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THE NEW PROTECTIONISM

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BY

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"THE INDUSTRIAL SYSTEM," ETC.

T. FISHER UNWIN, LTD.
ADELPHI TERRACE, LONDON

First published in 1916.

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PREFACE

It is not my purpose in these chapters to traverse the whole field of controversy between Protectionists and Free Traders, cultivated so intensively during the years following the Chamberlain proposals of 1903-1905. During this war the fiscal problem has taken a new aspect. Protectionists have found in the associations and divisions among nations imposed by war, and the necessities or expediencies of war economics, a new fund of hope and opportunity for the achievement of their objects. During the war the enemy's trade is part of the enemy's war resources, and is rightly made an object of attack. In the general atmosphere of international antagonism it is not difficult to represent this same trade as inimical to our interests and a potential source of danger to our country

even in time of peace. The revival and growth of German industry and commerce after the war will, it is urged, enable Germany to prepare for another war. We must therefore do all we can to prevent that revival and retard that growth. Moreover, German business men subordinate their private profit-seeking to political ends, dumping goods, invading markets, driving wedges of finance, in order that the "economic domination" thus obtained may be placed at the service of a powerful aggressive State. This State they see combining with and subjugating its neighbours, so as to form a powerful political and economic system of Central Europe, which will reach out its commercial and financial tentacles so as to drag in other neutral countries. This huge menace of a future German world-power, political and economic, and, when the time comes, military, is paraded before the heated and confused imagination of our people by our New Protectionists.

My object is to inspect and test, first, the substance of this economic menace, and, secondly, the validity of the measures by which it is proposed to meet it. The New Protectionism differs from the Old in seeking to superimpose the present war map of the world, with its divisions of belligerents, allies, and neutrals, upon the Protectionism of 1903-1905, which sought to combine protection for British industries with a closer business connection between the self-governing dominions and the mother-country. To extract a definite intelligible shape for this New Protectionism out of the general rhetoric in which it is embedded by most of its exponents is no easy task. Its principal organs in the Press—such as the *Morning Post*, the Northcliffe papers, and by recent conversion the *Spectator*—do not agree among themselves either as to scope, objects, or methods; and the Chambers of Commerce—more concerned with business and less with politics—formulate proposals woefully deficient in that element of “defence”

which is of primary importance to political enthusiasts.

The single fact which ought to guide us in our interpretation of the New Protectionism is that the moving and moulding spirit is the evident desire of groups of business men to exploit the emotions of friendship and antagonism generated by the war and the immediate economic exigencies of the situation, in order to get a public policy which will yield them private profit. Multitudes of other men are moved by patriotic and other uncommercial motives to applaud and to promote a Protectionist policy, but all experience shows that they do little to determine the form that policy takes. The famous saying of Sir James Fitzjames Stephen, that "The world is made for hard practical men who know what they want and mean to get it," finds no more convincing corroboration than in the annals of Protection.

The perception of this central truth is doubtless obscured at present by the promi-

nence given by war pressure to what is in its ultimate significance a sharp business enterprise. The Paris Conference, for example—a copy of the Report of which is here given as an appendix—focuses attention upon the Alliance as an economic system for the conduct of the war, and for defensive work afterwards. With the economic war policy itself I am not concerned to deal. But the measures proposed for common action during the period of reconstruction, and the permanent measures of mutual assistance and collaboration, raise issues of great moment for those who regard Free Trade as economically sound, and consider a policy aiming at a lasting severance between the present belligerent groups as a menace to the future peace of the world. Although the document nowhere explicitly commits this country to any tariff or other definitely Protectionist act, it lays down a line of policy which involves Protection. The very language of its preamble is replete with Protectionist assumptions. Our

enemies are represented as preparing for "a contest on the economic plane." Their preparations "have the obvious object of establishing the domination of the latter (*i.e.*, the enemy) over the production and markets of the whole world, and of imposing on other countries an intolerable yoke. In face of so grave a peril, the representatives of the Allied Governments consider that it has become their duty—on grounds of necessary and legitimate defence—to adopt and realize from now onward all the measures requisite, on the one hand, to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice; and, on the other hand, to facilitate the organization on a permanent basis of their economic alliance."

Now, in this book I examine the curious assumptions of this passage—the notion of trade as a "contest" in which one of the trading parties secures "domination" over the other, the notion that protective tariffs

and other barriers are needed for "defence," and the notion that such "defence" can be successfully obtained by any of these methods. The assumption that German trade and finance are mainly and normally State instruments—departures from "sound commercial practice"—and that the Allies are called on not merely to defend themselves against this invasion and this domination, but also to secure the "independence" of the neutral markets, is a blend of naïveté and ignorance to which it is difficult to do full justice.

Though history lends little support to the conviction that war alliances are of so firm and durable a nature as to afford a reliable basis for far-sighted business arrangements, Free Trade has nothing but commendation for proposals for closer and more effective trade relations between allies, provided they are not intended, and do not in fact work out, as a policy of exclusion and hostility to other countries. Schemes for the improvement of transport, postal and other com-

munications, for identical facilities in patent law, trade-marks, and copyright, as between the members of the allied countries, amount *pro tanto* to an extension of the area and liberty of human intercourse beyond the national barriers, and as such are in every way desirable.

But economic sanity regards with very different eyes the first heading of the "Permanent Measures"—viz., "Economic Independence of Enemy Countries," with its opening paragraphs. "The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities. These measures should be directed to assuring the independence of the Allies, not only as regards their sources of supply, but also as regards their financial, ~~com-~~mercial, and maritime organization."

Now, though neither here nor elsewhere in the Report is there any definite agree-

ment to adopt a policy of Tariffs, Export Duties, Navigation Acts, Financial Boycott, or other specified weapons of Protectionism, the policy indicated is one which plainly involves, or indeed demands, the application of such measures. "Economic Independence" of the kind described, though it does not preclude all commerce with the Central Powers, clearly contemplates the exclusion from this country of most of the staple imports which have hitherto come in, such as sugar, steel and iron, machinery, glass and glassware, cotton and woollen yarns and goods. The organization of Allied commerce, finance, and maritime arrangements, for complete "independence" implies not merely prohibitory tariffs on large classes of goods, but legal measures for the exclusion of German capital from all employment in the Allied countries, and restrictive or prohibitive measures against German and Austrian shipping. Whether "independence" be interpreted as absolute exclusion, or as security against such

economic intercourse as brings "dependence," it can only be compassed by methods of State preference or State boycott, which constitute a radical departure from the accepted economic policy of Great Britain. Whatever were the specific methods adopted to secure the object, it would have two economically and politically disastrous results. In the first place, by narrowing the area of our free external markets, it would diminish the total gains of British industry and commerce, and render more precarious the livelihood of a population and a trade dependent for existence upon large and assured access to varied sources of overseas supplies. Secondly, by breaking Europe into two nominally independent but really hostile and competing economic systems, it would foster conflicts in all parts of the world, maintain and feed the bitter memories of this war, stimulate the maintenance and growth of armaments, and render another war inevitable.

Moreover, the first aggressive step in this

“war after the war” would have been taken, not by the Central Powers, but by the Allies, and the false charge made by German publicists, that the main actuating motive of Great Britain in entering the war was jealousy of the growth of German trade and a desire to crush a trade rival, would receive a most specious corroboration. For though the Paris Report opens by the statement that “the Empires of Central Europe are to-day preparing, in concert with their allies, for a contest on the economic plane,” there is no evidence that any single step has actually been taken towards this preparation. On the contrary, even the informal proposals that Austro-Hungary shall enter into some economic alliance with the German Empire, propounded many months ago, have met with such strenuous opposition both in Vienna and in Buda-Pesth that they appear to have been abandoned. The first effect of the Paris Conference, should it take shape in any practical measures of co-operation for an after-war trade policy, will be to give

fresh vigour to the German advocates of an economic Middle Europe by enabling them to represent their scheme as a necessary defence against the economic warfare already announced by the Allies.

Another obvious vice of any binding economic arrangement made now by the Allies for operation after the war is that it impairs our freedom of action at the Peace Settlement for the all-important work of placing international relations upon a better basis of security. No League of Nations, such as President Wilson and Sir Edward Grey (to name but two of many important supporters of this plan) still contemplate as possible, could come into existence if, at the close of the military conflict, the two belligerent groups had already committed themselves to a permanent war of commerce.

These considerations give the gravest significance to the concluding paragraph of the Paris Report, in which "the representatives of the Allied Governments undertake to recommend their respective Governments

to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith." This indecent haste can only have one meaning so far as this country is concerned. It is designed to enable our Protectionists to reverse the permanent fiscal policy under cover of a war emergency, and by the aid of the hot passions and confused judgment which such a situation engenders. This interpretation is supported by the action taken by the Colonial Secretary, before the ink of this Report was dry, in directing the Colonies to impose forthwith, and for five years after the war, an export duty of £2 a ton upon all palm-kernels exported to foreign countries. Primarily directed to destroy the German manufactures of palm-oil, a basis of several important products, such as soap, margarine, and oil-cake, this return to our early colonial policy of preference for the home market will create alarm in all neutral foreign countries, and will, by enhancing the uncertainty of

future trade, make a speedy return to normal industry after the war more difficult for every nation, belligerent or neutral.

The greater part of my argument concerns itself with a discussion of the economic results which would flow from the attempt to apply in practice the proposals of the New Protectionism. But in a concluding chapter I sketch the outlines of a constructive policy of "The Open Door," a rational alternative to the destructive policy of the New Protectionists, and designed to promote co-operation instead of conflict between the Governments of the commercial nations and the business groups who chiefly mould their foreign policy.

A portion of the argument was published recently in a series of articles in the *Manchester Guardian*, to the proprietors of which I am indebted for permission to make this further use of them.

J. A. HOBSON.

HAMPSTEAD,

June 24, 1916.

APPENDICES

APPENDIX A

RECOMMENDATIONS OF THE ECONOMIC CONFERENCE OF THE ALLIES HELD AT PARIS,

June 14, 15, 16, 17, 1916

I

THE representatives of the Allied Governments have met at Paris under the presidency of M. Clémentel, Minister of Commerce, on June 14, 15, 16, and 17, 1916, for the purpose of fulfilling the mandate given to them by the Paris Conference of March 28, 1916, of giving practical expression to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realizing this solidarity.

II

'They declare that after forcing upon them the military contest, in spite of all their

efforts to avoid the conflict, the Empires of Central Europe are to-day preparing, in concert with their allies, for a contest on the economic plane, which will not only survive the re-establishment of peace, but will at that moment attain its full scope and intensity.

III

They cannot therefore conceal from themselves that the agreements which are being prepared for this purpose between their enemies have the obvious object of establishing the domination of the latter over the production and the markets of the whole world, and of imposing on other countries an intolerable yoke.

In face of so grave a peril, the representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defence, to adopt and realize from now onward all the measures requisite, on the one hand, to secure for themselves and for the whole of the markets of neutral countries full economic

independence and respect for sound commercial practice ; and, on the other hand, to facilitate the organization on a permanent basis of their economic alliance.

For this purpose the representatives of the Allied Governments have decided to submit for the approval of those Governments the following resolutions :

A

MEASURES FOR THE WAR PERIOD

I

The laws and regulations prohibiting trading with the enemy shall be brought into accord.

For this purpose—

A.—The Allies will prohibit their own subjects and citizens and all persons residing in their territories from carrying on any trade with—

1. The inhabitants of enemy countries whatever their nationality.
2. Enemy subjects wherever resident.

3. Persons, firms, and companies, whose business is controlled wholly or partially by enemy subjects, or is subject to enemy influence and whose names are included in a special list.

B.—They will prohibit the importation into their territories of all goods originating in or coming from enemy countries.

C.—They will devise means of establishing a system enabling contracts entered into with enemy subjects and injurious to national interests to be cancelled unconditionally.

II

Business undertakings owned or operated by enemy subjects in the territories of the Allies will all be sequestered or placed under control; measures will be taken for the purpose of winding up some of these undertakings and of realizing their assets,

the proceeds of such realization remaining sequestrated or under control.

III

In addition to the export prohibitions which are necessitated by the internal situation of each of the Allied countries, the Allies will complete the measures already taken for the restriction of enemy supplies, both in the mother-countries and in the Dominions, Colonies, and Protectorates—

1. By unifying the lists of contraband and of export prohibition, and particularly by prohibiting the export of all commodities declared absolute or conditional contraband ;
2. By making the grant of licences for export to neutral countries from which export to enemy territories might take place conditional upon the existence in such countries of control organiza-

tions approved by the Allies; or, in the absence of such organizations, upon special guarantees such as the limitation of the quantities exported, supervision by Allied consular officers, etc.

B

TRANSITORY MEASURES FOR THE PERIOD OF COMMERCIAL, INDUSTRIAL AGRICULTURAL, AND MARITIME RECONSTRUCTION OF THE ALLIED COUNTRIES

I

The Allies declare their common determination to insure the re-establishment of the countries suffering from acts of destruction spoliation and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a *priori* claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet or to assist them to re-equip themselves in these respects.

II

Whereas the war has put an end to all the treaties of commerce between the Allies and the Enemy Powers, and whereas it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the Enemy Powers to most-favoured-nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those Powers during a number of years to be fixed by mutual agreement among themselves.

During this number of years the Allies undertake to assure to each other so far as possible compensatory outlets for trade in case consequences detrimental to their commerce result from the application of the undertaking referred to in the preceding paragraph.

III

The Allies declare themselves agreed to conserve for the Allied countries, before all

others, their natural resources during the whole period of commercial, industrial, agricultural, and maritime reconstruction, and for this purpose they undertake to establish special arrangements to facilitate the interchange of these resources.

IV

In order to defend their commerce, their industry, their agriculture, and their navigation, against economic aggression resulting from dumping or any other mode of unfair competition, the Allies decide to fix by agreement a period of time during which the commerce of the Enemy Powers shall be submitted to special treatment, and the goods originating in their countries shall be subjected either to prohibitions or to a special régime of an effective character.

The Allies will determine by agreement through diplomatic channels the special conditions to be imposed during the above-mentioned period on the ships of the Enemy Powers.

V

The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising, in their territories, certain industries or professions which concern national defence or economic independence.

C

PERMANENT MEASURES OF MUTUAL
ASSISTANCE AND COLLABORATION
AMONG THE ALLIES

I

The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.

These steps should be directed to assuring the independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial, and maritime organization.

The Allies will adopt the methods which seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.

They may, for example, have recourse either to enterprises subsidized, directed, or controlled, by the Governments themselves, or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources ; to Customs duties or prohibitions of a temporary or permanent character ; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

II

In order to permit the interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic, and other communications.

III

The Allies undertake to convene a meeting of technical delegates to draw up measures for the assimilation, so far as may be possible, of their laws governing patents, indications of origin, and trade-marks.

In regard to patents, trade-marks, and literary and artistic copyright, which have come into existence during the war in enemy countries, the Allies will adopt, so far as possible, an identical procedure, to be applied as soon as hostilities cease.

This procedure will be elaborated by the technical delegates of the Allies.

D

Whereas for the purposes of their common defence against the enemy the Allied Powers have agreed to adopt a common economic policy, on the lines laid down in the Resolutions which have been passed, and whereas it is recognized that the effectiveness of this policy depends absolutely upon these Resolutions being put into operation forthwith, the representatives of the Allied Governments undertake to recommend their respective Governments to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith, and to communicate to each other the decisions arrived at to attain that object.

BOARD OF TRADE,

June 21, 1916.

APPENDIX B

SUGGESTED TARIFF ADOPTED BY THE COUNCIL OF THE LONDON CHAMBER OF COMMERCE,

May 25, 1916

RATES OF DUTIES UNDER TENTATIVE TARIFF

	Enemy Countries.	Neutrals.	Allies.	British Empire Countries.
(a) Wholly manufactured goods	30% <i>ad val.</i>	20% <i>ad val.</i>	10% <i>ad val.</i>	*10% <i>ad val.</i>
(b) Semi-manufactured goods and articles used solely as raw materials	15% <i>ad val.</i>	10% <i>ad val.</i>	5% <i>ad val.</i>	*5% <i>ad val.</i>
(c) Foodstuffs, manufactured	7½% <i>ad val.</i>	5% <i>ad val.</i>	2½% <i>ad val.</i>	*2½% <i>ad val.</i>
(d) Foodstuffs, raw -	5%	2½%	Free	Free
(e) Raw materials -	Free	Free	Free	Free
(f) Wines, spirits, beer, tobacco, and other articles now subject to duty	War rates plus 50%	War rates	War rates	War rates

* Subject to any rebate equivalent to preference accorded goods from the United Kingdom.

NOTE.—Should any neutral country accord a tariff preference to any other country, a surtax equivalent to the preference to be imposed on goods imported into the United Kingdom.

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National Power and Prosperity. By CONRAD

GILL, M.A. With an Introduction by PROFESSOR
GEORGE UNWIN. Cloth, 4s. 6d. net.

The study of economic history provides many facts and principles of the greatest value to all who are trying to unravel the causes of the present crisis. It shows, for example, how largely the policy of German statesmen has been guided by a mistaken view of the growth of English trade; how they have deliberately tried to copy the policy which they believed to have produced the commercial greatness of England. It shows, too, how far the same policy of "Mercantilism," which was in force all over Europe in the seventeenth and eighteenth centuries, has determined international relations down to the present time, and how far it has helped to produce the great wars of the last three hundred years. This essay on "National Power and Prosperity" describes the Mercantile System both in theory and in practice, and shows its good features and its many defects. The book bears closely on vital questions of the day, especially in the chapters on the survivals of Mercantilism in Germany and elsewhere; the economic and non-economic causes of warfare; the political power of the State and the welfare of Society; and the final chapter, which attempts a cautious prophecy.

European International Relations. By J. A.

MURRAY MACDONALD, M.P. Cloth, 2s. 6d. net.

The idea of national freedom and independence, which has recently prevailed in Europe, assumes that each State has, or has a right to have, within itself all the requirements, moral and material, of a complete and self-sufficing life. To consent to be dependent for any of these requirements on its neighbours would be to consent to derogate, to the extent of the dependence, from its own unrestricted freedom of action, and to deny the absoluteness of its own sovereignty.

If this idea is accepted, there never can be any real community of interest between nations, nor any permanent peace. So long as two or more sovereign States exist there will be a struggle for supremacy between them, till at last one all-powerful State will subdue to itself all the other States of Europe, and ultimately also of the world. This is one of the main questions studied in Mr. Macdonald's important work.

T. FISHER UNWIN, LTD., 1, ADELPHI TERRACE, LONDON.

The State as Manufacturer and Trader :

A CRITICISM BASED ON ECONOMIC, INDUSTRIAL AND FISCAL RESULTS FROM GOVERNMENT TOBACCO MONOPOLIES. By A. W. MADSEN, B.Sc. (Edin.). Cloth, 7s. 6d. net.

Mr. Madsen takes as outstanding examples of State industry the Government Tobacco Monopolies in France, Italy, Austria, Japan, Spain, and Sweden, and analyzes the business management, the finances, and all the operations of these nationalized concerns. Manufacturing and book-keeping methods; the relations of the State with *employés*, retailers and consumers; the quality and assortment of goods sold—all come under searching examination. In particular, the shortcomings of the Monopolies both as commercial departments and as engines of taxation are clearly demonstrated. Comprehensive statistics complete the author's instructive, though damaging, investigation into this branch of Government activity in manufacture and trade.

Instincts of the Herd in Peace and War.

By W. TROTTER. Cloth, 3s. 6d. net.

This book is essentially concerned with the exposition of two ideas: first, that the science of psychology can without any sacrifice of scientific method be made use of for guidance in the actual conduct of practical affairs; and, secondly, that any real understanding of man's behaviour must depend upon a knowledge of the relation his mind bears to those of the lower animals, and especially of such of them as resemble him in conduct.

The principal generalizations which are relied upon in the interpretation of the confused problems of human affairs were evolved in times of peace, and are, therefore, not exposed to the suspicions which must attach to ideas conceived in the intemperate air of war. Nevertheless, the circumstances of warfare provide an almost inexhaustible store of material from which specimens of human behaviour can be drawn.

A hypothesis of German personality and social constitution is put forward which attempts to explain their characteristics, to afford hints for the guidance of military policy, and a rational theory of the objects of the war and the unappeasable hostility of which it is the expression.

T. FISHER UNWIN, LTD., 1, ADELPHI TERRACE, LONDON.