CHAPTER IV

FOREIGN TRADE POLICY

THIS country entered the war in 1914 as a Free Trade country. Nor, when the war ended, was there any suggestion on the part of the politicians then in power that a fundamental change in fiscal policy should be made. Foreign trade was to be left, as it had been before the war, to the unhampered discretion of private traders. Thus by 1st September 1919 the main body of the import restrictions, which had perforce been imposed during the war, were removed by the issue of a general licence for free import, except for a limited list of key products; and restrictions on trade with enemy countries generally were relaxed.[1] But the experience of the war and the highly disturbed conditions prevailing throughout the world during the early days of peace led to our *laisser-faire* policy being modified in certain secondary respects.

First, the difficult position of would-be customers in a number of impoverished countries, their need for long credits, and uncertainty on the part of British exporters about their ultimate ability to pay, seriously impeded the revival of our export trade. The Government tried to smooth over these difficulties. What was done is described in the Report of the Balfour Committee, in their volume on *Factors in Industrial and Commercial Efficiency*, as follows: "In order to assist in promoting employment in this country, and originally with the concomitant object of helping in the economic restoration of certain States in Central and South-Eastern Europe, State schemes for export credits were initiated in 1919, and the Overseas Trade (Credits and Insurance) Act 1920 was passed to

[1] Dearle, *An Economic Chronicle of the Great War*, p. 282.

provide the required statutory authority. Under the first scheme the Board of Trade could make advances, up to an amount outstanding at any time of £26 millions, in respect of goods wholly or partly produced or manufactured in the United Kingdom and exported to the countries referred to. This scheme, not having been much used, was amended in 1921 : instead of making advances it was decided to adopt the method of guaranteeing bills drawn by traders in respect of exports to the countries (now including the British Empire) covered by the scheme. Later in 1921 the scheme was further widened to cover all countries, except, for the time being, British India, Ceylon, the Straits Settlements and the Far East (where there were large unabsorbed stocks), and Russia ; and in 1925 it was opened to all these countries except Russia in respect of machinery and similar goods, for which long-term credits may be required. . . . Under the old advances scheme, advances were made amounting to £1,752,150. Under the old guarantee scheme, between 1921 and 30th June 1926, 2806 sanctions for guarantees, to the value of £29,814,724, were given. The guarantees actually used by exporters amounted only to £6,140,852, the number of new bills guaranteed being 8899. In consequence of renewals, the Department guaranteed, in all, bills to the amount of £19,261,875."[1] Thus very little came out of all this. After an enquiry by a Committee, a new and supposedly improved scheme was introduced in 1926.

Secondly, as mentioned above, when a general licence for free importation was given in September 1919, certain commodities were excluded. Towards the end of the year, however, Mr. Justice Sankey delivered a judgment which declared prohibition of imports by departmental authority to be illegal. In 1920 an Act was passed forbidding the importation of dye-stuffs into this country except under

[1] *Factors in Industrial and Commercial Efficiency*, pp. 391-3.

licence, and in 1921 the Safeguarding of Industries Act was passed, designed to provide similar protection for other key products. Under this Act (1st October 1921) an import duty of $33\frac{1}{3}$ per cent *ad valorem* was imposed for a period of five years on the importation of a number of listed "key" articles. Of these articles some, "such as synthetic dye-stuffs and drugs, gauges, scientific glass-ware, tungsten and hosiery latch needles", had been found to be essential in large quantities for the purposes of war. Others were articles the manufacture of which did not, as a rule, employ a large number of hands and which did not have a large value of output, but which were an essential requisite of some other and considerable industry — as dyes for the textile industry, optical glass for photographic and scientific work, or magnetos for motor cars. Protection for some of these articles was defended, not only on the ground that the articles were key articles, but also on the ground that the industry making them was an infant industry, which, if artificially supported for a few years, would prove well suited to the country and capable of prospering without assistance. Infant industries, however, are notoriously unwilling to shed their swaddling clothes.

Thirdly, in the currency chaos following the war, it was feared that countries whose currencies were depreciated would, because of that, be able to sell here at abnormally low sterling prices, prices which they could not possibly maintain permanently, but which might, nevertheless, seriously disorganise our industries. There would, no doubt, be a temporary gain to British consumers, but, on account of the damage done to our productive powers, they too would suffer in the long run. On these grounds, protection against "exchange dumping" was strongly advocated. Part II of the Safeguarding of Industries Act 1921 provided that a duty of $33\frac{1}{3}$ per cent *ad valorem* might be imposed on goods imported from a foreign country whose currency was depreciated more than 33 per cent, when, owing to the depreciation, goods were being offered for sale within the United Kingdom at low prices, and when, in consequence, employment in a British industry was, or was likely to be, seriously affected: provided that production of similar goods in the United Kingdom was being carried on with reasonable efficiency and economy, and that other industries using these goods as materials would not be too hardly hit by duties imposed upon them. No duty was imposed under this clause of the Act except on goods coming from Germany. For these, by order of the Board of Trade, $33\frac{1}{3}$ per cent *ad valorem* was charged in August 1922 on fabric gloves, glove fabric, domestic and illuminating glassware and domestic hollow ware; and in October on gas mantles and parts thereof. The provision of the Act relating to these duties expired in August 1924. Evidently its practical significance had been very small. Unfortunately, moreover, the principle underlying it was thoroughly confused. The ability of a foreign country to sell here at abnormally low sterling prices does not depend on the relation between the present and the pre-war value of its money in terms of sterling, but on the relation between the present value of its money in terms of sterling and the present level of its domestic prices. If a pound became worth twice as many marks, while at the same time mark prices in Germany became twice as high, Germany's competitive position here would not be strengthened at all; if mark prices became more than twice as high, in spite of the fall in the exchange, it would be weakened. This elementary truth was not apparently appreciated by those who framed the clause of the Safeguarding of Industries Act that dealt with imports from countries with depreciated exchanges.[1]

[1] This blunder was carried to its logical conclusion in the New Zealand Customs Amendment Act 1921. By this Act a special duty was imposed at the rate of $2\frac{1}{2}$ per

Fourthly, under this same Safeguarding of Industries Act it was sought to make provision against imports, which, in the disturbed post-war period, might be dumped here below cost of production, and so, again, while temporarily benefiting consumers, might disorganise and cause lasting damage to British industries. "Cost of Production means the current sterling equivalent of 95 per cent of the wholesale price at the works charged for goods of the class or description for consumption in the country of manufacture, subject to the deduction of the amount of any excise or other similar internal duty leviable in that country and included in the price" (Clause 8). On goods imported for sale at less than cost of production in this sense a duty of $33\frac{1}{3}$ per cent might be imposed, subject to the same provisos as those described above in respect of goods imported from countries with depreciated currencies. A League of Nations document prepared by Professor Tredelberg for the Geneva Economic Conference of 1927 concludes its account of this British enterprise with the following words: "In spite of the care with which this law is framed, no case is yet known in which the Board of Trade has made use of its power to levy a dumping duty".[1]

Much more important in practice than all these, as we might say, fancy arrangements, were the McKenna duties on imported motor cars (and certain other associated articles). These duties, at $33\frac{1}{3}$ per cent, were imposed in 1915, not for protective purposes, but in order to maintain the foreign exchange and to cut down expenditure on luxuries. But they were renewed annually during the next eight years, despite the ending of the war. No corresponding excise duties were imposed. After the war

cent when the importing country's exchange was between 10 and 20 per cent below the pre-war par, and one of 5 per cent when its depreciation was between 20 and 30 per cent (League of Nations Documents for the Geneva Economic Conference, 1927, paper by Professor Tredelberg, p. 27).

[1] *Loc. cit.* p. 22.

they thus became substantial protective duties grafted on to a Free Trade economy, but incapable of being intelligently defended by upholders of Free Trade. As was to be expected, therefore, in spite of vehement assertions that our motor-car industry would be ruined, Mr. Snowden, on becoming Chancellor of the Exchequer, repealed them in his 1924 Budget. The industry, of course, was not ruined. On the contrary, if export statistics may be taken as a guide, it became more prosperous than ever before. Nevertheless, in the following year, the Conservative Government, which had meanwhile come into power, re-imposed the duties. This battle was one of politics, not of economics.

It has seemed to me proper to give this brief account of British fiscal policy between the Armistice and 1925, for otherwise I should be leaving a rather obvious gap in the history. Plainly, however, since England entered the second war no longer as a Free Trade country, but as one enjoying, or if we prefer it, suffering from, an elaborate protective tariff, its problems were bound to be quite different at the second return of peace from what they were in 1918. Knowledge about what happened then cannot, therefore, be expected, in 1946, to help statesmen much.