

The · Vital Issue ·

# THE VITAL ISSUE

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An Economic Policy for  
Britain and the Empire

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S.W.1.

3d. per copy.

12s. 6d. per hundred.

# BRITISH ECONOMIC POLICY

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IN considering the future of British trade, production and employment, it is necessary to keep in mind certain broad factors both of the world economic situation and of the present political situation in this country.

The material prosperity of this country was built up in the past by deliberate national policy adapted to the circumstances of each period. From the Middle Ages onward we built up our industries and our skill by measures aimed at protecting domestic production. In the eighteenth century we added enormously to our wealth by the controlled development of complementary trade with our Colonies. Inventive enterprise was fostered under these conditions and brought about the great Industrial Revolution which originated here.

After the end of the Napoleonic Wars we had an immense start over the rest of the world. With a background of unlimited cheap coal we were supreme in iron and steel, in railways, in every branch of engineering, in textile production and, not least, in finance. Our output in most great industries exceeded that of the rest of the world put together. Under those conditions the conception of *laissez faire*, already the dominant conception everywhere in the field of politics and domestic industrial organisation, naturally appealed to our manufacturing and export interests.

The introduction of Free Trade was followed by a generation of amazing progress, both in trade and in industrial production. It must be remembered, however, that this progress was mainly due to the tremendous stimulation of the great Californian and Australian gold discoveries and to the demands of a wholly undeveloped world for railways and for other equipment which we alone were in a position to finance and supply. Not least important, moreover, was the fact that the world at large accepted our *laissez faire* doctrines and

that, for a time at any rate, there was a general lowering of tariffs.

After the great depression of the late 1870's there followed a general swing back towards protection. Great new industries sprang up, more particularly in the United States. Within a generation we were ousted from our supremacy as producers, though the fact was veiled by our continuing large exports to less highly developed countries. On the other hand, cheap food imports from overseas, facilitated by British-built railways and steamships, involved a tragic and unnecessary sacrifice of our own agriculture. Our whole position became increasingly less balanced and less secure, with grave effects upon the continuity of employment.

In any case, the specific measures which affected our trade were only a part of a growing reaction all over the world against nineteenth-century *laissez faire*. Economic nationalism was increasingly supported everywhere outside this country by considerations both of defence and of social standards. The conditions of modern war made it increasingly clear that there was hardly any important industry which a nation could afford to leave to others. We, for instance, at the outbreak of the First World War, found ourselves terribly handicapped by the fact that we had depended entirely upon Germany for such vital items as dyestuffs, fine chemicals, magnetos, gas mantles, electric bulbs and optical glass. On the other hand, tariff protection was also increasingly demanded by countries, whether from a desire to secure a more balanced economy, or to maintain a high wage standard, or, in more industrially advanced countries, to maintain stability of employment. The nineteenth-century conception was essentially a middle-class one which regarded labour as a mere commodity and, in an era of expansion, assumed cheerfully that if it was displaced in one industry it would always find employment in another or else emigrate. The increasing power of organised labour at home made internal adjustments much more difficult, thus increasing the danger of unemployment, while organised labour in the Dominions put a drastic check on migration.

All these tendencies were enormously accentuated by the experiences of the inter-war years. During those years, elderly statesmen, bankers, economists, etc., all combined to restore nineteenth-century conditions, more particularly in

their insistence on the restoration of the gold standard and on the Most Favoured Nation Clause, thus linking the whole world together in a single monetary system, broken up into national compartments precluded from mutual co-operation by the M.F.N. Clause.

The impact on this state of affairs of the immense dynamic power of the American system was disastrous. For some years America's determination to export rather than to import was more than balanced by vast investments of American capital in Europe, by immense sums spent by Americans travelling, and by large remittances from America by European emigrants—all this only to a very small extent offset by debt payments to America. The great American speculative slump meant a sudden cessation both of American investment and of American travel and remittances. Nothing consequently remained to prevent the drain of gold to America in order to balance the exchanges. The basis of currency was everywhere contracted with disastrous effects on producers, while the M.F.N. Clause prevented groups of nations (outside the British Empire) from co-operating in order to keep their gold circulating among themselves and to preserve their own balance of trade. No nation suffered worse than ours owing to adherence to an out-of-date free import policy.

As a matter of fact, the great world depression was entirely unnecessary, and could have been prevented by effective tariff legislation against the United States, by group co-operative policies and by currency arrangements. It was, in fact, on those lines that the world made a pretty rapid recovery after 1932. However tiresome the various continental quotas, exchange restrictions, bilateral bargains, etc., may have been, they enabled most of the European countries to make a rapid recovery in what, after all, is the real test of prosperity, namely, production. This country and most of the British Empire made an even more sensational recovery, as the result both of the domestic tariff, of the Ottawa Treaties, and of the fact that we went off the gold standard and discovered in sterling an independent measure of value capable of maintaining a more reasonable price level internally, while at the same time also preserving parity of exchange over a large part of the world. In talking of the world recovery, the American Department of Commerce, in its publication "The United States in the World Economy," pointed out that "the members of the sterling bloc were

on the whole outstanding. They not only attained, for the most part, their pre-depression levels of production and income by 1935, but also maintained virtually complete exchange stability among themselves, once the realignment of their currency ration had been made during the depression, without depending on exchange controls or other intricate measures of direct intervention in the trading mechanism."

### THE FALSE THEORIES.

Strangely enough, none of these facts, constituting as they do an overwhelming case for the policy for which the Empire Industries Association has always stood, have ever been made public sufficiently in this country. On the contrary, a fantastic legend has grown up which has attributed the world depression of 1930-31 to the various restrictions which were introduced after the depression and which, in fact, cured it. The suggestion that our tariffs and the Imperial Preference actually contributed to the world depression has been allowed to go unchallenged year after year. Meanwhile, the disastrous experience of the inter-war years afforded a tremendous opening for propaganda against "capitalism" and in favour of nationalisation, a propaganda based almost entirely on confusing private enterprise in productive industry with unregulated economic anarchy in international trade and investments.

The result is that in this country the idea of nationalisation seems to hold the field as a positive policy. What is more, it will continue to do so unless and until it is challenged by an alternative which meets world conditions and the present outlook of the working classes. A mere rearguard action against regimentation and bureaucracy, however much there may be said for it, has no possible chance of success. What is essential for those who wish to avoid mechanical socialism is to show that they have an alternative policy which, without interfering with individual initiative, can yet secure steady and increasing employment at home and maintain our balance of trade with the outside world.

### THE REAL ALTERNATIVE.

An indication of where that alternative policy is to be found was really given by the White Paper on Employment which the Coalition Government brought out two years ago. That White Paper fastened on the cardinal point that it is

not the so-called employer, but the customer and investor who are the real sources of employment, the customer above all because, if he wishes to buy certain classes of goods, capital will flow quickly enough into the factories which produce them. What that means, in fact, is that if the customer wants boots there will be employment in the boot industry somewhere. If by legislation he is encouraged to buy British boots, there will be employment for British boot-makers. Unless, however, the customer is induced to buy British boots, then it makes no difference to employment in the British boot industry whether it is under national or individual ownership. To put it in another way, the essence of securing national objectives in industry lies, not in nationalising and so strait-jacketing the producer, but in nationalising the consumer, i.e. seeing that his purchases are directed towards the encouragement of national production. The simplest and most flexible way of doing that is a tariff, sufficient to secure the desired home production without interfering with the freedom of the individual still to purchase the imported article if he has a very strong special reason for doing so.

If we were able, within this country, to grow or produce all the foodstuffs and raw materials required to support our population, little more would be required beyond a carefully adjusted tariff in order to secure development and stability of employment. As it is, we have to import very considerable quantities of food and even larger quantities of raw materials, without which our whole industry would come to a standstill, and our population be unable to maintain themselves. To secure these essentials, we must pay for them by exports. In other words, we must find customers who will buy from us rather than from somebody else.

Is there any possibility of our being able to find customers willing to take the immense total of exports, which we must have in order to live, on nineteenth-century *laissez faire* lines? Nothing can be more hopelessly out of date than to imagine that the chief obstacle to our export trade lies merely in the tariffs of individual countries, and that an all-round reduction of tariffs in the world would be our salvation. That view, based on the legend of our competitive power in the past, ignores the fact that our production, saddled as it is not only with high wage standards, but with the enormous taxation overheads of social security and of our defence needs,



will have to meet the equally well-equipped factories of cheap labour countries, and the cheap surplus of America's immense mass production, not to speak of possible future dumping by a totalitarian country like Russia. It also ignores the fact that such a policy means abandoning any effective control of our own home market. There is no hope whatever on those lines, for though we might thus continue to secure a certain limited export trade in virtue of the quality of our products, we are never likely—at any rate once the immediate post-war boom is over—to secure a sufficient total bulk of exports to meet our needs.

Our only hope lies in a policy based on the following main items. First of all, the effective protection of our domestic industry and agriculture, mainly by tariff, but no doubt in the case of agriculture also by tariff-subsidy, and in some cases quantitative control. Secondly, by getting rid of the Most Favoured Nation Clause and thus enabling us to make use of the bargaining power of our great import market in order to secure specially favourable terms for our exports in the countries from which we import. This will mean the denunciation, or at any rate the reinterpretation, of most of our trade treaties. Thirdly, a vigorous development of inter-Empire Preference. This need not wait for the denunciation of any treaties, as the M.F.N. Clause does not apply to the Empire. The development of Empire Preference is, however, justified not only by that immediate fact, but also by the fact that inter-Empire trade is still to a much larger extent than any other trade essentially complementary, and that the resources of the Empire are still largely undeveloped, and last, but not least, by the fact that in developing the resources of the Empire we are at the same time contributing to the defensive strength and unity of the whole in a world in which only large nation groups can hold their own. Lastly, as even the Empire as a whole is not at present a sufficient market for any one of its elements, we should supplement Empire Preference and good foreign trade treaties still further by the widest possible extension of the Sterling area, including in it, if we can, all the Western European countries and their colonies as well as the Middle East. As a corollary of this policy, we must endeavour somehow or other to bring Canada into the picture, either by inducing her to join the Sterling area or, at any rate, by securing from her and for her a much greater measure of Imperial Preference.

## THE POLICY OF DISASTER.

That is the only sound line of policy for this country. Here we are up against the determination of the United States to try once more to restore nineteenth-century world trade conditions. In doing so, Americans are influenced in part by the feeling that their own tariff contributed—as indeed to some extent it did—to the inter-war world depression, but even more by the entirely erroneous legend that that depression was created by economic nationalism in other countries, and in particular by the Ottawa Treaties. In making a particular dead-set against Imperial Preference, the United States are undoubtedly influenced by the economic imperialism of their export interests, which are determined to see the British Empire broken up economically, and its various elements made contributory to the American economic system. The main instruments of that American policy are the insistence upon the Most Favoured Nation Clause and upon its effective application to the British Empire, the lowering of everybody's tariffs and a problematical and probably ineffective lowering of their own, and the virtual restoration of the gold standard.

If the world adopted that policy we should soon have a repetition of the world disaster of 1931. The essential thing for the world in future is to counterbalance the overwhelming influence of an unregulated American economy, by getting together in nation groups which can maintain their own internal markets and their own price level regardless of American booms and slumps and of the fluctuations of American investments. As a matter of fact, it is extremely unlikely that the world at large either will follow the American lead or can afford to do so. For us as an Empire to do so by ourselves would be even more disastrous than if the American policy were adopted by the world as a whole.

## GREAT BRITAIN AND THE UNITED STATES.

Meanwhile, we are up against the fact that the Americans are determined to use our immediate necessity as a lever for enforcing their policy upon us, and have indeed even a certain legal claim in respect of our acceptance of Article VII of the Lend-Lease Agreement which, however, only commits us to a support of the American policy if the rest of the world

does the same. It is essential that, even at the cost of considerable immediate inconvenience, we should stand out and refuse American assistance on any conditions which bind our economic future. On that issue there is consequently an immediate task before the Empire Industries Association, namely, that of giving the Government our support in so far as it stands up to the United States and putting pressure upon it to continue in the right direction, or, if it shows signs of sacrificing our interests by appeasement, of attacking it as vigorously as we can.

That is the immediate issue. But obviously there are years of work ahead of us if there is ever to be an effective alternative to the policy of mechanical bureaucratic nationalisation. First of all in building up a consistent economic doctrine and a clear vision of Empire which has been so sadly lacking in all political parties in recent years. Secondly, in bringing the vital importance of the issue before the industrialists of this country. Thirdly, in showing the working man and the small independent worker and shopkeeper how much better this alternative policy is for them.

### THE OPPORTUNITY.

There is an immense opportunity which the Empire Industries Association can make use of. The socialist conception has gained so much ground because it has had both a vision, however woolly, of planned social happiness and international peace, combined with an economic doctrine and method affording unlimited opportunities for argument, and consequently for victory, if that argument is not effectively answered. It has done what is essential with the British public—appealed alike to head, heart and pocket. We must present a policy which can make at least an equal appeal before it is too late. The policy of ordered freedom in the economic field, directed with consistent purpose towards the building up of the unity and strength of the British Empire, does constitute such a policy. It offers to us, and to all our partners in the Empire and Commonwealth, the prospect of a balanced, stable and steadily expanding economy, based on the individual social and economic policies and circumstances of each member, and yet at the same time offering an adequate measure of security against the impact of external fluctuations. A new era, greater than any in the past, can open up before us, if only we read rightly the signs of the time and have the courage to act upon them.

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Published by the EMPIRE INDUSTRIES ASSOCIATION, 8, Victoria Street, London, S.W.1,  
and Printed by BURKE, MATHISON & Co., LTD., 31, Throgmorton Street, London, E.C.2.