

**THE
EMPIRE ECONOMIC UNION**

**THE FISCAL
SITUATION
TO-DAY**

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LONDON, S.W.1**

NOVEMBER 1937

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THE FISCAL SITUATION TO-DAY

CHAPTER I

GENERAL SURVEY

We are now in the sixth year of Britain's new fiscal policy and, accordingly, sufficient time has elapsed to make possible a fairly comprehensive survey of the results achieved and also to indicate the directions in which further advances should be attempted.

The course of events has completely falsified the two main doctrines of Free Traders, namely, that Protection would raise prices here relatively to prices in other countries, and that there would be no gain in employment owing to the fact that we should lose as much by the decline in exports as we should gain by the restriction in imports.

The bulk of the population are now clearly satisfied that on general economic grounds Protection coupled with Imperial Preference is the right policy. But we must recognise that the policy still has many convinced opponents. It is urged by them that Protection increases the danger to peace and has stimulated other countries to adopt the policy of national self-sufficiency, or autarky as it is sometimes described.

While there are no doubt many examples of economic pressure leading to war, there is no case on record that war has been caused by the adoption of a policy of Protection. On the other hand, it is very much the case that war or the fear of war has often been the cause of the adoption of a policy of Protection.

Our tentative beginnings of Protection in the years immediately following the Great War were clearly a result of the weaknesses in our economic structure which the War had revealed. We decided when we adopted Part I of the Safeguarding of Industries Act that certain Key Industries must be developed in this country because of our acute difficulties in 1914, which revealed to us that certain essential products had been imported mainly from the country with which we were then at war. What we did then, however, was trifling in relation to our general industrial position.

The real beginning in the recent policy of autarky came from Russia. The system adopted by that country carried with it the fact that all the external trade of that country

became a government monopoly. This was something which both in degree and kind went far beyond Protection. It was not merely the abolition of Free Trade but of Freedom to Trade, and it was linked later with the series of Five-Year Plans designed to make Soviet Russia independent of all imports, except of those primary products which were either totally unavailable or not available in sufficient quantities within her borders.

After the success of Signor Mussolini in establishing the Fascist régime in Italy he adopted a similar policy of autarky for Italy, but with the big difference that, broadly speaking, private ownership was preserved, subject to a considerable measure of governmental direction.

While the Union is not concerned with the political aspects of the policy of economic sanctions, nevertheless we desire to point out that the adoption of sanctions two years ago in connection with the Italo-Abyssinian dispute has stimulated to a marked extent Italy's policy of autarky.

Though Communists and Fascists are regarded as being complete opposites, there is a remarkable degree of similarity in the economic policies they have adopted. In both cases the strengthening of the respective countries against the possibility of war was claimed as one of the dominating factors.

The world trade crisis which began in 1929 created in Germany the conditions for a revolutionary change in the system of government, and as soon as Herr Hitler had obtained power he followed the example of Soviet Russia and of Italy by adopting a policy of autarky.

While it is true that this event happened shortly after we adopted the policy of Protection, no one would dream of suggesting that there was any connection between them.

France, whose economic difficulties arose partly from clinging too long to the gold value of the franc (which prevailed when we and many other nations had been forced off the gold standard), passed constitutionally through a revolution which gave her a Socialist Government for the first time. This Government has attempted to solve her problems by the sudden adoption of a series of social reforms of an advanced type but which were incapable of being financed at the moment of adoption. As a sequel she also is pursuing to an increasing degree the policy of autarky.

These four examples, to which may be added President Roosevelt's New Deal, are typical of a world-wide tendency.

Of all the great countries, we have been the most moderate in our efforts of self-sufficiency, and our belated tariff barriers were only erected when all our competitors had made it quite plain that they would not modify their protective ideals.

It is, therefore, inaccurate and clearly untrue to say that

our low tariff policy is calculated to promote world war, as some British Free Traders have suggested.

In view of the situation which now prevails throughout the world a new solution is urged by Free Traders—namely, that we should make a trade agreement with the United States in which we are to encourage greater imports into the United Kingdom of American agricultural produce. Clearly as a result we should prejudice our already depressed agricultural industry and weaken if not destroy our system of Imperial Preference. The advocates of the plan seem to ignore the fact that we already buy from the United States nearly three times as much as they buy from us. If a trade agreement is concluded it should aim at reducing this disparity and not stereotyping or increasing it. This movement for a trade agreement with the United States is being supported in some quarters with a degree of fervour which is matched by the vagueness of the expectations as to the terms that may be realised.

The visit to the United States some months ago by Viscount Runciman, then President of the Board of Trade, and the subsequent joint request of the British and French Governments to Monsieur Van Zeeland, the Belgian Prime Minister, to undertake an economic mission to the United States, naturally stimulated those who see in a trade agreement with the United States a solution of world economic problems. Now, however, there appears to be a greater general realization of the dangers involved in the proposal.

After this brief survey of what has been happening elsewhere, let us turn to an examination of what we in the British Empire have been doing and with what results.

When, in March 1932, we adopted a policy of Protection it was on the most moderate basis. No new duties were applied to any goods from Empire countries, while in respect of a very wide range of foodstuffs, raw materials and some manufactures, foreign goods remained on the free list, and only duties of ten per cent. were imposed on the remainder. Shortly after, as a result of recommendations of the Import Duties Advisory Committee, the duties on foreign manufactures were increased generally to twenty per cent. and there have been since a great many adjustments in detail, but broadly speaking it may be said that our protective tariff on competitive manufactures does not average much above twenty per cent.

As a result of the Empire Agreements entered into at Ottawa a considerable range of foreign foodstuffs and certain foreign raw materials were also subjected to very moderate duties, and in exchange for these preferences there were many important reductions in the duties on United Kingdom goods entering Empire countries.

In 1933 and subsequently trade agreements were made with many foreign countries, which, if unsatisfactory in some respects, secured to us advantages in others, generally in exchange for undertakings not to raise our duties on certain products above the levels prevailing at the time, while in some cases we made reductions in our duties.

The net result is that some of the barriers to British export are now substantially lower than they were in the days when we were still a Free Trade country. In later chapters we shall set forth in some detail the statistics showing what has happened, but the moderation of our policy, unduly moderate in our opinion, has been such that our imports in volume are now actually about three per cent. more than they were in 1931, the last year before we adopted Protection. By volume we mean the value of the trade year by year on the assumption that all prices had remained unchanged. The policy has, however, materially altered the character of our trade by increasing the proportion of raw materials in the total. These are in the aggregate bulkier and heavier than the finished goods made from them and thus the weight of imports has increased more rapidly than the volume, i.e. value on the basis of unchanged prices. According to the calculations of the Liverpool Steamship Owners' Association the weight of imports in 1936 was 72,000,000 tons as compared with 55,200,000 tons in 1931, the last year of Free Trade, and with 60,500,000 tons in 1929, the last year prior to the slump. These facts are an interesting commentary on the old Free Trade argument that a policy of Protection would prejudice shipping.

It is universally recognised that quantitative control of imports by Governments by the method commonly described as quotas, and also by exchange control, is open to many objections. We have no exchange control and our application of the quota system has been in relation only to a few articles and materials.

It can be said with very considerable truth that the Ottawa Agreements and our trade agreements with foreign countries, with all their defects, constituted the initial impulse to world trade revival, and to a large extent stopped the tendency in the Empire as a whole and in some of these foreign countries towards an undue development of autarky.

It is interesting to note that the United Kingdom to-day buys from foreign countries alone more goods than any other country buys from the whole world. We at least by that test are pursuing a "good neighbour" policy. It is not only the United Kingdom which is a good neighbour, but the British Empire as a whole, for in 1935, the latest year for which the statistics at the moment are available, the Empire Overseas bought £326,000,000 worth of goods from foreign countries

as compared with £264,000,000 worth in 1932. This large increase in the purchase of foreign goods by the Overseas Empire since the conclusion of the Ottawa Agreements shows quite clearly that foreigners, as a whole, have nothing to complain about.

The nature of the criticism of our economic policy by those of our fellow citizens who adhere to the principles of Free Trade seems to us to be ill-conceived. So far as world trade revival is hindered by trade barriers it is not ours which have caused trouble, but the older and stronger ones of other nations. Moreover, these other nations not only began the policy of autarky earlier, but have pursued it of recent years with a vigour far greater than ours. Accordingly, criticism of our economic policy by Britons merely encourages the nations which have high tariffs, extensive quota systems and rigid exchange control to continue on their present lines, and thus the criticisms defeat their own end. But in any event, it does not seem likely that any generosity or gestures on our part will induce these other nations to modify their policies. With most of these countries we have an unfavourable trade balance and, accordingly, they would be far more likely to modify their policies if we stiffened rather than weakened our present tariff. Nevertheless, the course of events may do something to induce the autarkic nations to modify their quotas and systems of exchange control, as it is those countries in particular which complain of their difficulties in obtaining raw materials. It is clearly a delusion that lack of colonies is the cause of their difficulties, as the Raw Materials Enquiry of the League of Nations has shown.

It is interesting that the Whitsuntide (1937) Conference in Paris of Parliamentary Commercial Committees and the July (1937) Conference in Berlin of the International Chambers of Commerce both passed resolutions which condemned quotas and exchange control. In both cases there appears to have been a frank recognition that straightforward tariffs properly conceived and administered were a more appropriate method of economic defence. These resolutions in Paris and Berlin are notable examples of the growing support for the policy which the Empire Economic Union has advocated from its inception. At the same time, we have never failed to recognise that in exceptional circumstances and in respect of special commodities the weapon of the quota might occasionally be of use.

The whole situation is still bedevilled by blind adherence to the unqualified Most-Favoured-Nation clause in respect of tariffs.

The Belgium-Netherlands negotiations for freer trade at Ouchy were rendered ineffective by this clause. Again the "Oslo" negotiations for freer Scandinavian trade appear to be

hampered in the same way, while political and economic appeasement amongst the Danubian countries is deferred in part because of the Most-Favoured-Nation principle. Logically, this principle should apply to quotas and exchange control as much as it does to tariffs, but while its meaning is clear in respect of the latter it is ambiguous in its application to quotas and exchange control. For this reason most countries have persistently sought to evade the principle of the Most-Favoured-Nation clause by entering into a variety of quota arrangements and exchange-control arrangements, some of them of a barter or semi-barter nature. Actually most of our own recent trade agreements, containing as they do a variety of quantitative provisions, fall into this category, and it would appear that it is precisely these quantitative provisions, in so far as they evaded the Most-Favoured-Nation clause, which have been the most valuable features of the agreements.

While some foreign nations did not like the Ottawa Agreements, none could deny the right of Empire Countries to make them, but they were only possible because the Most-Favoured-Nation clause did not apply. On the other hand, as soon as groups of countries which constitute a natural economic unit seek to apply the "Ottawa" principle the Most-Favoured-Nation clause blocks the way. The trade agreements which we have made with foreign countries could have been much more satisfactory to us and to them if we and they had not been compelled to extend to the whole world the mutual concessions in the agreements.

In these circumstances we have no hesitation in stating that it would be a first-class blunder on our part to agree to a modification of Imperial Preference for the sake of a general Most-Favoured-Nation low-tariff system, and that the right course is the replacement of the present rigid Most-Favoured-Nation clause by a conditional one which will allow a number of low-tariff groups to come into existence. In short, we come back to the conception of the three-decker tariff, without quotas or exchange control, as the system most calculated to stimulate the restoration of world trade.

In subsequent chapters we shall survey the results of the policy of Protection and Imperial Preference adopted by this country in March 1932, and we shall suggest those directions in which we think that experience has shown that changes are now needed.

CHAPTER II

RECORD OF ACTION TAKEN, 1932-1937

For a proper examination of the problem of the future of the fiscal policy of the United Kingdom it is necessary in the first place to set forth the present position. Import Duties Act.

Under the Import Duties Act a general *ad valorem* duty of 10 per cent. was imposed from March 1st, 1932, on all imports into this country except those contained in a schedule to the Act, commonly referred to as "The Free List", and those goods already dutiable under other enactments. The Import Duties Act also provided for the setting up of an Advisory Committee to consider applications for higher duties or for a transfer of dutiable goods from or to the free list. The recommendations of this Committee, known as the Import Duties Advisory Committee, if approved by the Treasury are given effect to by Orders made by the Treasury.

Where such orders impose additional duties they require to be confirmed within a prescribed period by a resolution of the House of Commons. Under this procedure additional duties at varying rates have been applied to most manufactured articles and to a variety of other goods, including more particularly agricultural and horticultural products. In general the tariff so created is an *ad valorem* tariff, though in the case of a number of the agricultural and horticultural products the duties are on a specific basis. Only in a few cases have combined *ad valorem* and specific duties been applied.

Under the Import Duties Act all goods coming from the Crown Colonies, including Protectorates and Mandated Territories (except Palestine, which is treated as a foreign country), were made free of all import duties imposed under the Act and the same principle was applied to the Dominions, India and Southern Rhodesia until November 15th, 1932.

As a result of the inter-Imperial Trade Agreements concluded at Ottawa in August of 1932, the duty-free admission of goods coming from Canada, Australia, New Zealand, South Africa, India and Southern Rhodesia was continued for the periods of these Agreements. Ottawa Agreements. No agreement was made with the Irish Free State and it accordingly ceased to enjoy duty-free admission after November 15th, 1932. Certain additional duties have been imposed on Irish products under the provisions of the Irish Free State Special Duties Act, which was passed as a consequence of the dispute in respect of the Irish Land Annuities.

Further, under the provisions of the Ottawa Agreements Act, higher duties than those provided in the Import Duties Act were imposed on a variety of foreign goods, in order

to give extended preference to Empire goods. Though these higher duties were imposed under the Ottawa Agreements Act, 1932, there is a provision in that Act to enable the Import Duties Advisory Committee to recommend still higher duties on foreign goods should they be necessary in the interests of United Kingdom producers.

Meat, which had been included in the free list in the Import Duties Act, was dealt with under the Ottawa Agreements by a plan of quantitative restriction from foreign countries under which the rate of restriction for certain classes of meat was progressively increased quarter by quarter up to that ended June 30th, 1934, after which date the meat situation was to be open to review.

In respect of dairy products, the free entry into the United Kingdom was guaranteed for three years certain from August 20th, 1932, that is to say till August 20th, 1935.

Generally speaking, apart from the two exceptions mentioned above, the Ottawa Agreements were to remain in force for five years from August 20th, 1932, in the case of Canada, Australia, New Zealand, South Africa, Southern Rhodesia and Newfoundland, while in the case of India the Agreement was terminable by six months' notice on either side.

The Ottawa Agreement with Canada was replaced by a new Agreement dated February 23rd, 1937. So far as this Agreement involved new legislation the necessary provisions were incorporated in Section 3 of the Finance Act, 1937, which, *inter alia*, provided that the Treasury should by order declare the date on which it should come into force. The date so fixed by the Treasury was September 1st, 1937. The Agreement is to remain in force up to August 20th, 1940, and is terminable on that date or subsequently by six months' notice. The Agreement provides for the free entry of Canadian goods into the United Kingdom, subject to the right of the United Kingdom to apply duties or quantitative restrictions to eggs, poultry, butter, cheese and other milk products from Canada, while maintaining the preferential margins over similar foreign goods. The preferences guaranteed to Canadian goods entering the United Kingdom are substantially the same as those in the original Ottawa Agreement, while United Kingdom goods entering Canada are to enjoy a substantial number of increased preferences. In Section 12 there are provisions which seem not to be very satisfactory for dealing with the dumping of Canadian goods in the United Kingdom.

As a result of a resolution passed by the Indian Legislative Assembly the Government of India on May 13th, 1936, gave notice of denunciation of the Agreement, which was to have taken place on November 13th, 1936. It was subsequently

agreed to continue the operation of the Agreement during negotiations which are still in progress.

It is understood that negotiations are in progress with the other Empire countries which were parties to the Ottawa Agreements, but no conclusions have yet been announced. If the new Agreement with Canada can be regarded as a precedent, it is presumed that the principle of the free entry of Empire goods, other than dairy produce, will be maintained at least until August 20th, 1940.

Following the passage of the Ottawa Agreements Act, the Board of Trade commenced negotiations with a number of foreign countries, and as a result Trade Agreements have been entered into with such countries since the passage of the Act, containing provisions either with regard to tariff and/or quantitative regulation of imports. The following is the list of countries with which such Agreements have been made, together with the earliest date on which the Agreements could have been terminated :

Trade Agreements with Foreign Countries.

TRADE AGREEMENTS

<i>Country</i>	<i>Date of Ratification</i>	<i>Earliest Date of Expiration</i>
Argentine Republic..	Ratified and in force 7th November, 1933	November 7th, 1936
	Since replaced by a new agreement dated December 1st, 1936.	
	In operation though not yet ratified ..	December 31st, 1939
Denmark ..	Ratified and in force 20th June, 1933 ..	June 20th, 1936
Estonia ..	Ratified 29th August, 1933. In force 8th September, 1933 ..	December 31st, 1936
Finland ..	Ratified 20th November, 1933. In force 23rd November, 1933	November 23rd, 1936
France ..	Not ratified, but in force 1st July, 1934..	March 31st, 1935
Germany ..	In force 8th May, 1933	Three months' notice
Iceland ..	In force 28th June, 1933	June 28th, 1936
Latvia ..	Ratified 2nd October, 1934. In force 12th October, 1934 ..	December 31st, 1936
Lithuania ..	Ratified 2nd August, 1934. In force 12th August, 1934 ..	December 31st, 1936
The Netherlands ..	Date of Notes 20th July, 1934.. ..	Three months' notice

Trade Agreements—continued.

Country	Date of Ratification	Earliest Date of Expiration
Norway ..	Ratified and in force 7th July, 1933 ..	July 7th, 1936
Poland ..	Ratified 24th July, 1935. In force 14th August, 1935 ..	December 31st, 1936
Soviet Russia	Ratified and in force 21st March, 1934 ..	Six months' notice
Sweden ..	Ratified 4th July, 1933. In force 7th July, 1933.. ..	July 7th, 1936
Turkey ..	Not ratified. Provisionally in force 4th June, 1935.. .. Since replaced by new agreement dated 2nd September, 1936. Not ratified, but in force fifteen days later ..	March 4th, 1936 Three months' notice
Uruguay ..	Ratified and in force on 3rd February, 1936..	Three months' notice

Except where stated to the contrary, all the Agreements above are terminable on six months' notice. In the case of Denmark there is no period of notice, the Agreement being kept in force through the currency of negotiations. In the case of the Agreement with France, three months' notice is required. In the case of Turkey two months' notice.

As a consequence of these agreements we are debarred from imposing any duties at all on some commodities and in the case of others of imposing duties higher than those specified.

The most important feature of the new Agreement with the Argentine Republic was the provision that the United Kingdom might impose duties of not more than 0½d. a lb. on chilled, frozen or salted beef and veal. Following on the Agreement the Beef and Veal (Customs Duty) Act was passed through Parliament and imposed such duties and certain *ad valorem* duties on beef and veal products as from 11th December, 1936.

Other Protective and Preferential Duties.

In addition to the duties imposed under the Import Duties Act and the Ottawa Agreements Act there are also a number of other duties, some imposed for revenue purposes and others imposed primarily for protective purposes. Chief amongst the former are the duties on wines, spirits, tobacco, certain dried fruits and sugar, all of which are of considerable importance from the point of view of Imperial Preference and the last also from the point of view of the protection of home-grown beet sugar.

The principal duties imposed for protective purposes under enactments other than the Import Duties Act are the McKenna Duties—that is to say, those on motor vehicles, musical instruments, clocks and watches and cinematograph films, under which Empire goods do not obtain duty-free admission but are dutiable at two-thirds of the rate applicable to foreign goods ; and the Key Industry Duties, first imposed under Part I of the Safeguarding of Industries Act, 1921, for five years, and continued with modifications under the Finance Act of 1926 for a further period of ten years. Again continued for ten years with further modifications by the Finance Act, 1936. In the case of these duties Empire goods obtain duty-free admission.

All the duties under the provisions of the Safeguarding of Industries White Paper of 1925, imposed by special Acts or by Finance Acts, have now come to an end and have been replaced by duties imposed under the Import Duties Act.

There are in being over forty Commercial Agreements with foreign countries under which we grant and obtain Most-Favoured-Nation treatment, and as a result of which we are debarred from imposing discriminatory duties or granting special concessions to the goods coming from any of those countries. The Most-Favoured-Nation clause should in logic apply to quantitative restrictions as well as to tariffs, but it is certainly being largely honoured in the breach at this moment by many countries, particularly in connection with quotas and systems of exchange control.

The Most-Favoured-Nation Clause.

Under Article 10 of our Commercial Agreement with Germany, signed in 1924, we are debarred from imposing any quantitative restrictions on imports from that country, with certain exceptions, however, relating to the traffic in arms, to restrictions that may be imposed for sanitary purposes, and to restrictions imposed where the sale of similar commodities is regulated internally. As a sequel to the Article referred to and the Most-Favoured-Nation clause in our treaties with other countries we cannot impose quantitative restrictions on goods from any country save in the case of the exceptions mentioned.

Quantitative Restrictions.

In order that we should not violate the terms of Article 10 of our 1924 Commercial Agreement with Germany the Agricultural Marketing Act of 1933 was drafted in the form of authorising the Government to impose by order quantitative restrictions on imports in respect of those goods only to which a marketing order had been applied or was in contemplation.

In the sphere of Imperial Preference many of the Colonies and Protectorates and all the Mandated Territories are debarred from giving preference to British goods for the following reasons :

Treaty Restrictions on Imperial Preference.

The Congo Basin Treaties restrict Kenya, Uganda,

Nyasaland, part of Northern Rhodesia, part of the Sudan, Zanzibar and Tanganyika Territory. In addition, the last country, as a mandated territory, is prevented from granting preferences under the terms of the Mandate.

Equally under their respective mandates British Togoland, British Cameroons and Palestine are debarred from granting us preference. Furthermore, Palestine, being administered under a Class A Mandate, has been treated fiscally as a foreign country and, accordingly, we are debarred from granting preference to Palestinian products. It is interesting to note that the Royal Commission on Palestine condemns this as being unfair to Palestine, and a view frequently expressed by the Empire Economic Union thus receives a most authoritative endorsement. Apart from the fact that the Congo Basin Treaties prevent a part of the Sudan granting us preference, the mere fact that the Government of the Sudan is a Condominium shared jointly by the United Kingdom and Egypt, which is a foreign country, prevents the Sudan granting preference to British goods, unless there were an agreement with Egypt to that effect.

In an Appendix we have set forth in rather more precise terms the details of the treaty restrictions on our fiscal freedom.

Up to October 22nd, 1936, the terms of the Anglo-French West African Agreement prevented Nigeria and the Gold Coast granting Imperial Preference, but as a result of the action of the French Government in denouncing Article 9 of this Agreement these Colonies are now free in the matter, though no action has yet been taken by us. Difficulties, however, still remain owing to the fact that British Togoland is administered integrally with the Gold Coast and British Cameroons similarly with Nigeria.

It is now necessary to examine in some detail the extent to which our liberty of action is restricted by the Trade Agreements with the foreign countries given in the list above.

**Limitations to
Restrictions
imposed by
recent Trade
Agreements.**

We have undertaken in the Agreement with the Argentine not to apply quantitative restrictions to the following commodities :

Wheat,
Maize, other than flat white,
Linseed,
Wheat Offals,
Raw Wool,
Unrefined Tallow,
Premier Jus,
Raw Horse Hair,
Sausage Casings,
Quebrache Extract,
Melons,
Asparagus,

and, accordingly, we cannot apply quantitative restrictions to these goods coming from any country with which we have a Most-Favoured-Nation agreement. Therefore, the practical effect is that we cannot apply quantitative restrictions to the imports of these goods coming from any foreign country. By the strict letter of the Ottawa Agreements we should not be prevented from applying quantitative restrictions to the goods of the above-mentioned kinds if coming from Empire countries, but obviously as long as we do not apply such restrictions to foreign countries it would be politically unthinkable to apply them in the case of Empire countries.

Under the new Argentine Agreement, the previous very unsatisfactory restrictions on our freedom to apply quantitative regulations to the imports of beef are replaced by a schedule of a more satisfactory kind, the text of which is too long to be quoted here.

In accordance with the Agreement with Denmark and several other countries we have undertaken not to apply quantitative restrictions to butter and fish below certain prescribed minima, and accordingly we cannot, during the currency of these Trade Agreements, use the method of quantitative restriction to reduce the total imports below a certain level.

In respect of eggs, cream, bacon and hams we have agreed to certain limitations of our power in the matter of quantitative restrictions, but not in the same rigid way as in the case of butter and fish.

It will be seen that, generally speaking, in respect of a range of very important agricultural products we have tied our hands to a very material extent in the matter of quantitative restrictions.

Turning now to the question of the effect on tariffs of the Trade Agreements with foreign countries, the following is a list of goods on which we have undertaken to impose no duties when imported from the country or countries concerned, and as a result of the Most-Favoured-Nation clause in our treaties with nearly all countries the goods mentioned below are on the free list from all countries for the duration of the Trade Agreements :

FREE LIST UNDER TRADE AGREEMENTS

Horses under 14 hands,
Mutton, Lamb and Pork, not Canned,
Bacon & Hams,
Maize in grain, not being flat white Maize,
Bilberries,
Hay & Straw,
Mohair (Raw),

Free List under Trade Agreements—*continued.*

Flax,
Wood Pulp,
Roundwood Logs of Pine, Spruce & Aspen,
Wooden Pitprops,
Wooden Telegraph Poles,
Fox Skins,
Seal Skins,
Kelp,
Talc,
Calcium Carbide,
Calcium Cyanamide,
Nitrate of Lime,
Crude Carborundum,
Raw Felspar,
Rock Crystal Quartz,
Ferro-Chromium,
Ferro-Manganese (Refined),
Ferro-Silicon,
Silico-Manganese,
Iron Pyrites,
Iron Ore,
Iron & Steel Scrap,
Pig Iron Ingots,
Wrought Iron Blooms, etc. (smelted with
Charcoal),
Band Saw strip over 4-ins. wide,
Molybdenum,
Nickel Unwrought,
Titanium Ores,
Vanadium Residues,
Vanadium-Titanium Pig Iron,
Newsprint,
Publications for Travel Purposes,
Harpoons & certain types of Machinery when
consigned direct to a registered shipyard.

In general it may be said that the goods in the foregoing list include many goods which in all probability we should have retained on the free list in any event, but there are certain exceptions, and certainly if those concerned with the preparation of this Memorandum had been responsible for the decisions, mutton, lamb, bacon, ham and newsprint most certainly would not have been on the free list.

The following list shows the goods in respect of which, as the result of tariff Trade Agreements with foreign countries, we are debarred from raising the tariff beyond the amount stated in respect of those goods when coming from the countries concerned.

As a consequence of the Most-Favoured-Nation clause the duty on these goods is in fact limited to the amount stated, irrespective of the foreign country from which they may come, provided, of course, that we have a treaty with that foreign country containing the Most-Favoured-Nation clause.

The description in the following list is not in all cases as complete as that set forth in the trade agreement and, therefore, in certain cases it is necessary, for the full information, to make reference to the various treaties :

GOODS IN RESPECT OF WHICH THE TARIFF IS LIMITED BY TRADE AGREEMENTS

<i>Article</i>	<i>Rate of Duty</i>
Chilled Frozen or Salted Beef & Veal	0¼d. per lb.
Boned & Boneless Beef & Veal & Edible Offal of Beef & Veal	20%
Canned Beef & Beef Extracts & Essences	20%
Canned Tongues	30%
Wheat	2/- per quarter of 480 lbs.
Rye in Grain	10%
Rye Flour	10%
Rye Crisp Bread	10%
Butter	15/- per cwt.
Eggs in shell :	
(a) not exceeding 14 lbs. in weight per great hundred	1/- per great hundred
(b) over 14 lbs., but not exceeding 17 lbs. in weight per great hundred	1/6 per great hundred
(c) exceeding 17 lbs. in weight per great hundred	1/9 per great hundred
Figs and Figcake	7/- per cwt.
Cream in hermetically sealed containers	10%
Certain Casein Plastics	10%
Rennet	10%
Geese, Live	10%
Guinea Fowl, Dead	10%
Meat Extracts & Essences & Meat preserve in airtight containers	10%
Cranberries	10%
Lettuce, Endive & Cherry (Salad)	5/- per cwt. from Nov. 1st to Feb. 29th
Asparagus	1½d. per lb. from March 1st to April 15th

<i>Article</i>	<i>Rate of Duty</i>
Sugar Beet	10%
Horseradish	10%
Cherries (preserved)	25% plus sugar duty
Valonia	10%
Hazel Nuts, not in Shell	10%
Fish, Fresh or Salted other than	
Shell Fish	10%
Prawns	10%
Fishmeal (excluding herring)	10%
Canned Herring	10%
Canned Bristling	10%
Grass & Clover Seeds (many kinds)	10%
Cut Flowers (certain kinds)	See Agreement with France.
Coconut Oil, refined	15%
Whale Oil & Hardened Whale Oil	10%
Hardened Fat from Marine Oil	
(other than whale)	10%
Linseed	10%
Yeast	4/- per cwt.
Granite :	
Chippings	10%
Setts & Curbs	15%
Raw in Blocks	10%
Macadam	10%
Flagstones (Quartzite)	10%
Slate in Rectangular Blocks	10%
Labrador (Syenite) raw in blocks	10%
Wood Flour	15%
Gypsum	10%
Quebracho Extract	10%
Annatto Colouring	10%
Timber :	
Hewn, Sawn & Planed Softwood	10%
Hewn & Sawn Birchwood &	
certain other Hardwoods	10%
Plywood of Birch, Alder or	
Softwood	10%
Softwood Sleepers	10%
Osiers or Willow Shoots	10%
Staves, not Hollowed or Bent	10%
Staves, Hollowed or Bent	20%
Wooden Sewing-thread Reels	15%
Match Splints in Bundles	20%
Thin Papered Board	15%
Sulphosin	10%
Organo-Therapeutic Agents (other	
than fine organic chemicals)	10%

<i>Article</i>	<i>Rate of Duty</i>
Acetic Acid	20%
Acetone	20%
Ammonium Nitrate	20%
Certain Fatty Acids	10%
Nitric Acid	15%
Iodine (crude)	10%
Formaldehyde	25%
Potassium Chlorate	10%
Sodium Chlorate	10%
Tartaric Acid	15%
Rosin (liquid)	10%
Soap Flakes, but not including soap powder	15%
Aluminium (Unwrought)	10%
Zinc (Unwrought)	10%
Machinery :	
Cream Separators	15%
Milking Machinery	15%
Certain other Dairy Machinery	15%
Centrifugal Separators, other than Cream	20%
Hay and Grass Mowers	15%
Coffee Grinders	20%
Meat Mincers	20%
Screw Taps and Dies	20%
Ball and Roller Bearings and Axle Boxes (not for motor vehicles)	20%
Certain parts of Electric Motors and Generators	15%
Iron and Steel :	
Certain classes of high-quality ingots, bars, rods, sections, forgings, hoop and strip plates and sheets	See page 20 of the Agreement with Norway for details of duties.
Weldless Steel Tubes	20%
Butt Hinges	20%
T Hinges	20%
Skates	20%
Hollow-ware, Wrought Enamelled	20%
Safety Razor Blades & Blanks	20%
Machinery Belting of Balata or Textile Material	15%
Blow Lamps (certain types)	20%
Incandescent Oil Lamps (certain types)	20%
Oil Stoves (certain types)	20%
Stoves for Domestic Heating with solid Fuel	15%

+ 1/- per gross

<i>Article</i>	<i>Rate of Duty</i>
Milk Churns	15%
Certain Kinds of Chairs	20%
Concave Chair Backs	20%
Chair Seats of Plywood	20%
Glacé Kid Leather	10%
Paper and Paper Boards (nearly all kinds)	15%, 16½% & 20% according to class
Cigarette Paper	16½%
Certain kinds of Rubber Boots & Shoes	8d., 10d., & 1/- per pair respectively
Real and Imitation Jewellery	25%
Powder Bowls and Powder Puffs	25%
Toys (many kinds)	15%
Christmas Tree Decorations	15%
Rucksacks	20%
Musical Instruments (many kinds) and Gramophones	10%, 15% and 20% according to class
Clocks and Clock Movements	20% and 25%
Raw Silk	} For details see Agreement with France.
Real & Artificial Silk Yarn	
Most kinds of Real and Artificial Silk Tissues	
Furskins sewn together for linings and trimmings .. .. .		20%
Carpets, hand-made but unknotted, to be charged as if machine-made	

There is no doubt that a great many items in this list were included without consultation with the British Industries affected, and in many cases contrary to the wishes of the industries affected. In general the effect of the limitation has been to preserve the level of the tariffs in operation at the time the Agreements were entered into, but in the case of certain goods covered by the Trade Agreement with Germany, reductions in the then existing duties were involved, and it will be remembered that these reductions were very strenuously resisted in Parliament. On the other hand, it is only fair to point out that as a result of the series of Trade Agreements, we have obtained undertakings not to increase existing duties (and in many cases to bring about a reduction in the duties in operation at the time the Agreements were signed), while many of the Agreements contain provisions under which we are assured immunity from restrictions up to limited maxima for certain commodities, of which coal is the most important. In addition they take note of certain Agreements made between British and Foreign Trade Associations which provide for increased sales of certain British goods.

CHAPTER III

PROTECTION AND INDUSTRY

In this chapter we examine briefly the trend of trade, employment and production over recent years. To attribute all the employment that has occurred since the summer of 1931 to our adoption in the spring of 1932 of a policy of Protection and Preference would be to overstate the case, because the influence of the trade cycle has also been at work, but the magnitude of the expansion in employment and production is so great that it is clear that it must be largely the result of the new policy adopted in 1932.

A picture of the trade situation as a whole is given by the following table showing the retained imports into the United Kingdom and the exports of the United Kingdom goods in 1924 and during the years from 1929 onwards. On account of the great price changes which have occurred during that period, statistics of monetary value alone would be misleading, and, accordingly, we have also included statistics of the volume of trade during those years; these statistics being obtained by revaluing the imports and exports in terms of the average prices which prevailed in 1930, the year adopted by the Board of Trade for that purpose up to and including 1936. For the first two quarters of 1937 the Board of Trade has used the average prices of 1935.

UNITED KINGDOM TRADE

£ Millions to Nearest £100,000.
Volume on the basis of 1930 Prices.

Year	<i>Retained Imports</i>		<i>Exports of U.K. Goods</i>		<i>British Trade in Value and Volume.</i>
	<i>As Declared</i>	<i>Revalued in 1930 Prices</i>	<i>As Declared</i>	<i>Revalued in 1930 Prices</i>	
1924	.. 1137·5	869·9	801·0	662·3	
1929	.. 1111·8	979·6	729·6	717·6	
1930	.. 957·1	957·1	570·8	570·8	
1931	.. 797·4	984·4	390·6	436·8	
1932	.. 650·8	866·6	365·0	438·5	
1933	.. 625·9	877·6	367·9	449·5	
1934	.. 681·1	928·9	396·1	481·8	
1935	.. 701·7	936·1	425·9	520·8	
1936	.. 788·5	1007·5	440·7	531·4	
Volume on the basis of 1935 Prices.					
1937					
1st Quarter	210·8	185·7	121·1	115·2	
2nd Quarter	232·1	193·6	130·1	119·2	
3rd Quarter	239·6	Not yet available	134·5	Not yet available	

We have not given the figures of total imports or the re-exports, because they are somewhat misleading owing to the fact that following on our adoption of a protectionist policy a considerable quantity of goods that previously appeared amongst the imports and subsequently amongst the re-exports are now transhipped under bond and are, therefore, omitted both from the total imports and from the re-exports. The total of these trans-shipments under bond was just over £19,000,000 in 1931, and judging by what has happened during the first nine months of this year they will total about double that amount during the whole of 1937.

From the above table it will be seen that between 1924 and 1929, which was a period of expanding trade, the volume of imports increased twice as much as the volume of exports. During the slump from 1929 to 1931 there was a slight increase in the volume of imports, while the volume of exports fell nearly 40 per cent. It is important to realise this, because it is the practice of certain advocates of the policy of Free Trade to compare the trade statistics of the present time with the year 1929 instead of with the year 1931, and this is clearly misleading for the purpose of controversy on the respective merits of Protection and Free Trade.

By combining the statistics in the second part of the above table with those in the first part it can be shown that in the second quarter of 1937 retained imports in volume were about 3 per cent. greater than they were for the quarterly average of 1931. It is indeed remarkable that this should be so, but the explanation lies in the fact that the 1932 policy did not impose any new duties on Empire goods, while the bulk of our raw materials from all sources remained on the free list. The volume of exports of United Kingdom goods has grown by about 31 per cent. between 1931 and the second quarter of 1937.

In the following table we show the changes in the volume of trade for the same period of years in respect of the three main groups into which our trade is divided. The 1937 figures are worked out on the basis of the prices of 1935, and by combining the two sets of tables we have given approximately the position in the first two quarters of 1937 on the basis of the 1930 figures, so that the picture may be shown from 1924 up to the present time.

It will be seen that the retained imports of Food, Drink and Tobacco in the second quarter of 1937 were somewhat below those of 1931, while the imports of Raw Materials showed an enormous increase, which was naturally to be expected from the adoption of a protectionist policy, but what will be surprising to most people will be to find that the retained imports of Manufactures are a little above the quarterly average of 1931 and substantially above those of all the other years in the table. This, however, is a little mis-

leading because included in our Manufactures are the two groups of non-ferrous metals and petroleum products, a very large proportion of which are non-competitive. Accordingly, we have worked out the next table showing the volume of retained imports of Manufactures excluding non-ferrous metals and oils, fats and resins.

INDEX NUMBERS OF VOLUME OF TRADE

Obtained by revaluing the trade of each year in terms of 1930 Prices.

Year	Retained Imports			Volume of Imports by Classes.
	Food, Drink and Tobacco	Raw Materials	Manufactures	
1924	95	100	77	
1929	99	112	100	
1930	100	100	100	
1931	108	94	102	
1932	104	96	65	
1933	102	105	67	
1934	103	112.6	78	
1935	101.5	113.1	82	
1936	104.9	128.1	90.1	
On basis of Quarterly Average of 1935 = 100.				
1937				
1st Quarter ..	97.2	114.7	114.8	
2nd Quarter ..	98.5	113.3	129.5	
On basis of Quarterly Average of 1930 = 100.				
1937				
1st Quarter	98.6	129.7	94.1	
2nd Quarter	100.0	128.2	106.2	

INDEX NUMBERS OF VOLUME OF RETAINED IMPORTS OF MANUFACTURES

Excluding Non-Ferrous Metals and Oils, Fats and Resins. 1930 = 100. Quarterly figures based on quarterly average for 1930.

Year					Volume of Imports of Competitive Manufactures.
1924 .. ..	..	..	..	..	80
1929 .. ..	..	..	..	..	107
1930 .. ..	..	..	..	..	100
1931 .. ..	..	..	..	..	103
1932 .. ..	..	..	..	..	57
1933 .. ..	..	..	..	..	57
1934 .. ..	..	..	..	..	65
1935 .. ..	..	..	..	..	68
1936 .. ..	..	..	..	..	79
1937					
1st Quarter	..	..	..	..	85
2nd Quarter	..	..	..	..	93

It will be noticed that while there was a very heavy fall in the imports of these competitive Manufactures in 1932 as compared with the imports in the last Free Trade year of 1931, importation has grown rapidly since and is now within 10 per cent. of the 1931 level and is very much above the 1924 level. It will be remembered that in 1923 a General Election was fought unsuccessfully on the issue of adopting a protective tariff then, and actually the volume of the imports of Manufactures was less in 1923 than in 1924. Roughly speaking it can be said that the retained imports of competitive Manufactures in the second quarter of 1937 were about 20 per cent. higher than the quarterly average of 1923, when they were so high that Lord Baldwin felt justified in risking his majority for the purpose of obtaining a mandate for a protective system. These statistics show that our protective system could with advantage be stiffened.

Turning now to the question of exports the following table shows the position in relation to the exports of United Kingdom Produce and Manufactures analysed on lines similar to those in a preceding table relating to imports. In considering this table it must be born in mind that the exports of Food, Drink and Tobacco generally comprise only about 7½ per cent. of our exports, those of Raw Materials about 12½ per cent. and that Manufactures represent the bulk, namely, about 80 per cent.

INDEX NUMBERS OF VOLUME OF EXPORTS OF U.K. PRODUCE AND MANUFACTURES

Volume of Exports by Classes.	Year	1930 = 100.		
		Food, Drink and Tobacco	Raw Materials	Manufactures
	1924	101	119	117
	1929	107	119	125
	1930	100	100	100
	1931	83	82	75
	1932	80	77	77
	1933	72	84	79
	1934	82	85	85
	1935	88	94	92
	1936	95	88	95

On basis of Quarterly Average of 1935 = 100.

1937	1st Quarter	110·2	100·2	109·7
	2nd Quarter	111·5	104·2	113·9

On basis of Quarterly Average of 1930 = 100.

1937	1st Quarter	97	95	101
	2nd Quarter	98	98	105

It was always predicted by Free Traders that if we adopted a protectionist system it would, on the balance of trade argument, gravely prejudice the exports of manufactures. What they overlooked was that the object of a protective tariff was not primarily to diminish imports but to alter their character by stimulating the imports of non-competitive goods in the place of competitive goods.

It will be seen that during the slump between 1929 and 1931 there was a catastrophic fall in the exports of Manufactures, but that following the adoption of a protectionist policy there commenced a gradual upward movement, which is taking place at an accelerated rate, and we have now recovered above the level of 1930, though we have not yet reached the 1929 level. In the exports of raw materials coal is, of course, the most important factor, and recently the exports of coal have moved up sharply and this explains the considerable increase in the exports of 1937 as compared with 1936.

Having examined briefly the changes in our overseas trade in recent years let us turn to a consideration of our industrial output. It is important to point out that the real test of our prosperity is the extent of our output and not the quantity of goods which pass in and out of our ports. It is now comparatively easy to present a comprehensive picture as a result of the information collected by the Board of Trade and published quarterly in the form of an Index of Production. This Index was started in 1928 and was based on the volume of production in the year 1924. The following table shows the position for each year for which the statistics are available from 1924 to 1934. It would take too much space to reproduce the whole, so in the following table we show the index for all groups, for the nine groups which represent factory production, and separately the figures for the mining and quarrying group. The Index is quantitative and therefore is not affected by the fluctuations in prices.

INDEX OF PRODUCTION IN GREAT BRITAIN

Basis 1924 = 100.

Year	Total	Factory Production	Mining & Quarry- ing Production
1924	100	100	100
1927	106.8	109.9	94.3
1928	105.5	109.4	89.2
1929	111.8	115.5	96.8
1930	103.3	106.1	91.3
1931	93.7	96.7	81.6
1932	93.3	97.2	77.5
1933	98.6	103.9	76.9
1934	110.5	117.4	82.8

It will be seen that production rose steadily and reached a peak in 1929, falling rapidly to 1931, with a moderate rise in 1933 and a very marked rise in 1934.

The figures for subsequent years are based on the production of 1930 being taken as equal to 100. The following table shows the position for each of the last three years and for the first two quarters of 1937, and by linking the two sets of tables we have expressed the figures for the second quarter of 1937 in terms of the 1924 basis.

NEW INDEX OF PRODUCTION IN GREAT BRITAIN

Year	Total	Basis 1930 = 100.		
		..	Factory Production	Mining & Quarrying Production
1934	106.0	..	108.5	90.6
1935	113.5	..	117.0	91.7
1936	124.6	..	129.4	94.4
1937				
1st Quarter	131.7	..	137.0	99.6
2nd Quarter	134.7	..	140.2	100.7
			Basis 1924 = 100.	
1937				
2nd Quarter	139.1	..	148.7	91.6

It will be seen that in the second quarter of this year production as a whole at 139.1 showed an increase over the previous peak year of 1929 of about 24 per cent. and over the slump year of 1931 an increase of about 48 per cent. This expansion would have been regarded as quite incredible if it had been predicted when in the Spring of 1932 we adopted a general protective policy.

PROTECTION AND EMPLOYMENT

The industrial aspect of Protection will be examined finally from the point of view of employment and unemployment.

The following table shows the number of insured persons in Great Britain who were unemployed at the end of June 1937, and at the corresponding date of the eight preceding years, shown separately for the non-manufacturing and manufacturing industries :

INSURED UNEMPLOYED IN GREAT BRITAIN

End of June	Non-Manufacturing	Manufacturing	Unemployment Statistics.
1929	582,556	545,339	
1930	800,083	1,050,698	
1931	1,153,873	1,479,089	
1932	1,377,539	1,392,730	
1933	1,298,234	1,131,262	
1934	1,172,102	893,425	
1935	1,115,494	820,722	
1936	1,004,158	640,785	
1937	825,635	480,426	

The slump which commenced in the Autumn of 1929 led to a larger increase in manufacturing unemployment than in all the other trades and industries for two reasons: the latter include many services in which employment fluctuates to a very small extent, at least over any comparatively short period of time, and they also include the building and contracting industries, the activity in both of which was stimulated by the various subsidy and relief schemes.

Following the adoption of a protectionist policy unemployment in the manufacturing industries had shown, for the reasons indicated in a previous paragraph, a small decline by June 1932, as compared with the year previous, but unemployment in the non-manufacturing industries continued to increase, partly through a natural time-lag and partly because of the cessation to a large extent of various forms of relief schemes. Since 1932 unemployment under both headings has fallen heavily, but to a much more marked extent in manufacturing industries than in the other group.

The figures of unemployment, however, are not the most satisfactory method of examining the situation, because when the insurance cards are changed at the beginning of July each year, it is found that there are always very large changes in the distribution of the insured persons amongst the different industries as well as an increase in the total, and, therefore, a better test is to examine the situation from the point of view of employment rather than that of unemployment. This has been done in the following table where the employment in all insured industries is shown in one column and in the next three columns this is sub-divided into "Mining and Quarrying", "Manufacturing" and "All Other Industries". The table relates to Great Britain and Northern Ireland, as the figures for Great Britain alone are not available.

NUMBER OF INSURED PERSONS, AGES 16 TO 64, IN EMPLOYMENT IN GREAT BRITAIN AND NORTHERN IRELAND

Figures in Thousands.

Employment Statistics.	End of June	All Industries	Mining & Quarrying	Manufacturing	All Other Industries
	1923 ..	9,890	1,265	4,885	3,740
	1924 ..	10,265	1,255	5,100	3,910
	1925 ..	10,177	984	5,090	4,103
	1927 ..	10,745	1,035	5,320	4,390
	1928 ..	10,602	911	5,266	4,425
	1929 ..	10,928	968	5,393	4,567
	1930 ..	10,493	909	4,988	4,596
	1931 ..	10,058	753	4,558	4,747
	1932 ..	9,960	694	4,567	4,699
	1933 ..	10,385	715	4,842	4,828
	1934 ..	10,835	707	5,096	5,032
	1935 ..	11,054	722	5,178	5,154
	1936 ..	11,631	711	5,512	5,408
	1937 ..	12,290	Not	Not	Not
		(Estimated)	available	available	available

The official figures for June, 1937, will not be available until the December issue of the Ministry of Labour Gazette, but the total for "All Industries" has been estimated from the available public information and is believed to be very close to the facts.

The figures in the above table are obtained by subtracting the number of persons recorded as unemployed from the number of insured persons in those groups, and they ignore any temporary unemployment arising from sickness and industrial disputes. The outstanding feature of this table is that the movements in employment are not nearly so violent as those in unemployment because, of course, there is a steady increase each year in the number of persons available for employment. This situation results from the growth of population coupled with a marked change in the age distribution following on the large decrease in both the birth rate and the death rate, the net result of which is that a growing proportion of the population are of working age.

The fact that in the last few years emigration has ceased and for the time being has become immigration has added still more to the numbers available for employment.

The figures for 1926 have been omitted, because of the disturbance caused by the General Strike and the Coal Dispute. Between 1923 and 1929 there was a considerable advance in employment in "Manufacturing", a much larger advance in "All Other Industries" and a very heavy decline in

"Mining and Quarrying". The slump which led to a very large decline in "Manufacturing" between 1929 and 1931 and also in "Mining and Quarrying" did not produce the same result in "All Other Industries", which continued to furnish increased employment, largely as the effect of the relief measures previously referred to, coupled with a very large growth of employment in the distributive trades caused by the higher standard of service.

In 1932 the position in "Manufacturing" was practically the same as in the previous year, while "Mining and Quarrying" still showed a considerable decline for the reasons already mentioned. From 1933 onwards, it will be observed that employment expanded at an accelerated rate in the case of "Manufacturing" and "All Other Industries", but remained stagnant under the heading of "Mining and Quarrying". When the correct figures for "Mining and Quarrying" for 1937 are available they will no doubt show a marked increase, and from such information as is at present available that increase will be over 100,000.

Satisfactory as this expansion is it must nevertheless be borne in mind that there were still about 1,400,000 registered unemployed insured and uninsured at the end of June, and this fact taken into relation with the rapid growth in the increase of competitive manufactures clearly indicates that there is still considerable room for further improvement by a more effective use of our tariff.

CHAPTER IV

PROTECTION AND AGRICULTURE

At no time within living memory has there been a better recognition on the part of the urban community of the importance of agriculture and the extent to which a revival of urban industry is dependent upon a prosperous agriculture.

Though in one sense agriculture is one industry it is, in fact, a group of a great many industries, and it is accordingly not easy to make an agricultural survey without considering the position of all the products in detail. The following table shows the imports of the chief agricultural products which compete with similar products of United Kingdom origin. There are important exceptions, consisting mainly of horticultural products, and in addition no account has been taken of the meat obtained from live animals imported for immediate slaughter.

Nevertheless, the commodities in the following table between them represent the great bulk of the output of British agriculture, and the imports of these commodities are accordingly a fair measure of the competition to which agriculture has been subjected :

RETAINED IMPORTS OF CHIEF AGRICULTURAL PRODUCTS WHICH COMPETE WITH SIMILAR PRODUCTS OF UNITED KINGDOM ORIGIN

Quantities in 1,000 Cwts. except in the case of eggs.

Article	1924	1929	1930	1931	1932
Wheat	116,708	110,821	103,595	118,877	104,627
Barley	21,607	11,951	15,188	15,367	10,122
Oats	10,248	6,915	9,584	8,766	6,445
Wheat Meal and Flour	10,623	9,616	11,554	10,573	8,429
Beef	13,029	12,288	12,476	12,781	11,964
Mutton and Lamb...	5,166	5,625	6,375	7,261	7,084
Pork	1,288	926	1,011	1,165	942
Bacon	7,349	7,927	8,834	10,744	11,189
Hams	1,575	1,006	984	815	788
Butter	5,096	6,274	6,649	7,709	8,059
Cheese	2,840	2,962	3,082	2,857	2,974
Condensed Milk (Whole)	692	656	624	706	598
Condensed Milk (Skimmed)	1,479	1,987	1,972	2,086	2,139
Potatoes	9,010	5,869	5,782	16,653	15,560
Eggs in Shell (1,000 Gt. hundreds) ...	20,280	24,964	26,541	25,925	19,995
Poultry, dead ...	274	533	555	651	503

Quantities in 1,000 Cwts. except in the case of eggs.

Article	1933	1934	1935	1936
Wheat	111,864	101,768	100,644	100,018
Barley	15,985	15,461	17,091	18,331
Oats	5,615	3,145	3,534	2,162
Wheat Meal and Flour	9,744	9,381	7,975	8,635
Beef	11,955	12,594	12,408	12,676
Mutton and Lamb	6,860	6,673	6,969	6,567
Pork	1,174	1,679	1,469	1,540
Bacon	9,009	7,534	6,833	6,517
Hams	860	725	678	673
Butter	8,746	9,596	9,481	9,683
Cheese	3,016	2,958	2,685	2,652
Condensed Milk (Whole)	525	465	382	321
Condensed Milk (Skimmed)	1,918	1,628	1,405	1,363
Potatoes	3,928	3,077	3,816	6,328
Eggs in Shell (1,000 Gt. hundreds)	18,373	18,734	19,767	24,653
Poultry, dead	489	442	414	414

While the figures in this table reveal the situation with respect to each individual commodity we cannot by a mere examination of them get a picture of the aggregate effect, and in order to obtain this the quantities during each year of each commodity have been valued in the terms of the average prices which prevailed in 1930 so that the whole importation may be expressed in a common denominator, and the following table expresses the aggregate value year by year for 1924 and the years 1929 to 1936 inclusive :

VALUE OF THE RETAINED IMPORTS, IN TERMS OF THE AVERAGE PRICES OF 1930, OF WHEAT, BARLEY, OATS, WHEAT MEAL AND FLOUR, BEEF, MUTTON AND LAMB, PORK, BACON, HAMS, BUTTER, CHEESE, CONDENSED MILK, POTATOES, EGGS, AND DEAD POULTRY

Year	£ Millions	Index Numbers of Volume of Competitive Agricultural Imports.
1924	226.4	
1929	230.0	
1930	243.5	
1931	259.7	
1932	246.1	
1933	246.9	
1934	246.6	
1935	240.5	
1936	244.3	

It will be seen that the highest level was reached in the year 1931. Following the adoption of moderate protection of agriculture in the Import Duties Act of 1932, a protection which was somewhat extended as a result of the Ottawa Agreements Act, there was a small drop in the retained imports of competitive agricultural products, and imports continued at about the same level during the next two years. In 1935 there was another small drop, but in 1936 it will be seen there was a small increase and the figures in that year were higher than in any year prior to 1931. It is clear from these figures that the protection given to agriculture has not been adequate. It is, of course, the case that all agricultural products of Empire countries come in duty free, but if a wiser policy had been adopted duties at moderate rates would have been applied to certain Empire agricultural products, more particularly to meat.

It is now necessary to turn and examine the position of employment in agriculture as shown by the annual census which has been taken each year at the beginning of June since 1921 (with the exception of the year 1922). The following table shows the figures :

AGRICULTURAL EMPLOYMENT

THE FOLLOWING TABLE COMPILED FROM THE AGRICULTURAL STATISTICS SHOWS THE NUMBER OF WORKERS EMPLOYED ON AGRICULTURAL HOLDINGS OF MORE THAN ONE ACRE IN GREAT BRITAIN ON ONE DAY IN THE MONTH OF JUNE IN EACH OF THE YEARS 1921 TO 1937.

Year	Number of Employed Workers	Year	Number of Employed Workers
1921	996,081	1930	857,204
1923	892,411	1931	829,073
1924	923,805	1932	808,738
1925	925,400	1933	828,011
1926	920,994	1934	799,800
1927	893,724	1935	786,700
1928	890,125	1936	751,200
1929	888,286	1937	741,300

It will be noticed that the decline in employment has been continuous and progressive, apart from a slight rise in 1925 over 1924 and a larger rise in 1933 over 1932. In 1937 it will be seen that the total was 87,773 lower than in 1931, which was the last Free-Trade year. It is understood that mechanisation is responsible for some of the decline, but, of course, if mechanisation had been taking place at a time when competitive imports

were being effectively reduced, employment would have expanded and not declined.

It is, unfortunately, the case that a large number of people think of agriculture merely as an industry in itself and forget the vital importance of a prosperous agriculture to our social life, to our health, to our national security and also as a very important element in maintaining the prosperity of our manufacturing industries. This latter importance can be illustrated by the following statement, which after careful study is believed to represent substantially the truth of the matter—namely, that rural Britain buys from industrial Britain nearly the same amount of manufactured goods as industrial Britain sells to nearly the whole of continental Europe.

CHAPTER V

TRADE WITH EMPIRE COUNTRIES

A full consideration of the problem of the trade with Empire countries would involve an examination of the transactions with each individual country and that would make this Memorandum unduly bulky, but a general picture can be obtained by a consideration of trade between the United Kingdom and all the other Empire countries, other than the Irish Free State. The Free State is left out because for the moment trade between that country and the United Kingdom is gravely disturbed as the result of the dispute over the Irish Land Annuities. It must be remembered that the Irish Free State did not make an agreement with the United Kingdom at Ottawa.

In the following table the statistics of imports, exports and re-exports are set out quarter by quarter from the beginning of 1931 up to the end of June 1937 :

TRADE OF THE UNITED KINGDOM WITH EMPIRE COUNTRIES (OTHER THAN THE IRISH FREE STATE)

Figures in £ Millions to nearest £100,000.

Quarterly Statistics of Trade with Empire Countries Other than Irish Free State.	Quarter	Imports						
		1931	1932	1933	1934	1935	1936	1937
	March	54·6	59·3	57·8	68·3	66·4	77·3	87·9
	June	55·4	56·6	58·2	64·4	69·3	81·1	102·0
	September	44·9	47·6	53·1	55·5	58·4	69·2	
	December	56·2	59·0	62·4	66·2	73·2	85·7	
		Exports of United Kingdom Goods						
	March	37·3	33·4	35·5	36·8	43·8	46·2	51·8
	June	34·9	34·9	32·7	38·9	42·1	44·6	56·4
	September	34·4	34·2	36·2	43·1	57·1	51·0	
	December	33·6	37·2	40·1	47·3	51·2	54·2	
		Re-Exports						
	March	2·0	1·7	1·4	1·6	1·4	1·4	1·5
	June	1·9	1·2	1·1	1·4	1·4	1·3	1·7
	September	1·7	1·2	1·6	1·3	1·5	1·4	
	December	1·9	1·5	1·6	1·5	1·7	1·7	

In endeavouring to interpret these figures it is necessary to realise the course of events. Through the coming into force on

March 1st, 1932, of the Import Duties Act we at once gave an enormous new range of preferences to Empire goods and, accordingly, the upward movement of imports from Empire countries commenced promptly. On the other hand, we could not expect to see quite such a prompt increase in our exports to Empire countries. We had long been receiving preferences from the Dominions, and there was no change in these preferences until after the Ottawa Agreements came into operation in the Autumn of 1932, and in many cases these Agreements involved the subsequent overhaul of Dominion tariffs, which was necessarily a somewhat lengthy task.

In respect of the Crown Colonies most of those which were free of international obligations had already been according us preferences for many years, but as soon as the Financial Resolution, on which the Import Duties Bill was based, had been passed by the House of Commons Sir Philip Cunliffe-Lister (now Viscount Swinton), then Secretary of State for the Colonies, addressed a despatch to all the Colonies which were free to take action inviting them to reciprocate, and as a result many existing preferences were largely extended, and several Colonies which had not previously granted preferences introduced them.

The Crown Colonies and Preference.

It must be realised that so far as the Crown Colonies are concerned, the population of two-thirds* of them lies in those parts of Africa which under existing international agreements are debarred from according preferences to British products.

The real upward movement in exports did not begin to show itself until the Autumn of 1933, since when the movement has been progressive. In the year 1934 for the first time on record the export of manufactures to Empire countries exceeded those to all foreign countries.

This state of affairs has prevailed since, and in the year 1936 exports of all kinds to Empire countries only fell short of those to foreign countries by just under £7,000,000. During 1937, however, exports to foreign countries have been growing somewhat more rapidly than those to Empire countries, due no doubt to the fact that the general trade revival which commenced in British countries has now become far more widespread.

The following table shows the trade with Empire countries as a whole and with foreign countries as a whole over a period of years.

* On the 22nd October, 1935, France gave notice of denunciation of Article 9 of the Anglo-French West African Convention of 1898 and, accordingly, as from the 22nd October, 1936, both the British and French Colonies in West Africa became free to grant preferences.

TRADE WITH EMPIRE AND FOREIGN COUNTRIES

Figures in £ Millions to nearest £100,000.

Year	Imports			
	From Empire	Countries	From	Foreign Countries
1929	..	358·4	..	861·9
1931	..	247·4	..	613·8
1932	..	248·4	..	453·5
1933	..	249·1	..	425·9
1934	..	271·3	..	460·1
1935	..	284·6	..	471·5
1936	..	332·6	..	516·3
1937 (6 months)		199·7	..	283·7

Exports of United Kingdom Goods

	To Empire Countries		To Foreign Countries	
	
1929	..	324·5	..	404·9
1931	..	170·7	..	219·9
1932	..	165·5	..	199·5
1933	..	163·5	..	204·4
1934	..	185·6	..	210·4
1935	..	204·3	..	221·5
1936	..	216·9	..	223·8
1937 (6 months)		119·3	..	131·9

Re-Exports

	To Empire Countries		To Foreign Countries	
	
1929	..	23·1	..	86·6
1931	..	16·1	..	47·8
1932	..	11·5	..	39·5
1933	..	10·4	..	38·6
1934	..	11·1	..	40·2
1935	..	11·0	..	44·3
1936	..	10·8	..	49·6
1937 (6 months)		5·7	..	40·5

The re-exports to Empire countries are small, because, of course, the great bulk of the re-exports from the United Kingdom consist of primary products which are re-exported to nearby industrial European countries, and at all times, therefore, the re-exports to Empire countries are likely to continue to be small.

INDIA

The Trade Agreement with India.

As India is in rather a different position from that of all the other Empire countries which entered into Trade Agreements at Ottawa it is perhaps worth while to set forth separately the position of our trade with that country.

Prior to the Ottawa Agreements India had only accorded preferences to British goods to a comparatively unimportant extent and only on a few commodities ; the United Kingdom, however, had from the first extended to India, as to all other parts of the Empire, all the preferences first established in 1919 and subsequently added to between that date and the passing of the Import Duties Act in 1932. Under the latter India was given, in common with the Dominions, full preferences until November 1932 pending the results of the Ottawa Conference. The Agreement with India made at Ottawa differed from those made with other Empire countries in that it was terminable at six months' notice. As mentioned in an earlier Chapter, as a sequel to a resolution passed by the Indian Legislative Assembly the Government of India gave notice on May 13th 1936, to terminate the Agreement as from November 13th of that year, but it was subsequently agreed to continue the Agreement in operation during negotiations, and these are still in progress. This arrangement equally applies to the supplementary trade agreement made in January 1934. The Agreement made at Ottawa provided for further additional preferences to India over and above those accorded as a result of the Import Duties Act and for the first time India gave to us a wide range of preferences amounting generally to 10 per cent. *ad valorem* on the goods concerned. The following table shows the imports from and the exports of United Kingdom goods to India quarter by quarter from the beginning of 1931.

TRADE OF THE UNITED KINGDOM WITH BRITISH INDIA

Figures in £ Millions to the nearest £100,00.

Quarter	Imports							Quarterly Statistics of Trade with India.
	1931	1932	1933	1934	1935	1936	1937	
March	9.5	9.5	7.8	11.3	10.0	12.5	14.9	
June	6.6	5.2	6.2	8.5	7.9	10.6	13.7	
September	8.3	7.3	10.3	9.6	9.8	12.4		
December	12.3	10.4	13.1	12.7	13.4	16.5		
	Exports of United Kingdom Goods							
March	9.3	8.5	8.7	8.7	10.0	9.1	9.5	
June	7.9	9.1	7.8	8.3	8.6	7.7	9.3	
September	7.5	8.3	7.9	9.3	8.9	8.5		
December	7.6	8.2	9.0	10.4	10.3	8.8		

The re-exports are small, averaging less than £200,000 per quarter.

It will be observed that British imports from India have risen to a very marked extent since the Agreement was entered into, but unfortunately it is not the case that there has been

TRADE WITH EMPIRE AND FOREIGN COUNTRIES

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TRADE OF THE UNITED KINGDOM WITH BRITISH INDIA

Figures in £ Millions to the nearest £100,00.

Quarter	Imports							Quarterly Statistics of Trade with India.
	1931	1932	1933	1934	1935	1936	1937	
March	9.5	9.5	7.8	11.3	10.0	12.5	14.9	
June	6.6	5.2	6.2	8.5	7.9	10.6	13.7	
September	8.3	7.3	10.3	9.6	9.8	12.4		
December	12.3	10.4	13.1	12.7	13.4	16.5		
	Exports of United Kingdom Goods							
March	9.3	8.5	8.7	8.7	10.0	9.1	9.5	
June	7.9	9.1	7.8	8.3	8.6	7.7	9.3	
September	7.5	8.3	7.9	9.3	8.9	8.5		
December	7.6	8.2	9.0	10.4	10.3	8.8		

The re-exports are small, averaging less than £200,000 per quarter.

It will be observed that British imports from India have risen to a very marked extent since the Agreement was entered into, but unfortunately it is not the case that there has been

any very considerable expansion in the exports of United Kingdom goods to India, and it is very much to be hoped, accordingly, that the Board of Trade in their present negotiations are taking full cognisance of the fact that the Agreement has been a disappointing one so far as the encouragement of exports of United Kingdom goods to India is concerned.

THE IRISH FREE STATE

The Dispute
with the Irish
Free State.

In order that the significance of the trade effect of the dispute with the Irish Free State may be realised we insert a table with regard to trade with that country similar to the table above with other Empire countries. The dispute, it will be remembered, began in the summer of 1932 and is still in progress, but an Agreement was entered into which came into force on January 1st, 1935, renewed with concessions on February 19th, 1936, and further concessions on March 1st, 1937, commonly known as The Coal and Cattle Agreement, under which there were provisions for encouraging the importation of Irish live cattle into the United Kingdom and the importation of British coal into the Irish Free State. It will be seen from the table below that as a sequel there has been an increase in the trade between the two countries.

TRADE OF THE UNITED KINGDOM WITH THE IRISH FREE STATE

Figures in £ Millions to nearest £100,000.

		Imports						
Quarterly Statistics of Trade with the Irish Free State.	Quarter	1931	1932	1933	1934	1935	1936	1937
	March	8.7	7.4	4.0	3.8	3.8	4.2	4.3
	June	8.0	7.1	4.1	4.2	4.6	4.9	5.5
	September	9.4	5.4	4.3	4.2	4.9	5.5	
	December	10.6	6.7	5.3	5.0	5.4	5.7	
		Exports of United Kingdom Goods						
March	7.1	7.0	4.1	5.0	4.9	5.1	5.3	
June	7.9	8.4	5.1	4.7	5.0	5.2	5.8	
September	7.6	5.4	4.7	4.5	4.9	5.1		
December	7.8	4.9	5.2	5.2	5.4	5.6		
		Re-Exports						
March	2.3	1.8	1.0	1.1	1.1	1.2	1.1	
June	2.2	1.7	1.2	1.4	1.3	1.2	1.4	
September	1.9	1.4	1.2	1.6	1.3	1.3		
December	2.2	1.2	1.2	1.2	1.3	1.3		

CHAPTER VI

TRADE WITH FOREIGN COUNTRIES

We now turn to an examination of the trade between the United Kingdom and foreign countries.

In view of the fact that since we adopted a protective tariff we have entered into trade agreements with sixteen foreign countries, it is important to consider what effect these trade agreements have had on our trade. In the case of a number of these countries the agreements are either too recent or of not sufficient importance to enable any substantial conclusions to be drawn, but there are five cases in which it is clearly desirable that the results should be examined. These are the four Scandinavian countries, Norway, Sweden, Finland and Denmark, and the Argentine Republic, where from the very nature of things the agreements are of great importance.

The following table shows our imports from and our exports to the four Scandinavian countries. Statistics of the re-exports are not included because they are small and therefore have not much importance.

TRADE OF THE UNITED KINGDOM WITH NORWAY, SWEDEN, FINLAND AND DENMARK

Figures in £ Millions to nearest £100,000.

Quarter	Imports							Quarterly Statistics of Trade with the Scandi- navian Countries.
	1931	1932	1933	1934	1935	1936	1937	
March	18.7	19.1	14.2	15.5	15.2	17.2	18.0	
June	19.4	16.9	16.8	17.6	16.8	20.9	21.5	
September	23.0	19.9	21.4	22.4	20.9	22.9		
December	21.2	18.0	18.6	19.1	19.5	22.4		
	Exports of United Kingdom Goods							
March	6.6	5.9	6.0	7.3	8.3	8.3	10.1	
June	5.6	6.2	6.4	7.8	8.3	8.5	11.4	
September	6.7	5.9	7.0	8.4	8.5	9.6		
December	6.6	6.8	8.0	8.7	9.2	9.9		

It will be seen that the imports from these countries declined to a moderate extent during the year that followed the adoption of our protective policy in March 1932. Since 1933, however, no doubt as a result of the trade agreements, imports from and exports to these countries have moved up, and recently at an accelerated rate. But it will be noticed that it is still the case that we import from these countries as a whole far more than we export to them. This is all the more remarkable having regard to the fact that the Scandinavian countries are those in which the bulk of the sea-borne

traffic is conveyed not in British ships but in the ships of the Scandinavian countries themselves. Furthermore, they are not countries in which there are very large British investments, and there seems no doubt that with these countries there is not merely an adverse balance of trade but also an adverse balance of payments. Under these circumstances there seems to be a strong case for a revision of these trade agreements on terms calculated to be more satisfactory to the United Kingdom.

The following table shows the position in respect of the Argentine Republic.

TRADE OF THE UNITED KINGDOM WITH THE ARGENTINE REPUBLIC

Figures in £ Millions to the nearest £100,000.

Quarterly Statistics of Trade with the Argentine Republic.	Quarter	Imports						
		1931	1932	1933	1934	1935	1936	1937
	March	13.8	14.3	11.9	12.5	11.7	11.4	19.5
	June	12.4	12.9	10.1	10.4	10.5	10.7	14.5
	September	12.4	12.6	10.6	12.3	10.7	10.8	
	December	14.2	11.1	9.2	11.7	11.1	13.6	
		Exports of United Kingdom Goods						
	March	5.0	2.6	3.3	3.2	3.6	3.9	4.8
	June	3.6	2.6	3.1	3.4	3.7	4.1	4.3
	September	3.5	2.9	3.4	4.3	4.1	4.0	
	December	2.7	2.6	3.3	3.8	3.8	3.7	

In considering the above statistics it is important to bear in mind that the Argentine Republic is the foreign country in which there are probably larger British investments than in any other foreign country, though incidentally it must be remembered that British investments in Australia are greater than those in the Argentine Republic.

Since we signed the Trade Agreement with the Argentine Republic in the Autumn of 1933 there has taken place, as will be seen, a very large increase in the imports from that country, and the most notable increase has occurred in the last twelve months. On the other hand, though there has been some expansion in the exports to the Argentine Republic, that expansion is comparatively small, and while in the first six months of this year the imports from the Argentine Republic were £12,000,000 greater than they were in the first six months of 1933, the exports of British goods to the Argentine Republic have only increased by £2,700,000. Against this must be set the fact that interest and dividend payments from the Argentine Republic in respect of British investments are now taking place to a much greater extent,

but even allowing for this it can hardly be said that the Trade Agreement has operated satisfactorily from the British point of view. Of course, it is not yet possible to judge what results may occur from the new Trade Agreement, the effect of which cannot have shown itself in the statistics given in the table above.

We now come to the trade with all other foreign countries (including the eleven other countries with which we have concluded Commercial Agreements), which between them take about 40 per cent. of the total exports of British goods. The following table shows the position :

TRADE OF THE UNITED KINGDOM WITH ALL FOREIGN COUNTRIES OTHER THAN NORWAY, SWEDEN, FINLAND, DENMARK AND ARGENTINA

Figures in £ Millions to nearest £100,000.

Quarter	Imports							Quarterly Statistics of Trade with other Foreign Countries.
	1931	1932	1933	1934	1935	1936	1937	
March	114.1	93.3	71.3	83.8	81.2	90.1	99.4	
June	112.8	73.0	71.9	81.8	80.8	85.7	110.8	
September	113.9	74.7	77.9	80.5	76.3	98.0		
December	136.7	88.2	92.5	93.8	109.5	114.9		
	Exports of United Kingdom Goods							
March	47.3	43.4	40.8	42.3	44.9	42.5	49.0	
June	43.8	42.6	38.3	40.2	42.0	39.4	52.3	
September	41.1	35.6	41.9	39.0	40.9	42.6		
December	46.1	42.5	42.4	42.1	44.6	47.3		
	Re-Exports							
March	12.5	12.2	9.8	11.5	10.7	12.6	15.5	
June	13.8	9.9	9.8	10.8	11.5	13.6	18.1	
September	8.4	6.6	8.7	7.2	8.6	9.8		
December	11.2	8.8	8.5	8.2	11.0	11.4		

It is interesting to contrast the figures in this table with those of the previous two tables in this chapter. The rate of expansion of imports from these other foreign countries was relatively moderate until a year ago, since when there has been a very rapid upward movement. When we come to the export position we see that these countries continued to buy British goods at a rate slightly, but not appreciably, higher than that which prevailed before we adopted our protectionist system, but beginning with the December quarter of 1936 the expansion developed rapidly, and in the June quarter of this year there was an expansion of nearly one-third over the June quarter of 1936. It is not easy to explain this situation except on the ground of a rapid upward movement in world trade.

Broadly speaking, the expansion of British exports to these other foreign countries has been proportionally at the same rate as to the four Scandinavian countries and at a rate enormously greater than the expansion to the Argentine Republic. It is frankly a little surprising that the rate of progress with these other foreign countries should be as great as, if not greater than, with those countries with which we have concluded trade agreements and to which we have granted very important concessions.

There is one other trade agreement that calls for comment because it is in a form substantially different from the others, namely, the Agreement with the Union of Soviet Socialist Republics, which was entered into on February 16th, 1934, and came into force on March 21st of that year.

Owing to the fact that the overseas trade of Russia is a government monopoly the Agreement was made on the basis of the balance of payments, in which there is taken into account not only the value of the goods imported and exported, but a number of other items including shipping services. It was provided that in the year ending the 31st December, 1934, British payments to Russia were to bear the relationship of 1·7 to 1 of the Russian payments to Britain, in 1935 it was to be 1·5, in 1936 1·4 and in 1937 1·2 and thereafter 1·1.

The published information with regard to Russian trade, of course, only shows the trade in goods. The following table shows the figures of this visible trade for each quarter from 1933 up to the present time.

TRADE WITH SOVIET RUSSIA

Figures in £ Millions to nearest £100,000.

Quarterly Statistics of Trade with Soviet Russia.	Quarter	Imports				
		1933	1934	1935	1936	1937
	March	2·7	3·5	2·2	2·3	3·1
	June	2·4	4·2	4·3	3·7	5·1
	September	6·0	5·0	7·1	6·8	
	December	6·3	4·6	7·9	6·2	
		Exports of United Kingdom Goods				
	March	1·3	0·7	0·7	0·7	0·5
	June	0·9	0·9	1·0	0·9	0·5
	September	0·6	1·1	1·0	1·1	
	December	0·5	0·9	0·8	0·8	
		Re-Exports				
	March	0·2	0·4	1·3	2·2	3·0
	June	0·2	0·8	1·3	3·5	4·4
	September	0·4	1·4	1·6	2·1	
	December	0·1	1·3	2·2	1·6	

It was expected at the time the Agreement was signed that the result would be a marked increase in the purchase of British goods, but it will be observed that the whole of the benefit of the Agreement has gone to increase the re-exports from this country to Russia of goods imported into this country from other countries. There are certain profits and commissions from such trade, but they represent a very small measure of employment of British labour, and clearly there is a case for a revision of the Agreement under the circumstances which would provide that a far larger proportion of the credits accruing to Russia in this country should be used for the purchase by Russia of the products of British industry.

In view of the controversy as to the desirability or otherwise of a trade agreement with the United States, the following table showing our trade with that country quarter by quarter is informative. It will be remembered that the Ottawa Agreements commenced to operate in the last quarter of 1932.

TRADE WITH THE UNITED STATES

Figures in £ Millions to nearest £100,000.

Quarter	Imports							Quarterly Statistics of Trade with the United States.
	1931	1932	1933	1934	1935	1936	1937	
March	28.3	24.4	18.4	21.7	20.5	23.8	23.7	
June	23.3	18.9	16.1	18.2	16.3	20.0	23.4	
September	21.1	15.5	17.8	17.4	19.0	19.0	26.4	
December	31.5	24.9	23.5	24.7	31.8	30.7		
	Exports of United Kingdom Goods							
March	4.5	3.7	3.3	4.9	5.1	6.9	8.9	
June	3.9	4.7	4.1	4.4	5.3	5.7	7.5	
September	4.3	2.7	6.6	4.0	5.5	6.6	7.3	
December	4.5	4.0	5.1	4.3	7.2	8.4		
	Re-Exports							
March	2.0	1.7	1.2	1.8	1.8	2.6	3.8	
June	2.3	1.4	2.3	1.7	1.9	2.2	2.8	
September	1.9	1.4	2.2	1.2	1.6	1.7	2.8	
December	1.7	1.2	1.3	1.0	2.0	2.8		

It will be seen that our imports from the United States are now running at a level substantially above that of the year 1932 and not materially different from 1931, which was the last year before the operation of the Import Duties Act.

Our imports from the United States are still much larger than our exports to that country, but it will be noticed there has been some expansion in the exports of United Kingdom goods and also some expansion in re-exports. The total, however, of the imports from the United States is about three times as great as the exports of United Kingdom goods to that country and about twice as great as the total exports.

CHAPTER VII

THE COMPETITION OF EMPIRE MANUFACTURES

When the late Mr. Joseph Chamberlain inaugurated his campaign for Tariff Reform and Imperial Preference in 1903 he contemplated in principle that Empire goods should enter this country subject to preferential rates of duty rather than that they should have duty-free entry. At that time the question as to which method should be adopted was largely academic so far as manufactured goods were concerned, but, as a result of the development of what are commonly called the secondary industries, some Empire countries are now substantial exporters of a considerable variety of manufactured articles.

It would appear to be the case that when the Import Duties Bill was introduced in January of 1932 this aspect of our protective policy had not received full consideration, and the decision to provide for unrestricted entry for Empire goods instead of preferential entry was arrived at, largely, no doubt, because account was taken only of the then existing situation in respect of agricultural products.

A New Fiscal Problem.

It is clear that a new fiscal problem is now developing arising out of the growth of manufacturing industries in the Dominions and India and in some of the Crown Colonies. As a sequel British manufacturers have not only found a greater measure of competition within the countries concerned, but also in so far as these new manufacturing industries are export industries they represent a new competition in other markets, and also now to some extent in our home market, and there is no doubt that this new competition is causing a good deal of concern to those engaged in many British industries. Those chiefly affected at present appear to be carpets, rubber goods, dressed and undressed leather, jute and coir goods and newsprint, while there are a number of other items of lesser importance.

In 1935, the latest year for which the information is at present available, the retained imports of articles wholly or mainly manufactured, other than manufactures of food, drink and tobacco, from Empire countries amounted to £33,798,391. The gross imports of manufactures from Empire countries in that year were £37,109,381.

The following table shows the gross imports by classes from Empire countries in the last five years and the first nine months of this year.

GROSS IMPORTS OF MANUFACTURES FROM EMPIRE COUNTRIES

Group	£1,000					1937
	1932	1933	1934	1935	1936	(1st 9 mths.)
Pottery, Glass, etc. ...	111	117	162	103	209	144
Iron and Steel ...	396	466	1,030	921	1,554	1,671
Non-Ferrous Metals ...	7,197	9,880	12,421	15,780	21,449	23,398
Cutlery, Hardware, Instruments, etc. ...	697	568	531	596	647	537
Electrical Goods and Apparatus ...	84	127	142	146	185	117
Machinery ...	1,339	588	628	8,711	1,065	1,279
Manufactures of Wood and Timber ...	308	344	452	658	1,157	924
Cotton Goods ...	167	150	86	99	192	136
Woollen Goods ...	560	560	713	667	704	653
Silk Goods ...	25	32	48	28	27	40
Other Textile Goods ...	2,749	2,167	2,445	2,645	3,622	2,884
Apparel ...	608	708	937	1,042	1,434	1,234
Chemicals, Drugs, Dyes and Colours ...	1,269	1,141	1,232	1,318	1,462	1,177
Oils, Fats and Resins ...	1,683	2,071	2,507	2,690	3,222	2,690
Leather and Manufac- tures thereof ...	3,478	4,220	4,178	4,060	6,231	5,532
Paper, Cardboard, etc. ...	2,922	2,915	3,166	3,318	3,370	2,772
Vehicles ...	712	616	702	934	780	556
Rubber Manufactures (other than Footwear)	64	175	118	83	106	120
Miscellaneous Manufactures ...	955	731	1,065	1,153	1,062	883
Total ...	25,324	27,576	32,563	44,952	48,478	46,747

Retained imports in the years 1932 to 1935 were rather more than 90 per cent. of the gross imports, and presumably about the same proportion will apply in 1936 and 1937.

Of the goods in that table, generally speaking, no objection can be taken to the bulk of the following imports: Non-Ferrous Metals, Oils and Fats and Resins, and Chemicals; and the same may be true of a certain proportion of the imports of Undressed Leather.

It may be worth while to consider in more detail the imports of some of those manufactured commodities from Empire countries which have been the cause of more particular concern to British manufacturers. The following table shows the position in respect of imports of Woollen Carpets from India for each of the last six years and for the first nine months of 1937:

IMPORTS OF WOOLLEN CARPETS FROM INDIA

1,000 Square Yards

Year			
1931	..	..	760
1932	..	..	1,073
1933	..	..	1,277
1934	..	..	1,752
1935	..	..	1,650
1936	..	..	1,596
1937 (9 months)	..	..	1,313

It will be seen that imports increased at a very rapid rate indeed between 1931 and 1934, after which there was a small decline, but the imports in the first nine months of this year are at a rate equal to, if not slightly higher than, those of 1934. The value of the imports is at present at an annual rate of approximately £750,000.

Rubber
Footwear.

In the case of Rubber Footwear the imports come from Canada and Hong Kong, those from Canada being of a more expensive and substantial character than those from Hong Kong. The following table shows the position over recent years :

IMPORTS OF RUBBER FOOTWEAR

1,000 Dozen Pairs

Year	Canada	Hong Kong
1931	191	Nil
1932	102	1
1933	191	79
1934	264	173
1935	283	200
1936	452	244
1937 (9 months)	336	335

It will be seen that in the case of Canada, apart from a reaction in 1932, imports have grown rapidly and are now at a rate more than twice as great as in 1931. The present annual value of importation from Canada is about £800,000.

In the case of Hong Kong the competition is a new one. In the early days of our protective tariff rubber manufacturers experienced very strong competition from Japan, but this was brought to an end by an adequate import duty. Im-

mediately after there commenced a very large importation from the Straits Settlements, the product of a factory controlled by Chinese capital and to a large extent apparently employing Chinese workpeople. This firm experienced financial difficulties and came to an end, but was promptly replaced by competition from Hong Kong. It will be noted that this competition has grown very rapidly and during the present year is at a rate nearly twice as great as it was in 1936. The value of the imports is now at an annual rate of about £225,000. This competition is regarded with the gravest anxiety by the British Rubber Footwear manufacturers, more particularly as it is understood that this footwear from Hong Kong is largely made by workpeople who are not British subjects but Chinese daily labourers who come into Hong Kong for the purpose of working in the factories. Nevertheless, the products of these factories are entitled as Empire goods to free entry into the United Kingdom.

The main source of Empire competition in Leather comes from India, and the following table shows the position year by year since 1931 :

IMPORTS OF LEATHER FROM INDIA

Year				Thousand Cwts.
1931	..	..	..	288
1932	..	..	..	306
1933	..	..	..	353
1934	..	..	..	373
1935	..	..	..	385
1936	..	..	..	461*
1937 (9 months)	..	..	..	403*

* Incomplete.

The figures for 1936 and for the first nine months of 1937 are not quite complete as the monthly returns do not analyse by source of origin certain smaller imports. Judging by previous years these would have raised the total for 1936 to somewhere between 480,000 and 490,000 cwts, and a similar adjustment would be necessary for 1937. It will be seen that the rate of importation in 1937 is approximately double the rate in 1931. The importation at the present time is of an annual value of approximately £5½ millions.

The imports of the manufactures of Jute come almost entirely from India, and the following table shows the position year by year in respect of piece goods and of bags and sacks :

IMPORTS OF MANUFACTURES OF JUTE FROM INDIA

Year	Piece Goods, Million Square Yards	Bags & Sacks, Thousand Cwts.
1931	57	679
1932	67	707
1933	55	552
1934	60	671
1935	71	714
1936	140	999
1937 (9 months) ..	132	752

Importation at the present time in the case of piece goods is at a rate more than three times as great as in 1931, while in the case of bags and sacks imports have grown by nearly 50 per cent. Imports are now taking place at the following approximate annual rate of value—piece goods £1,400,000, bags and sacks £1,230,000.

The Jute Industry is carried on in Great Britain mainly in Dundee and its activity is the principal source of employment in that city. Accordingly a new depression as a result of this competition would turn that city into a Distressed Area. Unemployment in the Jute Industry is at the moment far higher than in any other textile industry and was, in fact, at the end of August twice as high as the average for all other textile industries. Very fortunately for the Industry, exports have expanded considerably, more particularly to the United States, but it is believed that some of this trade is due to special causes and transitory, and if this temporary aid passes away the effect of the Indian competition will be felt much more severely.

Newsprint.

The last commodity to which we make reference is that of Newsprint. This, of course, is the essential raw material of newspapers. It is very largely produced in this country from imported wood pulp and to a much smaller extent from wood imported in order to be made into pulp in this country. There is also a very large importation of paper ready for use. Of the imports about 30 per cent. come from foreign countries and 70 per cent. from Empire countries.

For reasons which were political rather than economic Newsprint was the only manufactured article which under the Import Duties Act was placed on the free list when imported from foreign countries, and it is on the free list from Empire countries, first, under the Import Duties Act and, secondly, under the provisions of the Ottawa Agreements. The following table shows the imports from the two Empire countries from which Newsprint is drawn—namely, Canada and Newfoundland :

IMPORTS OF NEWSPRINT

Year	1,000 Cwts.	
	From Canada	From Newfoundland
1931	2,026	2,324
1932	1,410	2,418
1933	1,917	2,727
1934	1,571	3,532
1935	2,091	3,128
1936	2,552	3,469
1937 (9 months)..	2,055	2,627

It will be seen that importation, with occasional fluctuations, has been on a rapidly rising scale, and it is now coming from Canada at a rate 35 per cent. greater than in 1931, while the rate of expansion from Newfoundland is over 40 per cent. Imports from Canada are now at an annual rate of value of £1,150,000 and from Newfoundland at a rate of £1,550,000.

While for a variety of reasons it might be undesirable to impose a tariff for the purpose of producing a material fall in this importation, the case for a duty on all Newsprint, with a substantial preference in favour of Empire Newsprint, has certainly much to commend it, but of course nothing can be done during the duration of the new Trade Agreement with Canada, and having regard to the economic distresses in Newfoundland one would naturally hesitate to do anything to prejudice that Colony until she is once more on her feet. Nevertheless, the question of the competition of Empire Newsprint must be borne in mind.

CHAPTER VIII PROTECTION AND PRICES

During the period of controversy as to whether this country should adopt a system of protection or not, the question of prices was probably the one which caused the gravest anxiety amongst those who had not been convinced of the desirability of adopting a protective system. It accordingly seems worth while to see to what extent the price level of this country has been affected by our adoption of a protective system.

Effect of
Departure
from Gold
Standard.

The whole situation is complicated, of course, by our departure from the gold standard in September of 1931, which was accompanied by a marked fall in the exchange rate of the pound sterling in terms of the currencies of the countries that remained on the gold standard.

It was naturally anticipated that this fall in the exchange rate of sterling would be followed immediately by a marked rise in commodity prices here. As a matter of fact anticipations generally were not realised.

Change in
Wholesale
Prices.

Immediately following our departure from the gold standard the prices of most primary commodities, the whole or greater part of which we have to import, rose appreciably, but the prices of other commodities were little affected, and then the prices of those commodities which were initially affected commenced to droop, and the net effect on prices as a whole was negligible.

The general course of wholesale prices as shown by the Board of Trade Index Number is contained in the following table, in which we have shown the figures for the month of January in each year and for August 1937, the latest figures available at the time of writing, and we have also inserted those for August of 1936. The table shows the position in respect of all articles and also in respect of food, drink and tobacco.

BOARD OF TRADE WHOLESALE PRICE INDEX NUMBERS

Basis : Average of 1930 = 100.

Month	All Articles	Food, Drink & Tobacco Only
January 1930	.. 108.5	109.5
" 1931	.. 90.5	90.6
" 1932	.. 89.3	92.4
" 1933	.. 84.7	84.5
" 1934	.. 88.8	84.2
" 1935	.. 88.3	86.9
" 1936	.. 91.8	88.9
August 1936	.. 95.2	93.7
January 1937	.. 102.9	99.4
August 1937	.. 111.4	102.7

It will be remembered that the Import Duties Act came into operation on the 1st March, 1932, when duties of 10 per cent. were imposed on all articles other than those on the free list, while towards the end of April 1932, following on the recommendations of the Import Duties Advisory Committee, the general scheme of additional duties was introduced, the bulk of the additional duties being at the rate of 10 per cent., making 20 per cent. in all. In November of 1932 the further duties which followed from the Ottawa Conference came into operation. Though there have been many variations in detail since, these have not affected materially the general level of our protective system and, accordingly, between January 1932 and January 1933, the present system of Protection came into operation.

It will be seen from the above table that the wholesale prices both of All Articles and of Food, Drink and Tobacco were substantially lower in January 1933 than in January 1932. Therefore, clearly the introduction of Protection did not have the effect that Free Traders had always predicted.

It is interesting to examine the matter a little more closely by means of the Index Numbers which the Board of Trade publish and in which they analyse the prices of industrial materials other than fuel under three categories, Basic Materials, Intermediate Products and Manufactured Articles. In this table we have given the figures for the same dates as in the previous table, but we have also inserted the figures for April 1937, as that was the month during which Basic Materials reached their highest level.

WHOLESALE PRICES

Industrial Materials (other than fuel)

Basis : Average of 1930 = 100.

Month		Basic Materials	Intermediate Products	Manufactured Articles
January 1930	..	116.3	108.0	103.7
„ 1931	..	81.3	89.3	95.7
„ 1932	..	77.4	86.0	93.2
„ 1933	..	70.9	83.3	92.6
„ 1934	..	91.9	88.0	94.6
„ 1935	..	85.7	86.3	94.7
„ 1936	..	95.4	89.9	96.0
August 1936	..	98.6	93.9	98.9
January 1937	..	116.7	103.3	102.2
April 1937	..	132.2	107.5	108.4
August 1937	..	128.5	112.4	115.4

Here again it will be seen that the evidence supports the contention that our introduction of Protection did not bring

about any increase in the wholesale prices of manufactured articles. The Basic Materials concerned are in the main imported and in most cases duty free whether from foreign or Empire countries. The rise in the price of these Basic Materials since 1933 is due to world conditions and clearly not caused by our protective duties on other articles.

The prices of Intermediate Products and of Manufactured Articles, it will be noticed, do not fluctuate with the same degree of violence as Basic Materials because they contain in their price elements of wages and of standing charges which have not varied to anything like the same extent as Basic Materials have varied. It will be seen, moreover, that the price changes of the Intermediate Products and of Manufactured Articles lag, as one would expect, behind the changes in prices of Basic Materials. It will be noted that not until 1935 did the prices of Manufactured Articles creep up to the level even of 1931 and that no marked change took place until the present year, and this latter change was clearly a sequel to the heavy rise in the prices of raw materials and not to our tariff, and naturally the rise in the price of Manufactured Articles, owing to the time lag referred to, has continued after the slight reaction in the price of Basic Materials which has occurred since April 1937. From the point of view of examining the argument as to whether a protective system has brought about a rise in prices the proper test is wholesale prices; nevertheless, the minds of ordinary citizens are influenced by retail prices with which they are directly concerned.

Retail Prices.

The Cost of Living Index Number prepared by the Ministry of Labour and published monthly contains an element in respect of rent, and this element has been rising slightly but steadily owing to the increasing proportion of the population that are living in new houses, the rents of which of necessity are higher than the rents of the pre-War houses which are controlled by the Rent Restriction Act. This element in the cost of living has nothing to do with the issue of Protection and Free Trade. Therefore, in the following table of retail prices we have shown the other four elements from which it is built up, namely, Food, Clothing, Fuel and Light, and Miscellaneous :

RETAIL PRICES

July 1914 = 100.

First of Month	Food	Clothing	Fuel & Light	Miscellaneous
January 1930	157	215	175	180
„ 1931	138	205	175	175
„ 1932	131	190	175	175
„ 1933	123	185	172	172

First of Month	Food	Clothing	Fuel & Light	Miscel- laneous
January 1934	124	185	172	172
„ 1935	125	187	172	172
„ 1936	131	185	175	170
August 1936	129	190	172	170
January 1937	136	192	177	170
April 1937	135	197	177	172
August 1937	140	205	175	175
Sept. 1937	140	205	177	175
Oct. 1937	143	208	180	175

From the above table it will be seen that there is no evidence whatsoever that prices were influenced adversely from the point of view of the consumer by our adoption of a protective tariff. The rise in the cost of living, nearly all of which has taken place in the last eighteen months, is a sequel to the rise in the price of Basic Materials, and more recently has been influenced by increases in wage rates.

It seems possible to assert with confidence that the predictions of Free Traders as to the price effects of tariffs in this country have been completely belied. On the other hand there does not seem to be much doubt that in the case of some commodities, the whole of the supplies of which we are not capable of producing for ourselves, it would be possible to raise the price level by means of tariffs provided the tariffs were applied to supplies from both foreign and from Empire countries, and provided that the tariffs were fixed on a sufficiently high level so that the overseas suppliers were no longer able to meet the burden of the tariff by reducing the prices at which they offered goods for sale to this country.

Predictions of
Free Traders
belied.

CHAPTER IX

BRITISH SHIPPING

In the last twelve months an almost dramatic change has come over the shipping situation, with the result that at the moment practically every British ship is actively employed, whereas only a few years ago a very large proportion was laid up.

With better employment freight rates have risen, and so far as the freight side of the shipping business is concerned it is no doubt earning substantial profits, though the situation does not appear to be so satisfactory in reference to the passenger side of the industry. Most shipping companies have large arrears of depreciation to provide, and activity will be necessary for a substantial period if these arrears are to be provided for and the industry once again put on a thoroughly sound basis.

World
Tonnage of
Shipping.

The present activity of shipping, however, must not blind us to the fact that the position of British shipping in the world is far less satisfactory than it was in pre-War days. Basing ourselves on ocean-going tonnage, which may be defined as consisting of vessels of a gross tonnage of 2,000 and upwards, the following table shows the position in June of 1914 and at the same date of 1929, 1936 and 1937 :

NUMBER AND GROSS TONNAGE OF VESSELS OF 2,000 TONS AND UPWARDS

	June 1914		June 1929	
	Number of Ships	Gross Tonnage	Number of Ships	Gross Tonnage
United Kingdom	3,706	17,055,000	3,021	17,618,000
Other British Countries	200	644,000	442	1,874,000
Foreign Countries	4,027	16,337,000	6,996	33,911,000

	June 1936		June 1937	
	Number of Ships	Gross Tonnage	Number of Ships	Gross Tonnage
United Kingdom	2,442	15,084,000	2,454	15,292,000
Other British Countries	431	1,933,000	431	1,919,000
Foreign Countries	6,717	34,276,000	6,873	35,313,000

It will be seen that in 1929 the tonnage of British shipping was only slightly greater than that of 1914, Empire tonnage, a small proportion of the total, had trebled, while foreign tonnage had doubled. In 1936, after the long period of depression, British tonnage had fallen substantially from 1929, Empire tonnage was about the same, while foreign tonnage showed a small increase. In 1937 as compared with 1936 there is shown a small increase in British tonnage and a substantial increase in foreign tonnage; summarising we find that in 1914 United Kingdom tonnage was one-half the world total—it is now less than a third.

As a result of the fact that ships are now much larger it will be seen that there has been a very heavy drop in the number of British ships. Of course, larger ships are adopted because no doubt they are found to be more profitable than the smaller ones of pre-War days and, in addition, they are much safer. If we should ever be engaged in a major war, however, the reduction in the number of ships increases the threat to our supplies of food and raw materials, because the loss of each ship becomes more serious in relation to the total. Against this may be set the fact that with a system of convoy there will be less ships to be protected and, therefore, to that extent the burden upon the Navy will be reduced. On balance, however, it would appear that we are weakened by the fact that we only have two-thirds of the number of ocean-going ships that we possessed in 1914. In that year the number of British ships was almost equal to the number of foreign ships, while to-day foreign ships are nearly three times as numerous as the British.

Prior to the adoption of a protective tariff it used to be urged that the policy of Protection must injure British shipping, on the ground that it would reduce the amount of traffic to be carried. That this was an unsound argument is shown by the statistics prepared by the Liverpool Steam Ship Owners' Association, which each year makes a careful estimate of the weight of the goods carried in and out of the United Kingdom. The following table extracted from the Reports of the Association gives the figures for 1913 and for each of the last ten years. In the case of exports, Coal, Coke and Manufactured Fuel, which constitute by weight by far the greater part of our exports, have been shown separately. The remainder of our exports, which consist mainly of highly finished goods, are relatively light :

Protection of Shipping.

WEIGHT OF IMPORTS AND EXPORTS

In 1,000 Tons.

Year	Imports	Exports and Coal, Coke and Manu- factured Fuel	Re-Exports Other than Coal, etc.
1913	56,002	76,687	16,937
1927	61,500	54,304	14,900
1928	56,500	53,684	15,650
1929	60,500	64,401	16,950
1930	58,700	58,350	13,900
1931	55,200	45,909	10,350
1932	52,300	41,895	10,100
1933	55,400	42,148	9,750
1934	62,400	42,582	11,050
1935	62,800	41,870	11,550
1936	72,000	37,361	11,650

It will be seen that in 1936 imports were far higher than in any previous year and were actually 17 per cent. greater than in 1927, the highest year during the era of Free Trade. On the export side in the case of traffic Other than Coal, etc., there has been a considerable, though not large, increase, but the figures remain below the pre-slump era, though as we saw in a previous chapter the volume of exports has grown more rapidly than the weight figures indicate. This is due to the fact that owing to the development in manufacturing processes, the amount of employment in each ton of finished goods is now much greater than in the past.

When we examine the exports of Coal, Coke and Manufactured Fuel the position in 1936 was very unsatisfactory, but with the sudden change that has come over the situation, 1937 will show a marked improvement, for in the first nine months of the year the exports have expanded by 4,879,000 tons and if this continues the exports will be higher than in any year since 1931.

At this point it may be convenient to refer to the marked change in our whole national economy which has been brought about by the development of the internal combustion engine. In 1913 we imported petroleum and petroleum products for use as fuel of a value of £7,645,000, while our exports of coal, coke and manufactured fuel were worth £53,658,000. In 1936 the imports of petroleum and petroleum products for fuel were worth £32,820,000, while the exports of coal, coke and manufactured fuel were slightly less at £32,304,000. During the present year, apparently as a result of larger quantities and still more as a result of the advance in prices, there have been increases in both, and during the first nine

Balance of
Trade in
Fuel.

months of 1937 the imports of petroleum, etc., amounted to £32,694,000, while the exports of coal, etc., were £30,653,000. Whereas in 1913 the transactions in fuel gave us a favourable balance of payments of £46,013,000, in the first nine months of this year there has been an adverse balance of £2,041,000.

In this chapter we are not primarily concerned with the financial aspect of this very important change, but with the shipping aspect. It is now necessary to have a very large number of oil tankers, which come into this country full and depart empty, while in pre-War days it was the case that the weight of exports as a whole was much greater than the weight of imports, and there was a very large tonnage primarily designed for carrying coal out of the country, but not always able to obtain full return cargoes. About one-sixth of the gross tonnage of British shipping now consists of vessels fitted for carrying petroleum in bulk.

The Board of Trade has recently published a new statistical table which shows the nationality of carrying vessels in the oversea trade of the United Kingdom in 1936, and the following table consisting of information extracted from that Report throws some interesting new light on the situation :

TRADE AND SHIPPING IN 1936

	Total	Carried in British Ships	Percentage in British Ships	Trade and Shipping in 1936.
	£	£		
<i>Imports from</i>				
Empire Countries	328,159,000	306,606,000	93·4	
Foreign Countries	510,435,000	263,474,000	51·6	
<i>Exports of U.K.</i>				
<i>Goods to</i>				
Empire Countries	207,515,000	204,505,000	98·5	
Foreign Countries	218,465,000	137,115,000	62·8	
<i>Re-Exports to</i>				
Empire Countries	10,084,000	9,965,000	98·8	
Foreign Countries	48,755,000	24,529,000	50·3	
<i>Total Trade</i>				
Empire Countries	547,758,000	521,076,000	95·3	
Foreign Countries	777,655,000	425,118,000	54·7	

It will be seen that so far as traffic between the United Kingdom and Empire countries is concerned 95·3 per cent. of the total is carried in British ships, whereas of the traffic between the United Kingdom and foreign countries only 54·7 per cent. is carried in British ships, and that though our total traffic with foreign countries is much greater than that with Empire countries, nevertheless the traffic with Empire countries affords much more employment to British ships

than traffic with foreign countries. Under these circumstances the more we stimulate Empire trade by means of preference the greater the amount of employment we obtain for British ships, even in the extreme case where our total trade fails to increase.

The Report referred to contains a mass of most interesting statistics, all fully worth the close study of those interested in shipping, but we only make one further extract, namely, in the following table, which shows the proportion of imports from and exports to a selected number of countries in vessels of various nationalities :

PROPORTION OF IMPORTS FROM DIFFERENT COUNTRIES IN VESSELS OF VARIOUS NATIONALITIES

Baltic Shipping and British Trade.	British Ships	Ships of Foreign Countries Concerned	Ships of Other Countries
Finland ..	6.0	56.2	37.8
Norway ..	22.0	73.7	4.3
Poland ..	24.2	Not Given	75.8
Russia ..	14.2	Not Given	85.8
Sweden ..	17.7	71.9	11.4
Denmark ..	10.0	88.6	1.4

EXPORTS

Finland ..	5.8	82.5	11.7
Norway ..	25.8	70.6	3.6
Poland ..	24.0	Not Given	76.0
Russia ..	10.8	Not Given	89.2
Sweden ..	39.9	51.7	8.4
Denmark ..	41.2	45.4	3.4

With one exception the countries mentioned are what may be briefly described as the Baltic countries, and it will be seen that in respect of both imports from and exports to these countries British shipping has a very poor share of the total. These six countries are the foreign countries with which, apart from the Argentine, we have made our most important trade agreements, and whatever advantage those trade agreements may have brought to our manufacturing industries, it is clear that British shipping cannot be deriving any marked advantage. It is interesting, for example, to contrast Denmark, our largest foreign supplier of dairy products, with New Zealand, our largest Empire supplier of such

products. In the case of New Zealand 99.9 per cent. of the imports come in British ships and 100 per cent. of our exports to that country are carried in British ships, whereas it will be seen from the above table British ships only carry 10 per cent. of the imports from Denmark and 41.2 per cent. of the exports to Denmark.

While no steps have been taken to use our tariff directly for the purpose of assisting British shipping it is clear that Imperial Preference has helped, and that the policy of Protection by stimulating the imports of raw materials has also been an important factor.

In recent years British shipping has suffered very severely from the effect of foreign subsidies, and it was in order to deal with that competition that the British Shipping (Assistance) Act was passed in 1935 and has been continued by the further Act of 1936. At the present level of freight rates it is probable that no subsidy will be payable in respect of the current year, but when a reaction in trade comes about the subsidy will automatically be resumed, provided the Act is continued in force. This, from the Treasury point of view, is an expensive method for helping British shipping and, therefore, we turn to the consideration as to whether other methods are available. Shipping Subsidies.

The first important factor, in considering whether it is wise and safe for us to use, for defence of shipping methods similar in principle to those which we have used for the defence of production, is to examine the extent to which we may be exposed to retaliation.

It will be seen from the figures in a previous table that just under one-third of the traffic in and out of the United Kingdom is carried in foreign ships, but when we come to look at the situation more closely it is found that the bulk of those foreign ships belong to a relatively small number of nations.

When any proposals have been made in recent years for the resumption of the Navigation Acts or for other protective methods, many shipowners have been perturbed because they feared the effect of retaliation on what they call our foreign-foreign trade, that is to say, the carrying trade which the British mercantile marine conducts between foreign countries. While precise information is not available the bulk of this foreign-foreign trade takes place between foreign countries who themselves are not large owners of mercantile marines and, therefore, they are not in the same position as those which carry such a large quantity of goods in and out of the United Kingdom. Accordingly, the approach of the opponents of protective methods for shipping to the problem has been based on the false conception that all foreigners are the same foreigner. There are no precise statistics, but an estimate was made by the Board of Trade in respect of Navigation Acts.

1929 and 1912 as to the distribution of the sea-borne trade of the world, and the conclusions are contained in the following table :

Distribution of Sea-Borne Trade.	Percentage of World Sea-borne Trade	
	1912	1929
United Kingdom with rest of Empire	12.3	13.0
Other Empire countries with other Empire countries ..	2.7	2.4
United Kingdom with Foreign countries	28.1	24.5
Other Empire countries with Foreign countries	11.0	14.9
Trade between Foreign countries	45.9	45.2

The percentage of the world sea-borne trade which began and ended in United Kingdom ports was 40.4 in 1912 and had fallen to 37.5 in 1929.

Whatever changes may have taken place in recent years it is still no doubt true that something between one-third and two-fifths of the whole sea-borne trade of the world begins and ends in United Kingdom ports, and from the figures previously quoted therefore about one-eighth of the sea-borne trade of the world consists of imports and exports into and from the United Kingdom in foreign ships. This must certainly be very much larger than the foreign-foreign trade of the British mercantile marine.

Protection for Shipping.

For the reasons above indicated the bulk of this latter trade takes place between countries against whom no protective measures would be adopted and, therefore, who would have no cause for retaliation. In the past protective measures have been thought of purely in the terms of the Navigation Acts, but to fight shipping aggression merely by aggression against shipping is to neglect the most important weapon, namely, that which may be directed against the goods of the countries whose shipping aggression, generally subsidised, is the cause of our difficulties. Of course, if we are to defend ourselves against particular aggressors we can only do that if we are freed from the hampering shackles of the Most-Favoured-Nation clause. Furthermore, in this matter steps should be taken to secure the co-operation of the whole Empire, because if we bring into account the movement of sea-borne goods not merely in and from the United Kingdom, but in and from all Empire countries, our position is enormously strengthened, and in a commercial war our victory assured, always bearing in mind that the threat of a commer-

cial war is a sometimes much more effective weapon than the war itself.

In a previous table we showed how large a part of the traffic in and out of United Kingdom ports and between United Kingdom and certain foreign countries is carried in the ships of those countries, and though these figures are only available for 1936 there seems little doubt that this proportion must have been increasing, as is shown by the figures in the following table :

FOREIGN TONNAGE IN UNITED KINGDOM PORTS

Percentage of foreign tonnage entering and clearing from United Kingdom ports, excluding coasting trade.

Year	Ships with Cargoes		Increase of Foreign Shipping in United Kingdom Ports.
	Entrances	Clearances	
1929	35.0	33.8	
1930	36.1	35.3	
1931	38.3	34.6	
1932	40.2	37.3	
1933	41.6	39.1	
1934	42.3	39.8	
1935	43.2	40.2	
1936	43.5	39.6	
1936 (9 months to Sept. 30th)	43.8	39.8	
1937 (9 months to Sept. 30th)	44.1	41.6	

The rate of the rapid growth in the proportion of foreign shipping as shown by the above table between 1929 and 1933 has been checked since 1933, no doubt as a consequence of the fact that a larger proportion of our trade is now with Empire countries, in respect of which our shipping position is so favourable, but taking this into account the figures make it all the more clear that our share of the shipping in the United Kingdom trade to and from foreign countries must be deteriorating to a very marked extent. In any event, the figures in the above table reveal a situation that ought not to be allowed to drift.

Under these circumstances we strongly urge that the Government should examine now, while the shipping industry is relatively prosperous, the proper methods of using our tariff and other protective measures for the future defence of British shipping and for its restoration to the position it used to hold.

CHAPTER X

RECOMMENDATIONS FOR THE FUTURE

Having now surveyed in general terms the situation which has developed as a consequence of our present policy, we turn to the consideration of the policy which we think should be pursued in the future.

THE IMPORT DUTIES ADVISORY COMMITTEE

10 Import
duties
Advisory
Committee.

The Import Duties Advisory Committee was set up for the purpose of ensuring that applications in respect of particular commodities should be dealt with impartially and apart from political considerations, and, in particular, to prevent any form of undue pressure being brought to bear on Members of Parliament, and there is no doubt that in this respect the system has been a complete success and the Members of the Committee are to be congratulated on having completely avoided in this country a feature which has been undesirable in connection with tariffs in some other countries.

Relationships
with
Government.

Nevertheless, the setting up of the Committee does not legally deprive the Government and Parliament of the power to act independently, though obviously it would be very undesirable if Parliament were to take independent action in respect of individual commodities, except, of course, in those cases where the action is the sequel to trade agreements entered into either with Empire or with foreign countries, but it would be wise if the Committee, as well as the industries affected, were consulted before we were finally committed to changes arising out of trade agreements.

In any event, neither the Government nor Parliament can abdicate from their position of ultimate responsibility for the economic policy of the country.

There seems to be no doubt that under the provisions of the Import Duties Act the Government of the day is legally entitled to make representations to the Import Duties Advisory Committee as to the matters which it should take into consideration, though it happens to be true that so far the Government has not adopted this course except in those cases where it has asked the Committee voluntarily to undertake an investigation outside its terms of reference, or where because of other negotiations it has asked the Committee to suspend some particular investigation pending those negotiations.

On the other hand, though there is no doubt that industrialists generally would prefer that the Government of the day in general should not adopt the policy of making representations to the Committee, at the same time it seems to us clear that the present situation is not an entirely satisfactory one, for the Committee deal only with the matters which are put before them by those entitled to make representations, and these representations only deal with a limited class of goods. Accordingly, it does not seem to us that the Committee are ever required to take into account the general economic situation.

It is clearly the desire of industry that the tariff should be kept out of politics as far as possible, but at the same time it is clearly desirable that the Import Duties Advisory Committee should survey the whole situation resulting from the tariff.

In these circumstances it would seem fit and proper that representations as to the general level of tariffs, as distinct from the rates on individual commodities, should be received by the Committee from national bodies, representing agriculture and industrial producers, and from distributors, who on such a question could be regarded as representing substantially the interests of consumers.

Relationship
with Nation
Trade
Organization

This recommendation is made in the belief that the present scale of duties is inadequate and in the hope that the necessary adjustments can be made through action on the part of industry and agriculture, rather than by political action on the part of the Government.

No doubt because it was easier to do so, the bulk of the original duties recommended by the Import Duties Advisory Committee have been *ad valorem* duties, and only in a very few cases have they been specific. In a great many cases specific duties are very much easier for the Customs to administer than *ad valorem* duties and avoid the difficulty of understated values, and in addition they have the advantage that their incidence is not diminished with a fall in prices, and therefore a specific duty is a much more powerful weapon against dumping than *ad valorem* duties.

The Need for
Specific
Duties.

On the other hand, in the case of a group of commodities of the same general character, but of very varying prices in relation to the unit of quantity, specific duties may be too high for the cheap goods and too low for the more expensive varieties, and this is a situation which is best dealt with by a combination of *ad valorem* and specific duties.

We are strongly of the opinion that this is a matter on which a Government could quite properly make a general representation to the Import Duties Advisory Committee.

Furthermore, we believe that the Committee ought to be able to make recommendations in respect of the duties on

Subsidized
Goods.

subsidised goods and goods coming from countries with depreciated currencies.

depreciated
currencies.

Effect to such recommendations could of course only be given in respect of goods coming from countries with which we had no Most-Favoured-Nation Treaty.

ALTERNATIVE METHODS OF PROTECTION and THE MOST-FAVOURED-NATION CLAUSE

tariffs v.
quotas.

In the document published by the Union in October 1933, in which we examined the problem of tariffs and treaties and of the Most-Favoured-Nation clause, and the relative merits of duties and quotas, we definitely expressed the view that, while the system of quantitative regulation was one which it might be desirable to use from time to time, nevertheless, on balance there were in most cases very strong arguments showing that tariffs were a preferable instrument, and without repeating the arguments contained in that memorandum we desire to reiterate that expression of opinion.

On the other hand, where it is thought desirable to use the method of quantitative restriction we ought to enjoy a greater freedom than we now possess and, accordingly, we should take steps to free ourselves from the restriction contained in Section 10 of the Commercial Agreement with Germany, which it will be remembered not only binds us to Germany, but, through the operation of the Most-Favoured-Nation clause, also at the moment binds us to the rest of the foreign world.

Import Duties
Advisory
Committee
and Quotas.

The only legislative power which now exists to impose quantitative restriction for economic reasons is that in the Agricultural Marketing Act of 1933, and there the power only arises where there is a marketing scheme in operation or in contemplation. We are of the opinion that the power to impose quantitative restrictions ought to be independent of those limitations and that, accordingly, legislation should be passed to that effect. We think that it should be possible to introduce quantitative restrictions by Orders to be made after a recommendation of the Import Duties Advisory Committee in the same way that Orders are made in respect of import duties and that no Orders should be made without such a recommendation.

Annunciation
Most-
favoured-
Nation Clause.

While we recognise that the Most-Favoured-Nation clause protects us against foreign discrimination, nevertheless it also prevents us from making effective bilateral agreements, and for the reasons set forth in the document referred to above we are of the opinion that, generally speaking, we should give the necessary notice to terminate the Most-Favoured-Nation clause

in our treaties. We are also of the opinion that earnest consideration should be given to the question whether in future our commercial treaties should contain a clause providing for conditional Most-Favoured-Nation treatment, as being probably in the long run better than the policy of absolute Most-Favoured-Nation treatment on the one hand and no Most-Favoured-Nation treatment on the other. But for a short period in any event we believe it would be desirable that our hands should be perfectly free.

The denunciation of the Most-Navoured-Nation clause, associated with freedom in suitable cases to afford a measure of protection to British industry and agriculture from Empire competition, would render possible the system described as the three-decker tariff, which we believe should be our ultimate objective. Under such a system the general level of our duties would apply to all those countries with which we have no special arrangements; the next level of duties would be that applicable to the foreign countries with which we had entered into special agreements, while the third and lowest level of duties would be that applicable to Empire products.

The Three-Decker Tariff.

THE OTTAWA AGREEMENTS

There were some people unfortunately who regarded the Ottawa Agreements as representing the fulfilment of a policy, instead of being, as we think them, the beginning of a policy to be developed and improved upon as experience directs. The new Agreement with Canada representing a substantial improvement, even though continuing the principle of unqualified free entry into the United Kingdom of Canadian goods, supports the view we have always held.

At the present time, however, it is certain that both in the United Kingdom and in the Empire overseas industrial and agricultural policies are being pursued without proper co-ordination within the countries concerned and with still less co-ordination between the Empire countries concerned, and unless there is developed the means of continuous consultation there is grave risk of policies being adopted which would finally bring disaster to Empire economic unity.

Some time ago this point was strongly emphasised by the Rt. Hon. Stanley Bruce in the course of a speech made in London, and support of the same idea has come from other Dominions and United Kingdom statesmen as well as from persons prominent in public life throughout the Empire.

What form this system of continuous consultation should take is, of course, a matter clearly for settlement by the various Empire Governments concerned, but it seems clear to us that something more than what at present takes place is required and possibly the establishment of a permanent Consultative

Imperial Consultative and Advisory Body.

**Imperial
Trade
Research
Organisation.**

and Advisory Body with representatives of the United Kingdom, of the Dominions, India, Southern Rhodesia and the Colonial Office would meet the case. In addition there ought also to be in existence an Imperial Trade Research Organisation constantly engaged in the preparation of statistics and economic surveys so that there may be continuously at the disposal of all the Governments of the Empire full information in respect of the economic development of all parts of the Empire.

It would be clearly desirable that the Research Organisation should have close contact with the Consultative Advisory Body so that its work may be prepared in such a manner as to facilitate the recommendations of policy of the Consultative Advisory Body.

**The Balance
of Industry
and Agriculture.**

A clear example of the need for the existence of both the new bodies we visualise lies in the fact that at the moment there is no clear understanding as to the right policy of the balance of industry and agriculture either in the United Kingdom or in the Empire Overseas and until there is a clear view of this matter it will be impossible to work out a completely satisfactory economic policy for the whole Empire.

**The Example
of the Colonial
Office.**

We believe that the Governments of all other parts of the Empire could in this connection learn a great deal from what is, after all, the central Government of the Colonial Empire, namely, the Colonial Office, which deals continuously and comprehensively with all economic matters which affect the development of the Colonial Empire, and publishes periodically an extraordinarily valuable document under the title of "An Economic Survey of the Colonial Empire". It is suggested that a similar survey of the United Kingdom and the Dominions should be undertaken. It is believed that a great deal of the necessary work has already been undertaken in several of the Dominions, but much remains to be done in the United Kingdom. Investigation is necessary as to the further possibilities of complementary lines of trade in manufactured goods between the United Kingdom and the Dominions. The assistance of industrialists is required in this matter and also in compiling the suggested economic survey. If these things were now undertaken the ground would be prepared for the next meeting of Empire representatives.

**Suggested
Economic
Survey.**

**The Influx of
Foreign
Capital.**

One of the obvious problems that has to be considered is the question which arises from the investment of foreign capital either in the United Kingdom or in the Empire overseas. In general, the influx of foreign capital is to be welcomed, but at a time when we are seeking to plan an appropriate balance between industry and agriculture and also within each industry, there is some danger that the influx of foreign capital for the specific purpose of establishing foreign enterprises either here or in the Empire Overseas

may bring about an unnecessary disturbance in the planning already accomplished and promote, in certain industries, the creation of a productive capacity in excess of needs, and this can only result in the inefficient operation, leading to higher costs, of the whole or part of the productive capacity.

The Trade Agreements negotiated by us with various foreign countries have clearly hampered us both in our Empire relationships and in dealing with British agriculture, but on the other hand they have been of some assistance to certain manufacturing trades in this country. If, as we believe to be the case, it is undesirable that these agreements should be continued in their present form when they expire, it is clearly essential that there should be the fullest possible consultation between all the interests affected both in the United Kingdom and in the other parts of the Empire.

Revision of
Foreign Trade
Agreements.

We are now led to consider to what extent in negotiations with foreign countries it may be possible for Empire countries to act in unison. At Ottawa the various Governments of the Empire negotiated a series of Agreements, but they did not contemplate, apparently, negotiations with foreign countries in which two or more Empire Governments might act jointly.

Joint Action
of Empire
Countries in
dealing with
Foreign
Countries.

We are of the opinion that this is a method worth contemplating, because there are obviously cases where the economic power of two or more Empire countries acting jointly would be such as to ensure more favourable terms with foreign countries than could be obtained by each Empire country acting individually. Such joint action, of course, does not in the least mean that the Empire should attempt the overwhelmingly difficult task of adopting a uniform tariff against foreign countries. We go further and say that in general when one Empire country is negotiating with a foreign country there would be great advantages in an exchange of views between the Government of that Empire country and the Governments of the other Empire countries, so as to ensure that no part of the Empire will be prejudiced by agreements entered into by any other part. We understand that such an exchange of views has been taking place in connection with the proposed Trade Agreement with the United States.

THE PROTECTION OF BRITISH AGRICULTURE and CERTAIN MANUFACTURING INDUSTRIES

As the result of the commercial agreements in recent years with foreign countries we cannot use the fiscal weapon with complete freedom until these agreements are terminated. As soon as we are free it would seem essential that we should not renew them except under conditions that will make it possible

Need of Fiscal
Freedom to
help Agricul-
ture.

for us effectively to protect British agriculture, the policy with regard to which has been gravely hampered by the conclusion of these agreements.

There are also certain industrial features of these agreements, the most important being our undertaking not to impose a duty on newsprint, which will call for careful consideration.

Protection in certain cases against Empire Competition.

So far as the agreements with Empire countries are concerned, when these come up for revision, it would seem essential that steps should be taken to secure that, where necessary, we may afford protection to British agriculture and to certain British manufacturing industries against undue competition from Empire countries. In the "Preliminary General Report" of our Research Committee published in September 1930, we incorporated a series of drafts of such agreements between the United Kingdom and the various Dominions and in all of these we contemplated the possibility that duties might have to be imposed on Empire products, and in those cases where such duties were imposed provision was made as to the degree of preference to be accorded to the Empire product.

We think, therefore, that in the future agreements made with Empire countries we should not guarantee universal free entry to Empire products, but we should specify a list of goods on which we should be at liberty to impose duties up to prescribed limits, subject to the condition that the preferences granted to the Empire goods over the foreign goods should not be less than certain prescribed minima.

Importance of British Agriculture to British Industry.

In the main it is the interests of British agriculture which call for a revision under the provisions of both the agreements with foreign countries and those with Empire countries, though there are also a proportion of important manufactured commodities of which account must be taken. There has not been in the past sufficient recognition of the magnitude and importance of British agriculture, which gives employment to five times as many people as those engaged in agriculture in New Zealand, and substantially more than the number so engaged in Australia, and about equal to the number so engaged in Canada. An approximate calculation indicates that the purchases of British manufactures by those engaged in British agriculture, that is to say, the "exports" from manufacturing Britain to agricultural Britain, are greater than the British exports to the whole of the Continents of Asia and Africa put together, or alternatively to the whole of Western Europe. Our largest "export" market is rural Britain, and it is capable of very material expansion. Therefore, it is vital that its interests should receive the fullest possible consideration.

Shipping Policy.

For the reasons set forth earlier in this Memorandum when dealing with the present situation of shipping, it may well prove to be the case that shipping and shipbuilding will

play a somewhat smaller part in world economics than has been the case in the past. Nevertheless, it is obvious that shipping and shipbuilding are of fundamental importance to the United Kingdom, and in particular to its "Special" areas, and the Empire as a whole. We believe that the whole of our economic resources should, if necessary, be used in its defence.

At the moment the only step being taken or contemplated by the Government is that of subsidy, wherein we are half-heartedly following the example of many other nations. There seems little doubt that much of the decrease of British shipping arises out of subsidies which other nations have granted to their shipping. It by no means follows that subsidy should be regarded as the only weapon of defence.

There are two methods, both involving the same idea, which might be applied, the first the drastic one of discriminating against the goods of all the nations which subsidise their shipping, whether those goods arrive in this country in their own ships or the ships of any other nation. The less drastic method would be that of establishing a system of additional duties on goods carried in foreign ships belonging to nations subsidising their ships, possibly graduated in three scales, the lowest scale applying to goods in foreign ships coming from their own country, the intermediate rate applying to goods in foreign ships coming from another foreign country and the highest scale on goods in a foreign ship coming from an Empire country. The same principle might be applied to passengers as well as to goods. The wisdom of such a policy must be dependent upon a full knowledge of the facts of the situation and, accordingly, we suggest that at the earliest possible moment the Board of Trade should conduct an investigation to determine as accurately as may be possible what is the present position of British shipping in respect of Empire-Empire trade, Empire-foreign trade and foreign-foreign trade. The investigation that we suggest should also include a consideration of the methods by which a protective policy can be used for the defence of British shipping.

In any event, it would appear to be the case that no satisfactory policy in the matter can be adopted so long as we are universally bound by the Most-Favoured-Nation clause in our treaties. There is no subject which calls more urgently for consultation between Empire Governments than this, and we urge the desirability of an Empire Shipping Conference being convened at the earliest possible moment.

It is only fair to say it would appear that the Board of Trade is already fully alive to the possibility that we may have to make a fundamental change in our shipping policy, for in the Trade Agreements with Esthonia, Lithuania and Latvia there were included provisions which by inference implied the possibility of change in our shipping policy.

Subsidy.

Discrimination against Goods Imported in Foreign Ships.

Need for Fuller Information.

Hampering Effect of Most-Favoured-Nation Clause.

Empire Shipping Conference Suggested.

CHAPTER XI

GENERAL CONCLUSION

In presenting our observations on the results of the working of the new fiscal policy and our views as to the future of that policy, we realise the necessity that the details of a fiscal policy must be approached in the scientific way, which invariably involves experiment and deduction from experiment.

We believe that the initial experiment has now proceeded sufficiently far to make it clear what should be the general nature of the policy to be pursued in the immediate future. We feel that in the past the pursuit of foreign trade has been almost an obsession, and some people have regarded it as if it had a peculiar merit of its own. The one outstanding feature about our foreign trade is that it should be a balanced trade. On account of shipping and other services rendered overseas and interest on overseas investments we naturally have a large adverse balance of visible trade. Nearly three-fourths of this adverse balance is on foreign account, and it is certain that nothing like three-fourths of our invisible exports are in respect of transactions with foreign countries. Accordingly, it is certain that with foreign countries we have a real adverse balance, and this is largely, though not entirely, corrected at the moment by our transactions with Empire countries. Under these circumstances we are quite clearly entitled on financial grounds to direct our policy to secure a closer balance in our transactions with foreign countries, either by a reduction of imports from foreign countries or an increase of exports to foreign countries. At the same time we must realise that there is no merit in obtaining from a foreigner something which can be obtained from a Briton at home or overseas, and equally no merit in selling to a foreigner an article which there is a Briton at home or overseas willing and in a position to buy.

Despite the very large increase in production which has taken place in recent years we do not regard this expansion as by any means reaching the limits of possibility, and clearly while there are still 1,400,000 persons registered as unemployed it is obvious that we should enter into no foreign obligations calculated to impose any limit on the expansion of either Home or Empire trade. On the other hand, we should use the fiscal weapon unhesitatingly for the purpose of bringing about that large Home and Empire development which we believe to be possible.

SUMMARY OF RECOMMENDATIONS

That in respect of the general level of tariffs as distinct from the rates on individual commodities, National Bodies, representing agricultural and industrial producers as well as of distributors who, on such questions, can be regarded as representing substantially the interests of consumers, should be entitled to make representations to the Import Duties Advisory Committee.

This recommendation is made in the belief that the present scale of duties is inadequate and in the hope that the necessary adjustments can be made through action initiated on the part of industry and agriculture rather than by direct intervention on the part of the Government.

That in order to deal more efficiently with dumping, more duties should be placed on a specific or on a mixed *ad valorem* and specific basis.

That the Import Duties Advisory Committee should be authorised to make representations in respect of duties on subsidised goods, dumped goods and goods coming from countries with depreciated currencies. This recommendation is based on the assumption that the Most-Favoured-Nation clause in its present form will be brought to an end.

That while holding to the view that tariffs, in general, are preferable to quotas, nevertheless so far as quotas are used we ought to be free to use them in all cases without any obligation to impose a restriction on internal production. Accordingly Section 10 of the Commercial Agreement with Germany should be denounced and legislation should be introduced to enable quotas to be imposed by Orders made on the recommendation of the Import Duties Advisory Committee.

That the Most-Favoured-Nation clause in our treaties should be denounced but the question of replacing it by a clause in some conditional form should be considered.

That there should be an Imperial Consultative and Advisory Body with representatives of the United Kingdom, the Dominions, India, Southern Rhodesia and the Colonial Office. This Body should be consulted regularly by all the Empire Governments concerned before initiating new policies, and it should be free of its own initiative to tender advice to any of the Empire Governments concerned.

That there should be established an Imperial Research Organisation constantly engaged in the preparation of statistics and economic surveys to be placed continuously at the disposal of all the Empire Governments, and that the Research Organisation should work in close contact with the Consultative and Advisory Body.

That periodic Economic Surveys relating to the United Kingdom and the Dominions be undertaken on the lines of the periodic Economic Surveys of the Colonial Empire, so that full information may be available to all of His Majesty's Governments.

That the United Kingdom Government and all other Empire Governments should consider the possibility of acting more in unison when engaged in trade negotiations with foreign countries so that no part of the Empire may be prejudiced by agreements entered into by any other part.

That existing Trade Agreements with Foreign Countries should not, after their expiration, be continued in a form which is hampering both to Empire relationships and to British agriculture, and that no new Trade Agreements should contain provisions prejudicial to the fullest development of Empire trade and Home production.

That consideration be given to the question of a revision of the various treaty restrictions imposed upon the fiscal freedom of the Colonial Empire.

That in the revision of the Ottawa Agreements steps should be taken to secure, where necessary, that British agriculture and British industry should be safeguarded against undue competition from Empire Countries.

That British shipping should be protected against foreign subsidised competition by a graded system of discriminatory duties imposed on goods imported in foreign ships and that to enable this to be done the Most-Favoured-Nation clause in our treaties should be denounced.

That as a preliminary to the adoption of such a policy the Board of Trade should undertake an immediate investigation for the purpose of determining what parts of our foreign-foreign trade in shipping would expose us to retaliation and to consider the most appropriate methods of using a protective policy for the future defence of British shipping and its restoration to its former position.

APPENDIX I

INTERNATIONAL TREATY LIMITATIONS TO FISCAL FREEDOM

THE MOST-FAVOURLED-NATION CLAUSE*

The United Kingdom has concluded commercial treaties or similar arrangements with most countries, and nearly all these treaties and arrangements contain a Most-Favoured-Nation clause relating to import duties and other matters. The typical form which the clause takes may be seen in the Commercial Treaty with Austria (May 22nd, 1924) :

“Articles produced or manufactured in the territories of one of the contracting parties, imported into the territories of the other, from whatever place arriving, shall not be subjected to other or higher duties or charges than those paid on the like articles produced or manufactured in any other foreign country.”

In further paragraphs quoted below the clause provides for Most-Favoured-Nation treatment in respect of prohibitions also (except in the case of bounty-fed articles), although it does not render impossible a prohibition enforced by one party against imports from all foreign countries :

“Nor shall any prohibition or restriction be maintained or imposed on the importation of any article, produced or manufactured in the territories of either of the contracting parties, into the territories of the other from whatever place arriving which shall not *equally* extend to the importation of the like articles produced or manufactured in any other foreign country.

“The only exceptions to this general rule shall be in the case of the sanitary and other prohibitions occasioned by the necessity of securing the safety of persons, or of cattle, or of plants useful to agriculture and of the measures applicable in the territories of either of the contracting parties to articles enjoying a bounty in the territories of the other contracting party.”

As a result of the Most-Favoured-Nation clause in our commercial treaties we are debarred from discriminating either by way of duties or restrictions against any foreign country with which we have such treaty nor in favour of any foreign country, as compared with all the other foreign countries with which we have such treaties.

*A List of the Countries with which we have Most-Favoured-Nation Treaties appears on pages 83-6.

THE LIMITATION OF POWER TO IMPOSE RESTRICTIONS ON IMPORTS

Article 10 of our Commercial Treaty with Germany makes it impossible for us to impose any prohibitions whatsoever on German goods except for the usual sanitary, etc., exceptions, and except in the case of commodities that are under a similar control when produced in this country, e.g., articles controlled under the Milk Marketing Scheme.

Since we can impose no restrictions on the goods of any country with which we have a treaty containing the Most-Favoured-Nation clause other than those which we can impose upon German goods it will be seen that the provisions of Article 10 in the German Agreement are thus automatically extended to all other countries.

LEAGUE OF NATIONS MANDATES .

Since Palestine is administered by us under the terms of a Class "A" Mandate of the League of Nations, that is to say, a Mandate which assumes that ultimately the country is to become a sovereign independent state, the United Kingdom has acted on the assumption that Palestine had to be treated fiscally as if it were a foreign country and, accordingly, we have granted no preferences to Palestinian goods over the similar goods of any foreign country, while Palestine under the provisions of the Mandate is debarred from giving any preferences to goods from the United Kingdom or from other parts of the Empire. Some authorities have held the view that our action in treating Palestine fiscally as a foreign country was not a necessary consequence of the terms of the Mandate and it is important to note that the recent Royal Commission on Palestine has expressed the opinion that these restrictions on Palestine and on ourselves represent an unfair penalty on Palestine.

Tanganyika Territory, British Cameroons, British Togoland, being administered by us under a Class "B" Mandate of the League of Nations, cannot give our goods any preferences though we are entitled to accord preferences on the goods from those countries. The former German Territories administered under Class "C" Mandates by the Commonwealth of Australia, the Union of South Africa and the Dominion of New Zealand are free from these restrictions and accordingly these territories can both give and receive preferences.

ANGLO-FRENCH WEST AFRICAN AGREEMENT

As indicated earlier in the text, Section 9 of this Agreement, which prohibited both the British and the French West African Colonies concerned from according preferences, has been brought to an end by the action of the French Government in denouncing that Section, and as a result, since October 22nd, 1936, freedom to accord preferences has existed, but so far no action has been taken by either Government to modify the position which existed prior to the denunciation of Section 9.

THE CONGO BASIN TREATIES

The Berlin Act of 1885 amended by the Brussels Act of 1890 and as further amended by the St. Germain-en-Laye Convention of 1919 constitute what are commonly known as the Congo Basin Treaties.

Under the provisions of these treaties none of the Territories concerned may accord Tariff Preferences. The boundaries of the Territories covered by the Congo Basin Treaties generally do not follow existing frontiers and the situation is accordingly a confused one.

The following are the British Colonies, Protectorates and Mandated Territories affected: Kenya Colony, Uganda Protectorate, Tanganyika Territory, Zanzibar, Nyasaland, part of Northern Rhodesia, and part of the Anglo-Egyptian Sudan. The other Territories within the area are part of Italian Somaliland, part of Abyssinia, part of French Equatorial Africa, the whole of Belgian Congo, part of the Portuguese Colony of Angola and part of Portuguese East Africa.

ANGLO-EGYPTIAN CONDOMINIUM OVER THE SUDAN

Anglo-Egyptian Sudan is a condominium for which the United Kingdom and Egypt are jointly responsible. From the practical point of view of day-to-day administration the Sudan may be regarded as a British Protectorate, but from the point of view of commercial relationships, having regard to its connection with Egypt, it is treated as a foreign country.

APPENDIX II

LIST OF COUNTRIES WITH WHICH THE UNITED KINGDOM HAS A MOST-FAVOURLED-NATION ARRANGEMENT

<i>Country</i>	<i>Instrument and Date of Signature</i>	<i>When Terminable</i>
*Abyssinia	Treaty, May 14th, 1897	No provision for termination.
Albania	Notes, June 10th, 1925	At any time on 3 months' notice.
Argentine	Treaty, February 2nd, 1825	No provision for termination.
Austria	Treaty, May 22nd, 1924.	At any time on 12 months' notice.
Belgium	Notes, July 27th, 1898	At any time on 3 months' notice.
Bolivia	Treaty, August 1st, 1911	At any time on 12 months' notice.
Brazil	Notes, August 10th, 1936	At any time on 3 months' notice.
Bulgaria	Notes, November 12th, 1925	At any time on 3 months' notice.
Chile	Notes, October 15th, 1931	At any time on 15 days' notice.
China	Treaty, June 26th, 1858	Subject to revision every ten years on 6 months' notice.
	Treaty and Notes, December 20th, 1928	No provision for termination.
Columbia	Treaty, February 16th, 1866	At any time on 12 months' notice.
Costa Rica	Exchange of Notes, March 1933	At any time.
Czechoslovakia	Treaty, July 14th, 1923	At any time on 12 months' notice.
Denmark	Treaty, February 19th, 1660-1; July 11th, 1670.	No provision for termination.
	Agreement, April 24th, 1933	On 4 months' notice.
	Agreement, June 19th, 1936	„
Egypt	Notes, June 5-7th, 1930	Prolonged till February 16th, 1938.

* In these cases the countries concerned are under obligation to give the United Kingdom Most-Favoured-Nation treatment, but the United Kingdom is not bound to reciprocate.

Countries with which the United Kingdom has a Most-Favoured-Nation arrangement (Continued).

<i>Country</i>	<i>Instrument and Date of Signature</i>	<i>When Terminable</i>
Estonia	Treaty, January 18th, 1926	On 12 months' notice.
Finland	Treaty, December 14th, 1923	On 6 months' notice.
Germany	Treaty, December 2nd, 1924	At any time on 12 months' notice.
Greece	Treaty, July 16th, 1926	At any time on 12 months' notice.
Hayti	Notes, February 25th, 1928	At any time on 6 months' notice.
Hungary	Treaty, July 23rd, 1926	At any time on 12 months' notice.
Iceland	Treaty, February 13th, 1660-1, as interpreted by Agreement of May 19th, 1933	On 6 months' notice.
Italy	Treaty, June 15th, 1883	At any time on 12 months' notice.
Japan	Treaty, April 3rd, 1911	At any time on 12 months' notice.
Latvia	Treaty, June 22nd, 1923	At any time on 12 months' notice.
*Liberia	Treaty, November 21st, 1848	No provision for termination.
Lithuania	Notes, May 6th, 1922	At any time on 3 months' notice.
	Agreement, July 6th, 1934	At any time on 6 months' notice.
*Morocco	Convention, December 9th, 1856	Will terminate on conclusion of a Convention to replace the Convention of 1856.
*Muscat	Treaty, May 19th, 1891	Denounced but continued in force from year to year.
Netherlands	Treaty, October 27th, 1837	At any time on 12 months' notice.
Nicaragua	Treaty, July 28th, 1905	At any time on 12 months' notice.
Norway	Treaty, March 18th, 1826	At any time on 12 months' notice.

* In these cases the countries concerned are under obligation to give the United Kingdom Most-Favoured-Nation treatment, but the United Kingdom is not bound to reciprocate.

Countries with which the United Kingdom has a Most-Favoured-Nation arrangement (Continued).

<i>Country</i>	<i>Instrument and Date of Signature</i>	<i>When Terminable</i>
Panama	Treaty, September 25th, 1928	April 8th, 1939, or thereafter on 12 months' notice.
Poland and Danzig	Treaty, November 26th, 1923	On 3 months' notice, such notice not to take effect while Agreement of 27th February, 1935, is in force.
Portugal	Treaty, August 12th, 1914	At any time on 12 months' notice.
Roumania	Treaty, August 6th, 1930	On 6 months' notice.
Salvador	Notes, August 8th, 1931	Prolonged till 16th December, 1937.
Siam	Treaty, July 14th, 1925	Denounced to expire on November 5th, 1937.
Spain	Treaty, October 31st, 1922, as modified by Convention of April 5th, 1927, and Notes of February 6th and May 31st, 1928	On 3 months' notice.
Sweden	Convention, March 18th, 1826	At any time on 12 months' notice.
Switzerland	Treaty, September 6th, 1855	At any time on 12 months' notice.
Turkey	Treaty, March 1st, 1930, as amended by Agreements of June 4th, 1935, and 2nd September, 1936	Article 16 relating to prohibitions and restrictions deleted by Agreements of 4th June, 1935, and 2nd September, 1936, and Article 39 amended by Agreement of 1936 to 3 months' notice of termination, such notice not to take effect while the 1936 Agreement is in force.

Countries with which the United Kingdom has a Most-Favoured-Nation arrangement (Continued).

<i>Country</i>	<i>Instrument and Date of Signature</i>		<i>When Terminable</i>
Union of Soviet Soc. Republics	Temporary Agreement,	February 16th, 1934	6 months' notice.
United States	Convention,	July 3rd, 1815	At any time on 12 months' notice.
Uruguay	Agreement,	June 26th, 1935	On 3 months' notice.
Venezuela	Treaty,	April, 18th, 1825	No provision for termination.
Yugoslavia	Treaty,	May 12th, 1927	At any time on 12 months' notice.

PUBLICATIONS OF THE EMPIRE ECONOMIC UNION

THE EMPIRE ECONOMIC UNION was founded by the late Lord Melchett in 1929 as a Research Institution for the purpose of studying the economic problems of the British Empire.

Many of the results of its first studies were used by the founder in his book, *Imperial Economic Unity*, published in 1930.

The chief publications of the Union have been :

THE PRELIMINARY GENERAL REPORT OF THE RESEARCH COMMITTEE. (Which was sent to all the delegates at the Imperial Conference, 1930.)

THE ECONOMIC SITUATION OF THE BRITISH COLONIAL EMPIRE. 1931.

THE REPORT OF A JOINT COMMITTEE ON AGRICULTURAL POLICY. (In collaboration with the Central Chamber of Agriculture.)

THE REPORT ON EMPIRE MONETARY AND FINANCIAL POLICY by a Joint Committee of the Federation of British Industries and the Empire Economic Union.

REPORT DEALING WITH TARIFFS AND TREATIES. MOST-FAVOURED-NATION CLAUSE DUTIES V. QUOTAS. 1933.

FUTURE FISCAL POLICY. First edition March 1935, second edition October 1935.

FURTHER CONSIDERATIONS ON ECONOMIC POLICY, with particular reference to migration. 1936.

THE BRITISH COLONIAL EMPIRE AND THE GERMAN CLAIM. 1937.

All these documents have been circulated to the leading Statesmen of the Empire.

While the Ottawa Conference endorsed the principles for the support of which the Union was founded, it is clear that the Ottawa Agreements are the beginning and not the end of the full development of Imperial Economic Unity and, accordingly, it is hoped that the Union may continue to receive support for the pursuance of its objects.

The minimum annual subscription is £5 5s. od.

To the Secretary,

EMPIRE ECONOMIC UNION,

57, Abbey House,
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I enclose herewith cheque/Banker's Order for
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