constitute a free trade area. The feebleness of our Indian Administration, which has allowed a Protective tariff to be rigged up in India by a ring of Calcutta and Bombay manufacturers at the expense of 300 millions of poor peasants (including the unrepresented Native States) for whose welfare we are still responsible, is one of the strangest anomalies of British Imperialism, and a very pretty comment on the political hypocrisy of

Imperial Preference, which is merely a disguise, and a flimsy one, to cover the naked greed of Protectionism.

One of the salutary doctrines of that school of Liberalism with which the names of Thomas Jefferson, James Monroe, Richard Cobden, and John Bright are most prominently associated is the so-called doctrine of non-intervention. These conspicuously high-minded and disinterested statesmen, taught by the history of the past and by the experience of their own times, believed that nations, like individuals, while pursuing a policy of goodwill should follow the rule, "Mind your own business"; in other words, they should not interfere in the domestic concerns of other nations or take arms in their quarrels. From 1815 down to 1914 in one case and 1917 in the other the policy of Great Britain and the United States, with one or two exceptions, was guided along these lines. The present tangle of war debts with all the grievances and animosities springing therefrom dates from the great departure taken by Great Britain in 1914 from the Cobden rule and by the United States of America in 1917 from the Monroe doctrine. In both cases the departure took the form of a declaration of war on Germany, and in both cases it involved financial assistance to the weaker allies, on whom Germany had declared war. All through the war this financial assistance was given mainly in the form of loans. France made loans to Russia, Italy and some of the other allies, and borrowed a much larger amount from Great Britain and the United States. Great Britain lent France, Russia, Italy and the other allies immense sums and in the last eighteen months of the war borrowed an immense though considerably smaller amount from the United States. The United States, joining in the

war when all the European belligerents were either bankrupt or approaching financial exhaustion, lent to all its allies or associates, but principally to Great Britain. The war debts were run up very rapidly under secret arrangements made by the Treasury officials, and they took the form of exports of munitions and goods and food. These munitions and goods and food were entered as a rule at war prices, which were enormously higher than the prices at which war munitions, raw cotton, wheat, etc., are obtainable to-day. The question whether after the war all these loans by the richer allies should have been treated as subsidies to the poorer is one that ought to have been fully considered, on moral and economic grounds. The theory, advanced successfully by the American Government after the war in its negotiations with Great Britain, that war debts are exactly like commercial debts, that no allowance should be made for the fall in prices and the enormous change in the purchasing power of gold, that a terrible blow would be struck at public credit and international obligations if Great Britain did not agree to pay its whole legal debt back in gold, with interest at the prices fixed by the American officials during the war, has been completely abandoned by the American Government in regard to all its important debtors except Great Britain. Moreover, since the contraction of these debts the American Government has greatly raised the American tariff for the express purpose of protecting the American market against imports of manufactured goods from Great Britain and Europe, so obstructing the only available means of repaying the War Debts.*

* The surplus production of Great Britain, France and Italy consists almost wholly of things against which the American Tariff has been raised since the war. For Anglo-American trade *cf.* p. 148.

Thus new questions arise: whether a government or a nation is entitled in international law and equity to demand the repayment of debts lent in goods, if it taxes or prohibits repayment in goods; secondly, whether it is entitled to treat loans for destructive purposes as if they had been spent on reproductive purposes; thirdly, whether it is morally and legally entitled, under the plea that the debt though granted in goods was contracted in gold, to demand back a much larger capital than that which was actually contributed, and so to impose on the working classes of the debtor country a much heavier sacrifice in repayment than that which was imposed on the working classes of the creditor country during payment.

From the above considerations—most of which have been advanced by American publicists—it will be evident that the people of Great Britain are bound to take an unusually keen interest in the financial and commercial policy of the American Government, and that a British economist who feels that the peace and progress of the world in the next fifty years depends largely on the friendly co-operation of the two great English-speaking commonwealths, is more than justified in elucidating the facts and figures, the rights and wrongs, the obligations and grievances arising out of the Baldwin debt treaty. The treaty was negotiated by Mr. Baldwin early in 1923 at Washington and ratified very reluctantly by the Cabinet of Mr. Bonar Law. It was the first of the funding arrangements made by the Government of the United States, and provided for the repayment with interest of the whole debt (estimated, as we have seen, at 4,604 million gold dollars, without allowance for the appreciation of gold) over a period of sixty-two years.

Mr. Baldwin has never given any account of the negotiations, and it might be supposed that he never negotiated at all, but merely asked for terms and made an unconditional surrender. Certainly there are no "Safeguards" for British taxpayers in the treaty, and it is said to have struck Mr. Bonar Law with utter dismay. But though still Prime Minister he was a sick man, and did not press his objections to the point of refusing to ratify the treaty. The Press, moreover, had been very successfully tuned*—to use a favourite expression which has been adopted by governments in recent years towards our free and independent newspapers. The City—or rather the vocal part of it, including most of the City Editors—had been somehow persuaded to think, or to say, that the unconditional assumption of this huge dead weight debt without any provision that the creditor would receive payment in goods, without any allowance for the fall of prices since the war, or any safeguard against the appreciation of gold, and, worst of all, without a most-favoured nation clause, would prove a wonderful example of political foresight and financial sagacity on the part of the Treasury and its chief. Two supreme advantages were claimed for the Baldwin Treaty:—

(1) The public credit of Great Britain—which had been somewhat shaken by the war, to judge by the fall of Consols and the rate of interest on war loans—would be vastly improved if Britain led the way in accepting the uttermost demand of the Washington Treasury, on unwritten assurances that the terms offered and received so submissively by our Chancellor of the Exchequer were the "rock-bottom" terms. An unconditional accept-

* I was almost the only critic whose views at the time were allowed the privilege of publicity.

ance of our creditor's demands—with a full legal obligation to pay in gold for war munitions supplied at war prices, without regard to the economic and political strain under which the debt was contracted and without consideration for the still larger sums due to Britain, or for the whole problem of war debts and indemnities, or for the state of our own currency and the currencies of our allies, or for the deplorable consequences of the prohibitive tariff just enacted by Congress on our exports—would redound to British dignity, enormously enhance our prestige, and by so doing enable us to convert the rest of our war debt on favourable terms. A financial conjuring trick worthy of a Disraeli.

(2) The assumption of so heavy a burden would endear us to the American people; it would cement Anglo-American friendship, and promote concord for at least the sixty years during which we were paying this tribute of gratitude.

Neither prediction has so far been verified. British public credit (measured by Consols) has fallen considerably since 1923, and the Treaty has generated ill-feeling on both sides of the Atlantic, as might have been expected from a clumsily negotiated and one-sided bargain.

Briefly summarised, my own view of the transaction, expressed at the time, was as follows:—

(1) Mr. Baldwin should have insisted on a general simultaneous settlement of all the war debts in the interests of peace and of a real economic reconstruction of Europe.

(2) Secondly, he should have applied index numbers to the gold prices in which the debt was contracted, or else have established the principle that the goods borrowed should be paid back in goods, not in gold.

(3) Thirdly, he should have challenged the uncon-

scionable principle* that a creditor nation is entitled both to demand repayment of a debt and to tax, or obstruct, repayments by imposing a heavy and in many cases prohibitive tariff on the goods, together with restrictions on the shipping, of the debtor country.

(4) In any case he should have inserted conditions to safeguard our gold standard, and to provide against a further appreciation of gold during the currency of the agreement.

I ventured at the time also to point out that the war loans were unproductive of anything but destruction and misery, that they are dead-weight debts, and that the repayments are therefore onerous. Consequently their existence for sixty years would be more likely to promote ill-feeling than good-feeling between debtors and creditors. From the standpoint of Anglo-American concord there was also the risk of discrimination; but Mr. Bonar Law and his Cabinet were assured that the Act of Congress was unalterable, and that all the other debtor countries would have to pay on the same basis. When the small debts of Poland and Lithuania were settled and ratified, in accordance with the same legal justice which had been meted out to Great Britain, the House of Representatives at Washington—so I read at the time—“placed itself on record as believing that in the settlement of its debts to the United States no nation should be given better

* This argument, so far as I know, was first used on behalf of the United States in a paper drawn up by Thomas Jefferson (dated May 29, 1792), signed by Alexander Hamilton and George Washington, as a reason for the non-payment of commercial debts due to British subjects after the War of Independence. The creditor, wrote Jefferson, “ought not in conscience to complain” when by his own shipping regulations and prohibitory custom duties he is obstructing the means of payment. See my “*Life and Letters of Thomas Jefferson*,” pp. 300-303.

terms than those given to Great Britain, and every nation now owing money to the United States is expected to pay its debt in full." On that occasion Mr. Crisp, a member of the House of Representatives and also a member of the Debt Funding Commission, lavished praise upon Great Britain, saying:—

"She was the first nation, as well as our greatest debtor, to fund her indebtedness. I think she is entitled to our highest respect and admiration. I may say in passing that Great Britain to-day pays the highest taxes of any nation on earth. . . . Many people have been put in the Bankruptcy Court for trying to give preference to some creditors over others. . . . I say that I will not, either as a member of the Debt Commission or as a member of this House, vote to settle the indebtedness of any of these other countries in any way which shall substantially vary from the basic settlement with Great Britain."

Mr. Burton, of Ohio, another member of the Debt Funding Commission, took the same line both in Washington and when he visited London. It was noted at the time that his views and those of Mr. Crisp were endorsed by public opinion in America, and Mr. Crisp's speech was "loudly applauded" by his fellow-members.

But as time went on Mr. Mellon and his Treasury officials found that Belgium, France and Italy would not follow the "splendid" lead of Mr. Baldwin; and they have deftly substituted for the principle of strict legal justice (which was supposed to be so essential to the maintenance alike of international goodwill and of public credit in Europe) the principle of "capacity to pay," which means the extracting by individual bargaining of the best terms that can be got, proceeding on the obvious but not very dignified consideration that half a loaf, or one-fifth, is better than no bread. We now see how foolish it was, and how short-sighted in Mr. Baldwin, not to insert a most favoured nation clause, providing that Great Britain should not suffer in comparison with other

nations by the fact that she had accepted what were (wrongly) represented as "rock-bottom terms," and had been the first to comply with American demands. In the circumstances we cannot wonder that discrimination has produced irritation; but we have to blame in the first instance the negligence and incompetence of our own representatives. Whether the verbal assurances on which they and the British public seem to have relied in 1923 will be implemented remains to be seen.

But, whatever complaints may be made against politicians and bureaucrats, let us remember that the American people are absolutely free from blame. They had no responsibility for the war, or the war debts, or the means adopted to collect them. Whatever happens, Englishmen and Americans must remain friends.

During a recent visit to America I was much impressed by the liberal tone of cultivated opinion, especially in financial circles and in the Universities towards the problem of war debts. Those who have studied the four leading debt settlements with Britain, Belgium, Italy and France (the last still unratified in February, 1927) realise that they would not pass muster in an impartial court of justice. They feel that discrimination is indefensible. They know that when Mr. Baldwin went to Washington the terms offered to Britain were represented as the best that could be extracted from Congress, though it was explained to me more than once that Mr. Baldwin's hasty acceptance of these bed-rock terms had taken their Treasury officials by surprise. "Our terms," said an expert to me, "were bargaining terms; Mr. Baldwin's unconditional acceptance astonished us all. You can't blame our people for driving a good bargain." It seems however that there were unofficial assurances

that Great Britain would not suffer for its magnificent behaviour. If Mr. Baldwin had insisted, he could almost certainly have secured the insertion of a most-favoured nation clause in the Anglo-American Debt Treaty. Had he taken this elementary precaution, Great Britain would have received automatically whatever concessions and abatements the United States found it expedient to make to the other debtors. But at the time it was no doubt expected that they would follow the example set by Great Britain, of paying their gold debts in full without regard to the change of prices, and without any safeguards against the future. During 1925 and 1926 much new light has been thrown upon the problem by the course of events. The Manifesto issued by forty professors of Columbia University calling for a conference to revise war debts has been widely endorsed. The whole complex and the inter-connections of war debts, tariffs, foreign investments and foreign trade, have been envisaged by the leading bankers. The principal partners in the great Morgan firm recommend not only a cancellation of debts but also a lowering of the tariff, because it obstructs the imports which must be taken in exchange for American exports and in payment of interest on debts and investments. Intelligent people everywhere begin to realise the absurdity of demanding repayment of war loans and of at the same time taxing or prohibiting payment in goods. It was on this ground, as we have seen, that after the War of Independence President Washington, Thomas Jefferson and Alexander Hamilton, in an important State paper, justified the refusal of American citizens to pay their pre-war commercial debts to English and Scotch merchants, though those debts had been recognised in the Treaty of Peace.

They said in effect that, while specie payments were out of the question, the protective and prohibitive policy of Great Britain towards American trade and shipping made payment in goods practically impossible. So now the American Government's policy of forcing its unfortunate war debtors to repay in gold instead of in their industrial surpluses is surely against reason and equity. As a result the United State Treasury has been accumulating vast hoards of gold bullion which it cannot use without causing a dangerous inflation of prices and credit. Consequently the Federal Reserve Board has exhausted its ingenuity in devising methods of sterilising the gold in its vaults—now about half the world's stock—while American bankers seek to ease the situation by directing American investments into Germany and other countries of Europe which have been famishing since the war for liquid capital, and are only too eager to pay excessively high rates of interest.

X

THE TARIFF WALLS OF EUROPE

NO one comparing the disunited States of continental Europe with the United States of America will wonder that the inhabitants of the old world are so much worse off than those of the new.

War Debts or War Indemnities, excessive taxes, conscription and paper money have all contributed their quota to the miseries of Europe. But separate tariffs—from which the States of the American Union are exempt—constitute the most serious obstacle to Europe's recovery from the War.

In "A Plea for the Removal of Restrictions upon European Trade," published simultaneously in all the great newspapers of the world on October 20th, 1926, a number of leading bankers and business men* drew attention "to certain grave and disquieting conditions which in our judgment are retarding the return to prosperity." They proceeded as follows:—

"It is difficult to view without dismay the extent to which tariff barriers, special licences and prohibitions since the war have been allowed to interfere with international trade and to prevent it from flowing in its natural channels. At no period in recent history has freedom from such restrictions been more needed to

* The signatories of the so-called "Bankers' Manifesto" are so weighty that I have printed them (with the French and Italian reservations) at the end of this chapter. No such association of names has ever been appended to such a document.

enable traders to adapt themselves to new and difficult conditions. And at no period have impediments to trading been more perilously multiplied without a true appreciation of the economic consequences involved.

“The break-up of great political units in Europe dealt a heavy blow to international trade. Across large areas, in which the inhabitants had been allowed to exchange their products freely, a number of new frontiers were erected and jealously guarded by customs barriers. Old markets disappeared. Racial animosities were permitted to divide communities whose interests were inseparably connected. The situation is not unlike that which would be created if a confederation of States were to dissolve the ties which bind them, and to proceed to penalise and hamper, instead of encouraging, each other's trade. Few will doubt that under such conditions the prosperity of such a country would rapidly decline.

“To mark and defend these new frontiers in Europe, licences, tariffs and prohibitions were imposed, with results which experience shows already to have been unfortunate for all concerned. One State lost its supplies of cheap food, another its supplies of cheap manufactures. Industries suffered for want of coal, factories for want of raw materials. Behind the Customs barriers new local industries were started, with no real economic foundation, which could only be kept alive in the face of competition by raising the barriers higher still. Railway rates, dictated by political considerations, have made transit and freights difficult and costly. Prices have risen, artificial dearness has been created. Production as a whole has been diminished. Credit has contracted and currencies have depreciated. Too many States, in pursuit of false ideals of national interest, have imperilled their own welfare and lost sight of the common interests of the world by basing their commercial relations on the economic folly which treats all trading as a form of war.

“There can be no recovery in Europe till politicians in all territories, old and new, realise that trade is not war but a process of exchange, that in time of peace our neighbours are our customers, and that their prosperity is a condition of our own well-being. If we check their dealings, their power to pay their debts diminishes and their power to purchase our goods is reduced. Restricted imports involve restricted exports, and no nation can afford to lose its export trade. Dependent as we all are upon imports and exports, and upon the processes of international exchange, we cannot view without grave concern a policy which means the impoverishment of Europe.

“ Happily there are signs that opinion in all countries is awaking at last to the dangers ahead. The League of Nations and the International Chamber of Commerce have been labouring to reduce to a minimum all formalities, prohibitions and restrictions, to remove inequalities of treatment in other matters than tariffs, to facilitate the transport of passengers and goods. In some countries powerful voices are pleading for the suspension of tariffs altogether. Others have suggested the conclusion for long periods of commercial agreements embodying in every case the most-favoured-nation clause. Some States have recognised in recent treaties the necessity of freeing trade from the restrictions which depress it. And experience is slowly teaching others that the breaking-down of the economic barriers between them may prove the surest remedy for the stagnation which exists. On the valuable political results which might flow from such a policy, from the substitution of good-will for ill-will, of co-operation for exclusiveness, we will not dwell. But we wish to place on record our conviction that the establishment of economic freedom is the best hope of restoring the commerce and the credit of the world.”

About the time when this manifesto appeared the happy thought occurred to Sir Clive Morrison-Bell, a member of the British House of Commons, of preparing a model map of European Tariffs showing the walls of varying height which surround the different States and obstruct the exchange of goods. These tariffs range from the almost prohibitive duties and restrictions of Russia, Spain and Poland to the low ones of Great Britain and Holland. Scientific precision cannot be attained in comparison of Tariff walls. You cannot say whether a general tariff of 10 per cent. is worse or better than a tariff which allows free trade on half its imports and applies a tariff of 20 per cent. to the remainder. Nor is it possible to state at what point a protective duty will begin to yield less revenue as it rises towards prohibition. What we may say with certainty is that the tariffs of Russia, Poland, the United States, Spain, Roumania, Czechoslovakia and several

other States would yield far more revenue if all their prohibitive customs duties were reduced, and that most countries would gain in revenue if a large number of their protective customs duties were reduced. The experience of Great Britain under the financial guidance of Sir Robert Peel and Mr. Gladstone from 1842 onwards is conclusive as to the beneficial effect upon revenue and commerce of diminishing high customs duties and sweeping away all the petty taxes which do not pay for the cost of collection. In 1844, two years after Peel's first budget of customs reforms, the revenue showed a surplus of more than £4,000,000 over the expenditure.

Instead of reducing the Income Tax Peel continued the experiment of reducing other taxes, for reasons which are well expressed in Stafford Northcote's "Twenty Years of Financial Policy": "The experience of the last three years had led both the nation and the Ministry to look with a different eye upon our system of indirect taxation. *The seeming paradox that a larger revenue might be obtained from smaller duties had turned out to be the simple expression of an economical law which appeared capable of more extensive application than it had yet received.* Duties had been largely reduced, and even in some cases repealed; yet the revenue was as large as before, and was evidently growing."

This is the principle gained by British experience, which might now be applied, with wonderful results for the prosperity of the whole world, to almost every State of Europe, Asia, America, Africa and Australasia. The system of prohibitions and import licences is even worse than the high tariffs which it frequently accompanies besides opening the door wide to corruption. There are many territories in Eastern and South-Eastern Europe

where merchants have to pay a bribe to the Customs officials in order to carry on trade with their customers beyond the frontier. All the small States which have been carved out of the Russian and Austrian Empires are suffering commercially from the loss of free trade with their neighbours. Happily a movement for regional customs unions has begun. A treaty has been made between Latvia and Esthonia, which will remove the customs frontier between those two small States. This is at least a beginning. Against the growing power of bureaucracy may be set the ever-increasing influence of intelligent bankers and business men who have learned common sense and economic wisdom in the bitter school of post-war experience. At a recent meeting of the International Chamber of Commerce, Sir Alan Anderson, then Deputy-Governor of the Bank of England, remarked: "I once read a story of a man who was cast into a noisome dungeon, and kept there without food or water. At last, worn out by suffering, he opened the window and stepped out. When, I wonder, will Europe have suffered enough to open its window and step out from its trade barriers?" It will be possible to answer that question more cheerfully before the end of 1927 if the signatories of the "Bankers' Manifesto" exert their full influence as individuals upon their respective Governments.

APPENDICES

APPENDIX I

SIGNATORIES to the International Manifesto of October, 1926, with the standing and business description of the individuals and the reservations of the French and Italian signatories.

AUSTRIA

OSCAR BERL	Merchant.
DR. OTTO BOHLER	Steel Manufacturer.
DR. SIEGMUND BROSCHE	Chemical Manufacturer.
DR. PAUL HAMMERSCHLAG	Oesterreichische Credit-Anstalt für Handel und Gewerbe.
ALFRED HEINSHEIMER	Managing Director Vienna Bank-Verein.
MAXIME KRASSNY-KRASSIEN	Chairman Niederosterreichische Es-compte-Gesellschaft.
DR. ARTHUR KRUPP	Berndorfer Metallwaren-Fabrik.
JULIUS MEINL	Manufacturer.
LUDWIG NEURATH	Oesterreichische Credit-Anstalt für Handel und Gewerbe.
DR. JOSEF REDLICH	Ex-Minister.
DR. RICHARD REISCH	President Austrian National Bank.
BARON LOUIS ROTHSCHILD	Messrs. S.M. von Rothschild, Vienna.
RICHARD SCHOELLER	Steelworks Schoeller Blackmann.
RUDOLF SIEGHART	President Boden-Credit-Anstalt.
FRTZ TILGNER	President Austrian Chamber of Commerce.
LUDWIG URBAN	President des Hauptverbandes der Industrie Oesterreichs.

BELGIUM.

J. CARLIER	Vice-President Council of Industry and Commerce.
HECTOR CARLIER	Adm. Del. Banque d'Anvers.
M. DESPRET	President Banque de Bruxelles.
CHARLES FABRI	Managing Director Banque d'Outremer.

E. FRANQUI	Vice-Governor Société Générale de Belgique.
F. HAUTAIN	Governor Banque Nationale de Belgique.
J. VAN HOEGAERDEN	Director General S.A. d'Ougrée Marihaye.
J. JADOT	Governor Société Générale de Belgique.
O. LEPREUX	Vice-Governor Banque Nationale de Belgique.
F. M. PHILIPPSON	Banker.
R. TILMONT	Director Banque Nationale de Belgique.
P. TRASENSTER	President S.A. d'Ougrée Marihaye.
T. WIENER	Vice-President Crédit Générale Liégeois.
PAUL VAN ZEELAND	Director Banque Nationale de Belgique.

CZECHOSLOVAKIA

DR. JOSEF BARTON	President of the Czechoslovak Textile Manufacturers' Association.
DR. O. FEILCHENFELD	Managing Director of the Böhmisches Eskompt Bank.
DR. HANUS KARLIK	President of the Central Association of Czechoslovak Sugar Industry.
DR. BOHUSLAV MARIK	Chairman of the Ceskomoravska-Koblen A. G.
IAN NOVOTNY	General Director Pramyslova Bank.
DR. VILEM POSPISIL	Governor of the Czechoslovak National Bank.
DR. JAROSLAV PREISS	General Manager Zinnostenska Bank.
DR. VACLAV SCHUSTER	President of the Allgemeiner Böhmischer Bankverein.
DR. ADOLF SONNENSCHNEIDER	Director Vitkovice Iron Works.
DR. EDUARD STUTZ	Vice-Chairman of the Böhmisches Union Bank.

DENMARK

A. O. ANDERSEN	Chairman of the Danish Steamship Owners' Association.
C. C. CLAUSEN	Manager Privatbanken of Copenhagen.

EMIL HERTZ	Manager Danske Landmanskbank.
ERNST MEYER	Chairman of the Merchants' Guild.
ETATSRAAD FR. NORGAARD	General Manager Copenhagen Handelsbank.
P. P. PINSTRUP	Chairman Council of Agriculture.
LENSBARON ROSENKRANTZ .	Managing Director National Bank of Copenhagen.

FRANCE.

“ Les sous-signés, craignant que des passages du plaidoyer puissent donner lieu à certaines divergences d'interprétation, tiennent à préciser les points sur lesquels ils sont d'accord.

“ Ils estiment que l'état d'instabilité et de désordre économique dans lequel se débattent à l'heure actuelle les pays Européens a son origine dans les conséquences de la guerre et, en particulier, dans les crises monétaires qui en sont résultées. Ils croient que, pour éviter l'aggravation d'une situation inquiétante, il convient, avant tout que les pays où la monnaie n'est pas encore stabilisée s'acheminent le plus rapidement possible vers une monnaie saine : ces pays le pourront d'autant plus aisément que les relations économiques entre les peuples seront rétablies sur des bases normales favorisant les échanges commerciaux.

“ Ils pensent, à cet égard, que l'élévation ou la rigidité excessives de certains systèmes tarifaires, les exagérations directes ou indirectes de protectionnisme, de discrimination ou de préférence, les obstacles apportés aux transactions internationales par des réglementations abusives des transports, doivent être condamnés.

“ Ils se déclarent en conséquence favorables à toutes mesures qui tendraient à la suppression de telles barrières artificielles, qui s'opposent à la libre reprise des relations économiques d'avant guerre entre les nations.

“ Ils ne sauraient, en effet, oublier qu'il est impossible à aucun Etat moderne de vivre et de prospérer sans entretenir avec les autres Etats des rapports commerciaux et que, par suite de l'étroite interdépendance entre les peuples, ce n'est que par un échange mutuel de services de crédits et de marchandises que l'équilibre économique mondial peut être finalement obtenu.”

R. P. DUCHEMIN	Président de la Confédération Générale de la Production Française ; Président de l'Union des Industries Chimiques.
HORACE FINALY	Directeur Générale de la Banque de Paris et des Pays Bas.
E. FOUGERE	Président de l'Association Nationale d'Expansion Economique ; Président de la Fédération de la Soie.

R. LÆDERICH	Régent de la Banque de France ; Président du Syndicat Générale de l'Industrie Cotonnière.
M. LEWANDOWSKI	Administrateur-Directeur du Com- ptoir National d'Escompte de Paris.
R. MASSON	Directeur Générale du Crédit Lyon- nais.
H. DE PEYERIMHOFF	Président du Comité Central des Houillères de France.
P. RICHEMOND	Administrateur de la Banque Nation- ale de Crédit; Président de l'Union des Industries Métallurgiques et Minières.
CH. SERGENT	Ancien Sous-Secrétaire d'Etat aux Finances ; Président de la Banque de l'Union Parisienne.

GERMANY.

GEH. KOMMERZIENRAT DR.	
BOSCH	Chairman Chemical Trust, Heidelberg.
GEHEIMRAT FELIX DEUTSCH	Chairman General Electric, Berlin.
DR. CARL MELCHIOR	M. M. Warburg & Co., Hamburg.
FRANZ VON MENDELSSOHN	Banker, Berlin.
DR. SCHACHT	President of the German-Reichsbank.
KARL FRIEDRICH VON SIE- MENS	Chairman Siemens Bros., Berlin.
FRANZ URBIG	Disconto Gessellschaft, Berlin.
GENERALDIREKTOR VOGLER	Steel Trust Dortmund.
F. H. WITTHOEFFT	Senior Partner Arnold Otto Meyer, India Merchants, Hamburg.

GREAT BRITAIN.

SIR ARTHUR BALFOUR	Chairman Arthur Balfour & Co., Ltd., Sheffield.
HENRY BELL	Director Lloyds Bank, Ltd.
SIR HUGH BELL, BART.	Ironmaster.
LORD BRADBURY	Director Williams Deacons Bank, Ltd.
WILLIAM CARNEGIE	General Manager National Bank of Scotland, Ltd.
W. H. COATS	Chairman J. and P. Coats, Ltd.
SIR JOHN COWAN	Chairman Redpath, Brown & Co.
LAURENCE CURRIE	Glyn, Mills & Co.

F. C. GOODENOUGH . . .	Chairman Barclays Bank, Ltd.
NORMAN L. HIRD . . .	General Manager and Director Union Bank of Scotland, Ltd.
ROBERT M. HOLLAND- MARTIN, C.B.	Chairman Bank of Liverpool and Martin's, Ltd.
WILLIAM HOWARTH . . .	President Textile Institute.
LORD INCHCAPE . . .	Chairman Peninsular and Oriental Steam Navigation Co., Ltd.
LORD INVERNAIRN . . .	Chairman W. Beardmore & Co.
WALTER LEAF, D.LITT. . .	Chairman Westminster Bank, Ltd.
KENNETH LEE, LL.D. . .	Chairman Tootal, Broadhurst, Lee & Co., Ltd.
SIR FREDERICK LEWIS . . .	Chairman Furness, Withy & Co., Ltd.
LORD MACLAY OF GLASGOW	Shipowner.
ANDREW MCCOSH . . .	Chairman William Baird & Co., Ltd.
RIGHT HON. REGINALD MCKENNA	Chairman Midland Bank, Ltd.
SIR ADAM NIMMO	Chairman of the Scottish Coal Owners' Association.
RIGHT HON. MONTAGU COLLET NORMAN	Governor Bank of England.
RIGHT HON. VISCOUNT NOVAR, K.T., P.C., D.S.O.	Director Union Bank of Scotland, Ltd.
A. A. PATON	Chairman Liverpool Cotton Assocn.
J. W. BEAUMONT PEASE	Chairman Lloyds Bank, Ltd.
EUSTACE R. PULBROOK	Chairman of Lloyds.
LORD REVELSTOKE	Baring Bros. & Co., Ltd.
ALEXANDER ROBB	General Manager Commercial Bank of Scotland.
LIONEL N. DE ROTHSCHILD	N. M. Rothschild & Sons.
SIR FELIX SCHUSTER, BART.	Director National Provincial Bank.
GEORGE J. SCOTT	Treasurer and General Manager Bank of Scotland.
SIR JOSIAH STAMP	President of the Executive of the London Midland and Scottish Railway.
SIR D. M. STEVENSON, BART.	Ex-Chairman British Coal Exporters' Federation.
REES GRIFFITH THOMAS	General Manager British Linen Bank.
DOUGLAS VICKERS	Chairman Vickers, Ltd.
LORD WEIR	Weir & Co., Glasgow.
SIR GLYNN H. WEST	Chairman Rylands Bros., Ltd.
WILLIAM WHITELAW	Chairman London and North Eastern Railway.

- COL. F. VERNON WILLEY . Francis Willey & Co., Ltd., Bradford.
 SIR PERCY WOODHOUSE . President Manchester Chamber of
 Commerce.
 SIR ALEXANDER KEMP General Manager Royal Bank of
 WRIGHT, K.B.E. Scotland.
 D. YOUNG General Manager Clydesdale Bank.

HOLLAND.

- DR. C. J. K. VAN AALST . President Nederlandsche Handel
 Maatschappij, Amsterdam.
 S. P. VAN EEGHEN . . . Merchant Banker, Amsterdam.
 F. H. FENTENER VAN
 VLISSINGEN Manufacturer, Utrecht.
 E. HELDRING President Chamber of Commerce,
 Amsterdam.
 DR. A. J. VAN HENGEL . Director Rotterdamsche Bankvere-
 eniging, Amsterdam.
 DR. P. HOFSTEDE DE GROOT Managing Director Amsterdamsche
 Bank.
 PAUL MAY Lippmann, Rosenthal & Co., Bankers.
 DR. W. A. MEES R. Mees & Zoonen, Bankers, Rotter-
 dam.
 A. F. PHILIPS Managing Director "Philips Gloei-
 lampenfabrieken," Eindhoven.
 D. W. STORK Stork Bros., Inc., Hengolo.
 C. E. TER MEULEN . . . Hope & Co., Bankers.
 DR. Q. J. TERPSTRA . . . Shipbuilder, Rotterdam.
 PROF. DR. M. W. F. TREUB Ex-Minister of Finance, The Hague.
 DR. F. G. WALLER . . . Managing Director Nederlandsche
 Gist & Spiritusfabriek, Delft.
 TH. VAN WELDEREN BARON Agricultural Economist, Oenkerk,
 RENGERS. Friesland.
 DR. G. VISSERING . . . President Nederlandsche Bank, Am-
 sterdam.

HUNGARY.

- ANTHONY EBER General Manager Hungarian Italian
 Bank.
 CHARLES DE ERNEY . . . General Manager First National
 Savings Bank.
 HENRY FELLNER Chairman First Hungarian Steam
 Milling Co. of Budapest.

EXC. GUSTAVUS GRATZ . . .	Ex-Minister of Foreign Affairs.
COUNT JOHN HADIK . . .	Ex-Minister of the Crown.
BARON JOHN HARKANYI . . .	Ex-Minister of Commerce.
BARON MAURICE KORNFELD . . .	Director National Bank of Hungary.
BARON PAUL KORNFELD . . .	Director Hungarian General Credit Bank.
BARON MARCEL MADAR-RASSY-BECK . . .	President Hungarian Discount and Exchange Bank.
EMIL MUTSCHENBACKER . . .	Managing Director Hungarian Agricultural Union.
COUNT LADISLAS SOMSSICH . . .	President Agricultural Union.
EXC. JOHN TELESKY . . .	Ex-Minister of Finance.

ITALY.

"The undersigned, whilst signifying their agreement with the spirit which has dictated the above manifesto, wish to place on record that had it been possible for them to co-operate in the framing of the document they would have preferred to give a different and more precise form to some of its passages. Above all, they would have liked that criticism should have been exercised not only as regards the excessive height of Customs tariff and the rigidity of Customs regulations in force in some countries, but also in respect of all the numerous forms of direct or indirect protection, discriminations or preferences, artificial subsidies and restrictions on emigration.

"With such reservations they willingly subscribe to the manifesto."

G. AGNELLI	President "Fiat" Co.
ANTONIO STEFANO BENNI	President of the General Fascist Confederation of Italian Industries.
BIAGIO BORRIELLO	Vice-President Union of Chambers of Commerce.
ETTORE CONTI	Senator and Industrialist.
RICCARDO GUALINO	President "Snia Viscosa."
FELICE GUARNERI	Director General Association of Italian Corporations.
GINO OLIVETTI	Chief Secretary General Fascist Confederation of Italian Industries.
NICOLA PAVONCELLI	President of the Board of the Bank of Italy.
ALBERTO PIRELLI	President Association of Italian Corporations.
L. TOEPLITZ	Administrator Banca Commerciale Italiana.

NORWAY.

CÆSAR BANG	President Federation Norwegian Industries.
E. G. BORCH.	President of the Royal Agricultural Society of Norway.
SIR THOMAS FEARNLEY	Shipowner.
KAMSTRUP HEGGE	President of Association of Norwegian Private Banks.
HIERONYMUS HEYERDAHL	Chairman Christiania Bank of Kreditkasse.
A. F. KLAVENESS	Shipowner.
N. RYGG	President of the Bank of Norway.
H. WESTFAL-LARSEN	President Norwegian Shipowners' Association.
WILH. WILHELMOSEN	Shipowner.

POLAND.

DR. HENRY ASCHKENOVI	Managing Director Banque d'Escompte de Varsovie.
STANILAW KARPINSKI	President Banku Polskiego.
EXC. MARJAN SZYDLOWSKI	Representative of Association of Mining Industries of Upper Silesia.
A. DE WIENIAWSKI	Vice-President Banque de Commerce.

ROUMANIA.

MAURICE BLANK	Vice-President Banque Marmoresch, Blank & Co., Bucharest.
M. OROMULU	Governor Banque Nationale de Roumanie.

SWEDEN.

GÄNNAR DILLNER	Managing Director Trafikaktiebolaget Grängesberg-Oxelösund, Stockholm.
J. S. EDSTROM	Managing Director Almänna Svenska Elektriska, Stockholm.
GUST EEMAN	General Manager Goteborgs Bank.
IVAR KREUGER	Managing Director Svenska Tandsticksaktiebolaget, Stockholm.
VICTOR MOLL	Governor Bank of Sweden.
O. RYDBECK	General Manager Skandinaviska Kreditaktiebolaget.

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HELMER STEN	General Manager Aktiebolaget Svenska Handelsbanken.
K. A. WALLENBERG . . .	Chairman Stockholms Enskilda Bank.
MARC WALLENBERG . . .	Chairman Swedish Bank Association.

SWITZERLAND.

G. BACHMANN	President Banque National Suisse Zurich.
FREDERICK DOMINICE . .	Adm. Union Financière de Genève.
LEOPOLD DUBOIS	Chairman Société de Banque Suisse.
ALBERT LOMBARD	Vice-President Swiss Association of Bankers.
RUDOLF SARASIN	President Chamber of Commerce, Basle.
CARL SULZER SCHMID . .	President Gebruder Sulzer Aktiengesellschaft, Winterthur.

UNITED STATES.

GATES W. MCGARRAH . . .	Banker, New York.
J. J. MITCHELL	President Illinois Merchants' Trust Co., Chicago.
J. P. MORGAN	Messrs. J. P. Morgan & Co., New York.
THOS. N. PERKINS	Delegation of the Citizens of the U.S.A., Member of the Reparation Commission.
MELVIN A. TRAYLOR . . .	President First National Bank, Chicago.
ALBERT H. WIGGIN	President Chase National Bank, New York.

APPENDIX II

OVERSEAS TRADE OF GREAT BRITAIN.*

THE overseas trade returns for January, 1927, supplied the usual statistics showing imports, exports and re-exports for the past year. In the *Board of Trade Journal* these figures are supplemented by an analysis showing the proportions of our trade with various parts of the world to our total trade. For purposes of comparison with earlier years, trade with the Irish Free State has been excluded. In 1926 imports from that country represented 3.29 per cent. of our total trade, exports 5.33 per cent., and re-exports 8.29 per cent. The following table shows the proportions of our trade with the rest of the British Empire and with foreign countries in 1913, 1924, 1925 and 1926 :—

	Imports from		Exports to		Re-exports to	
	Foreign Countries.	British Empire.	Foreign Countries.	British Empire.	Foreign Countries.	British Empire.
	%	%	%	%	%	%
1913 ...	75.13	24.87	62.82	37.18	87.58	12.42
1924 ...	73.00	27.00	62.22	37.78	88.22	11.78
1925 ...	70.37	29.63	60.82	39.18	89.40	10.60
1926 ...	72.73	27.27	55.21	44.79	88.71	11.29

The increase in the proportion of imports from foreign countries in 1926, in comparison with 1925, is chiefly due to the coal stoppage, as emergency supplies of fuel and iron and steel came mainly from foreign countries. Excluding coal, the proportion of imports from foreign countries was 71.73 per cent. in 1926, compared with 70.37 per cent. in 1925, and of exports 54.02 per cent., against 58.50 per cent. In 1925 we exported coal to the value of about £45,000,000 to foreign countries and £3,000,000 to British countries, while in 1926 the corresponding figures were £17,000,000 and £1,000,000.

The next table summarises the distribution of our trade by Continents, trade with the Irish Free State again being omitted :—

* Abbreviated from an article in the *Economist* of February 19th, 1927.

Year & Class of Trade.	Europe.	Africa.	Asia.	North America	South America	Australia, &c.	Total.
Imports—	%	%	%	%	%	%	%
1913.....	40.53	6.10	12.71	23.86	9.06	7.74	100.00
1924.....	33.30	7.76	12.75	27.72	9.70	8.77	100.00
1925.....	32.73	7.72	13.55	27.39	8.71	9.90	100.00
1926.....	36.53	6.77	12.58	26.36	8.62	9.14	100.00
British exports.							
1913.....	34.64	9.87	25.20	11.99	9.59	8.71	100.00
1924.....	33.49	10.36	24.30	13.02	7.99	10.84	100.00
1925.....	32.01	11.61	22.83	13.01	9.11	11.43	100.00
1926.....	26.29	12.00	25.24	14.18	8.93	13.36	100.00
Re-exports							
1913.....	56.02	3.31	2.48	32.26	1.97	3.96	100.00
1924.....	67.36	2.94	1.94	21.67	1.29	4.80	100.00
1925.....	66.21	2.87	1.85	24.45	1.13	3.49	100.00
1926.....	64.45	3.48	2.77	25.17	1.32	2.81	100.00

As regards imports, the most noticeable feature is the large increase in 1926 of imports from Europe. This was mainly due to imports of coal, and the large fall in exports to Europe was mainly due to decreased exports of coal.

A detailed analysis of the figures shows how trade with various countries has fluctuated. Imports from and British exports to the principal European countries measured by sterling prices are shown in the following table:—

(000's omitted.)

	Imports from				Exports to			
	1913.	1924.	1925.	1926.	1913.	1924.	1925.	1926.
France.....	£ 49,498	£ 72,836	£ 71,980	£ 64,753	£ 32,396	£ 50,000	£ 38,673	£ 25,213
Italy.....	8,131	18,312	19,436	15,776	14,640	17,804	18,979	10,603
Switzerland.....	11,070	19,434	19,033	13,693	4,212	11,298	9,204	6,195
Spain.....	15,976	23,635	23,657	20,734	9,728	13,082	12,715	8,951
Portugal.....	3,898	6,819	6,299	5,334	6,053	8,582	8,427	7,055
Belgium.....	23,426	36,980	36,236	45,214	13,528	23,117	19,662	15,013
Germany.....	80,411	36,897	48,156	72,685	40,677	42,644	44,206	26,343
Czechoslovakia..	..	13,491	10,737	10,920	..	1,376	1,560	1,330
Jugo-Slavia.....	..	494	369	405	..	1,122	1,285	867
Austria.....	..	2,511	2,598	2,391	..	2,370	2,212	1,906
Hungary.....	7,706	547	476	273	4,481	380	586	655
Greece.....	2,202	3,863	3,102	2,587	2,537	5,892	6,058	3,398
Roumania.....	2,037	2,203	2,278	2,672	1,947	2,856	3,077	2,613
Turkey (Europe)	1,165	1,195	847	952	2,414	3,316	3,574	2,406
Russia.....	40,271	*29,568	*32,887	*32,425	18,103	*6,974	*8,705	*7,718
Finland.....	..	13,812	13,223	13,285	..	4,659	3,959	2,772
Poland.....	..	8,387	5,143	8,525	..	3,499	3,708	2,471
Sweden.....	14,213	22,486	21,317	21,427	8,220	13,874	11,508	8,052
Norway.....	7,437	11,673	12,973	12,184	6,147	8,726	8,104	6,916
Denmark.....	24,053	48,890	49,303	47,960	6,061	13,780	10,987	8,715
Netherlands.....	27,913	55,990	62,000	65,535	22,794	34,649	36,526	26,754
Total.....	319,407	429,943	442,050	459,780	193,938	269,800	253,709	175,846

* Including Esthonia, Latvia and Lithuania.

With the insignificant exception of Hungary no country in the above list took a larger value of British exports in 1926 than in 1925, and in most cases the decreases were heavy, particularly in the cases of France, Italy and Holland. The value of British exports to Europe in 1926 was substantially lower than in 1913, and allowing for the increase in prices the falling-off in volume was very heavy.

The next table shows British imports from and exports to the United States and other foreign countries outside Europe :—

(000's omitted.)

	Imports from				Exports to			
	1913.	1924.	1925.	1926.	1913.	1924.	1925.	1926.
	£	£	£	£	£	£	£	£
United States . . .	143,854	244,878	250,282	231,532	30,478	54,575	53,451	49,05
Cuba	3,675	12,420	11,620	4,512	2,214	3,200	2,607	2,06
Mexico	1,880	5,935	5,323	6,017	2,333	2,443	3,137	2,76
Argentina	42,485	79,100	68,544	67,497	22,641	27,194	29,177	23,00
Brazil	10,008	4,794	5,843	4,237	12,465	13,678	16,145	12,61
Chile	5,359	10,911	12,276	7,758	6,010	5,359	6,028	5,66
Peru	3,178	9,720	8,511	7,486	1,488	2,739	2,384	2,35
Uruguay	2,749	5,452	4,867	4,546	2,916	3,214	3,168	2,37
Japan	4,389	7,454	7,348	7,423	14,783	26,923	16,448	13,96
China	4,672	13,765	13,739	11,554	14,845	20,354	14,555	16,42
Turkey (Asiatic). .	4,251	1,963	1,599	2,060	5,291	898	1,026	68
Egypt	21,395	38,268	34,235	25,014	9,805	15,123	16,441	11,04
Other countries . .	9,917	26,626	26,800	26,866	10,731	17,328	19,892	17,02
Total	257,812	461,286	451,087	406,522	136,000	193,028	184,457	159,03

It will be seen that the value of American products bought by Great Britain is four or five times that of British products bought by the United States.

More than half the 1926 fall in imports is accounted for by the United States and Cuba, but heavy declines are also shown by Chile (nitrate imports having dropped by over 50 per cent.) and Egypt. The lower value of imports from both the United States and Egypt was partly due to a fall in the price of raw cotton. Imports from China were £2,000,000 lower than in 1925, but the figure of £11,500,000 compares with only £4,500,000 in 1913.

Our last table gives the figures of trade with the various States of the British Empire :—

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(000's omitted.)

	Imports from				Exports to			
	1913.	1924.	1925.	1926.	1913.	1924.	1925.	1926.
	£	£	£	£	£	£	£	£
Canada	30,488	66,082	70,727	64,193	24,795	28,150	27,562	26,383
Australia	38,065	59,234	72,740	61,045	34,470	60,760	60,168	61,206
New Zealand ...	20,338	47,020	51,332	46,824	10,838	20,319	23,097	20,593
India and Ceylon	56,218	92,648	97,034	75,637	74,458	94,921	90,988	87,721
South Africa	12,495	18,049	25,196	18,913	22,185	30,266	30,688	32,164
West Africa	5,174	13,193	13,784	12,539	6,601	10,494	13,942	11,734
Mauritius	293	3,586	1,421	3,522	536	1,225	881	700
Straits Settlements.	15,880	10,583	18,770	19,890	5,836	8,286	11,517	11,515
Malay States ...	3,674	1,659	5,020	6,363	..	1,147	1,996	2,513
West Indies	2,116	4,789	5,929	4,789	2,339	3,766	4,004	3,536
Irish Free State.	..	51,239	43,394	40,857	..	42,372	40,162	34,764
Other Possessions	6,955	20,554	24,374	21,990	14,249	30,830	29,916	24,187
Total from Possessions..	191,516	388,616	429,721	376,562	195,307	332,536	334,921	317,016

Australia and South Africa are the only prominent exceptions to the general decline of exports in 1926 due to the Coal Strike.

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