The Political Economy of Protectionism in Britain, 1919-32

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After nearly eighty years of free trade, the return to protectionism by Great Britain in 1931-2 was a dramatic event in her economic history. Interpretations of this policy reversal vary widely. For some authors it was an inevitable if perhaps belated consequence of relative economic decline. Stephen Krasner argues that since free trade suits the strong, Britain's loss of international economic hegemony in the late nineteenth or early twentieth century demanded a change in the commercial policy regime. This does not mean the depression was insignificant in the decision. Quite the reverse, for "systems are initiated and ended, not as state-power theory would predict, by close assessments of the interests of the state at every given moment, but by external events — usually cataclysmic ones," and Krasner argues that the slump provided the spur necessary to bring about a return to protection which objective assessment would long have seen as the appropriate policy regime for a second-rate economic power.[1] This longer-term perspective is consistent with the views of Forrest Capie, who has emphasised the build-up of protectionist pressures in Britain before the slump, particularly from the steel industry.[2]

* This article is drawn from my forthcoming book, *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s* to be published by Cambridge University Press. I gratefully acknowledge a grant from the Economic and Social Research Council which funded much of the research for this paper.

[1] Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics*, XXVIII, (1976), 317-48.

[2] Forrest Capie, "The Pressure for Tariff Protection in Britain, 1917-31," *Journal of European Economic History*, 9 (1980), 431-47.

A radically different perspective is provided by Barry Eichengreen in his study *Sterling and the Tariff, 1929-32*.[3] Relying heavily on the records of the Treasury and the Economic Advisory Council, Eichengreen produces a lucid study of economic thought and policy advice in the early stages of the slump. As a result he sees the tariff as a response to the immediate pressures generated by the depression, and particularly to the deterioration in the balance of payments. If there was a predominant objective in adopting protection, it was not to create jobs, but, on the contrary, to secure the exchange rate and avoid hyperinflation, even if this carried with it the risk of higher unemployment. In this view, the floating of sterling following the abandonment of the gold standard in September 1931, far from promising to rectify the current account deficit on the balance of payments, carried the risk of an uncontrolled depreciation of the pound that might replicate in Britain the German experience of 1923. In Eichengreen's opinion, if one looks for an underlying motivation, it was that "...the authorities' fears and their distrust of the effects of a floating exchange rate formed the basis of their decision to impose the General Tariff".[4]

The interpretation of Samuel Beer provides a striking contrast to Eichengreen's conclusion. Having summarised the work of a committee of the Conservative Research Department, chaired by Phillip Cunliffe-Lister, Beer points out that by early 1931 this had produced a complete tariff scheme ready to be rushed through Parliament when required. He concludes:

> To be sure, when the National Government embarked on framing the Import Duties bill a Cabinet committee was formally charged with drafting the measure. The principal function of this "make-believe inquiry," however, was to arrange temporary concessions intended to retain certain Liberal support, particularly that of Walter Runciman, a wavering free trader who was President of the Board of

[3] B. EICHENGREEN, *Sterling and the Tariff, 1929-32*, Princeton Studies in International Finance, No. 48, Sept. 1981, 7-14.

[4] *Ibid*, 38.

> Trade. In fact the basis of the tariff legislation of the National Government... was provided by the detailed proposals of the Cunliffe-Lister committee. Few British Governments have taken office equipped with such thorough and programmatic preparation for a major innovation in public policy. For a party often identified with *ad hoc* empiricism — not to say "muddling through" — in its decision-making, the Conservatives in this instance showed a remarkable degree of systematic foresight.[5]

This paper aims to answer two questions. First, to what extent was the return to protection the consequence of the longer-term pressures associated with the decline of the British economy and to what extent was it the product of the depression of the 1930s? Secondly, if a pre-eminent objective in introducing protection can be identified, was it to stimulate employment, or was it to control the level of sterling and of prices?

1. World War 1 and the early 1920s

By 1925 British policy appeared committed to the restoration of the pre-war international economic order, including virtually free trade. Economic liberalism had survived two challenges. The first had been the war-induced enthusiasm for protection and greater imperial unity, a movement that spawned several organisations, often instigated by Dudley Docker.[6] Docker's ideas and those of his fellow productioneers can be seen as a response to the international challenge faced by British industry. His aims stretched well beyond mere protectionism to encompass the re-organisation and rationalisation of industry in vast trusts, the harnessing of financial resources to productive power, aggressive marketing overseas and an overhaul of the machinery of government. Greater imperial unity, especially closer economic integration, was an essential part of the prog-

[5] SAMUEL H. BEER, *Modern British Politics*, (3rd ed. 1982), 288.

[6] R.P.T. DAVENPORT-HINES, *Dudley Docker. The Life and Times of a Trade Warrior*, (Cambridge, 1984).

ramme. The harnessing of the Empire's economic power for war spurred enormous enthusiasm for the view that the Empire "must remain mobilised if it was to dominate the peace".[7] However, following the allied victory in November 1918 the protectionist/imperialist cause lost momentum. The suddeness and completeness of Germany's collapse in 1918 dissolved the fears of those who had envisaged bitter commercial rivalry after the war,[8] and the boom of 1919-20, a last spasm of the pre-war industrial order, encouraged the scrapping of wartime controls as part of a search for 'normalcy.'

The protectionists had to be content with a modest legacy from the war. One part of this was the McKenna duties, involving a 33.3 per cent *ad valorem* tariff on gramophones, clocks, watches, cinematograph film and certain types of motor vehicle, which had been introduced in 1915 to save foreign exchange and shipping space; they survived the peace and in the 1919 Finance Act had an imperial preference element added to them. Another result of the war had been the first piece of unambiguously protectionist inspired legislation, the Safeguarding of Industries Act of 1921. The origin of this had been the discovery that Britain was dependent on Germany for certain vital supplies, to remedy which the Act gave protection for five years to a number of 'key' industries producing scientific instruments, selected chemical and electrical products. Commonwealth products were exempt.

The second challenge to the liberal international economic order came in Baldwin's surprise call for protection in 1923. There were several motives behind Baldwin's apparently sudden switch in policy.[9] One was inspired by the need to maintain

[7] W.K. Hancock, *Survey of British Commonwealth Affairs* vol. II, *Problems of Economic Policy 1918-1939*, (Oxford, 1942), I, 95.

[8] Davenport-Hines, *Docker*, 132.

[9] Keith Middlemas and John Barnes, *Baldwin, A Biography* (1969); John Ramsden, *A History of the Conservative Party: The Age of Balfour and Baldwin 1902-1940* (1978); K.W.D. Rolfe, "Tories, Tariffs, and Elections: The West Midlands and English Politics 1918-1935," (Cambridge Ph.D. 1974), and Maurice Cowling,

party unity: by opting for protection, Baldwin might have pre-empted a similar call by Lloyd George which if made could have detached Austen Chamberlain, Lord Birkenhead, and other restive coalitionists from the Conservative party. But high and apparently intractable unemployment also worried Baldwin, all the more so since Conservative inaction could benefit the increasingly powerful Labour Party. Moreover, an international solution to British unemployment looked increasingly improbable because the Franco-Belgian occupation of the Ruhr in January threatened the chances of European economic recovery in the foreseeable future. In these circumstances an active development of the home market and closer imperial integration appeared to Baldwin all the more urgent.

The return to power late in 1924 of a chastened Baldwin symbolised a victory of sorts for the internationalist option. It was not that the other two major parties had campaigned for anything different - quite the contrary - but that the Tories turned their backs on the protectionist policies offered the year before. Nothing reflected this internationalism more clearly than the decision to return to the gold standard. While this may be seen as predominantly an attempt by the City of London to regain its pre-war international ascendancy, the case for returning at the pre-war parity of $4.86 to the pound sterling could muster a measure of plausibility as an employment policy on the grounds that the revival of production, employment and profits in the old export-based staples stood no chance until the international economy had been restored: only with exchange-rate stability and the appropriate instruments for securing balance of payments adjustment (i.e. the gold standard) would confidence revive, investment and trade flourish and the export industries regain their pre-war prosperity. Industry, half-convinced, gave grudging acquiescence. As for tariffs, the surprising appoint-

The Impact of Labour, 1920-1924: the Beginning of Modern British Politics, (Cambridge, 1971).

ment of Winston Churchill, a free trader, as Chancellor of the Exchequer helped keep the government to its election promises: as Chancellor he was in a powerful position to frustrate protectionist moves made by colleagues.

It is true that the protectionists had to be mollified to some extent, notably in the reinstatement of the McKenna duties which had been scrapped by the Labour government in 1924, and by a series of small extensions to 'Safeguarding' tariffs. Essentially, however, the Baldwin administration stuck to its 1924 election pledge not to introduce a full protectionist regime. At first the task of Churchill and Baldwin in warding off protectionist claims was made much easier by the conflict in business opinion over tariffs that still existed in mid-decade. There was no ambiguity about the City of London's views, prominent City figures issuing a free-trade manifesto in 1925. Industrial views were another matter. The structure of industry was shifting slowly towards newer sectors that were much more heavily dependent on domestic and imperial markets than the cosmopolitan nineteenth-century staples. The British and Allied Manufacturers' Association, having pointed out in evidence to the Balfour Committee on Industrial Efficiences that two-thirds of electrical machinery exports were sold in the dominions, stated that the best things the Committee "could do for us would be to get a protectionist tariff".[10] The manufacturers of fine chemicals in the U.K. contended that the industry was dependent on the continuance of the Safeguarding Act, and when Lord Melchett had formed Imperial Chemical Industries in 1926, the choice of name had been a deliberate statement of policy.[11] Car and truck production was protected by the McKenna duties, and the bulk of overseas shipments was sold in the dominions. Both Austin and Morris were involved in the campaign for protection. While

[10] BT 55/123, Balfour Committee on Industry and Trade, evidence 27 May 1925.

[11] W.J. READER, "Imperial Chemical Industries and the State, 1926-1945," in B. Supple, (ed.) *Essays in British Business History* (Oxford, 1977), 227.

leaders of some of the new industries, such as the motorcycle firms and the cable makers, were confident of their ability to compete in world markets, these were the exceptions, most of the growth sectors favouring protection.[12] Yet these were still only a small part of the industrial scene, the newer industries on the basis of von Tunzlemann's classification accounting for 13 per cent of manufacturing employment in 1924 and 15 per cent by 1930.[13] The staples may have been shrinking in relative importance, but they nonetheless continued to dominate industrial output and employment.

Important sectors of the textile industry favoured protection by 1925. The hosiery manufacturers, heavily dependent on dominion markets and worried by increasing import penetration of the domestic market, favoured tariffs and imperial preference.[14] The carpet producers, overwhelmingly reliant on empire markets and also concerned about increasing imports, were with one or two exceptions of the opinion "that most of the difficulties which confront the industry of their country at the present time, and which form the subject of the Committee's enquiry, would disappear if a moderate general tariff were placed on all manufactured imports".[15] The greater part of employment in the textile industries was concentrated in the woollen and worsted mills, and, more important still, in cottons. Although the woollen and worsted industry had a long association with the protectionist movement, stretching back well before the war, the industry was divided on the issue in the early 1920s, possibly reflecting a slackening in import competition:

[12] BT 55/122 and 123, Evidence of British Cycle and Motor Cycle Manufacturers' and Traders' Union Ltd. and Cable Makers' Association.

[13] G.N. VON TUNZLEMANN, "Structural Change and Leading Sectors in British Manufacturing, 1907-68," in *Economics in the Long View*, Vol. 3, ed. C.P. Kindleberger and G. di Tella, (1982).

[14] BT 55/122, Balfour Committee, evidence of National Federation of Hosiery Manufacturers' Association, 428, and BT 55/123, Balfour Committee, evidence of Carpet Manufacturers' Association, 757.

[15] *Ibid.*, evidence of West Riding Chambers of Commerce, 813-17.

spokesmen for the West Riding Chambers of Commerce were specifically instructed not to give an opinion about tariffs to the Balfour Committee in 1925.[16] There were no such divisions in Lancashire in the middle of the decade, both the Cotton Spinners' and Manufacturers' Association and the Federation of Calico Printers stating emphatically their opposition to tariffs.[17]

Even the steel industry, which gave the government more trouble about tariffs than any other sector, was fairly muted in its demands until after 1925. The 1923 Ruhr crisis had obscured the competitive strength of the continental European industry. Moreover, there was considerable division in the industry with important parts of the downstream sectors benefiting from cheap steel and wary of the effects of tariffs on their input costs.[18] This was particularly true of the re-rollers who in 1924 having set up the British Steel Re-Rollers Association specifically to counter tariffs, formed an active lobby able to exploit the broad political problems raised by the tariff issue, and as a recent historian of the industry observes, were able to exert a degree of influence well beyond their economic weight.[19] The shipbuilders were also opposed. Another important consumer of steel was the engineering industry, 12 to 15 per cent of the selling value of whose products was accounted for by steel.[20] Reflecting trends affecting much of British industry, by the early 1920s engineering had become more dependent on the home market. Whereas pre-war over half the value of machinery output had been exported, by 1923 and 1924 nearly three-quarters of sales were made within Britain. The proportion of exports shipped to the dominions rose from 34 per cent in 1913 to 53

[16] BT 55/122 and 123, 494 and 642.

[17] Forrest Capie, "Pressure for Tariff Protection," 435.

[18] Steven Tolliday, *Business, Banking and Politics: The Case of British Steel, 1918-1939*, (1987), 294-8.

[19] D.A. Bremner, Director of British Engineers' Association, 12 Jan. 1928, *Bulletin* of the BEA.

[20] BT 55/122, 565.

percent in 1923. D.A. Bremner, Secretary of the Engineers' Association, emphasised in evidence to the Balfour Committee that although the impact of foreign competition on the industry was out of all proportion to its size, it was only one of a range of problems affecting the industry. He personally favoured a tariff, but the Association, much as it had been in earlier years, was divided.[21]

Protection was a taboo subject for the Federation of British Industries. In the first years the productioneers, seeking a radical restructuring of British industry, finance and overseas marketing, had been in the ascendant. As F.B.I. membership grew, so the influence of Dudley Docker and the productioneers was diluted. Docker's biographer records that he had anticipated this, but not the strength of opposition to his policies.[22] Lancashire opinion was particularly hostile to schemes involving tariff protection, and in 1919, following the rejection of merger terms with the British Empire Producers Organisation that might have committed the F.B.I. to policies of imperialist protection, Docker ceased playing an active part in the organisation's policy making. The F.B.I. was especially weak in the textile districts of the West Riding, and these, it was argued, would not join a protectionist organisation.[23] Between 1921 and 1926 the numerical and financial strength of Mancester in the Federation overhauled that of Birmingham.[24] The organisation was caught in a dilemma because as membership became more representative of industry, particularly English industry, the diversity of views this reflected made it difficult for the F.B.I. to speak with clarity or

[21] DAVENPORT-HINES, *Docker*, ch. 6.

[22] Federation of British Industries (FBI)/200/F1/1/1, Grand Council minutes, 15 Oct. 1919.

[23] FBI/200/F3/S1/7/18.

[24] R.F. HOLLAND, "The Federation of British Industries and the International Economy, 1929-39," *Economic History Review*, 2nd. ser. XXXIV (1981), 287-300; ROBERT W.D. BOYCE, *Capitalism at the Crossroads, 1919-1932. A Study in Politics, Economics and International Relations*, (Cambridge, 1987), 123.

authority. As the protectionist issue came increasingly to the fore at the end of the decade, the impotence of the F.B.I. led to it being by-passed and its future threatened.[25]

2. Failure of the international option

In the late 1920s the world economy boomed: between 1925 and 1929 world manufacturing production expanded by more than a quarter, world trade by 19 per cent.[26] This did not entirely by-pass the British economy. Total industrial production increased by nine per cent, the amount of electricity generated rose sharply, the number of vehicles on the roads increased by 45 per cent, the tonnage of new shipping commenced doubled between 1925 and 1929 and even the steel industry, so vocal in its demands for protection, increased output from 7.4 to 9.6 million tons.[27] Total agricultural output also rose, despite the misfortunes of cereal producers. Gross company profits grew from £450 million in 1925 to £499 million in 1929.

That is one side of the picture. There were also major weaknesses, particularly in overseas markets. The re-emergence of Germany as an exporter, and sharp competition from France and Belgium, both aided by undervalued currencies, made life difficult for exporters. British exporters suffered a dramatic retreat in many markets after 1925. Despite the overall expansion of world trade, British exports in 1929 had still not regained the values of 1925 and in volume terms were well below 1913 levels. In the cotton industry employment declined as did the number of spindles and looms. Reacting to the fall in world grain-prices, the amount of arable land and the output of corn contracted. Although total employment expanded by nearly one million, the

[25] W.A. Lewis, *Economic Survey, 1919-1939* (1949), 38.

[26] London and Cambridge Economic Services, *The British Economy Key Statistics 1900-1970* (1972). Statistics quoted in the remainder of this paragraph are also drawn from this source.

[27] Boyce, *Capitalism*, 110.

number out of work stayed obstinately above the million mark, around ten per cent of the workforce. The Industrial Transference Scheme of 1928, aimed to assist the movement of unemployed workers, was tacit admission of the failure of the restored gold standard to cure unemployment in the export industries.

Demands for protection and for imperialist policies gained fresh momentum from 1925. In July the National Union of Manufacturers held a lunch for 250 businessmen in the Queen's Hotel, Birmingham to launch a campaign for extended safeguarding.[28] In the same year the Empire Industries Association took over from the British Commonwealth Union, an organisation which had lost both its rationale and, through embezzlement by its Secretary, some of its funds.[29] Launched as the Empire Industries Association for the Extension of British Preference and the Safeguarding of Home Industries, with Leopold Amery and Neville Chamberalin active behind the scenes, it aimed both to lobby MPs and government as well as to educate the public.[30] A massive programme of public meetings was launched in the year or so from 1926 and more than a thousand meetings were addressed by speakers from the Association, including a special series in the Midlands and Manchester; each Sunday in summer meetings were held in nine London parks.[31]

The pacemakers in the protectionist movement were from the political right-wing. The E.I.A. was dominated by the right, although it professed to be non-political. But there was support for protection from Labour MPs. In early 1925 unease in the trade-union movement was created by two well-publicised events, the establishment of an office in Glasgow by the Hugo Stinnes syndicate to promote the sale of Ruhr coal, and the plac-

[28] DAVENPORT-HINES, *Docker*, 190-1.

[29] Empire Industries Association (EIA)/221/1/2/1 and Hannon Papers, minute books.

[30] EIA/221/1/2/2.

[31] BOYCE, *Capitalism*, 86.

ing of a contract in Hamburg for five 10,000 ton diesel-powered ships. Some feared that living standards and working conditions in Britain, including the hard won 8-hour day, might be undermined by sweated foreign labour. Although efforts were concentrated on international action to deal with the sweating problem, a number of people were quite prepared to see import controls as a solution. The protected industries also created a constituency of workers with an interest in the prolongation of the legislation. Arthur Pugh's Iron and Steel Trades Corporation had clear protectionist inclinations. There was a distinct commonwealth grouping in the Labour Party, and in June 1925 nineteen MPs voted with the Conservatives on a clause in the Finance Bill to extend imperial preference on dried fruits.[32] Early in 1926 four Labour members, Dr. Leslie Haden-Guest, Robert Young, Frank Hodges and Major A.G. Church, were in active but secret negotiations with the Empire Industries Association (they used Sir Hugo Hirst's G.E.C. offices rather than those of the Association!).[33] But although the committee of the E.I.A. resigned to accommodate the Labour men, and amendments to the constitution were considered, the negotiations were eventually broken off, Haden-Guest explaining there was insufficient support.

In the last years before the depression growing scepticism about free trade and mounting pressure for protection increasingly affected the great staple industries.

Agriculture had never taken happily to free trade, and this was particularly true of the specialist cereal growers who had borne the main brunt of foreign competition in the late nineteenth century. The retreat from cereal growing had been reversed during the First World War, and in 1919-20 a policy had been formulated to support domestic output through a sys-

[32] PARTHA SARATHI GUPTA, *Imperialism and the British Labour Movement 1914-1964* (1975), 65.

[33] EIA/221/1/2/2/1 and Hannon Papers, minute books.

tem of price guarantees. These had been precipitately withdrawn in 1921 following a price collapse, leaving farmers with reduced incomes and a pronounced sense of grievance.[34] By the late 1920s weakening world cereal prices were bearing heavily on the arable farming districts with 200,000 acres of land a year going out of grain production. In 1927 the National Farmers Union launched a campaign calling on county branches to pressure local MPs for some form of help.[35]

While agricultural assistance might have to cross the politically formidable barriers against 'stomach' taxes, manufacturing industry could in principle be assisted by 'Safeguarding' legislation. In practice this proved difficult, the criteria laid down proving too great an obstacle for the majority of applicants, so that of the 49 applications lodged between 1925 and 1929 (several more were headed off by the Board of Trade from applying), only nine were successful. They were most commonly ruled out on the grounds that the industries were not of substantial importance.[36] Yet at the same time industries could be too important, as the steel industry knew well. In the summer of 1925 an application was made to the Board of Trade for duties on pig-iron, wrought iron, heavy steel products and wire. With the industry working well below capacity and unemployment high, a potentially powerful case existed. However, opponents of a steel tariff argued that the answer to the industry's problems lay in reorganisation and amalgamation: protection would merely postpone the necessary rationalisation of the industry. The tariff proponents of the industry insisted that the key to lower costs lay in full-capacity operation. Sir William Larke, President of the National Federation of Iron and Steel Manufacturers argued that rationalisation, by transferring production from the small

[34] Alan Webber, "Cereals Production and Policy 1921-39: The Background to the International Trade Agreements of the 1930s," The City University Business School Discussion Papers, no. 59.

[35] Boyce, *Capitalism*, 122-3.

[36] BT 55/101, OSI 193.

mills to the large would make only a minimal difference, whereas shutting out two million tons of imports would lower costs by ten shillings per ton, or approximately ten per cent. The government referred the application to a Committee of Civil Research rather than use the 'Safeguarding' procedures.[37] It was clear that the case would not be settled on its intrinsic merits or demerits; the industry was simply too large, too central, to be granted a tariff that would open the floodgates to protection and make a nonsense of electoral pledges. The clear division of opinion in the industry in 1925 made the task of warding off claims much easier for the government. Steven Tolliday notes, however, that much of the opposition to tariffs within the steel industry disappeared in 1925-6.[38] The North-East coast steel makers virtually all came over to protectionism between 1924-25, and even G.K.N., the country's largest importer of semi-finished steel and an opponent of protection in 1925, shifted its position during the next three years. Of crucial importance to the erosion of free-trade views in the industry was the realisation after the events of 1926 that workers were not going to be forced easily into accepting lower wages. By the late 1920s opposition to protection had all but disappeared among major firms in the industry. The engineering industries also abandoned their equivocation of 1925, in early 1928 the Secretary of the British Engineers' Associating writing to Sir William Larke of the N.F.I.S.M. that his organisation was "sympathetic towards the safeguarding of Iron and Steel as a contributing means of assisting the Iron and Steel industry to improve its economic efficiency and thereby preserve in a state of robust vitality that great basic industry..."[39]

[37] CAB 24/175 CP 48(25), Position of the Iron and Steel Industry, minutes of 15th meeting of the Committee of Civil Research, 19 Nov. 1925.

[38] TOLLIDAY, *British Steel*.

[39] Bremner to Larke, 13 March 1928. At Larke's request copies of the letter were sent to the Prime Minister and President of the Board of Trade. British Engineers' Association (BEA) 267/1/1/3.

There was weakening allegiance to free trade in the textile industries later in the 1920s, with the woollen industry all but securing a tariff in 1929. Between 1923 and 1928 imports of woollens had doubled and unemployment in the industry rose above 25 per cent. Growing anxiety about the industry's future was reflected in support for tariffs. The woollen and worsted industry had been refused duties in 1926, but having convinced the committee that there were grounds for concern, it bombarded the President of the Board of Trade with complaints that its situation was deteriorating.[40] In September 1928 the Leeds Chamber of Commerce, which previously had refused to discuss protection because it was a "political matter," voted for an extension of 'Safeguarding' duties.[41] Union support was defeated in January 1928 by Philip Snowden and other West Riding Labour MPs, but in the autumn delegates to the National Association of Unions in the Textile Trades joined with employers in a 'Safeguarding' application.[42] The Board relented at the end of 1928, appointing a committee which recommended duties, technically only for womens' dress goods, although in effect it was recognised they would have to cover a wide range of woollen and worsted imports.[43] Very significantly the Cabinet accepted this recommendation, although Baldwin was able to persuade it to delay implementing the tariff until after the forthcoming election.[44]

Until late in the decade Lancashire stayed largely proof against the protectionist proclivities of the rest of the textile industry, although by 1928 there were signs of apostasy. In September J.J. Butler, the F.B.I.'s Secretary in Manchester, reported moves to support Safeguarding in the Manchester Cham-

[40] CAB 24/178 CP96(26) and CAB 24/187 CP161(27), memoranda by Cunliffe-Lister, 5 March 1926 and 23 May 1927.

[41] M.W. Beresford, *The Leeds Chamber of Commerce*, (Leeds, 1951), 163.

[42] Boyce, *Capitalism*, 124.

[43] CAB 24/203 CP137 (29), memorandum by Cunliffe-Lister, 2 May 1929.

[44] CAB 23/60 21(29)4, 9 May 1929.

ber of Commerce, and early in 1929, when a protectionist motion was withdrawn because of the impending election, its MP sponsor, Robert Waddington, expressed surprise at the amount of support he had received.[45]

3. The impact of the slump

It is the steady erosion of support for free trade in the late 1920s that helps explain the speed with which it collapsed once it was subject to the main force of the world slump following the Wall Street crash in the autumn of 1929. As early as January 1930 there were debates in the Europe and United States section of the Manchester Chamber of Commerce where opposition was expressed to Britain signing an international tariff truce, and concern was voiced about Britain's lack of retaliatory powers.[46] In March the same section passed a resolution by ten votes to three in favour of U.K. tariffs.[47] More conclusively, in May the Chamber held a referendum in which 1736 members voted in favour of some form of tariff with only 607 opposed. In June the Bradford Chamber of Commerce voted nearly seven to one in favour of protection, the Leeds Chamber by 497 to 37 and in October another textile chamber, Kidderminster, by 28 to two.[48] When in July the British Engineers' Association questioned its membership, 96 per cent of respondents favoured protection.[49]

The shift in Lancashire opinion registered by the vote in May was surprising enough, but the renunciation of free trade by the City of London a few weeks later was even more drama-

[45] FBI/200/F/3/D1/6/11, Butler to Nugent, 27 Sept. 1928 and Manchester Chamber of Commerce (M)/8/5/5, meetings of the Board of Directors, 18 Feb., 11 March and 8 April 1929.

[46] M/8/5/8, Board of Directors, 15 and 24 Jan. 1930.

[47] M/8/5/7, Board of Directors, 23 June 1930.

[48] Bradford Chamber of Commerce 71 D80/1/27, Council, 24 June 1930 and 71 D80/1/28.

[49] BEA 267/1/1/3, Report by Bremner to meeting of Council.

tic. Following a meeting at Hambros Bank on 2 July, a protectionist resolution was passed urging an open market in Britain for Empire goods with a tariff on foreign imports. In 1926 a Bankers' Manifesto had called for free trade. Now:

> Bitter experience has taught Great Britain that the hopes expressed four years ago in a plea for the removal of the restrictions upon European trade have failed to be realised. The restrictions have been materially increased, and the sale of surplus foreign products in the British market has steadily grown.[50]

The list of signatories was short but weighty: among the twenty-three who signed were directors of merchant bankers Morgan Grenfell, Baring Brothers and Hambros, Sir George May of the Prudential, chairmen of the main clearing banks and directors of the Bank of England. Eighteen of the 23 were bankers. It was, wrote Amery to Baldwin, "the biggest leg up we have been given since 1903".[51] When eventually in September a counter-resolution was published in support of continued free trade, it drew 114 signatories, but as a Bank of England memorandum noted, only seventeen were bankers. It might have added that although it included the names of Sir Charles Addis and Lord Bradbury, it was not as prestigious a group as the July signatories. Conversions to protection had meanwhile continued, including such influential city figures as Grenfell, Schuster, Holland-Martin and Lewis of the National Provincial Bank.[52] While the Bank memorandum asserted, perhaps disingenuously, that there was "no documentary evidence of a sweeping change of view",[53] this conflicted with press reports that the call for tariffs

[50] *Times* 10 July 1930.

[51] AMERY TO BALDWIN, 4 May 1930, Baldwin Mss. Quoted by JOHN BARNES and DAVID NICHOLSON (eds), *The Empire at Bay. The Leo Amery Diaries 1929-45* (1988), 28.

[52] PHILIP WILLIAMSON, "Financiers, the Gold Standard and British Politics, 1925-31', in JOHN TURNER (ED), *Businessmen and Politics. Studies of Business Activity in British Politics 1900-1945*. (1984).

[53] Bank of England, G/19/1, note of 3 Sept. 1930.

represented not a sudden shift of opinion but a movement that had been apparent in the City for some time.[54]

Harmony in the views of City and industry may have reflected the closer links that had been formed in the 1920s. Banks and large industrial firms had begun to exchange directors. The close involvement of banks in the post-war boom had led several of them into a precarious dependence on the fortunes of declining industries, notably in the case of some Lancashire based-banks, including William Deacons, the District Bank and the Manchester and County. Midland and Barclays through the Union Bank were involved reluctantly in a rescue scheme.[55] On only a slightly smaller scale, the banks were similarly involved in the steel industry, Midland, Lloyds and National Provincial all being closely concerned. This did not immediately propel the banks towards protection. Indeed it was rationalisation, often advocated as an alternative to tariffs, that was seen as the route to the survival of companies, although the commercial banks possessed neither the inclination, the expertise, nor even perhaps the commercial leverage to encourage such a process.[56] Debts, however, drew the Bank of England and Barclays into company reconstruction and rationalisation, notably with Armstrong Whitworth and Beardmore. The reduced foreign business handled in London by the merchant banks in the 1920s was also impelling a move, albeit a reluctant one, towards domestic industry. The links between closer involvement with industry and the shift in City opinion are not easy to establish, but it seems plausible that greater knowledge of industry led to greater sensitivity to the problems faced by industry and the solutions it advocated.

By the autumn of 1930 the F.B.I., increasingly concerned that it might otherwise become marginalised as the voice of in-

[54] *Times*, 10 July 1930.
[55] Bank of England, SMT 2/240, Textiles, meetings 24 July and 5 Dec. 1928.
[56] TOLLIDAY, *British Steel*, 178.

dustry, had joined the protectionist bandwagon. When in the summer it had decided to poll its membership on protection, of the 72 per cent of constituencies that recorded a vote, 96 per cent favoured some form of tariff, with no single grouping within the Federation showing a majority in favour of free trade.[57] The F.B.I. joined the Empire Economic Union, the Empire Industries Association, the National Council of Industry and Commerce and the National Union of Manufactuers in a Co-ordinating Committee on Fiscal Policy that was set up to launch a protectionist propaganda campaign. Morris subscribed £5000 specifically for campaigning. Efforts were concentrated on obtaining working-class support for protection, the National Council of Industry emphasising that employers should not try to reduce wages at the very time that workers were being persuaded to vote for a tariff.[58] The F.B.I. arranged for prominent industrialists to address lunch-time meetings; the E.I.A., which now had the ability to arrange 2,500 meetings a year, concentrated much of its activity in Lancashire, and by June 1931, the co-ordinating committee reported that more than a million leaflets and 30,000 posters had been distributed.[59]

4. The politics of the tariff, 1929-30

There may have been a growing consensus in the business world in 1930 about the need for protection and imperial preference, but from June 1929 it was met by a government that at the outset was profoundly opposed to tariffs.

The advent of a Labour government appeared to have settled the protectionist issue for the time being. Although a market economy and free trade might have appeared difficult to recon-

[57] FBI/200/F/1/1/74, Fiscal Enquiry Committee.

[58] EIA/221/1/2/1, 20 Nov. 1930.

[59] FBI/200/F/1/1/74, Co-ordinating Committee on Fiscal Policy, 8 February 1931 and 19 June 1931.

cile with socialism, Labour had no plans for the immediate supercession of capitalism. The government also had to depend on Liberals' votes in Parliament, and the Liberals, if united on little else, at least agreed on the benefits of free trade: Sir John Simon, later to lead the protectionist wing of the party, was in 1928 attacking 'Safeguarding' tariffs.[60] Even without their dependence on the Liberals, Labour's concern about the price of food, together with a more acute sense of internationalism than the Conservatives, ensured the sanctity of economic liberalism, at least while the pale prosperity of the late 1920s continued. Ramsay MacDonald's position as Prime Minister reinforced the internationalism of Foreign Secretary Arthur Henderson, and key economic portfolios went to free traders Phillip Snowden at the Treasury and Willie Graham at the Board of Trade. The free-trade stance of the new government was immediately apparent when in June Graham recommended an announcement that 'Safeguarding' duties would not be renewed and key industry duties would stay in force only until the statutory periods expired in 1936. Apparently meeting with no opposition in Cabinet, the statement was strengthened on Snowden's insistence to suggest that duties might be abolished earlier.[61]

The onset of the depression, however, brought the government under protectionist pressure from several directions. In 1930 the major impetus stemmed from the problems and demands of specific industries, notably agriculture and steel, from the Imperial Conference held in London during the autumn, and more generally as a possible solution to mounting unemployment.

As early as January 1930 MacDonald, in conversation with J.H. Thomas, was contemplating the end of free trade, and by February he was actively canvassing a form of levy-subsidy for

[60] ABEL, *A History of British Tariffs, 1923-1942*, (1945), 46-7.

[61] CAB 24/204 CP 156(29), 19 June 1929; CAB 23/61 25(29)3 and 26(29)2, Meetings of 26 and 28 June 1929.

cereals.[62] This drew a sharp reply from Snowden, who wrote "... I was staggered by the suggestion you make of a registration fee for imported wheat, barley and oats. You do not change a food tax by calling it a registration fee instead of an import duty. I could imagine nothing that would be more disastrous at this moment for us to be associated with anything which had an implication of food taxation".[63] Grain prices were falling sharply; wheat had touched 9s. 7d. a quarter in January, but by March was fetching only 8s. 3d., well below the levels of the previous year.[64] At the beginning of March, 20-35,000 farmers and farm workers gathered in Cambridge to demand "immediate attention to the plight of the ploughland." This was one of many such meetings that helped convince Noel Buxton, the Agriculture Minister, that the government needed to take action. With Baldwin promising help for grain farmers, the government investigated various schemes for countervailing duties, quotas and import boards, but Snowden was able to persuade the Cabinet to postpone any decision until later in the year when an Imperial Conference was due to be held in London.[65] Demands from the steel industry continued unabated. More unexpectedly, a further source of pressure on free-trade opinion in government was the shift in expert opinion. Keynes's private policy advice had started to move towards a revenue tariff as early as February 1930.[66] In May Hubert Henderson, secretary to the Economic Advisory Council, produced a "bombshell" suggestion of a revenue tariff to finance industrial rationalisation. In October the Committee of Economists (a sub-committee of the E.A.C.)

[62] T. JONES, *Whitehall Diary: Volume II, 1926/1930*, ed. K. Middlemas (1969), p. 235, and D. MARQUAND, *Ramsay MacDonald* (1977), 558. The conversation took place on 14 Jan. 1930.

[63] PRO 30/69, 4 Pt. 2, (MacDonald Papers), Snowden to MacDonald, 24 Feb. 1930.

[64] *Times*, 15 Jan. 1931.

[65] MARQUAND, *MacDonald*, 558.

[66] I.M. DRUMMOND, *Imperial Economic Policy 1917-1939* (1974), 149.

produced a report on the causes of the depression and remedies for it. A majority, Keynes, Henderson and Josiah Stamp, recommended protection, arguing in favour of a tariff on four principal grounds:

1) that import saving would, on balance, increase employment, probably quite substantially;

2) that it was doubtful whether the country would find it possible to expand or even to retain her favourable balance of trade by means of a cut in money costs without a restriction of imports. A favourable balance might help with overseas investment;

3) that in the present circumstances a tariff might have a favourable effect on the terms of trade;

4) and that "[w]e consider that the development of inter-Imperial preferences may become a wise economic policy for this country".[67]

These arguments, together with budgetary considerations and the likely favourable effect on business confidence, led the majority to advocate both a revenue tariff and a 'Safeguarding' duty for the steel industry. They also suggested an examination of the feasibility of substituting home production for imports. Underlying the economists' call for protection was the belief that tariffs would create jobs. In this analysis, a major cause of unemployment was undue rigidity of money wages. In the early 1920s, when wartime-negotiated sliding-scale agreements were still in force, money wages and prices had fallen very much in line. Subsequently indexation had slipped from favour, and by the late 1920s money wages were exhibiting considerable inflexibility at a time of falling prices. Since money wages could only be squeezed further by costly and disruptive industrial struggles, an alternative was to raise price levels by the use of tariffs on the assumption that money wages would fail to keep pace, real

[67] CAB 24/213 CP 234(30), 5 July 1930.

wages would fall and profits be raised. Output, employment and investment would be stimulated.[68] Keynes did not favour devaluation, which might well have had the same effect on wages and prices, because it would undermine London's status as an international banking centre, and might start a series of competitive devaluations and financial crises. A tariff could therefore help solve unemployment without jeopardising the gold standard.

The economists were far from unanimous. A.C. Pigou signed the report but dissented from the tariff recommendation. Lionel Robbins refused to sign, objecting both to the conclusions and to Keynes's attempts to force a unanimous report on the committee.[69] Instead he wrote his own, most of it a vigorous attack on the tariff recommendation of the majority. In general the most vocal academic criticism of protectionism came from Robbins and his colleagues at the London School of Economics. Robbins was especially critical of Keynes's arguments. He stated there was no evidence that wages were inflexible in an upward direction; moreover, a tariff was likely to stimulate import-competing industries where the unemployment problem was less pronounced, and it would frustrate the recovery of the export industries where unemployment was high and money wages already low. This argument found echo in a book written by a group of economists from the London School of Economics, *Tariffs: The Case Examined*, which was edited by William Beveridge, and included contributions from Robbins, Frederick Benham and John Hicks. Part of the case against Keynes and Stamp was that unemployment was concentrated with particular severity in the export industries - the exporter was concerned with the level of money wages, and it was of no advantage to him if the real wages of his workers fell.[70]

[68] EICHENGREEN, *Sterling and the Tariff*, 7-14.
[69] J. HARRIS, *William Beveridge: A Biography* (Oxford, 1977), 317.
[70] W.H. BEVERIDGE (ed.), *Tariffs: The Case Examined* (1931), 72.

The book was a direct response to the E.A.C. committee's report of October 1930, although it was not published until a year later. For the most part it was a restatement of the liberal case for the power of the market, if unhindered, to secure economic adjustment and maximisation of welfare. It certainly did not stem the protectionist movement, and perhaps lost impact through some ambivalance of purpose.[71] The book had originally been planned as a popular refutation of common fallacies, but in the midst of preparation it was decided to challenge the more sophisticated views of Keynes and Stamp. The authors were not in full agreement, and privately Beveridge was even prepared to contemplate a plan of preferential arrangements between Britain and primary producing countries.[72]

The E.A.C. committee's report was referred to a Trade Policy Committee of the Cabinet, safely under the chairmanship of Snowden, which not surprisingly came to the view that "it was a disappointing document," lacking certainty in its conclusion, and containing "no practical proposition to which immediate effect could be given".[73] But when at a second meeting Snowden attempted to dismiss the report, he was challenged by Vernon Hartshorn, the Privy Seal, who argued for consideration of the steel industry. There seems little doubt that the report on the industry had considerable influence,[74] and even Graham was suggesting that the circumstances of the controversy over iron and steel had changed in that steel users would not put up the same fight for free trade as in the past. However, Snowden's committee agreed not to pursue the tariff question for the present because, repeating an argument heard throughout the debate of the

[71] HARRIS, *Beveridge*, 317-8.

[72] *Ibid.*, 319.

[73] CAB 27/435 T.P.C. (30), 1st meeting, 1 Dec. 1930.

[74] Tom Jones said that it had "shaken the free trade faith of several of its readers, including Hankey." T. JONES, *Diaries*, 263. Bevin, G.D.H. COLE and KEYNES favoured a tariff and nationalisation. CAB 58/2 E.A.C. 12th meeting, 12 March 1931.

1920s, they were "unanimous in thinking that re-organisation of the industry was an essential preliminary to any further step".[75]

While the economists' advice in October was confidential, the convening of the Imperial Conference in London in the same month placed much more public pressure on the government to respond to the demands of the dominions, particularly Canada, for greater imperial preferences.

Domestic demands were also building up. Beaverbrook's Empire Free-Trade campaign was at its height, and other sections of the press were stressing the opportunities that the conference provided for strengthening imperial economic links. Snowden, in his autobiography, expressed his sympathy for Thomas: "the Tory press had been flattering him, declaring that here was an opportunity for him to show that he was a great Imperial Statesman".[76] Thomas probably had his own convictions. The Conservative party, as discussed below, was moving rapidly in the direction of clear and explicit support for imperial preference. Perhaps more surprisingly, the T.U.C. was edging towards a policy of intra-imperial development.[77] In June 1930 a report of the T.U.C. economic committee, looking at future world economic relationships, dismissed both isolation and world economic unity as impracticable, and went on to examine the relative advantages for Britain of membership of a European bloc, an Anglo-U.S. bloc and a British Commonwealth bloc. Significantly, the first two having been dismissed because of competing economic interests and because the United States showed little enthusiasm for such a venture, the report advocated consolidation of the constituent parts of the British Commonwealth.[78] This was a tentative step in the same direc-

[75] CAB 27/435 T.P.C. (30), 2nd meeting, 2 Dec. 1930.

[76] PHILLIP, Viscount Snowden, *An Autobiography: Vol II 1919-34* (1934), 871.

[77] This is traced in A. BULLOCK, *The Life and Times of Ernest Bevin, Vol I Trade Union Leader, 1881-1940* (1960), 440-447.

[78] A copy of the report is filed in CAB 24/215 as an appendix to CP 304 (30).

tion as many industrialists and financiers were moving. In September the T.U.C. and F.B.I. sent the Prime Minister a joint letter and memorandum in which, on the eve of the Conference, they expressed their joint desire "to place upon record the paramount importance which they attach to all possible steps being taken to increase inter-Commonwealth trade'," and that the opportunity should not be missed to place the economic life of the Commonwealth on a "sound and enduring basis".[79] The report and joint letters stopped short of explicit advocacy of imperial preference, and instead placed emphasis on the creation of machinery and of a secretariat for Commonwealth co-operation.

Yet there is little evidence of the government coming under pressure from its own backbenchers or from the labour movement as a whole. Nonetheless opinion was shifting. David Marquand states that the parliamentary party's position was unclear, and that traditionally the movement had seen tariffs, especially on food, "as evil devices to lower working-class living standards".[80] The Conservatives' soundings, however, suggested 70 percent of Labour MPs would support 'Safeguarding',[81] and *The Times* reported that although a considerable section of Labour MPs remained orthodox free traders, a growing number were willing to examine the question "impartially".[82] Most of the running on tariffs had been made by the political right, many Conservatives seeing protection and imperial preference as a panacea for Britain's economic problems. The more sceptical, pragmatic position of the left was represented by Ernest Bevin. By 1930 he had come to favour tariffs for the steel industry, and to the T.U.C. Conference that year he reported

> I have never accepted, as a Socialist, that an inflexible Free Trade attitude is synonomous with Socialism... I do not believe that tariffs can solve our problem of unemployment at the present moment. On

[79] CAB 24/215 CP 317(30), 24 Sept. 1930.
[80] MARQUAND, *MacDonald*, 556.
[81] BOYCE, *Capitalism*, 264.
[82] *Times*, 5 July 1930.

> the other hand, I cannot reconcile the real operation of Free Trade with the organisation of industry under public ownership.[83]

The T.U.C. economic committee's report in 1930 had contained a sentence stating that "In particular circumstances where it is desirable to help a specific trade, a tariff may be justifiable...". An attempt in Council to delete the sentence was defeated by 17 votes to five.[84]

Opinions in the labour movement were changing, but not so decisively as to create concerted pressure on the government. The one occasion when the administration did face a major challenge from within was over the memorandum circulated by Oswald Mosley, Chancellor of the Duchy of Lancaster. Although protection was not specified in the memorandum, it was developed by Mosley shortly after its circulation. Central features of Mosley's plan were an overhaul of the government administration of unemployment and higher public expenditure. An integral part of his conception, as he later explained to the House of Commons in his resignation speech, was development of the home market and rejection of the "dangerous illusion" that there was hope of recovery through exports. Because the nation "must to some extent be insulated from the electric shocks of present world conditions," he advocated protection through the agency of an import control board.[85] There was widespread support for Mosley's proposals within the parliamentary party and probably more so within the movement as a whole. Only because he was manoeuvred into making a direct challenge to the government, turning the issue into a test of loyalty, was he defeated so decisively in the parliamentary group. His subsequent defeat at the party conference in October was narrow, and did not prevent him being re-elected to the executive.

[83] Cited by BULLOCK, "BEVIN," 443.
[84] SKIDELSKY, "Politicians," 259.
[85] *Hansard* (Commons), Vol. 239, No. 148, 28 May 1930, cols. 1357-9.

But for the presence of Snowden, the Labour government would almost certainly have introduced protectionist measures in 1930. MacDonald, worried by pressures from the grain farmers, and lacking any clear alternative ideas about how to deal with unemployment, favoured tariffs. But he was unwilling to take on Snowden or to muster sufficient support for his position in the Cabinet. Marquand argues that his failure to give a firm lead or to make his views prevail were among the most fatal failures of his career.[86] He had sustained support only from Thomas, by now a somewhat discredited figure, from Hartshorn and from Addison. But clearly he could have mustered much wider backing. One indicator of the shift in Cabinet opinion were the discussions surrounding ratification of a tariff truce Britain had initiated at the League of Nations. In March 1930, Britain had been one of eleven countries to sign a convention ruling out tariff increase before April 1931. It needed ratification by November 1930. The truce was strongly opposed by a wide cross-section of British industry, even the F.B.I. joining the chorus of disapproval.[87] Whilst early in the year Graham had had no difficulty in obtaining the support of his colleagues, by June the mood had changed sufficiently for the Cabinet to decide that ratification should be postponed.[88] In July the Cabinet, without Snowden present, had decided not to ratify.[89] Thomas reportedly told a Conservative MP that the Cabinet had discussed tariffs and that all were in favour apart from Snowden and Graham.[90] Graham does not seem to have been adamantly opposed, but Snowden most emphatically was. Snowden's persistent opposition to tariffs may have reflected intellectual rigidity, but he was well aware of the economists' desire to use them as a way of reducing real wages. He played a vital part in the de-

[86] MARQUAND, *MacDonald*, 564.
[87] FBI/200/F/1/1/2, Grand Council minutes, 12 March 1930.
[88] CAB 24/214 CP 285(30), 30 July 1930 and MARQUAND, *MacDonald*, 561.
[89] CAB 23/64 49)30), 6 Aug. 1930.
[90] BOYCE, *Capitalism*, 264.

fence of free trade. He and Graham were able to secure a reversal of the Cabinet's July decision on tariff ratification. Not only in the tariff truce debate, but in his sceptical presence at the imperial conference, in warding off protectionist demands from the steel industry and agriculture, and in stifling the economists' apostasy, Snowden throughout 1930 blocked demands for protection. MacDonald wanted Snowden to go, and in October Snowden threatened to do so.[91] MacDonald, however, was too weak to take the opportunity.

While Snowden helped the government resist tariffs in 1930, the Conservatives in opposition embraced them. Baldwin, as Prime Minister, had played an important part in keeping the Conservative government to its election pledges of 1924. In doing so he had certainly disappointed the keener protectionists in the party who had banked on the government finding greater scope for extending tariffs under the 'Safeguarding' procedures. For a leader who had gambled on protection in 1923, and who might be judged favourably predisposed to it, he proved surprisingly resistant to the vast pressures that built up in 1930 to adopt tariffs as party policy, this resistance all but costing him leadership of the party.[92]

The loss of the 1929 contest meant that Baldwin had led his party to defeat in two out of three elections. He was also more vulnerable because the election had cut large swathes through the more moderate members from the midlands and northern constituencies while leaving the diehard elements of the southern consistuences, potentially hostile to Baldwin, virtually untouched. In formulating policy in the wake of defeat, Baldwin was concerned above all to preserve party unity as well as to see that the policies adopted were not electoral liabilities. Protection

[91] *Ibid.*, 274-5.

[92] The following three paragraphs rely heavily on MIDDLEMAS and BARNES, *Baldwin*, Ch. 10; RAMSDEN, *History of the Conservative Party*, Ch. 8; STUART BALL, *Baldwin and the Conservative Party: the Crisis of 1929-31* (New Haven, London, 1988), and BARNES and NICHOLSON, *Amery Diaries*.

was likely to split the party, and any suggestion of imposing tariffs on foodstuffs might well be fatal for the party's electoral prospects, particularly its chances of regaining seats in the north and midlands.

Baldwin's position as party leader remained comparatively secure in late 1929, although there was some restlessness after the lacklustre campaign of the summer as well as over his uninspiring performance as leader of the opposition, a role for which by temperament he was peculiarly unsuited. From early 1930, however, Baldwin came under attack. That he retained the leadership owed much to the tactical errors of his opponents, especially the blundering, ill-timed moves of the press barons. Baldwin was able to use these open challenges to his authority to win the party's affirmation of his position. Yet in the process he had to move some way to appease his opponents.

By late in 1929 it was evident that Beaverbrook's Empire Crusade campaign, launched in July, was finding a ready response in the south. Empire Free Trade would have been a nonstarter in Joseph Chamberlain's day, let alone a generation later and in the face of the mounting protection the dominions were giving their secondary industry as the depression deepened. By the same token, although it was by no means clear how agricultural protection combined with free entry for empire produce would in fact help U.K. agriculture, the campaign nonetheless had great appeal. Collapsing wheat prices helped its reception in the rural areas. This put pressure on Baldwin to act before being stampeded by the constituencies. In a speech at the Coliseum on 5 February, 1930, he pledged a future Conservative government to extend 'Safeguarding' duties to steel and textiles. A year earlier this would have been a dramatic move, but as Amery commented "opinion has moved so fast in our party that a speech which would have been rapturously welcomed a year ago is now felt to be inadequate".[93] It certainly promised nothing for agri-

[93] Diary, 5 Feb. 1930, BARNES and NICHOLSON, *Amery Diaries.*

culture, prompting Beaverbrook's Crusade committee to pass a resolution the same day that although Baldwin had made a step in the right direction he had not gone far enough on foodstuffs and raw materials. On 18 February, Beaverbrook, with Lord Rothermere's support, transformed the Empire Crusade into the United Empire Party to campaign for protection and closer imperial integration. While the Empire Crusade had been an attempt to win the Conservative party round for the policy, the new party was a direct challenge, threatening to run candidates in fifty Conservative seats. Baldwin responded quickly, instigating a meeting with Beaverbrook at which he agreed to hold a national referendum on food taxes. This was announced by Baldwin the next day, 4 March, in a speech at the Hotel Cecil. The pledge appeared to patch up differences, staying Beaverbrook's hand as well as drawing at least public support from figures as diametrically opposed on the issue as Amery and Churchill.[94] Beaverbrook and Baldwin, however, each interpreted the agreement differently. While Baldwin thought the food-tax issue had been shelved for the time-being, Beaverbrook believed the Tories were now committed to agricultural protection, a belief probably encouraged by private assurances from Neville Chamberlain that the referendum idea would be buried as soon as possible. Baldwin proved to have bought very little time. The strength of Conservative backbench opinion was shown after Lord Salisbury had written to *The Times* suggesting British industry needed something more immediate than tariffs and imperial economic integration.[95] When Page-Croft threatened to hold a meeting of the E.I.A. which could call upon 187 Tory MPs, Salisbury was forced to write again in "clarification" of his earlier letter.[96] Rothermere rejected the Hotel Cecil statement, facing Beaverbrook with the choice of a

[94] *Times*, 6 and 7 March 1930.
[95] *Ibid*, 25 March 1930.
[96] *Ibid*, 8 April 1930.

split in the United Empire Party or moving to the attack again. Beaverbrock was beginning to doubt the genuineness of Baldwin's commitment to the referendum, complaining that he "used it as a shield instead of a sword".[97] The continued assault of the press lords probably helped fuel growing dissatisfaction with Baldwin's leadership, especially in London and the south-east where their papers, including the London evening press, found their principal readership. It was the southern constituencies that were the most restive. By July 1930 disaffection was widespread, by September it had reached unprecedented levels. Maladroit moves by Beaverbrook and Rothermere, apparent attempts to dictate terms to a future Conservative government, open challenges to Baldwin's authority, forced the party to rally to its leader. To take some of the steam from the movement and with an eye to the forthcoming imperial conference, Chamberlain announced much more aggressive proposals in what he called his "unauthorised programme," particularly in a speech of 20 September when he demanded a free hand to negotiate with the dominions to make the best bargain possible whether it included a food tax or not. Baldwin's survival as leader probably rested on his acceptance of such a programme when he returned from his annual stay in France. He was helped by clear indications of growing support for protection in the country as a whole. If there had been any doubt about views in the south, they had been dispelled by the shift in City opinion and by Beaverbrook's vigorous campaign. It was the north that had worried Baldwin. But the crumbling of free-trade support during the winter of 1929/30 has been indicated above, and mounting unemployment reinforced this. It was the sharp deterioration of the economy after years of difficult conditions that weakened adherence to free trade, not Beaverbrook's campaign which had little discernible influence in the north. By September

[97] Beaverbrook to Hoare, 15 May 1930, quoted BARNES and NICHOLSON, *Amery Diaries*, 24.

the protectionist views of the southern constituencies were finding support from those in the north, with Lord Derby himself, 'King of Lancashire' and long the leader of the anti-protectionist group in the Tory party, having decided in June to back the tariff campaign. This turnabout Amery ascribed to the change of opinion in Lancashire.[98] Baldwin was therefore both relieved of the earlier constraints he had felt and at the same time compelled to act for his political survival. On 7 October the Business Committee, an inner shadow cabinet, adopted a full protectionist programme with Churchill alone dissenting. The opportunity to make this public came in the wake of the government's rejection of Bennett's reciprocal preference offer at the imperial conference. Chamberlain seized the opportunity to draft an open letter, ostensibly written by Baldwin to him, which outlined the change in Conservative policy.[99] The Conservatives intended to bring in an emergency tariff on manufactured goods "which would preserve the home market while the necessary investigations and negotiations with other countries, incidental to the preparation of a more scientific scheme, were pursued." Baldwin stated that he had "already promised to guarantee the price of home-grown wheat used for breadmaking; to stop the dumping of foreign bounty-fed oats; to put a tax on foreign malting barley; and to see to it that a large proportion of the supplies of meat and wheat to the Defence Forces shall be home products." In addition, he asserted the whole country had been shocked by the intensive dumping of foreign fruit and vegetables which had destroyed markets before smallholders were in a position to dispose of their crops, and agriculture must therefore be protected from such disturbances. Agriculture must be seen in the framework of imperial policy, and in this context Baldwin now

[98] *Ibid.*, 23 June 1930.

[99] *Times*, 16 Oct. 1930. The letter was in fact drafted by Chamberlain and approved by the Shadow Cabinet, Churchill dissenting. K. FEILING, *The Life of Neville Chamberlain* (1946), 181.

withdrew his idea of a referendum, substituting the idea of a single electoral mandate for protection.

Chamberlain used the recently established Conservative Research Department to draft tariff proposals as well as to recommend ways of implementing legislation both quickly and lastingly. The Research Department had already been working on imperial trade policy. A committee to plan the future shape of agriculture was established, and in early December a group under Sir Phillilp Cunliffe-Lister's chairmanship, including Amery, Sir Basil Blackett, George Lloyd and Herbert Williams was established to investigate duties on manufactures.[100] Chamberlain wanted to capitalise on the current disillusion with free trade to build a permanent tariff structure. The committee met 25 times in the first six months of 1931 before producing a bulky report in July. It recommended a wide-ranging three-decker tariff with rates of 10, 16 2/3 and 33 1/3 per cent, together with scope for imperial preferences.

The committee concentrated on devising parliamentary procedures that would allow protectionism to be legislated with the minimum of fuss and the maximum of speed.[101] There would first be an emergency tariff before the introduction of a more 'scientific' Tariff Act embodying permanent legislation, a method that would avoid using the framework of a Finance Bill which would have involved annual debates on the tariff schedules. A 'scientific' tariff, a common inter-war conception, was to be arrived at through a Tariff Advisory Committee under a legally qualified chairman. The idea had been floated by the 1923 Tariff Advisory Committee which had drawn its inspiration from the Australian model. As Baldwin expressed it, he was not going to be responsible for making the country a profiteer's paradise or Parliament a "crooks' corner," and, echoing Lord

[100] Conservative Research Department (CRD)/1/2/11, Report of the Tariff Committee of the CRD.

[101] *Ibid.*

Bradbury's remarks on the gold standard six years earlier, he was going to make the tariff 'knave-proof', taking it "as far from politics as you can."[102]

The committee had been anxious to avoid being seen as simply responding to pressure from industry. Yet the committee included prominent industrialists, carried out extensive informal consultations with other industrial leaders, and for years there had been a fusion of involvement between politicians and businessmen through such groupings as the Empire Industries Association, and, more recently, Amery's Empire Economic Union. It is therefore not surprising that when later the F.B.I. produced a memorandum on tariffs, Cunliffe-Lister could comment, "the whole thing is in substance an adoption of our original 'Research' proposal".[103]

5. The fall of the Labour government

By the end of 1930 the government was faced by a Tory opposition clamouring for protection. Yet almost at the same moment that the Conservatives finally took the plunge on tariffs the preoccupation of the party's economic policy began to centre on the budgetary position of the government and the need for 'Economy.' The debate about tariffs changed in 1931, and although protectionist demands remained strong, the greatest pressure for the remainder of the life of the second Labour government stemmed from the budget deficit and the financial crisis.

The problems of revenue had been foreshadowed in discussions during the summer of 1930. Thomas had argued that to rule out tariffs would, in effect, declare that the only source of revenue from which prospective deficits could be remedied was

[102] CRD/1/2/13.

[103] T 172/1768. Sir Philip Cunliffe-Lister to N. Chamberlain, 15 Jan. 1932. Amery makes the same observation in Amery, *Life*, 20.

direct taxation.[104] When in the late summer MacDonald had canvassed Cabinet Ministers about their views on tariffs, he suggested that the budgetary position would be so weak next year that the choice would be between a heavy increase in direct tax and a revenue tariff.[105]

In March 1931 the *New Statesman* published an article by Keynes advocating a revenue tariff.[106] He argued for expansionary policies, but suggested that unless accompanied by other measures there would be dangerous effects on the trade balance, the budget and confidence. Ultimately the expansion would generate revenue for the budget and confidence would be regained, but in the interim there was a problem. This was best met by a wide-ranging revenue tariff with one or two flat rates and with rebates on imported materials entering exports. This tariff would relieve the pressing problem of the budget, restore business confidence and provide a margin to finance the extra imports generated by expansion as well as providing finance for overseas loans. He concluded, presciently, "if Free Traders reject these counsels of expediency, the certain result will be to break the present Government and to substitute for it, in the confusion of a Crisis of Confidence, a Cabinet pledged to a full protectionist programme." Five days later Keynes returned to his theme in a meeting of the Economic Advisory Council, stressing "that the dangers of doing nothing were so great that the country might easily be faced with a crisis of confidence [and that] what was needed, above all, was that the Government should secure their Budgetary position and do so quickly. This could only be done by a Revenue Tariff".[107] His fellow member of the Committee of Economists, Josiah Stamp, stated that he felt the case for a tariff was much stronger now than six months

[104] CAB 23/65 50(30), 2 Sept. 1930.

[105] SNOWDEN, *Autobiography*, 923.

[106] *New Statesman and Nation*, 7 March 1931. Reprinted in J.M. KEYNES, *Essays in Persuasion* (1951), 271-80.

[107] CAB 58/2 E.A.C. 12th meeting, 12 March 1931.

ago when the economists' report was written. There was a lengthy discussion of the steel industry, and the meeting, under MacDonald's chairmanship, ended inconclusively.

Despite the prospect of a fiscal deficit in 1931-2, Snowden in his budget of 27 April rejected increases in direct taxation, and dismissed the revenue tariff as a device for "relieving the well-to-do at the expense of the poor".[108] While Snowden stayed in office the free-trade policy of the government was secure; when ill-health and the need to strengthen Labour in the House of Lords threatened his tenure, the prospect of Thomas as his successor "was enough to make Snowden cling to office with redoubled vigour".[109]

Thomas suffered another setback in June. The Cabinet committee preparing for Ottawa recommended to the Cabinet that Britain should offer a quota for dominion wheat milled in the U.K. After opposition from Snowden, and a threat of resignation from A.V. Alexander (First Lord of the Admiralty), to prevent a split the Cabinet rejected the quota and "disposed... of any proposal increasing the price of food, *under whatever alias*".[110]

The issue of the revenue tariff arose in its most acute form during the financial crisis of the late summer. Yet even though a revenue tariff must have seemed an obvious answer to the government's needs, the Labour administration's commitment to free trade remained intact through the last desperate days of

[108] Cited in SKIDELSKY, *Politicians*, 340 W.H. JANEWAY, "The Economic Policy of the Second Labour Government, 1920-1931," Ph. D. Thesis, University of Cambridge, 1971), 221-5 reports Treasury advice to Snowden that if tariffs were to have been introduced to Parliament in April, a decision in principle would have been needed months in advance. Despite repeated requests from his colleagues, Snowden rejected any pre-Budget consultation.

[109] SKIDELSKY, *Politicians*, 361. Skidelsky quotes B. Webb's diaries and a conversation between her and Ethel Snowden. Snowden himself thought Graham the only person fitted to take over his office.

[110] S. Webb to B. Webb, 4 June 1931, quoted in GUPTA, *Imperialism*, 159 and SKIDELSKY, *Politicians*, p. 362. Emphasis in original.

office. A tariff to provide revenue and help towards balancing the budget was one of the measures suggested to MacDonald by Harvey and Peacock of the Bank of England.[111] Apparently it was considered by the Economy Committee set up to examine the May Report, but was outvoted four to one.[112] When in the full Cabinet of 19 August Arthur Henderson raised the question of a tariff, fifteen members voted for a revenue tariff on manufactured goods, with some willing to support its extension to foodstuffs and raw materials.[113] In Cabinet next evening reports were made on meetings with Conservative and Liberal leaders. The Conservatives made no reference to a revenue tariff, concentrating their advice on bigger savings in unemployment insurance, but the Liberals were strongly opposed to one.[114] Later that evening a General Committee of the T.U.C. delegation met members of the Economy Committee. The General Committee had spent a major part of their meeting earlier in the day discussing the crisis, and although a majority were probably sympathetic to a tariff, at least as an alternative to reductions in the

[111] MacDonald's diary, 11 Aug. 1931, cited by MARQUAND, *MacDonald*, 615.

[112] CAB 27/454. The Committee, consisting of MacDonald, Snowden, Arthur Henderson, Thomas and Graham, did not circulate any minutes or conclusions of meetings. SKIDELSKY, *Politicians*, p. 397, quoting a memorandum by Graham in the Lansbury papers, records the vote, with only Thomas in favour of a tariff, although the Committee thought a tariff preferable to a cut in benefit (also by four votes to one - Snowden the minority). See also R. BASSETT, *1931, Political Crisis* (1958), 71. MacDonald's diary records only the one vote, with four in favour of a tax and Snowden against. MARQUAND, *MacDonald*, 616. It is evident that Graham's opposition to tariffs had weakened.

[113] BASSETT, "1931," 76-7. The minority, according to B. Webb's diary, cited in Bassett, were Snowden, Benn, Parmoor, Alexander and Passfield himself. MacDonald's diary, as reported by MARQUAND, *MacDonald*, 618, records five voting for a tax on all imports and ten for a duty on manufactured goods only (this must mean another ten supported its application to manufactured goods alone).

[114] CAB 23/67, Meeting of 20 Aug. 1931. N. Chamberlain was anxious to establish a National Government, and, although possibly seeing the economy measures as necessary, certainly saw cutting the dole as a way to split the Labour Party irrevocably. See MIDDLEMAS and BARNES, *Baldwin*, 623-5. (Baldwin was still in France). His diary suggests that he did think budget cuts necessary to restore foreign confidence, but that he had plans for tariffs later. N. Chamberlain's diary, 22 Aug. 1931, Neville Chamberlain Papers (N.C.) 2/22.

standard of living, they felt that Congress decisions in the past precluded the General Council from advocating such a measure.[115] They proposed to submit a resolution to Congress on the subject.[116] The issue was finally dismissed in the Cabinet of 21 August. The minute states that:

> In the course of discussion it was represented that since the last discussion of this question by the Cabinet the situation had completely altered by reason of the rejection by the Liberal Party of any such expedient and by the acceptance in principle of the suspension of the Sinking Fund which it was claimed rendered recourse to a Revenue Tariff unnecessary. There was considerable support for the view that the Revenue Tariff should be excluded from the proposals, if, and only if, no further economies were made in regard to Unemployment Insurance. In reply to the Chancellor of the Exchequer, who expressed the strongest possible objections to the Government being committed in any way to the principle of a Revenue Tariff, the Prime Minister stated that it would be clearly understood that no decision of any kind had been reached on the subject of a Revenue Tariff.

In principle a revenue tariff might have formed an effective part of a package of government economy measures because it would have operated on two related aspects of the problem. By raising revenue it would have contributed to closing the budgetary gap, and by cutting back imports it would have brought about an immediate improvement in the balance of payments, and moreover, have done so without the time-lag associated with orthodox deflationary measures. In reality it would have been an ineffective measure. Even without Snowden's resignation (and it is doubtful whether by this time the government or sterling could have survived that),[117] the revenue tariff would not have been successful in restoring confidence in the pound unless

[115] BASSETT, "1931," 98.

[116] CAB 23/67, meeting of 21 Aug. 1931.

[117] R.S. SAYERS, *The Bank of England 1891-1944* Vol. 2 (Cambridge, 1976), 398, states that the American bankers from whom the British government was trying to secure a credit would accept the view of the Bank of England, the Chancellor and the Opposition parties as to what constituted an adequate programme.

it was accompanied by precisely those economy measures that the Cabinet could not agree anyway. While in its early stages the crisis was seen as essentially a reflection of the German situation, by late in August it was seen as much more directly a British crisis.[118] All members of the Cabinet were committed to preserving the pound, and to balancing the budget as the only way of securing that objective.[119] Once this had been decided, the Cabinet had to please the holders of sterling. This meant not merely balancing the budget, but doing so in the particular way that impressed the bankers. There may not have been a banker's ramp in that the financial community was deliberately engineering the downfall of the government,[120] but there was in the sense that the Cabinet had to do what the City wanted if the Bank of England was to recommend Paris and New York to provide further loans. And the central issue here was the willingness of the government to cut unemployment pay - it was this that became the test of the Labour government's resolve. So a tariff, which would almost certainly not have obtained support from the Liberals, would have been useless unless accompanied by cuts in unemployment benefit.

The fall of the Labour government paved the way for a National government which took little more than six months to build the skeletal structure of Britain's protectionist system, and just over a year to flesh it out, finally precipitating the resignation of the remaining free traders from the government.

[118] *Ibid.*, 402.

[119] No alternative objectives or methods seem to have been discussed. The focus of the split became the extent to which the budget would be balanced and the means of doing so.

[120] PHILIP WILLIAMSON, "A Bankers' " Ramp? Financiers and the British Political Crisis of August 1931," *English Historical Review*, XCIX, (1984); BOYCE, "Capitalism," ch. 11 and DIANE B. KUNZ, *The Battle for Britain's Gold Standard in 1931*, (1987).

6. The National Government

There was no overt move to protection in the brief life of the first National government. Instead the Conservatives jockeyed for position, attempting to commit the government to tariffs in its election platform in October. MacDonald, anxious to preserve some substance to the 'National' label of the government, and to prevent the Conservatives from forcing out the Samuelite Liberals, managed to block a joint protectionist manifesto, substituting the curious arrangement whereby the government would "go to the country on a general policy on which the Cabinet was unanimous, leaving discretion to the various Parties to deal with the control of imports and tariffs on their own lines".[121] As a result the Tories advocated protection while MacDonald and other candidates attempted to play the issue down.

The sweeping victory of the National government, with 556 out of 615 seats, left it in an unassailable position after the election. The realities of power were clear: if necessary, the Conservatives could have governed perfectly well by themselves. Tom Jones judged that "here is a Parliamentary Dictatorship and the Tory wolves will howl for high tariffs and will give S[tanley] B[aldwin] hell".[122] MacDonald, obviously anxious to prevent a split in the Cabinet, tried to preserve a reasonable balance in the distribution of posts between parties and protectionist predilections. He wanted Neville Chamberlain as Minister of Health with Cunliffe-Lister at the Board of Trade, but Baldwin insisted Chamberlain should go to the Treasury.[123] At Snowden's suggestion (he was later to regret it), to avoid having protectionists in two key economic posts, Walter Runciman, the Liberal, became President of the Board of Trade, and Cunliffe-

[121] Quoted in MARQUAND, "MacDonald," 666.

[122] TOM JONES, "Whitehall Diary," 20, quoted by BARNES and NICHOLSON, "Amery Diaries."

[123] MARQUAND, *MacDonald*, 703.

Lister became Colonial Secretary.[124] MacDonald was able to exclude the hardline protectionist Amery from office altogether.

With the Cabinet formed, the "Great Policy" was implemented at exceptional speed. On 10 November Chamberlain and Runciman were asked to investigate a recent reported rise in imports.[125] They produced a memorandum the next day, and on somewhat fragmentary evidence showed that although imports in October 1931 were not significantly higher than the year before, there had been a considerable increase in the first few days of November.[126] On this slender basis, and the fear that the rise might continue, they asked for a bill enabling the government to impose duties of up to 100% *ad valorem* on any type of manufactured good being imported in abnormal quantities. On the 12th the Cabinet approved the preparation of a Bill, which was to expire after a year.[127]

Pressure from members of agricultural constituencies ensured that another part of Conservative policy was implemented at speed.[128] Duties were applied to various imported fruits, vegetables and horticultural products. Proposals were presented to Parliament so rapidly that they did not have Cabinet approval.[129] 'Luxury' foodstuffs were less controversial than the great staples, but *The Economist,* condemning as derisory the argument used in supporting the "greengrocery bill" that it was

[124] SNOWDEN, *Autobiography*, 999. In view of Runciman's later role in the controversy, Snowden commented "I hope that the Recording Angel has kept no note of my responsibility for Mr. Runciman's appointment to this office!."

[125] CAB 23/69 CAB 74(31), 10 Nov. 1931.

[126] The import surge may well have occurred because tariffs, especially on manufactures, were widely anticipated. CAPIE, *Pressure for Tariff Protection*, 446-7.

[127] CAB 24/224 CP 274 (31), 11 Nov. 1931; CAB 23/69 CAB 76(31), 12 Nov. 1931.

[128] 150 members of the Conservative Agricultural Committee met on 17 November and decided to press for a clear statement of agricultural policy and the programme that session on various aspects of import policy, including that dealing with the "dumping of luxury imports." A deputation from the Committee later went to see MacDonald, and one from various agricultural organisations also saw Gilmour (Minister of Agriculture) that day. *Times*, 18 Nov. 1931.

[129] CAB 24/224 CP 299 (31).

needed for the stability of the pound, saw the measure as "an attempt to insert the thin edge of food tax wedge".[130] The free traders in the Cabinet were curiously muted, Snowden later arguing that they did not oppose the measures because they were temporary.[131] Chamberlain recorded that "Snowden growled but almost inaudibly and the Samuelites offered no objection... But as for me, I laff and laff".[132]

The vehicle for the implementation of the permanent tariff was a Balance of Trade committee. It needed some careful manoeuvering by Chamberlain.[133] MacDonald clearly wanted to avoid such a potentially divisive issue, yet faced by the necessity for action he was outwitted by Chamberlain. According to Chamberlain's record of events, MacDonald planned to establish two small committees, one to ascertain the facts, and a second committee to deal with any political ramifications that might arise out of the recommendations of the first. The fact-finding committee was to consist of Chamberlain, Snowden, Runciman and Hilton Young, a group bound to disagree on policy. The second, comprising MacDonald, Baldwin, Samuel and Simon, was designed to avoid too contentious a programme. Chamberlain managed to transform the first committee into a much larger group that would obviate the need for the second committee. Runciman and Chamberlain played the key roles. The central contribution of Runciman helped to ensure that tariffs, behind which lay a multiplicity of motives and conflicting objectives, would be structured and used for bargaining in international trade. The price Chamberlain had to accept for securing protection was that it was more modest in the first place than he and the protectionists would have liked. The Conservative Research Department's three-decker emergency tariff structure was unacceptable to Runciman. Instead, he suggested a

[130] *The Economist*, vol. 113, 5 Dec. 1931, 1057-8.
[131] SNOWDEN, *Autobiography*, 1004-5.
[132] IAN MACLEOD, *Neville Chamberlain* (1961), 155.
[133] 12 page memorandum, concluded 30 Jan. 1932, outlines the events. NC 8/18/1.

wide 10 per cent revenue tariff. Chamberlain, reluctantly accepting this, was able to take advantage of Runciman's interest in trade bargaining to suggest a surtax on certain goods, of use in trade negotiations.

The fact that the protectionists hoped to use the trade deficit as the excuse for tariffs created difficulty after the devaluation of sterling. Either measure might have rectified the trade imbalance. Both together seemed excessive. To complicate matters further, Samuel thought that capital movements had a great bearing on the overall balance of payments and should be taken into account. Chamberlain, chairman of the committee, drafted a memorandum (on a wet Christmas Day) which was highly tendentious.[134] He argued that capital movements were irrelevant and that financing a current account deficit by running down assets meant living off capital: the real point was that exports had to be increased or imports reduced. Since little could be done in export expansion, it was in import reduction that the scope for action lay.

The whole question of adjustment should have been transformed by the suspension of the gold standard in September and the subsequent depreciation of sterling. Keynes had withdrawn his support for a tariff, and urged the currency question as the dominant issue.[135] Beveridge had argued in the *News Chronicle* of 22 September that tariffs and the suspension of the gold standard were mutually exclusive policies.[136] Later in June 1932, a second edition of *Tariffs: The Case Examined*, had a chapter added by Frederick Benham, examining the balance of payments arguments in the light of the departure from the gold standard. Here he stated flatly of the floating exchange "that it *is* a solution, and a complete solution, of the problem of restoring equilibrium, is beyond dispute".[137] Meanwhile the Treasury had

[134] T 172/1768, handwritten draft, 25 Dec. 1931.
[135] *Times*, 28 Sept. 1931.
[136] Quoted in ABEL, *British Tariffs*, 79-80.
[137] W.H. BEVERIDGE (ed.), *Tariffs: The Case Examined*, (2nd ed., 1932), 253.

provided a battery of arguments why the external value of the pound should be prevented from falling excessively. These included the harmful effects on investment account, the serious inflationary potential of excessive depreciation and the need for sterling stability if London's international financial status was to be maintained or enhanced.[138] A memorandum by Sir Richard Hopkins, later circulated to the committee as one of Chamberlain's, also argued strongly against letting market forces dictate the value of the pound.[139] Certainly the Treasury did not want sterling to appreciate too far because of the harm to exports: "we *know* from bitter experience (though on no account could we afford to say so openly now) that they *cannot* stand an exchange value of $4.86" (emphasis in original). The lower range ($3.80-4.10 was Hopkins' view in December) was still a matter of debate. Treasury views were in fact undergoing some modification, and by early in 1932 the tendency was to consider the optimum rate of exchange to be around $3.40[140] It is doubtful whether the Treasury really thought the commercial policy of the government an important influence on the exchange rate. They were much more concerned with short-term balances still in London and with speculation; the main thrust of policy was in managing affairs so that despite the ending of the gold standard, inflation could be avoided.[141] Paradoxically, official thinking favoured modest inflation as a way of reducing real wages and restoring profitability, thus echoing the arguments of the economists; a low rate for the pound would contribute to this price adjustment, as well as assisting exports.[142] The emphasis was on *controlled* inflation.

Samuel's request that economists be consulted by the Com-

[138] T 172/1768. The memorandum is not dated, but probably Dec. 1931.

[139] *Ibid.*, 15 Dec. 1931.

[140] This discussion is traced in SUSAN HOWSON, *Domestic Monetary Management in Britain, 1919-1938* (Cambridge 1975), 82-6 and 173-80.

[141] Various memoranda in T 175/57 (Hopkins Papers).

[142] *Ibid.*

mittee was rejected by Chamberlain, although Samuel was permitted to canvass their opinions privately.[142] The Committee concluded that the current account was likely to reach a deficit of £90 to £120 million in 1931 and to worsen in 1932 in the absence of remedial action. A revenue tariff was calculated to reduce this by £34 million, with various assumptions about lower, preferential rates for dominion produce and free entry for some colonial produce. Certain exemptions for staple foodstuffs (not dairy products) and the principal raw materials were suggested. Depreciation of sterling was assumed to help exports, boosting them by £106 million it was calculated.[143] Obviously the report had the support of Runciman, as well as that of his Liberal colleague, Sir John Simon, and of Labour's J.H. Thomas. This was what Chamberlain had aimed to secure because MacDonald, by accepting it, was less likely to appear simply as a tool of the Tories and the government a facade for unadulterated Conservatism.

Nonetheless, the scale of opposition to the report was far greater than Chamberlain and Runciman had anticipated in December.[145] They had assumed Samuel could be accommodated and had even had hopes of gaining acceptance from Snowden. In the event both strongly disagreed with the report, and wrote dissenting memoranda.[146] Samuel reported his consulations with a number of economists and pointed to technical errors in the calculations (i.e. that while the depreciation of sterling was assumed to lead to higher prices of imports, no allowance was made for a consequential reduction in volume) and

[143] T 172/1768. Samuel to Chamberlain and Chamberlain to Samuel, 17 Dec. 1931.

[144] CAB 27/476. Committee on the Balance of Trade. Report 19 Jan. 1932. The Committee consisted of N. Chamberlain (Chairman), Samuel, Simon, Thomas, Cunliffe-Lister, Hilton Young, Runciman, Snowden and Gilmour.

[145] NC 8/18/1, memorandum, 30 Jan. 1932 and Walter Runciman Papers (WR) 245, Runciman to MacDonald, 21 Dec. 1931.

[146] CAB 27/467. These memoranda were circulated as CP 31 (32) and CP 32 (32), 18 and 19 Jan. 1932 respectively.

Snowden seized upon the confusion of thought in introducing a revenue tariff in order to curtail imports.

The first battle was fought in Cabinet on 21 January 1932. Unusually full minutes exist of the discussion, and the debate reveals the pre-determined position of most Cabinet members.[147] There was argument over the cost of living and the effects of currency depreciation. The use of the tariff as a bargaining instrument was advocated by several proponents. Baldwin, Ormsby-Gore, Londonderry and Thomas stressed the necessity for a British tariff to bring about a general reduction in world tariff levels, but apart from Chamberlain, who appeared to see it as a way of obtaining a "private entrance for ourselves" into other markets, nobody indicated whether the object was the pursuit of special privileges for British exports or a multilateral reduction in protection. Several speakers, including Chamberlain, Hilton-Young and Runciman, summoned the spectre of the German mark in laying stress on the inflationary dangers of a depreciating currency. The most repeated argument in favour of protection pointed to the underlying political realities of the Cabinet's situation. If the Cabinet failed to initiate protectionist legislation, the House of Commons would see to it that they were replaced by a Cabinet that would. Hoare and Hailsham circumspectly referred to "political difficulties," Ormsby-Gore and Eyres-Monsell were more direct, and Baldwin "would regret (the National government's) collapse as keenly as that of a Conservative Government."

Protection may have preserved the position of the Cabinet from Conservative backbenchers, but it exposed it to the resignations of Snowden and the Liberals Samuel, Sinclair and Maclean. The Conservatives, reversing their earlier stance, were by this time anxious to keep the Samuelite Liberals in the government, some of them hoping one day to effect a merger be-

[147] CAB 23/70 CAB 5 (32), 21 Jan. 1932.

tween the Liberals and themselves.[148] The acceptance of Hailsham's suggestion that the dissenting Ministers be allowed to voice their opposition to government policy postponed the resignations. Although Amery predicted "[t]he whole world would rock with laughter at the fatuity of the proposal and that it would break down before the week was out",[149] in fact it endured until the autumn. The continued presence in the Cabinet of the free-trade group may well have moderated the scale of protection when the details of the programme were settled. It was not the only factor. Runciman was opposed to food taxes as was Thomas.[150] MacDonald also appears to have been strongly opposed to them, writing to Runicman that it would be suicidal to think of taxing food essentials: "No greater calamity to the county could happen than that by our handling of affairs: we encourage the marshalling of a real class movement supported by the better minded skilled artisans".[151] Among the Conservatives in the Cabinet, even the protectionist Cunliffe-Lister had been doubtful about food duties.[152] But the continued presence of the tariff dissidents probably helped make the Cabinet more nervous of accepting proposals from the Minister of Agriculture.

The principles of industrial protection were agreed readily - a 10 per cent tariff on finished and semi-manufactured products not already charged under other acts, while raw materials would be duty free. The Import Duties Advisory Committee would make recommendations on higher selective duties, and could therefore develop a 'selective' tariff. Over agriculture there was conflict, as there was to be for the remainder of the decade, between the Ministry of Agriculture and a coalition of other in-

[148] MARQUAND, *MacDonald*, 713.

[149] Amery diary, 22 Jan. 1932, BARNES and NICHOLSON, "Amery Diaries."

[150] NC 8/81/1, memorandum, 30 Jan. 1932, for Runciman's statement to Chamberlain.

[151] WR 245, MacDonald to Runciman, 28 Dec. 1931.

[152] NC 2/22. Diary 8 Dec. 1929.

terests. The Agricultural Policy Committee of the Cabinet reported on 16 January, its protectionist stance immediately apparent.[153] The committee argued for parity of treatment with industry, either by the introduction of a low wide-ranging tariff or by selective but higher duties. The Minister, Sir John Gilmour, was under heavy pressure from the agricultural constituencies but found the Cabinet unsympathetic. On two occasions he had either to apologise for statements to the Cabinet or to go away and redraft a proposed public statement that was considered too protectionist in language.[154] At least he must have been prepared for the successive defeats he was to endure over imperial preference and free entry before and during the Ottawa Conference.

7. Conclusions

Ian Drummond has argued that if the government desired to use tariffs to combat unemployment, it was in fact using measures designed to do precisely the reverse once sterling had been floated. Tariffs, by causing the exchange rate to appreciate, would reduce national output and employment.[155] As pointed out above, the view that the government was primarily concerned with tackling unemployment is contested by Eichengreen. The politicians, he suggests, "supported the imposition of the General Tariff in order to guard against the dangers of hyperinflation and unbounded exchange-rate depreciation, and they made this choice knowing that the tariff might exacerbate the problem of domestic unemployment".[156] Eichengreen has performed a valuable service in drawing attention to the appa-

[153] CAB 27/465, Agricultural Policy Committee Report, 16 Jan. 1932.

[154] CAB 23/69 CAB 81 (31) 25 Nov. 1931 discussing a memorandum of 23 Nov. 1931 and CAB/23/70 CAB 11 (32) 3 Feb. 1932, discussing a memorandum of 27 Jan. 1932.

[155] DRUMMOND, *Policy*, 179.

[156] EICHENGREEN, *Sterling*, 38.

rent concern of the government about the balance of payments. The mere name, 'The Balance of Trade Committee', the report of which formed the basis for the cabinet discussion, suggests this. The experience of Germany in 1923 was a dreadful example of the results of uncontrolled exchange depreciation. Moreover, Treasury officials provided arguments for the Chancellor, and were opposed to market forces dictating the value of the pound. But to present their concern as the primary motive for tariffs is to ignore the domestic political environment in which the government operated. The Conservatives dominated the National government. The party was led by men who believed in protection, and it had been committed to a protectionist policy since the autumn of 1930. Conservative backbenchers were overwhelmingly, unrelentingly, protectionist. Similarly, industry and the City of London had advocated tariffs and imperial preference since 1930, and the deepening depression did nothing to weaken their advocacy. What constrained the Conservatives was the need to introduce the "Great Policy" within the confines of a National government that included several prominent free traders in the Cabinet, and to do so in the wake of a devaluation which undermined a major prop in the protectionist case. It was impossible to introduce tariffs, part of the Conservative creed, simply as the realisation of principle of the victorious party - if protection was to be legislated, it had to be shown that there were urgent and pragmatic grounds for it. Hence, the "make-believe inquiry," in Beer's phrase, carried out by the Balance of Trade Committee was nothing more than a necessary vehicle for the General Tariff, not an indication of the primary motive for its introduction.

The issue was taken up in the Parliamentary debates on the Import Duties Bill. Chamberlain, in introducing the Bill, placed emphasis on the balance of trade motive, but went on to list seven principal objectives of the proposed legislation.[157] This

[157] *Hansard* (Commons), Vol. 261, No. 261, No. 30, 4 Feb. 1932, col. 287).

gave opponents of the Bill opportunity to decide the contradictory and mutually conflicting purposes of protection, imperial preference, reciprocal trade bargaining and revenue raising.[158] But few were in doubt that the prime objective was protection. Chamberlain himself let this slip in the much-quoted conclusion to his speech when he referred to the privilege he had of setting the seal on work which his father had begun.[159] Amery was in no doubt when he congratulated Chamberlain on "the triumph of the cause in which he and I have long been fellow workers".[160] Perhaps the clearest statement, if not the most eloquent, came from Attlee: "If we had a favourable trade balance, if we had been on the pound sterling, if trade had been looking up all around us, in a House of Commons constituted as it is, we should have had full tariff proposals introduced. It is sheer hypocrisy to suggest anything else".[161]

The tariff did not arise simply out of the conditions of the slump. It was the result of longer-term forces associated with Britain's economic decline which had created a protectionist constituency by the early years of the twentieth century. Although internationalism appeared to have triumphed when the decision was made in 1925 to return to the gold standard, this proved a phyrric victory, the costs of an overvalued exchange rate helping to erode support for free trade. While it was the onset of the depression that gave the final decisive thrust to protectionism, the speed and completeness with which the remaining free-trade support collapsed in 1930 can only be understood in the context of growing disillusion with trade liberalism in the late 1920s.

[158] For example, Sinclair, *Hansard* (Common), Vol. 261, No. 38, 16 Feb. 1932, col. 1504.

[159] *Hansard* (Commons), Vol. 261, No. 30, 4 Feb. 1932, col. 296.

[160] *Ibid.*, col. 305.

[161] *Ibid.*, col. 304.