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The Eternal Fiscal Question:
Free Trade and Protection in Britain, 1860-1929

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I. Introduction

Britain's imposition in 1932 of a general tariff on imports from foreign countries was a sudden and dramatic break with a free trade tradition stretching back some three-quarters of a century to the Conservative Ministry of Sir Robert Peel. In its time, the triumph of free trade had been equally sensational. Up through Peel's Ministry the Conservative Party had been wedded quite firmly to the system of agricultural protection established in 1815. As early as 1820, however, London merchants had begun to express their dissatisfaction with the Corn Laws. By the "Hungry Forties" a series of poor harvests in England, an outbreak of potato blight in Ireland, and the changing balance of political power following the Reform Act of 1832 had greatly intensified the pressure for repeal. The movement made great strides following the establishment of the Anti-Corn Law League in 1838 and the election of Richard Cobden, the masterful spokesman for trade liberalization, to a seat in the House of Commons in 1841. The Corn Laws' opponents employed all of the devices of pressure politics: mass meetings, publicity, petitioning, and lobbying of Ministers.[1] In this way they laid the basis for a momentous change in Britain's international economic relations.

Following Peel's lead, a growing number of Liberal and Conservative Members of Parliament were converted to the cause. After the reintroduction of income taxation in 1842, which served to insure a steady flow of revenues to the Exchequer, the Corn Laws were abolished in 1846.[2] Duties on manufactured and semi-manufactured imports were reduced or eliminated. The task of completing the transition to free trade fell to Gladstone, Peel's ally, Vice President of the Board of Trade, and subsequently Chancellor of the Exchequer in Lord Aberdeen's ministry of Peelites and Liberals in 1852. In Gladstone's 1853 budget, some 120 remaining import duties were removed, and by 1860, when Britain's great commercial treaty with France was concluded, only 48 categories of imports remained subject to duty. Grain was admitted upon payment of a nominal "registration duty" of three pence a bushel, and in 1869 even that levy was suspended. By 1882, only a dozen categories of imports were still taxed.

Free trade came to symbolize the triumphs of the British nation in the last half of the 19th century. Observers of the British economy were struck by the buoyancy of incomes and the persistent expansion of industrial production over the third quarter of the century. Historians' efforts to verify these contemporary impressions, through statistical reconstruction of Britain's national income accounts, generally support the view that, over the period 1856-73, real gross domestic product per capita continued to grow by at least the rate experienced over the first half of the 19th century.[3] Over the same period, the value of exports increased twice as rapidly as incomes. The logical inference, drawn by many, was that Britain's burgeoning export trade was responsible for the sustained rise of incomes and indispensable to the continued expansion of the economy's industrial base. The argument was especially compelling to those active in the sectors earliest to industrialize -- iron and steel, textiles, and coal -- where dependence on exports was great. In less than half a decade following the railway building boom of 1847-48, roughly 50 per cent of the output of the iron and steel industry came to be exported to overseas markets. Export sales similarly accounted for the dominant share of British textile production. Both the magnitude and the sustained expansion of Britain's export trade led statesmen to envisage a future of continued growth based upon unfettered international exchange and further specialization along lines of comparative advantage.[4]

Yet this consensus on the benefits of free trade was to prove short-lived. Starting in the 1880s, the case for agricultural protection was lent new life by the expansion of the international grain trade, which set off a precipitous decline in agrarian incomes throughout Western Europe. As British industrial growth began to decelerate, with declining export growth setting the pace, free trade was subjected to increasing scrutiny. Whether the pressure of international competition was in some sense responsible for the slackening pace of British industrial growth in the final quarter of the 19th century remains an actively debated question.[5] Whatever the answer, it is clear the support for tariff protection that surfaced in the 1870s and intensified over subsequent decades was associated with these disturbing trends.

Few of these developments were peculiar to Britain. The repeal of the Corn Laws was part of a general movement toward free trade in countries as disparate as France, Germany, Italy, Belgium, Holland, Norway, Sweden, Spain and Portugal. In each instance, pressure for liberalization around the middle of the century reflected the desire of merchants and manufacturers to capitalize on the new opportunities afforded by industrialization, the erosion by economic change of traditional restrictions on market activity, and shifts in the economic bases of political power. Likewise, the resurgence of protectionism throughout Western Europe beginning in the 1870s was a common response to declining agricultural prices and growing international competition in markets for manufactured goods.[6] What was peculiarly British was the failure of the protectionist backlash. Despite the presence of all the elements necessary to reverse the movement toward free trade on the Continent, in Britain the advocates of protection suffered an unbroken succession of defeats. Not until the unprecedented international crisis of 1929-32 did protectionism finally triumph.

It is tempting to ascribe Britain's allegiance to free trade to the ideological fervor with which the principle was supported. Few would question that ideology was a factor. Rather, the difficulty is to identify its influence and to distinguish it from the role played by other economic and political factors. Some purchase on this problem can be gained by subjecting it to a form of supply and demand analysis.[7] Political economists have devoted most of their attention to the demand side of the problem. They start by analyzing the economic self-interest of the parties affected by international competition, taking as a measure of economic welfare real rates of return accruing to the various factors of production. These models predict that, in the absence of distortions, individuals with skills that can be used most advantageously in the production of exports are made worse off by the imposition of a tariff while individuals with skills particularly suited to the production of goods competing with imports have their welfare enhanced.[8] It follows that in mid-century Britain, where agriculture faced import competition while much of industry was export-oriented, landed interests should have favored protection while manufacturers should have opposed it. Over time, as changes in technology, resource endowment, and the nation's international competitive position altered the structure of the economy, such models predict a shift in the balance of opinion. Thus, with the progress of industrialization on the Continent and increasing penetration of the home market by German and other foreign manufacturers, it is likely that entrepreneurs in British industries subject to the most intense import competition, such as woolens and worsteds, would have switched from opposing tariff protection to supporting it. The position of labor and other factors of production whose skills are less specific to particular sectors is more difficult to predict. Standard models imply that labor's position on the tariff question will be influenced by the share of importables in workers' consumption baskets. They suggest that in late 19th and early 20th century Britain, where imported foodstuffs bulked large in working class consumption, labor would have consistently opposed the imposition of a tariff.

Communicating a preference for free trade or protection is not a costless process, however. Resources must be expended to organize a lobby to effectively voice a constituency's views. Moreover, a trade regime is a public good in the sense that all residents of a nation are affected by its imposition. A free-rider problem consequently arises. Each individual has an incentive to understate his demand for a particular regime in the hope that others will commit the resources needed to secure its adoption. This free-rider problem will be especially serious when the number of potential beneficiaries is large, since the costs of monitoring the contributions of individual members approach prohibitive levels. In Victorian Britain, where consumers' interests were diffuse but producers were relatively few in number and geographically concentrated, producers could be expected to organize effectively and exert an influence disproportionate to their numbers.

In few such models do changes in commercial policy result mechanically, however, from shifts in the balance of individuals lobbying for free trade or protection. Few would argue that the level of protection is solely demand determined -- that the supply is, in effect, perfectly elastic. Most observers recognize the need to consider also the responsiveness of the political system.[9]

It may be useful here to offer an analogy between models of economic policymaking and theories of the modern corporation. Theories of the corporation can be distinguished according to whether they recognize a separation of ownership from control. At one end of the analytical spectrum lie models that admit no such distinction and proceed on the assumption that managers adopt strategies conforming rigidly to the wishes of shareholders. In analogous models of the policymaking process, it is assumed that politicians pursue commercial policies that coincide with the economic self-interest of their constituents. The waters are muddied once it is acknowledged that members of even the most narrowly defined political constituency may have diverse interests. In standard public choice models, political parties whose positions on the issues are determined by majority rule arrive at decisions in a predictable manner only if strict assumptions about preferences apply. A stable solution to the decision problem may require preferences to be unidimensional; with preferences defined over both commercial policy and other issues, or over both real income and its variance, outcomes become difficult to predict. Existence and stability of a solution typically require preferences to be single-peaked. If some voters prefer relatively low and relatively high tariffs to other alternatives, for example, outcomes are again difficult to predict. These considerations point to the extent of enfranchisement and to electoral procedure (such as the secret ballot) as determinants of economic policy.

Pursuing the analogy with theories of the corporation, at the other end of the analytical spectrum lie models that emphasize the separation of ownership from control.[10] Like corporate managers who sacrifice profits in the interest of sales or stability, party leaders may pursue personal objectives. They may allow themselves to be motivated by ideology and adopt policies reflecting their own preferences. But as in the theory of corporation, there may be limits to their discretion. No matter how strongly their leaders are driven by other objectives, political parties that neglect the interests of the voting public may find themselves out of office. In principle, such parties should disappear as if by natural selection. The knowledge that this is so provides politicians the incentive to adapt their behavior in the direction of their constituency's wishes. However, when there exist a limited number of political parties, each one conscious of their mutual dependence, the position on an issue staked out by a party wishing to maximize its chances of election will depend not only on the constituency's preferences but on the current and likely future positions of competing parties. Equally, party leaders, like corporate managers, are open to the threat of takeover if they fail to accede to their constituency's wishes. Rival leaders may succeed in wresting control of the party apparatus. At the same time, there exist impediments to this process; the choice of leader within political parties is as difficult to predict as the voters' choices among parties. These considerations yield few unambiguous predictions, but they point to the importance of ideology in delimiting the range of politically viable options and providing motivation to political leaders, and to the electoral system and party organization in determining the responsiveness of leadership.

Theories designed for the analysis of representative democracy can be applied to prewar Britain only with considerable care. Prior to 1885, the extent of the franchise was severely limited, and the 1885 reforms, far from establishing universal male suffrage, extended the franchise to only 60 per cent of adult males. The main prerequisite for the vote was the so-called household franchise, requiring that prospective voters own or rent a separate dwelling. These requirements disenfranchised most lodgers occupying dwellings valued at less than £10 per annum, domestic servants, sons living with parents, soldiers and policemen living in barracks, and householders who had recently moved.

Furthermore, the persistence of anomalies and peculiar electoral conventions buttressed the position of the politically entrenched. Plural voting still existed on a considerable scale, for example, in the late Victorian period. Freeholders were entitled to a second vote in the country division encompassing their borough. Business and professional men, including university graduates, with offices in a borough but residences outside were entitled to vote twice. The size of individual constituencies varied enormously; smaller country seats in Commons remained almost the personal property of dominant landlords into the 20th century. Doubts about the secrecy of the ballot, even after 1885, served to intimidate poorer voters. Particularly in certain rural districts, the so-called "rotten counties," there were widespread reports of workers feeling compelled to vote with their landlord or employer.[11] None of this suggests that the theoretical considerations cited above are irrelevant, only that simple models should be applied to late Victorian Britain with caution.

In what follows, this general framework is used to analyze the debate over free trade and protection in Britain from 1859 through 1929. That debate sheds light on the dramatic developments in commercial policy that occurred between 1929 and 1932.

It is always possible to point to preconditions as a way of emphasizing the element of continuity in even the most striking and dramatic changes in economic policy. The rise and fall of free trade in Britain is no exception. The argument here is not that Britain's imposition of temporary trade restrictions during the First World War and her adoption of permanent measures in 1931-32 were the inevitable culmination of the interplay of economic and political pressures over the preceding fifty years. To the contrary, part of the present argument is that much of the explanation for the triumph of protectionism lies in Britain's desperate response to crisis conditions: to the crisis precipitated in 1914 by the need to wage war on an unprecedented scale, and the crisis engendered in 1929 by the onset of the Great Depression and by the financial difficulties that resulted in Britain's departure from the gold standard. However, even if the timing of the tariff must be understood as a response to immediate crises, the arguments and influence of pressure groups provided the political and economic backdrop against which the decision was reached. Placing the developments of 1929-32 in the context of the protracted debate that preceded them helps to explain the reactions of policymakers and suggests why crises of this magnitude were required for protectionism's triumph and how they ultimately succeed in bringing it about.

II. FREE TRADE AND PROTECTION BEFORE THE GREAT WAR

For a quarter of a century following the repeal of the Corn Laws, free trade sentiment remained a dominant force in British political discussion. British manufacturers had achieved a secure position in international markets on the basis of their industrial and mercantile expertise. British agriculture entered the "golden age" of high farming, marked by a shift into the production of animal products and by the adoption of clay pipe for drainage and other productivity-enhancing improvements.[12] In a period of prosperity, there was little reason to pause and question the efficacy of free trade.

Its proponents had argued that repeal of the Corn Laws would provide impetus for foreign nations to emulate the British example and adopt lower tariff barriers. "... it was again and again unhesitatingly asserted that commercial countries would soon be eagerly striving to share with England in buying in the cheapest, and selling in the dearest market."[13] In the short run, these expectations were validated. Repeal of the Dutch and Belgian Corn Laws in 1847 and 1850 was of little consequence for British industry, but the conclusion of the Cobden-Chevalier treaty with France in 1860 and the tariff reductions adopted by Holland, the Zollverein and the Scandinavian countries soon thereafter seemed to promise that Britain's liberal initiatives would insure her producers ready access to foreign markets. Hence, the widespread denunciation of commercial treaties on the Continent in the wake of the Franco-Prussian War was a serious disappointment. The very free traders who had been so encouraged by the French policy of negotiating commercial agreements were now disturbed by the fall of the Third Empire and the resurgence of protectionism in France. They endured further disappointments in 1878 with Italy's adoption of a new tariff law, in 1879 when Bismarck's policy of German unification culminated with the imposition of a common external tariff, and in 1881-82 when France encouraged the movement toward higher import duties by placing new restrictions on trade in grain and woolens.

These developments generated mounting pressure in Britain for commercial retaliation. In 1871 the Foreign Times, a journal of commercial affairs apparently affiliated with the Reciprocity Free Trade Association, launched an aggressive campaign against "one-sided free trade." The Association of the Revivers of British Industry, constituted in 1869, agitated for protection on behalf of producers of iron, clocks and watches, garments, woolens and worsteds. Prominent members of the Conservative Party expressed reservations about the free trade orthodoxy, and Chambers of Commerce in heavily industrial regions voted resolutions favoring protection against foreign manufactures.[14]

In part, these expressions of protectionist sentiment reflected a growing belief among exporters of manufactures that the threat of retaliation was needed to deter the erection of tariff barriers abroad. However, the most passionate pleas for protection emanated from sectors such as agriculture most directly affected by import competition. The single development in the 1880s with greatest impact on this debate was the worldwide decline in agricultural commodity prices due to the growth of American and Russian supply. Acreage under wheat in the United States had doubled between 1870 and 1880, as mechanization greatly reduced costs of production. Westward extension of the American railway system and completion of the Russian railways linking the wheat fields of the Ukraine with the ports of the Crimea dramatically reduced the cost of land transport. This followed on the heels of the shift from wooden to iron hulled ships, a transition that had been accelerated by the American Civil War and one that had greatly lowered the cost of ocean-going transport. These forces combined to reduce agricultural prices and depress farm incomes in Europe. In Britain, where trade was unrestricted, food imports increased by more than two-thirds over the course of the 1870s, and wheat prices fell by 61 per cent between 1882 and 1886 alone.[15]

Throughout Europe, the rise of imports and the fall of prices elicited renewed demands for agricultural protection. Higher tariffs on foodstuffs were adopted by Germany, France and Russia; partly as a result of these policies, food prices on the Continent fell only half as rapidly as in Britain. English landlords, few of whom had acceded gracefully to the Corn Laws' repeal, formed the backbone of the new fair trade movement. Although securely entrenched in Parliament and in the ranks of the Conservative Party, the influence of the landed interests was not unlimited. By 1886, landowners occupied scarcely half of the seats in Commons, down from two-thirds some two decades previously. 40 years of free trade had fostered a considerable shift of British population out of agriculture and into industry and commerce. By the middle of the 1880s, less than 20 per cent of Britain's economically active population was engaged in agriculture, forestry and fishing. In Germany, in contrast, approximately half the labor force remained in agriculture. In Britain it was therefore necessary for the landed interests to cultivate an alliance with other like-minded parties to make their pleas effective.

During the 1880s, opportunities to forge an alliance with segments of British industry proved limited at best. Although the 1880s marked the beginning of a period of mounting difficulties for certain industries, in few sectors were those developments associated with the pressures of import competition.[16] Worsteds were an exception: there foreign competition was already severe and agitation for protection was considerable. In Bradford, a center of the worsted trade, manufacturers and politicians deplored the tariff barriers erected by Germany and the United States and alleged dumping by German, French and American producers.[17] As yet, however, these forces were operating with comparable influence in few other industries; in iron and steel, for example, not until the 1890s would foreign competition generate the same alarm.

Thus, the fair trade movement of the 1880s was supported by an uneasy alliance of landlords favoring agricultural protection but opposing duties on manufactured goods, industrialists favoring the taxation of imported manufactures while at the same time opposing taxation of raw materials, and imperialists favoring free trade within the British Empire while opposing unrestricted trade with nations outside it. Such a diverse coalition found its options tightly circumscribed. Organizations such as the National Fair Trade League, the Imperial Federation League, the aforementioned Reciprocity Free Trade Association, and the Conservation Protectionist Association (later revealingly renamed the National Society for the Defense of British Industry) were constituted to mediate disputes among the parties to the alliance. Nonetheless, through the final decades of the 19th century, lack of agreement among those supporting protection -- whether to force down foreign tariffs, to encourage domestic industry, to elevate agricultural prices or to promote imperial unity -- remained a critical weakness undermining the fair trade movement. It seldom proved possible to organize these disparate interests into an effective pressure group.

Moreover, the efforts of landowners and representatives of the older industrial regions were hampered by political reforms that tipped the balance of power away from them. Extensions of voting power to portions of the working class in 1867 and 1884 diluted the influence of traditionally powerful interests. The extent of this shift should not be exaggerated; as late as 1880, the vote remained the exclusive prerogative of 1.5 million adult males, and until the passage of the Corrupt Practices Act of 1883, popular sentiment was scarcely reflected in the returns. The landed interests retained their political dominance in the countryside, which was still able to outvote the boroughs in Parliament. Nor did working-class members of the House of Commons, who first appeared under Liberal sponsorship in 1874, represent labor in any formal sense. These men were almost exclusively miners with a strong allegiance to a particular industrial constituency. Elections were expensive, the cost was still borne by the candidates, and generous contributions to local causes were expected of all M.P.s. The few working class Members of Parliament consistently voiced labor's objections to commercial restrictions that might raise the price of imported foodstuffs or otherwise inflate the cost of living. Labor's central concern was real wages, and from this point of view it appeared that it had much to lose from the taxation of imported commodities and little to gain from the protection of either agriculture or industry. Thus, in 1885 many agricultural laborers, enfranchised for the first time, voted against the Conservative Party out of fears that the introduction of a tariff would raise the cost of living.[18] The Conservatives had more success in the towns, where workers employed in trades suffering from the cyclical depression were in some cases attracted to protectionist proposals.

In subsequent years, the fair trade movement met with sporadic success. At the National Union Conference in 1887, fair traders succeeded in passing an openly protectionist resolution. For a time, it seemed possible that fair trade would be officially embraced by the Conservative Party, but the moment passed. The movement receded after 1890, as the partition of Africa eclipsed any concern over the security of established markets. As late as 1900, the fair trade movement had little to show for its efforts, having failed to convert a single leading politician or economist.[19]

The "new imperialism" of the 1890s was not an unmixed blessing for the advocates of free trade, however. Although the imperial scramble diverted attention from foreign penetration of the home market, it focused concern on international competition for overseas empires and on the advantages of imperial solidarity. For decades, the Empire's champions had argued in favor of the imposition of tariffs on imports from foreign countries. Never did their calls seem more timely than at the height of imperial competition. Analogous pressures were felt abroad: in France, for example, a decade-long campaign for colonial preference culminated in 1902 with the adoption of discriminatory measures. In 1898, Canada unilaterally granted preferences of 25 per cent on imports of British goods, and two years later these preferences were increased to 33 per cent. At home, the desire to promote imperial unity found expression in the passage of the Colonial Stock Act of 1900, which enabled colonial borrowers to raise funds on the London money market on advantageous terms by virtue of the trustee status conferred to their loans. The Boer War lent further impetus to the movement for preference; the readiness with which the colonies and dominions sent troops in support of the British campaign served as an impressive reminder of the advantages of a unified Empire. In addition, the war placed added strain on the Exchequer. In 1902, for revenue purposes, the Government reimposed the "registration duty" of a shilling per quarter on imported corn which had been suspended in 1869.

The fusion of the campaign for imperial preference with the tariff reform movement was the goal of Joseph Chamberlain, the Unionist Government's

Colonial Secretary. (The Unionist Party, a title which came into common usage in the mid-1880s and persisted until 1921, referred to an alliance of Conservatives and Liberals opposing Irish Home Rule.) By 1902, Chamberlain had occupied a prominent position on the British political scene for nearly two decades, serving as President of the Board of Trade during 1880-85, the earlier period of resurgent protectionism. Initially a free trader, as early as 1887 he had publicly speculated on the advantages of protection. Chamberlain was then diverted by other interests, but by 1897 he was again proclaiming his vision of a British Zollverein before the Imperial Chamber of Commerce. The Colonial Conference in the summer of 1902 reinforced his belief in the importance of tariff preferences for the Empire; in particular, he expressed sympathy when Canada took the Conference as an opportunity to request an exemption from the registration tax. In October 1902 Chamberlain presented to the Cabinet a proposal to exempt Canadian wheat from the registration tax and, despite the opposition of C.T. Ritchie, a confirmed free trader and Balfour's recently appointed Chancellor of the Exchequer, within weeks Chamberlain had secured the Cabinet's provisional support for his plan. At the end of the year, Chamberlain left for a tour of South Africa, which again served to reinforce his belief in the importance of imperial unity. However, upon returning to London after the New Year, Chamberlain found that Ritchie had circulated a memorandum critical of his plan and was threatening to resign in the event of its adoption.[20] Forced to choose between taxing imports from the Empire and having the registration duty dropped, Chamberlain acceded to its elimination. In an effort to resolve the dispute that rose within the Government, further debate of the issue was deferred with the proviso that any Cabinet member had the option of raising it at a later date.

Chamberlain reopened the question with a speech to his constituents in Birmingham in May. Despite Balfour's sympathetic reaction, Chamberlain was unable to convert several staunch free traders within the Cabinet, and in September 1903 he left the Government to launch a popular crusade for tariff reform. Beginning in Glasgow on 6 October, he toured Britain's major urban centers, advocating import duties averaging ten per cent on foreign manufactures and five per cent of foodstuffs, with exemptions for raw materials and semi-manufactures. The Liberals, led by Asquith and Lloyd George, launched a campaign in opposition. Lloyd George's rhetoric was every bit as memorable as Chamberlain's:

> Mr. Chamberlain has appealed to the workmen, and there were very fine specimens of the British workmen on his platform. There were three Dukes, Two Marquesses, three or four Earls. They had gone to help the workman to tax his own bread. The Corn Laws meant high rent for them, and when a statesman of Mr. Chamberlain's position comes forward and proposes a return to the Old Corn Law days, Lords and Dukes and Earls and Squires all come clucking toward him like a flock of fowls when they hear the corn shaken in the bin.[21]

Chamberlain was instrumental also in establishing the Tariff Commission, a body comprised of economists and businessmen favorably inclined toward tariff reform, constituted in 1904 to examine economic conditions in Britain and to issue recommendations regarding commercial policy. In its deliberations the Commission played down theoretical disputes, concentrating instead on the evidence of sympathetic witnesses. By 1909 the Commission had inquired into the position of fourteen of Britain's principal trades, including the iron and steel industry in 1904, textiles in 1905, agriculture in 1906, the sugar, pottery and glass trades in 1907, and engineering in 1909.[22] Recommendations of protection were returned for most of these industries, and the Commission's agricultural committee proposed a one shilling duty on colonial and foreign corn. If the Tariff Commission never succeeded in swaying public opinion, it provided a model for the shadow-cabinet subcommittee directed by Chamberlain's son, Neville, in the period immediately preceding the imposition of the General Tariff in 1932.

The elder Chamberlain pointed to the slowdown in British growth dating from approximately 1872 as an indication of the need for tariff reform. He cited the disturbing trend of British export values, which by his account had increased by scarcely more than seven per cent over the three decades from 1872 to 1902.[23] Along with the assertion that imperial preference would stimulate British industry, thereby increasing wages and employment, he presented tariff protection as a solution to the social problems of a maturing industrial economy. A long-time advocate of old age pensions, as early as 1895 Chamberlain had contemplated an import duty on wheat to defray the cost. Before the House of Commons he again offered import duties as a means of providing the necessary finance. Over the course of the decade, Chamberlain consistently attempted to establish a link from tariff reform and imperial preference to the Liberal Party's far-reaching schemes for social reform. Despite Lowe's statement that tariff reform "was a desperate attempt to fulfill the growing demands of social reform," by all indications social reform and tariff reform were merely profitable incidentals for the majority of those involved.[24] On occasions when social reform was a liability, most tariff reformers had little difficulty in disassociating themselves from it.

Initially, Chamberlain's campaign to divert Britain's overseas trade toward the Empire and to promote imperial development aroused enthusiasm only among convinced imperialists and protectionists. The tariff reform movement drew on landlords and younger industrialists from within the Edwardian Unionist Party, and on Liberal imperialists and social reformers. Free traders adhered to traditional views of the non-interventionist role of the state; with few exceptions, professional economists subscribed to the same position. Marshall, Bastable and 12 of their more prominent colleagues signed a manifesto opposing Chamberlain's plan. Of prominent economists, only Cunningham, Ashley and Hewins came out in its support. The long association of political economy with free trade led most economists to instinctively perceive advocates of tariff protection as partisans of special interests. Chamberlain himself was accused of campaigning for imperial preference only as a guise under which to obtain for British producers general protection from imports of manufactures.[25]

To broaden his support, Chamberlain extended the campaign to encompass the dumping issue. Dumping had already attracted the attention of the Cabinet, and the Board of Trade, in its First Fiscal Bluebook issued in 1903, analyzed the manner in which the cartel of German rolled wire manufacturers subsidized sales by exporters who obtained their wire exclusively from cartel members. Free traders questioned the existence of systematic dumping. They were skeptical that it was an instance of predation on the grounds industrial cartels would have to be extended internationally before any single national grouping could benefit from the practice.[26]

The 1906 General Election was fought largely on the tariff reform issue. The Unionist supporters of reform suffered an overwhelming defeat, due in large measure to their failure to secure working class support. Twenty years of almost uninterrupted Conservative domination of Parliament was terminated in the most decisive power shift since 1832. The Liberal Party was to remain in power until the outbreak of the First World War, in effect sealing the fate of tariff reform for the remainder of the prewar era.[27]

The tariff reform campaign had been handicapped by a number of weaknesses, not the least of which was the fact that Chamberlain was its only effective spokesman. As always, labor's aversion to food taxes -- disparagingly referred to as "stomach taxes" -- guaranteed working class opposition. Unemployed workers hoped that tariff reform meant jobs, but they were outnumbered by occupied laborers to whom tariffs meant higher prices. That majority feared that preferential taxation of imperial imports might pave the way for duties on foreign foodstuffs, given the importance to the Empire of exports of food and other primary products. Their views were ably voiced by the Labour Representation Committee. Formed in part to raise funds to finance salaries for working class Members of Parliament (public funds only being made available in 1911), the Committee had been greatly strengthened by the reaction against the Taff Vale case of 1901, and Ramsay MacDonald, its secretary, arranged in 1906 for 31 Labour candidates to stand for Parliament without Liberal opposition, further enhancing the effectiveness with which the working class case against food taxes was pressed.[28] Moreover, the tariff reform movement lacked the fervent support of industry and commerce necessary to neutralize working class opposition. By 1906 the nation had grown committed to a multilateral system of international trade and payments. Britain sent little more than a third of her exports and obtained barely a fifth of her imports from the formal empire. The purveyors of shipping, insurance and financial services were yet more dependent on foreign markets. Furthermore, by 1906 most of Britain's major industries had recovered from the 1902-03 recession and were prospering under free trade. The economy was approaching a business cycle peak, profits were more than satisfactory, and the rising real value of British industrial securities reflected optimism about the future.[29] For the moment, much of British industry retained confidence in its capacity to compete effectively in foreign markets, given free access, and in its ability to repel the incursions of Continental producers. Secure and committed to its export orientation, few segments of British industry evinced much enthusiasm for protection. Only iron and steel producers, who were by this time greatly worried by German penetration of the home market, lent their active support.

The 1906 debacle left a permanent imprint on the tariff reformers' political strategy. In subsequent years they assiduously avoided the term "protection," referring instead to a policy of raising revenues through moderate import duties and safeguarding home industries.[30] They denied that import duties would increase food prices and inflate the cost of living, refrained where possible from detailing the provisions of their plans, and attempted to reconcile their programs with free trade ideology by presenting free trade as an admirable standard for an ideal world but tariff reform as the policy of practical statesmen. The tariff reform movement derived some encouragement from the Government's expanding search for new sources of tax revenue to finance social programs and naval expenditures. Recruitment for the Boer War had alerted both Liberals and Conservatives to the inadequate nutritional standards of much of the laboring class, leading participants in the campaign for national efficiency to argue that Britain's international competitiveness could be restored only by increasing labor productivity through the provision of adequate nutrition. Specifically, they suggested that government should be responsible for insuring a minimum standard of living. Special interest groups, such as the National Committee of Organized Labour for Old Age Pensions, pressed for specific legislation.[31] In the final years of the decade, under pressure from both radical Liberals and Labour, the Government introduced a broad range of economic and social programs. By the First World War, old age pensions, health and unemployment insurance, school meals and medical services for children had been adopted on a limited basis.[32] These reforms were seen as both socially equitable and productivity enhancing, but the question remained of how they were to be funded. The Liberal Party favored land taxes as a way of raising the necessary finance. The landed interests in the Conservative Party nominated import duties as an alternative, since tariffs would generate revenues while at the same time sheltering British agriculture. The Liberals objected that protective tariffs "operated in the interest of capital and against labour."[33] In 1909, when David Lloyd George used his first budget to announce his decision against a tariff and in favor of a 20 per cent capital gains tax on land, the House of Lords erupted in a storm of criticism. In an action unprecedented in modern British history, the Lords vetoed the Governments's finance bill, forcing a General Election. There remained no necessary connection between tariff reform and social reform; social reform was a fait accompli, while tariff reform and land reform were linked by the question of how new social programs were to be financed.

The Conservative Opposition fought the January 1910 Election under the umbrella of tariff reform but was defeated once again, due largely to its familiar inability to win working class support.[34] That result was confirmed by a second General Election precipitated in December of the same year by continued failure to reach an understanding on the House of Lords policy and the controversy over Irish Home Rule. Despite an active tariff reform campaign in parts of Lancashire and Cheshire, working class opposition in the industrial heartland again dictated the outcome. Output and employment continued to expand despite the temporary check to activity associated with the American financial crisis of 1907, so dissatisfaction with the status quo was limited. Supporters of tariff reform could nonetheless take comfort in the diminution of their margin of defeat by almost one-half compared to results of 1906.

From 1910 to the outbreak of war, the Liberal and Conservative Parties grew increasing polarized over the tariff reform issue. So long as the Liberals retained power, prospects for tariff reform remained bleak. Working class fears of food taxes were still the principal impediment. In addition, 1910-14 comprised another period of general prosperity, marked by declining concern over the effects of import competition. At the same time, tariff protection emerged as an increasingly important component of the Conservative Party's political orientation. With the elevation to party leadership of Bonar Law, a die-hard tariff reformer and disciple of Joseph Chamberlain, there was little doubt that the Conservative Party, upon regaining power, would attempt to make protectionism a prominent part of its economic program.

III. WAR-TIME MEASURES AND THEIR AFTERMATH

All such divisions were immediately submerged by the First World War. The fiscal dispute was effectively suspended as the nation united in the war effort. There was little dissent from the immediate decision to prohibit trade with the enemy. So long as the scale of the conflict was modest, there was no reason to contemplate radical changes in Britain's commercial relations. In Winston Churchill's words, it was "business as usual."[35] But with the realization that the campaign would be lengthy and that victory would require total mobilization of the nation's economic resources, the Liberal Party's traditional commitment to laissez-faire was brought into conflict with requirements of the war. Within 12 months, the Conservative Party had adopted a nation-at-arms attitude wholly incompatible with Liberal ideology. Ultimately, the war proved to be responsible for a significant extension in state authority. Official regulation encompassed external transactions on both current and capital account.

In August of 1914, the railways passed into Government control, and exports of essential chemicals were prohibited.[36] In external markets the authorities concentrated on arranging large-scale transactions, contracting for example for bulk purchases of wheat from the United States and Argentina in 1914-15. Once a coalition government was forced upon Asquith in May 1915, the scope of official intervention was extended still further. By the war's end, quantitative controls had been imposed upon trade in a wide range of items, and bulk purchases of basic foodstuffs had become the rule rather than the exception. Domestically, government controlled the deployment of labor and exercised considerable influence over the determination of consumer prices.

The commercial restrictions imposed during the war have been characterized as "the first serious breach with free trade at home" and "the first step towards ... protectionism."[37] The debate over the promotion of chemical production provided the initial test. The British chemical industry, which concentrated on the production of fertilizers, soap and heavy inorganic chemicals, had left to German producers the provision of organic dyes. Soon after the outbreak of hostilities, Britain ran seriously short of dyestuffs. Debate centered on the appropriate policy with which to stimulate dyestuffs production. Using evidence provided by the Tariff Commission, the Unionist Business Committee comprised of tariff reformers in the House of Commons presented the case for promoting dyestuffs production through the imposition of import duties on foreign dyes. While sympathetic to this national security argument, free traders recommended production subsidies as a more direct and efficient means of achieving self-sufficiency. When in March of 1915 the Government decided in favor of a production subsidy for the newly formed British Dyes, Limited, the free traders appeared to have won the first round.[38]

Over the course of the year, traditional pockets of opposition to tariffs gave way gradually to recognition that abnormal wartime conditions warranted unconventional measures. The first such measures took the form of the McKenna Duties, after Reginald McKenna, Chancellor of the Exchequer in Asquith's Coalition. Adopted in the autumn of 1915, their purpose was to save scarce shipping space through the application of 33-1/3 per cent duty on imports of luxury items. Clocks, watches, films, musical instruments, and automobiles (not necessarily the articles expected to place the greatest burden on shipping space) were made subject the McKenna Duties, while pressure from special interests forced McKenna to exempt plate glass, hats, tires and vehicles used for commercial purposes. Himself a free trader, McKenna insisted that there was no fiscal principle involved. The opponents of protection took comfort in the fact that import duties were scarcely needed for revenue purposes, the Treasury being amply provided with income by the new excess profits tax. Moreover, the McKenna Duties were imposed as part of the Finance Act and as such were subject to yearly renewal.

As early as 1913 pressure surfaced to retain and extend the McKenna Duties following the conclusion of hostilities and to use them as a basis for establishing preferences for the Empire.[39] In January 1916, the House of Commons unanimously adopted a motion recommending that the Government promote imperial unity and self-sufficiency. The London Chamber of Commerce favored comprehensive duties and imperial preference, and even the staunchly free trade Manchester Chamber of Commerce displayed a new willingness to explore alternatives to prewar policy. The British representatives to the Allied Economic Conference, held in Paris in June 1916, drew up and ratified a series of protectionist resolutions. As had been the case at the turn of the century, the advantages of a unified Empire were particularly evident during wartime. With the contributions of the Canadian, Australian, New Zealand and Indian armies to Britain's war effort, pressure for imperial preference intensified. The Balfour Committee, appointed to consider alternatives for post-war economic policy, submitted an influential report advocating imperial preference, protection for British industry against dumping and "sweated goods," and continued assistance for key industries.[40]

Following the conclusion of hostilities in November 1918, the Coalition Government, now dominated by Conservatives but headed by Lloyd George (who replaced Asquith in December 1916), skirted the question of whether to retain the system of tariffs and controls adopted during the war. In part, this reflected the tenuous relationship of the Liberal and Conservative partners in the Coalition. It was deemed important moreover to present a united front in peace negotiations and thus to avoid dividing the nation over the free trade issue. The restoration of free trade was relegated to a secondary role in the December 1919 election. Following its resounding victory in the December voting, the Coalition Government took nearly a year to resolve the uncertainty about future commercial policy. Although export prohibitions were quickly removed, the battery of import restrictions was retained. In March of 1919, the Government withdrew import controls on raw materials and purchases from the Empire, and announced that a decision on the remaining import restrictions would be forthcoming by September.

There were numerous complaints about the confusion created by this delay. It was suggested that uncertainty about commercial policy was leading manufacturers to limit production and hiring. Textile producers cited the difficulty of obtaining raw materials from abroad and advocated the immediate elimination of import restrictions, while members of the National Union of Manufacturers warned that such steps would open the way for foreign dumping, a specter which deterred them from expanding production to prewar levels. Some hints about the likely direction of trade policy were already available, however. In April 1919, Austen Chamberlain, Joseph Chamberlain's son and the new Chancellor of the Exchequer, included in his budget a provision for the renewal of the McKenna Duties but with preferences of one-third for the Empire.[41] It seemed clear that the Coalition was unprepared for an immediate return to free trade. Chamberlain's proposals aroused the opposition of Independent Liberals and Labour but survived parliamentary debate intact. Thus, wartime regulations designed to save shipping space, now far from scarce, bequeathed to peacetime a set of protective tariffs that sheltered a small subset of Britain's more technologically sophisticated industries. Through several changes of government and despite occasional about-turns, the McKenna Duties remained in effect for most of the 1920s.

In a step apparently intended to appease Liberal and Labour opposition, Lloyd George announced on 18 August 1919 that all other import restrictions would be eliminated by September 1st. But in the same breath he reopened the debate by expressing concern about dumping and exchange rate depreciation abroad, and by questioning the viability of the dyestuffs industry and other new enterprises established during the war. The Prime Minister proposed to endow the Board of Trade with special powers to check imports due to dumping and exchange rate depreciation and to regulate imports of dyestuffs and similar products through the issue of licenses.

The Government's antidumping initiative, the Imports and Exports Regulation Bill, proposed to establish a Trade Regulation Committee possessing wide-ranging powers. With the majority of its members drawn from the House of Commons, the Committee was to have discretion over the rates at which imports were taxed, the number of import licenses and prohibitions to be issued, and the designation of commodities that warranted protection either from dumping and exchange rate depreciation abroad or on key industry grounds. Unlike the McKenna Duties, which were limited in scope and whose rates were firmly established, the Imports and Exports Regulation Bill proposed to confer a broad mandate on a committee dangerously susceptible to political pressure. As the session of Parliament drew to a close at the end of December, it became apparent that the antidumping bill threatened to divide Lloyd George's Coalition. Rather than stake its future on this single issue, the Government withdrew the bill on 22 December. Already the nation's attention was diverted from issues of trade by other economic developments.

IV. MOUNTING PROTECTIONIST PRESSURES, 1920-23

In Western Europe and the United States, the Armistice had been followed by a brief lull. After six months this pause gave way to boom in the spring of 1919.[42] Consumers finally were permitted to vent demands which had been pent up during the war, and producers took the earliest opportunity to replenish their stocks. Consumer expenditure increased by more than 20 per cent between 1918 and 1919. Domestic investment in fixed capital and inventories rose with comparable rapidity. Efforts to peg sterling to the dollar had been terminated in March, permitting the gradual depreciation of the pound. With the relaxation of price controls, the pressure of domestic demand led to a run-up of prices unprecedented in peacetime, with wages rising in sympathy. Civil employment expanded rapidly, but not sufficiently to accommodate the demobilization of the armed forces. Women and juveniles showed little inclination to withdraw from the labor market in the same numbers that they had been drawn into manufacturing employment over the course of the war. Thus, while total civil employment increased by two million between 1918 and 1919, the annual average unemployment rate rose from wartime levels of less than one per cent to nearly 3-1/2 per cent.[43]

Initially, the authorities were preoccupied by inflation rather than unemployment. As early as 1918, the Bank of England voiced concern over the specter of inflation, and by the spring of 1919 the Treasury had come to share its alarm. In April 1920, the government's response took the form of a more restrictive budget, which cut public spending to less than 40 per cent of

1917-18 levels. These measures were accompanied by increases in the Bank of England's discount rate in November 1919 and April 1920. Coinciding with an economic downturn abroad, the impact of these fiscal and monetary initiatives was immediate; by the summer of 1920 the boom was broken. Between July 1920 and July 1921 unemployment among insured persons, the most visible indicator of short-term fluctuations, rose from 1.4 to 16.7 per cent.[44] Policymakers never succeeded entirely in vanquishing their fears of inflation. However, unemployment among insured persons averaged more than ten per cent over the decade of the 'twenties, quickly rendering it the dominant issue in economic debate. The relation of tariffs to employment was to play a prominent role in much of the subsequent discussion.

Fears of inflation provided encouragement for the authorities' efforts to return to the gold standard.[45] The considerations entering into their decision can only be summarized here. The desire to insure price stability was one. In addition, sterling's prewar parity symbolized London's financial strength and served to reassure foreign investors of the security of their sterling balances; its restoration might therefore strengthen the balance of payments on capital account and rejuvenate the City. Invisible earnings acquired through the provision of shipping, insurance and financial services were an important source of income for the nation and a major entry on the credit side of the current account; these too might be promoted by the gold standard's restoration. Finally, a return to the prewar parity, which symbolized the Government's commitment to laissez-faire, was seen as good for business confidence.

Not everyone undertook cost-benefit calculations, of course, when contemplating the return to gold. Neither were those involved always careful to distinguish the advantages of stable exchange rates from the benefits of a particular set of rates, namely those maintained for many years before the war. For some, the desire to return to the gold standard was simply an instinctive reaction; for others, it was a matter of national pride. The gold standard was a symbol of past economic glories, and there was a widespread desire to turn the clock back to the time when Britain had played a dominant role in international trade and finance. Relative to the debate over protection, the rationality of the decision is in any case of tangential relevance. The crucial issue is its implications. The first implication of the authorities' desire to return to gold was that achieving their target required engineering a substantial deflation of wages and prices. During the war, prices had risen more rapidly in Britain than in the United States, and the differential had widened during the postwar boom. For sterling to be restored to its prewar rate against the dollar, this disparity had to be eliminated. There was some hope that inflation in the U.S. would prevent Britain from being forced to shoulder the entire burden of adjustment. The Americans were not inclined to accommodate inflationary pressures, however, and were unsympathetic to the proposals for central bank cooperation presented by the British representatives to the Genoa Conference convened in April 1922.[46] To accomplish the return to gold, the British were forced to pursue a policy of concerted deflation. From the summer of 1921 through the summer of 1923, British prices declined steadily, accompanied by falling wages and an appreciating exchange rate. Initially, the fall in wages exceeded the fall in prices, and throughout 1922 production rose as real wages fell.[47] These relationships reversed subsequently: British prices leveled off, rising slightly from the summer of 1923 through the summer of 1924, and falling gradually until the decision to peg the exchange rate was officially announced in Churchill's budget speech of 28 April 1925. An even more important change was in the behavior of money wages. Before 1923, average weekly wage rates had fallen more or less as rapidly as wholesale prices and the cost of living, in part because 55 per cent of all wage reductions that took place in 1921 and 38 per cent of those occurring in 1922 were a result of sliding scale agreements, which had been widely adopted during the war. Thereafter, indexation fell out of favor, and wages exhibited rather less flexibility.

Increasingly as the decade progressed, discussions of commercial policy revolved around its macroeconomic effects in an economy with imperfectly flexible wages.

Differential growth rates in the economy's sheltered and unsheltered sectors were another apparent consequence of the decision to return to gold. Exporters and domestic producers of importable goods were quick to complain that the appreciation of sterling and the rigidity of wages permitted foreign producers to undersell them in home and overseas markets. By 1924 consumption and import volumes had been restored to prewar levels, but exports had risen to less than three-quarters of their 1913 level. While unemployment in Britain's staple export industries -- cotton, shipbuilding, and iron and steel -- continued to exceed 15 per cent, unemployment rates were consistently lower in Britain's sheltered trades. In July of 1924, the unemployment rate in building and contracting was 9.9 per cent, in the electrical industries 5.7 per cent, and in other of the new industries still lower. Several of these new industries, such as silk, rayon, and hosiery, thrived despite the presence of vigorous import competition, while others, such as chemicals and motor vehicles, were insulated from foreign competition by the Safeguarding of Industries Act or the McKenna Duties.

Meanwhile, the Coalition Government adopted a number of progressive social policies, including building subsidies and a comprehensive unemployment insurance scheme. These initiatives, particularly the insurance scheme, had far-reaching if largely unintended effects. The foundation for the insurance system was the National Insurance Act of 1911. This Act covered males between 16 and 70 years of age but was limited initially to some 2-1/4 million manual workers in industries known to be cyclically sensitive and subject to recurrent unemployment: building, engineering, shipbuilding and (from 1916) munitions. The worker, the employer and the government made matching contributions to the insurance fund. The fund was designed to be self-financing. Benefits were provided for a limited period only, after which the unemployed person was remanded to the Poor Law authorities. With passage of the Unemployment Insurance Act of 1920, coverage was extended to non-manual workers with incomes of less than £250 per annum, and the basic unemployment benefit was more than doubled from its 1911 level. Yet this new variant, covering some 12 million workers, was still conceived as society's response to the effects of short-term unemployment. With unemployment at unprecedented levels for much of the 1920s, the unemployment insurance fund was put under strain which resulted ultimately in severe budgetary difficulties for the Exchequer.

In contrast to these ambitious and wide-ranging initiatives, the advocates of more restrictive commercial policies concentrated on measures designed to shelter specific manufacturing industries. The dyestuffs industry was an obvious candidate for protection. The Government had gained a stake in the industry on 1915, when it provided a subsidy to finance the formation of the British Dyes, Limited. In February 1919 imports of foreign dyes had been prohibited in order to protect the domestic industry from alleged German dumping, but in December that order was ruled invalid. The authorities then sought to consolidate domestic production by promoting the merger of British Dyes, Limited with its largest competitor. In 1919 the Government subscribed nearly £2 million worth of shares in the newly formed British Dyestuffs Corporation; in December 1920 it secured its investment by introducing measures to protect the industry. The Dyestuffs Importation Act authorized imports of organic dyestuffs only under Board of Trade license and established a committee comprised of five spokesmen for dyestuffs consumers, three manufacturers and three nonaligned members to make recommendations regarding import licensing.[48]

Liberals and Labour objected to any proposal to extend this system of licenses and prohibitions to other key industries or to British manufacturing generally. The Conservatives therefore encouraged the Government to substitute a proposal for a more selective system of ad valorem tariffs. In

May 1921 Stanley Baldwin introduced such a measure, the Safeguarding of Industries Bill, which provided duties to shelter key industries from foreign competition and to protect other trades from the effects of dumping and exchange depreciation abroad.

Although Independent Liberals and Labour denounced this bill as they had previous initiatives, Coalition Liberals judged a limited system of import duties less objectionable than wide ranging prohibitions. With their tacit support this legislation was passed into law. Part I of the Safeguarding of Industries Act empowered the Board of Trade to designate commodities produced by key industries meriting protection on national security grounds. Although applied initially to approximately 6,000 articles, it covered only a minute fraction of total British imports. Ironically, Part II of the Act, containing the antidumping provisions, found no major application. For the advocates of protection, the Safeguarding of Industries Act was a limited victory at best. Yet if it affected a relatively small proportion of total British imports, safeguarding was seen retrospectively as the "thin end of the wedge for future installments of protection ..."[49]

For the remainder of the decade, discussions of economic policy revolved around three related issues: unemployment, public debt, and the operation of the monetary standard. These issues were debated without interruption between 1922 and 1924, when General Elections were held annually. Commercial policy was the focus of attention on only one occasion -- during the second of those three electoral campaigns.

Following the adoption of Safeguarding, the protectionist wing of the Conservative Party felt increasingly constrained by participation in a Coalition Government led by a Liberal Prime Minister. It seemed only a matter of time before these Conservatives attempted to reassert their independence. In the autumn of 1922, Lloyd George's decision to side with Greece in its dispute with Turkey provided the occasion for the schism. Bonar Law led the Conservatives out of the Coalition, and an election was called for November.

The Independent Liberals, the former Coalition Liberals led by Lloyd George, and the Labour Party all declared for free trade. Realizing that opposition to protection was the single issue around which his opponents might unite, Bonar Law pledged his government to make no change in Britain's commercial system.[50] The electorate returned the Conservatives with a majority of 72 members. The debate between the advocates and opponents of Safeguarding continued to simmer, but without decisive implications given the Prime Minister's pledge.

In May of 1923, however, ill health forced Bonar Law's resignation. He was replaced as Prime Minister by Stanley Baldwin, a former iron master sympathetic to the protectionist view. In the autumn, economic conditions took a turn for the worse, with production falling in textiles, shipbuilding and engineering. France's occupation of the Ruhr disillusioned those who had hoped for an early consolidation of the public debt on the basis of war debt repayments and for rapid economic recovery based on general prosperity in Europe. As Baldwin described the outlook:

> "A change came over the entire situation during the present year ... I think we must all of us be concerned that, owing primarily to the occupation of the Ruhr, and the effect which that has had on the economic position of Germany, the restoration of Europe has been postponed for years."[51]

These developments were particularly disheartening in the presence of unemployment in excess of 11 per cent of the insured labor force. Its prevalence could not be ignored, particularly in light of Labour's encouraging showing in the 1922 General Election. Yet there was little consensus on remedial measures.

In his authoritative analysis, Unemployment: A Problem of Industry (1909), William Beveridge, the pre-eminent British expert on the question, had distinguished three categories of unemployment, analogous to what modern observers call frictional, structural and cyclical. To minimize frictional unemployment, he proposed the establishment of labor exchanges where workers and employers could be efficiently matched. To the extent that unemployment was cyclical, he recommended simply waiting it out.[52] Insofar as unemployment was structural, concentrated in staple trades facing depressed export markets, Beveridge embraced the orthodox wisdom, which was to rely on the resurrection of the gold standard to restore stability to international markets and to promote overseas trade.

There were those who were already beginning to feel uneasy with this passive stance. In 1922 a group of Liberals published the first of a series of tracts groping towards an advocacy of active economic management.[53] In subsequent years they drew increasingly on the views of John Maynard Keynes and other younger analysts. In response to these and other pressures, Baldwin was drawn to protection as a response to the unemployment problem. Feeling bound by Bonar Law's pledge to refrain from introducing commercial initiatives, Baldwin called an election to secure a mandate to impose a general tariff. Declaring that unemployment "transcends all other problems," he argued that depressed international conditions were causing other countries to export their unemployment to Britain. A tariff was needed to insulate the nation from these pressures.

> "To me, at least, this unemployment problem is the most critical problem of our country ... I can fight it. I am willing to fight it. I cannot fight it without weapons ... And I have come to the conclusion myself that the only way of fighting this subject is by protection of the home market."

Baldwin's six-point program included a tax on imports of manufactures, preferences for the Empire, and a plan for colonial economic development. To allay labor's fears of "dear food," imports of wheat, flour, meat and butter and eggs were to be exempted.

British economists remained united in their opposition to protection. Even Keynes, already known for his iconoclasm, expressed no sympathy for the Conservative program. In an article published in the <u>Nation and Athenaeum</u> (December 1, 1923, p.366), Keynes distinguished a tariff's ability to stimulate production in protected industries from its inability to influence the overall level of activity. His analysis was based upon the classical presumption that, with flexible wages and prices, any reduction in import demand must be offset by a fall in export supply. In a telling remark that would return to haunt him in 1930, Keynes labeled the claim that a tariff can be used for employment purposes "the Protectionist fallacy in its grossest and crudest form."

The Conservative Party received the solid support of neither commercial nor manufacturing interests in the 1923 campaign. The financial community and the export trades adhered to the free trade doctrine. Baldwin's opponents included the National Association of Merchants and Manufacturers, the National Chamber of Trade, and the Chamber of Shipping. Only producers facing import competition, organized under the banner of the National Union of Manufacturers, vigorously supported the protectionist plank of the Conservative platform. It was not obvious that workers facing the risk of unemployment would gain from the imposition of a tariff, when the highest unemployment rates were concentrated in the export trades. Consequently, Baldwin's Party suffered an electoral defeat, and the first Labour Government was brought into being.

V. THE LULL BEFORE THE STORM, 1924-29

The first Labour Government was a minority dependent for its survival on Liberal support. This status helps to explain its uncompromising pursuit of free trade policies. In April 1924, Sidney Webb, newly appointed to the Presidency of the Board of Trade, made known the Governments's intention to allow the Safeguarding of Industries Act to expire in August. In May, Philip Snowden, Labour's Chancellor of the Exchequer, presented to Parliament his Free Trade Budget, which included no provision for the renewal of the McKenna Duties and proposed tariff reductions on sugar, tea, coffee and dried fruit. The Conservative opposition was unable to mount effective resistance. Baldwin went only so far as to suggest a compromise on the treatment of dried fruits and related items, proposing to retain existing duties while granting preferences to the Empire. Even this modest proposal was defeated.

The Conservatives' defeat in 1923 led to considerable moderation in their advocacy of protection. As early as February 1924, Baldwin argued before a meeting of party delegates from Lancashire and Cheshire that the expedient course might be to concentrate on Imperial Preference and Safeguarding but to refrain for advocating a General Tariff.[54] The Conservatives had an early opportunity to test their new strategy. The Liberal and Labour Parties had a falling out over foreign policy, and a General Election was called for October 1924. The campaign was notable for the change in Conservative tactics: while advocating the restoration of the Safeguarding Act, Baldwin pledged to abstain from further protectionist initiatives. On the basis of a platform little altered in other respects, the Conservatives won a healthy Parliamentary majority. Together, the General Elections of 1923 and 1924 provided a clear indication of the electorate's views of general protection.

The McKenna Duties were re-instituted with the passage of Winston Churchill's 1925 budget, but safeguarding duties were limited to the industries producing gloves, cutlery and gas mantles. Between 1925 and 1929, safeguarding was extended to encompass several additional industries but at its height protected sectors employing less than one per cent of Britain's industrial workforce.[55] Thus, the years 1925-29 were notable for the Government's adherence to its pledge and for its continued abstinence from protectionist initiatives.

The Conservative Party was far from united on the efficacy of this course. Die-hard protectionists within the Party scarcely paused in their efforts to extend the coverage of Safeguarding. Prominent Conservatives with an interest in relations with the Empire, including L.S. Amery, Colonial and Dominions Secretary in the second Baldwin Government, formed the Empire Industries Association as a vehicle to make their opinions known. The Association's goal was to advance the case for promoting economic relations with the Empire through the extension of Safeguarding and the addition of substantial preferences for imperial producers. At its second general meeting in the summer of 1926, an explicitly protectionist resolution was passed, and the support of individuals sympathetic to the protectionists' cause, irrespective of political affiliation, was solicited. The Association's efforts proceeded on several fronts: besides the public campaign, it attempted to convince Baldwin to modify his pledge of abstinence, to have the Board of Trade press for stronger import restraints, and to coordinate the activities of protectionists within Parliament. By 1928, the dominance of protectionist sentiment within the rank and file of the Conservative Party was unmistakable: at the annual Party Conference in September, a motion calling for the widest possible extension of safeguarding consistent with Baldwin's pledge was unanimously adopted. Only the leadership remained to be converted.

Baldwin's hesitancy was remarkable in light of the Conservatives' inability to offer alternatives for dealing with the nation's macroeconomic ills. In part this reflected his faith that all that was required was patience until the gold standard and economic stabilization on the Continent had their anticipated beneficial effects. At the same time, any impulse the Conservative Government may have harbored to respond actively to the nation's economic difficulties was constrained by considerations of ideology and practical politics.

It was in the design of monetary and fiscal policies under the interwar gold standard that these constraints were particularly evident. The Bank of England, although increasingly subjected to political pressures over the course of the 1920s, retained its nominal independence. From the middle of 1925, the Bank saw its primary responsibility as maintenance of sterling's gold standard parity, and it intervened as necessary with changes in its discount rate and reinforcing open-market operations to stabilize the exchange rate and defend the gold reserve.

The Bank of England should not be credited with following a conscious policy of deflation, despite the 15 per cent fall in wholesale prices that occurred between 1925 and 1929. Its initiatives were largely dictated by short run considerations. Typically, the Bank raised its discount rate to attract capital inflows when it felt that the external position was deteriorating. A rise in the discount rate often was accompanied by open-market operations designed to render Bank Rate "effective," insuring that changes in the rate at which the Bank was prepared to make loans to discount houses stayed in touch with other market rates. These short run expedients were not without implications, of course, for longer term monetary trends: between May 1925 and May 1929, a period when real net income rose by 14 per cent, real money balances, measured as the currency and deposits held by the ten principal London Clearing Banks deflated by wholesale prices, fell by eight per cent.[56]

Bank of England policy was formulated by rule of thumb: in setting its discount rate, as in its other operations, the Bank focused on the exchange rate and the gold reserve, referring also to mitigating factors such as the level of interest rates and the time of year. Only occasionally did the Bank take note of statistical indicators beyond the gold and foreign exchange markets.[57] Moreover, there was little agreement on the extent to which the Bank of England's discount rate affected the state of British industry. In some circles it was argued that only when Bank Rate exceeded a certain threshold did it begin to affect the short-term interest rates of concern to industry, and that only when it remained above that threshold for extended periods were long-term rates affected. In this view, Bank Rate had little effect on the cost of loans and overdrafts until it exceeded four per cent. Although bank credit typically was extended at rates one per cent above Bank Rate, with exceptions sometimes made for favored customers, these rates normally were subject to a floor of five per cent. Since Bank Rate remained at or below four per cent for parts of 1925, 1930, and 1931, supporters of Bank policy could argue that for much of the period the cost of credit obtained in this manner was unaffected by changes in the Bank of England's discount rate.[58]

At the same time there were extended periods over which Bank Rate reached five per cent or higher. It is difficult to identify individuals who sincerely believed, at such times, that the Bank of England's discount policy had no impact on domestic conditions. Moreover, there are a number of hints that the state of trade and industry figured in the deliberations of the Committee of Treasury. An immediate fear was that failure to respond to domestic developments would generate political pressures which ultimately might undermine the Bank's independence.[59] At the same time, defense of the sterling parity represented a binding constraint when it came to monetary discretion.

Among the steadiest critics of the Bank of England's credit policies was the British Treasury. While for the Bank it was more important "to get the debt firmly held than to get it cheaply held," the Treasury attached great weight to the cost of debt service.[60] The principal goal of Treasury policy in the 'twenties was to reduce the burden of debt service charges through conversion of the five per cent government loans of 1917 at lower interest rates. Those charges rose from 11 per cent of central government spending in 1913 to 24 per cent in 1920 and more than 40 per cent by the end of the decade. Hence between 1925 and 1929 the Treasury consistently opposed Bank of England initiatives which raised the price and reduced the availability of credit. Churchill objected to each rise in Bank Rate that took place during his tenure as Chancellor of the Exchequer, thereby contributing to the politicization of Bank Rate. Given the Treasury's goal of converting the debt, great importance was attached to measures which would reduce the level of long-term interest rates. This explains the Treasury's desire to balance the budget by reducing government expenditure. By the second half of the 1920s, the Treasury's two primary concerns had become day-to-day debt management and the control of expenditure by other departments.[61]

Given its preoccupation with debt management and expenditure control, the Treasury was sympathetic to the argument that government spending and public employment were incapable of mitigating the depression in trade and industry. Some historians have argued that Treasury antipathy toward expansionary fiscal measures was based upon explicit theoretical foundations, usually attributed to R.G. Hawtrey, Treasury Director of Financial Enquiries. According to others, Hawtrey's theories exerted little influence. In any case, by 1929, "The official Treasury [coolness] ... on public works as a solution to unemployment ... had hardened into the dogma known as the 'treasury view.'"[62] Churchill's budget speech of that year is cited as a classic statement of that approach.

> "It is orthodox Treasury dogma, steadfastly held, that whatever might be the political or social advantages, very little additional employment can, in fact, and as a general rule, be created by State borrowing and expenditure."[63]

Several variants of this view can be discerned in the debate over economic policy. One simply failed to acknowledge the existence of involuntary unemployment. It was held that existing resources actively seeking employment were in fact fully utilized. It followed that public expenditure merely crowded out a corresponding amount of private spending. Alternatively, it was argued that public spending could alter only the intertemporal distribution of employment; the implication was that government policies to promote employment were warranted only to the extent that those who gained employment in the present were more deserving than those who lost it in the future.[64] Given these views of unemployment and the Treasury's preoccupation with debt service, there was little prospect of any sort of serious fiscal initiative.

With monetary accommodation ruled out by gold standard discipline and large-scale public works or public employment precluded by debt management constraints, the authorities retained few options. The Conservative Government's strategy of relying on the British economy's self-equilibrating tendencies and hoping for economic recovery abroad appeared successively less promising as the decade progressed. Protection was an option with obvious appeal in Conservative circles, but with the memory of the 1923-24 General Elections still fresh, those in positions of leadership were unwilling to push for such a course. Thus, when the Conservatives went to the country in May 1929, they had little basis on which to campaign other than a pledge to continue current policies. Those policies appeared considerably less attractive than they had some five years earlier. Moreover, both the Liberal and Labour Parties had grown increasingly formidable in opposition. The electorate, which had more than quadrupled since 1906 and increased by more than a third since as recently as 1918, comprised nearly the entire adult population of the United Kingdom.

More than 50 per cent of that electorate opted for Liberal or Labour candidates in 1929, in a clear vote of no confidence for Baldwin's Government. Once again, the Conservatives were succeeded by Labour, and once again the Labour Government was a minority dependent for its survival on Liberal cooperation.

Out of office, and with this electoral defeat fresh in mind, there would be a further resurgence of protectionist sentiment within the Conservative Party. Although the members of MacDonald's Labour Cabinet brought to office deeply ingrained opposition to a tariff and an awareness of the importance of continued Liberal support, they lacked a coherent strategy for dealing with the macroeconomic problems they inherited. As these problems worsened, particularly following the onset of the Great Depression, there would be a considerable shift of opinion on the tariff question, among those in power and opposition alike. That shift was to culminate in 1932 with the imposition of the General Tariff. That however is another tale for another time and place.[65]

ENDNOTES

1. The petition of the London merchants, drafted by Thomas Tooke, emphasized gains from specialization along lines of comparative advantage and the inefficiencies created by a heavy tax burden. On the campaign for repeal, see Hirst (1925), chapter III; Beer (1958), p.11; James (1976), p.4.

2. The importance of the Corn Laws as a source of revenue is emphasized by McCloskey (1981a).

3. For a contemporary analysis, see Newmarch (1878). The most recent national income and product estimates are by Matthews, Feinstein and Odling-Smee (1982). See also Deane and Cole (1962), Deane (1968), and Feinstein (1972).

4. See for example Cobden Club (1909), pp.108-109.

5. Ashworth (1960), Crafts (1973), and McCloskey (1981b) are representative of the controversy.

6. Kindleberger (1951, 1975) and Gourevitch (1977) provide comparative histories of these developments.

7. The analytical approach is developed in Downs (1957) and Buchanan and Tullock (1962). Important applications include Schattschneider (1935), Johnson (1965), Kreuger (1974), Kindleberger (1975), Caves (1976), Pincus (1977), and Gourevitch (1977). A survey and synthesis of this literature is provided by Baldwin (1982).

8. This statement, along with presumptions regarding labour's position discussed later in this paragraph, are implied by the "specific-factors" model formalized by Jones (1971).

9. Again, see Buchanan and Tullock (1962) and Downs (1957). This point is also emphasized by Gerschenkron (1943, 1962). For a well-known study, see Caves (1976), and for a theoretical treatment, see Findlay and Wellicz (1982). Contributions to the literature on public choice are surveyed by Meuller (1976).

10. Seminal contributions included Penrose (1959), Marris (1963), and Baumol (1967).

11. See Pelling (1967), chapter 1.

12. Ernle (1912), passim; Hueckel (1981), pp.193-196.

13. Fawcett (1878), p.2.

14. Cunningham (1905), p.85; Richardson (1936), p.86; McDowell (1959), p.153.

15. Nourse (1924), chapter 1; Ashley (1920), p.64; Bastable (1891), p.97.

16. Rostow (1949), pp.81-82; Lewis (1978), pp.74-77.

17. For details, see Commission on the Depression of Trade and Industry (1886).

18. Pelling (1968), p.17.

19. McCord (1970), p.127; Brown (1943), p.83; Lloyd (1970), p.3; Wrigley (1976), p.18; Sykes (1979), passim.

20. For the text of Ritchie's minute see Amery (1950), p.523.

21. Quoted in James (1976), p.324. The definitive analysis of Chamberlain's campaign is Sykes (1979).

22. Representatives of their reports are Tariff Commission (1906) and Tariff Commission (1909). The free traders responded with studies of their own. See for example Hunter (1910).

23. For similar statistical exercises, see Wilson (1903). Chamberlain's statistics were criticized by free traders for ignoring the unusually buoyant state of trade in 1872 and the decline in export unit values that had taken place between the two benchmark years. See for example Cobden Club (1909), chapter II.

24. Lowe (1942), pp.6-7; Sykes (1979), p.43.

25. Burn (1940), pp.323-324; Lloyd (1970), p.5; McDowell (1959), p.166. For another interpretation of Chamberlain's motives, see Cobden Club (1909), p.6. For representative academic opinion, see Pigou (1904, 1906), and for a detailed analysis of economists' views, see Coats (1968).

26. Chamberlain's speeches on the subject are in Boyd (1914), pp.173-200. For the First Fiscal Bluebook, see Board of Trade (1903), and on the origins of the document, see Coats (1968), pp.205-206. See also H.M. Representatives Abroad (1904). The organization of the German cartels and the tariff issue have been studies by Webb (1980). Skeptical reactions to dumping claims are described by Lowe (1942), p.13. This appears to be the first instance when the word "dumping" was used to describe export sales below cost. See Viner (1923).

27. In addition, in 1906 Joseph Chamberlain suffered a serious stroke which diminished his influence over British political affairs. Beer (1965), p.283. Despite his deteriorating health, Chamberlain continued to promote tariff reform until his death in 1914.

28. Marquand (1977), p.80.

29. Burns and Mitchell (1946), p.79; Pelling (1968), p.17; Eichengreen (1983), Section I.

30. Lloyd (1970), pp.5-6; Rempel (1972), p.65; Sykes (1979), p.196. See also the Handbook for Speakers published by the Tariff Reform League (1910).

31. Hay (1975), p.38. See also Searle (1971).

32. The classic study of Liberal welfare reform is Halevy (1961), volumes 5 and 6.

33. International Free Trade Congress (1908), p.2. Recent calculations suggest that this figure should be revised upward to 11 per cent. See Mitchell (1975).

34. Lack of working class support was particularly evident in the industrial northwest. See Blewett (1972).

35. James (1976), p.298.

36. Delladone (1928), p.33; Marwick (1965), pp.157-158.

37. Skidelsky (1967), p.5; Delladone (1928), pp.65-66.

38. Lowe (1942), pp.29-31.

39. In 1915 a subcommittee of the Advisory Committee to the Board of Trade was appointed to frame recommendations for a policy toward British trade after the War. Its report, issued in January of 1916, noted that practically all firms consulted had requested some form of protection, and it recommended broad-based import duties and imperial preference as post-war policies. The specifics of its recommendations -- duties at rates up to 33-1/3 per cent on products of key industries and antidumping duties -- are remarkably similar to the proposals advanced five years later by the Coalition Government. See Delladone (1928), p.96.

40. Lowe (1942), chapter III; Balfour Committee (1917).

41. A thorough analysis of the role of imperial preference in these and subsequent discussions is Drummond (1974).

42. The term "breathing space" and much of the rest of the conventional periodization of the years from 1918 through 1925 are from Pigou (1947). On the timing of the postwar boom, see also Burns and Mitchell (1946), p.74; Lewis (1949), pp.16-20.

43. These estimates are by Stone and Rowe (1966), p.144, and Feinstein (1972), T127.

44. The official statistics are from Ministry of Labour (1934).

45. Keynes' views on the subject are reprinted in Keynes (1931). Recent contributions to the literature include Sayers (1970) and Moggridge (1969).

46. The parallels with the American response to proposals for a League of Nations in 1919 are striking. See Silverman (1982), chapter 8; Costigniola (1977), pp.915-919.

47. Real wages are calculated for the middle of each year by comparing average weekly wage rates with either the Board of Trade wholesale price index or the Ministry of Labour cost of living index. These figures are drawn from International Conference of Economic Services (1934). Different conclusions emerge if we start at the peak of the business cycle in 1920 or compare annual averages.

48. Plummer (1937), pp.257-258.

49. Francis (1939), p.42; Delladone (1928), pp.110-111. The Act also instructed the Treasury to appoint a referee to evaluate the worthiness of requests for additions to the list. In fact, no items were added until the end of 1925. The exchange depreciation section of the Act remained unused and was allowed to lapse in 1930.

50. He also pledged himself to favor Imperial Preference, but in the absence of further tariffs, it was clear that no meaningful extensions of the principle were possible. Speder (1936), pp.635-636.

51. Hancock (1962), p.329.

52. See Beveridge (1909) and Gregory (1926).

53. Liberal Party (1922); Keynes (1924).

54. Lowe (1942), p.73.

55. Committee on Industry and Trade (1929), pp.282-283.

56. See Aldcroft (1967) and Dowie (1968). It is important to bear in mind that these real income estimates are retrospective. The impressions of contemporaries were dominated by unemployment, which averaged 10.4 per cent of insure workers in 1929, down only slightly from 11.3 per cent in 1925.

57. The Bank's operating procedures receive detailed analysis in Moggridge (1972), chapter 6. There is another dimension to the Governor of the Bank's activities, namely his involvement with industrial policy, or "rationalization" as it was then known. However, there was little if any overlap between these activities and the Bank's financial market intervention.

58. Brown (1938), p.57. Keynes and other critics of the Bank argued that loan and overdraft rates exhibited considerably greater flexibility than this stylized account suggests. See Keynes (1931), p.336, p.367.

59. See the discussion in Sayers (1976), volume 1, passim, and Sayers (1979), p.201.

60. Sayers (1976), volume 1, pp.114-115.

61. There is a voluminous literature on Treasury policy in this period. Among the most influential recent contributions are Howson (1975), Moggridge (1972), Skidelsky (1967), and Winch (1969).

62. Winch (1969), p.109.

63. House of Commons Debates, 15 April 1929, p.54, quoted in Winch (1969), p.109.

64. See Hawtrey (1925, 1933).

65. On these further developments, see Eichengreen (1981).

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