

Royal Empire Society

Essay Competition

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The Trends of Commercial Policy

Within the British Empire since 1895.

(15/11)

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Preface.

A Brief List of Subject Headings:

1. The Old Commercial Policy - United Kingdom Free Trade and Dominion Protection.
2. Discussions of Empire Trade Problems at Colonial Conferences.
3. The Dominions and their early Empire Preferences.
4. Further Colonial Conferences and Mr. Joseph Chamberlain.
5. The First World War - its influence on Britain's Commercial Policy and the Empire generally.
6. The 'Twenties' and the Old Policy.
7. The World Crisis - its effects on the Empire.
8. The Ottawa Conference and its Decisions.
9. Its Immediate Results.
10. Its Later Effects on Empire Commerce; some Complaints.
11. The Dominions in Retreat.
12. World War II.
13. Peace - and its Trade Developments.
14. Looking Ahead.

(101 words).

The Trends of Commercial Policy Within the British Empire since 1895.

It has been said that, whatever the form of society, tribal, municipal, or national, the tie which binds its component parts most securely together is the recognition of their economic interdependence. The bonds of sentiment in the widely-scattered British Empire are strong and have proved their strength; but they require to be backed by the consolidating force of material interests, by the recognition of the Empire as a source of common prosperity. Within the British Empire we may see performed countless business transactions, and in each, competition is a sharper spur than co-operation. Thus it would seem that, as an integral nation, each part of the Empire - Dominion, colony, and Mother country - must compete with the rest for commercial gain. We shall see, however, that from the late 19th century up to the present time, there has been, despite much pressure otherwise, a growing conception of the Empire as a great economic unit, with co-operation the guiding principle, and, to many, the truest guarantee of Imperial unity.

Since 1846 Great Britain had had her commercial life run on the principle of Free Trade; that is, ^{virtually} all imports were duty free. Gradually, and following closely upon the granting of self-government, Canada, the Australian

states, and other colonies were permitted to impose such duties as they thought fit 'on the importation into the colony of any produce or manufacture of the United Kingdom, the colonies, or any foreign country'. This control of their fiscal policies was given the colonies in the hope, and belief, that they would adopt Free Trade, in line with the mother country; but the ideal was not realized. The policy of free entry, so dominant in England, was definitely rejected by the overseas Dominions, all of which - excepting New South Wales - chose Protection; and by 1895, the commercial policy of the Empire was completely disintegrated.

However, a determined attempt was made to unravel these tangled threads of Empire commerce, and weave them into an orderly pattern. This was the establishment of the Colonial Conference. In 1897, at the third of these meetings of Empire representatives, the question of Empire trade loomed large: for the enormous development of international competition in the closing years of the century showed that the United Kingdom was steadily losing commercial ground to the United States and Germany. These countries, and others, had adopted protective tariffs, while Britain was still Free Trade, and there began a feeling in Britain towards the revival of the protectionist argument.

At the same time, the idea of Imperial Preference, first suggested at the Colonial Conference

of 1887, was again discussed in 1897, on the occasion of Queen Victoria's Diamond Jubilee. In the latter year, Canada made concessions to the Imperial sentiment by a tariff-reduction of $12\frac{1}{2}\%$ on British goods, and, at the close of the century, by a further rebate of $33\frac{1}{3}\%$. When the Commonwealth of Australia was founded in 1900, she also gave substantial preferences to the United Kingdom. Imperial preference, though limited, was thus entering Empire commerce as a factor of growing importance, and after the Colonial Conference of 1902, other colonies, especially South Africa and New Zealand, made it a feature of their trade policies. Preference also began to be shown, not only between the Dominions and the United Kingdom, but also between the Dominions and the colonies themselves. A notable example of this inter-colonial preference was the agreement between Canada and the West Indies, which assisted greatly the commercial development of each.

The colonial representatives at these early conferences, and the Canadian especially, were prepared to bestow still further preferences, 'if they could be assured that reciprocal moves by the United Kingdom would be forthcoming'; if the home government would but adopt a general tariff 'which could be manipulated to admit food and raw materials from the colonies at equivalent preferential rates'. Britain had already made minor departures from her Free Trade policy—such as that helping the West Indian sugar industry—but from the beginning Preference had been all too one-sided. Joseph Chamberlain was a strenuous

advocate of Imperial Reciprocity, for he realized that the Dominions would give the United Kingdom substantial services in return for the very moderate preferences which they desired. Nevertheless, the Dominions received no encouragement from the mother country, and in 1903, Chamberlain, eloquent and sincere, opened a campaign for the granting of preference to colonial produce in British markets. Unhappily, he was defeated, and the liberals, ardent Cobdenites, triumphantly proclaimed the merits and success of their policy. 'You cannot give a preference,' declared their leader, Mr Asquith, 'unless you impose a duty on foreign foodstuffs and foreign raw materials'; and, despite the splendid arguments put forward by the Dominion Prime Ministers and Mr. Chamberlain, the British Government was determined not to abandon Free Trade; but the self-governing Dominions continued to cling to Protection and Imperial Preference, still hoping to convince the United Kingdom of the benefits to be gained along the path they had taken.

Thus, at many an Imperial Conference prior to 1914, the Dominions were urging Britain to give preference to Empire products. It took the holocaust that was the First World War to evolve, and hasten the development of, a peacetime Trade policy which would both satisfy the Dominions and benefit the United Kingdom. The abandonment of Free Trade by Great Britain, though still in the future, had its beginnings in the din and confusion of this great struggle. For 'war breeds tariffs', and, in the dramatic changes which the contest forced on Mr. Lloyd George

and his government, Great Britain made her first serious departure from Free Trade, in 1915, by the imposition of protective tariffs on 'key industries'.

India also began to move away from her policy of 'open doors' for the first time since 1882. In the middle of the war came the Paris Economic Conference, and the British representatives almost jettisoned completely their country's anti-Protectionist principles by agreeing to join the Allies in a post-war economic campaign against Germany. During the war, Britain also began, of necessity, to avail herself fully of the Empire's storehouse of primary products. West Indian sugar, South African wine, Canadian base metals, and Australian wool, all found, in Britain, a market eager to absorb as much of them as could be produced. Thus, by the end of the Great War, there arose a growing body of thinkers who envisaged an Empire self-sufficient in food, raw materials, and essential industries; an Empire which should 'serve its own members first, its associates and allies second, and the rest of the world last.'

The Empire began the immediate peace a little closer towards its goal of equality of status, and, apart from the United Kingdom placing further duties on a few inconspicuous foreign goods, the Dominions and colonies, especially those supplying Britain with sugar, received some small preferences. On the whole, however, the main objective of the home government's efforts was world trade. The two years which succeeded the war were marked by

an unexampled trade boom, and British goods everywhere were in great demand. This could not and did not last, unfortunately; a slump followed, and in a disordered world, British and Empire statesmen sought a way to recovery. Britain found herself depending more and more upon the Empire, both as a source of supply and as a market, and at the Imperial Conference of 1923, the Conservative government formed an Imperial Economic committee, to investigate more thoroughly the prospects of the Empire's virgin markets. Later in the same year, the Conservatives, under the leadership of Mr. Stanley Baldwin, had as part of their electoral policy a mandate for tariffs; but the defeat which they suffered merely served to emphasise more strongly Great Britain's obstinacy to any modification of her commercial policy in favour of the Empire overseas.

In 1924, Australia increased her concessions to British goods, giving them an advantage of $11\frac{3}{4}\%$ over goods of foreign origin; while India moved further towards Protection by imposing many new tariffs, promoted by the growth of home industries and the increasing competition of Japan. The British Government's only act was the stabilising of existing preferences to Empire goods. The Protectionists in Britain, supported by the Empire Crusaders, continued to promulgate the mutual economic advantages to which their ideas would give rise, and their arguments were given additional point by the

increasing pressure of foreign tariffs upon British commerce.

The uncertainty of these 'twenties' — their commercial ebb and flow — reached its zenith in 1931 — when the World Crisis brought an already shaky world to its knees. Its relentless pressure was felt at an early date by the overseas Dominions. There was a fall in the prices of primary products, products on which the trade of the Empire depended almost entirely; and there was a damming of the river of commerce which 'obliged each sovereign state to pay attention to grave problems of internal reorganization'. Australia soon realized that high tariffs are an economic danger to a country principally dependent for its prosperity upon the export of raw materials. There were marked fluctuations in Canada's tariff charges as her government attempted to find stability, and South Africa and New Zealand were in positions hardly better. The crisis thus drove each Dominion 'to look inwards for economic salvation'; but it also caused the Dominions and Great Britain to investigate together the possibilities of Imperial economic co-operation, that 'which the genius of Adam Smith had foreseen to be the fruits of a free political association of sovereign states.' The advent of the crash produced a complete reversal of the policy which we have followed since the first

Colonial Conference. Armed with the powers of the Import Duties Act of 1932, which established protection for British as opposed to foreign goods, and with a Conservative majority within it, the National Government of Great Britain took a decisive step forward. When the economic section of the Imperial Conference of 1930 met for its second session at Ottawa, on July 21st. 1932, it was for the express purpose of evolving a scheme of Dominion Preference.

In his opening speech, Mr Baldwin observed that 'there are two ways in which increased preference can be given—either by lowering the barriers amongst ourselves or by raising them against others.' In the ensuing discussions, the Empire delegates found it necessary to have recourse to both. They were faced with two problems: firstly, that of increasing British imports of primary products from the Dominions, without injuring the British farmer; and secondly, that of increasing Dominion imports of British manufactures without affecting the Dominion industrialist. The chief opposition to agreement came from Canadian manufacturers, who eventually agreed 'to keep or reduce protective duties to a level which would give United Kingdom producers full opportunity of reasonable competition,..... provided that special consideration might be given to the case of infant industries?'

From the Empire, Britain obtained an increased preference, varying in the case of each Dominion, and being secured chiefly by an increased

tariff on foreign goods. In return, Great Britain undertook to continue free entry for all Empire products already admitted free; to impose fresh duties on certain foreign primary imports; to regulate the import of foreign chilled and frozen meat (this measure to enable Australia and New Zealand to compete with the Argentine); and to maintain existing preferences by retaining certain duties. Thus, after eighty-five years of Free Trade, tariff preference became a feature of Britain's commercial policy, and she became linked with the relatively high tariff groups of the Empire.

It would appear at first, that all the members ^{who} gathered around the conference table reaped direct advantages from the agreements. The United Kingdom's imports from the Dominions rose very perceptibly, while her exports to the Empire barely changed. Canada displaced the United States as chief individual purveyor of agricultural products to Britain, while Australia and New Zealand found reciprocal preferences a powerful aid to solvency, for neither had yet thrown off depression. South Africa was able to dispose of all her surplus sugar crop, while India's infant industries were ^{also} given encouragement. In 1934, by an amendment to the Ottawa agreements, the United Kingdom and her dependencies applied quotas to all cotton, silk, and rayon goods of foreign origin. This restriction was directed especially against the incredibly cheap textile exports of

Japan, and was designed to aid India and some of the East African Protectorates.

With all these apparent advantages, the immediate actual results of Ottawa are nevertheless uncertain; and although the volume of inter-Imperial trade increased, it is possible that this increase was at the expense of much of the trade between the Empire and foreign lands.

The Empire economists now faced a number of problems, many of them very real. Some said that, as an outlet for British goods, the Empire was not sufficient, while many critics of the Ottawa scheme declared that more than half of the United Kingdom's exports were now going to dependencies whose markets, limited and comparatively poor, were unadvantageous, barely compensating the British manufacturer for his toil. Similarly, the colonies and dependencies began to realize that the United Kingdom could not possibly consume the surplus of primary products which they had to offer (Britain could use less than 20% of West Africa's output of coconut products, oils, and groundnuts). Moreover the Dominions and India were no longer merely primary producing countries; their manufacturing industries were growing rapidly, especially those of Canada. Naturally, these countries now desired more traffic with the rest of the world; but they found their freedom rather commercially limited. Consequently, by 1935, while Dominion manufacturers fought for their privileged position, United Kingdom exporters

sought more remunerative markets. At the same time, Dominion governments vehemently opposed suggestions to help the British agriculturalist by restricting Britain's food imports from the Empire.

Above the din of these complaints, the Empire found that its policy was also impeding world recovery from the crisis; 'and it was soon in full retreat.'

Canada, one of the principals at Ottawa, led the way back. In 1935, the Canadian Liberal Government, under Mr. Mackenzie King, made a bi-lateral trade agreement with the United States; for the latter country was a rapidly-expanding one, whose economic investments in the Dominions exceeded even those of Great Britain. In the following year, India denounced her Ottawa stipulations, for she now believed, and correctly so, that her high-grade cottons could successfully compete against the flimsy Japanese product, especially in countries with high living standards. In 1937, an Anglo-Canadian agreement was concluded which set Canada free to adjust her tariff barriers as she wished, though with some concessions to the mother country. Australia received similar exemption from the Ottawa system. At the Imperial Conference of 1937, the rest of the Empire cried out for more participation in international trade, and Great Britain herself demonstrated her future policy by signing a commercial agreement with the United States in 1938, binding both the United Kingdom and her dependencies. Thus, despite Ottawa and its decisions, the commercial

policies within the Empire were as divergent as before; and it required yet another period of common danger to unite them.

Among those most affected by Ottawa and preferential trade were the Germans, Italians, and Japanese. They questioned the British policy which restricted their trade, and looked upon the dependent Empire as a prize from which they had been rudely excluded.

The trend of international politics in the previous decade reached its climax in 1939, and World War II struck the complacent 'thirties' with a shock which threatened to undermine their democratic foundations. During this struggle - greater, more terrifying in its aims and methods than any other - the Empire's indissoluble bonds of loyalty and unity were drawn still closer together, and its commercial inter-dependence became apparent as never before. As during the Great War, there were sweeping changes in the composition and distribution of the trade of each part of the Empire. Great Britain again secured much of the Empire's primary produce and the manufacturing industries of all parts, especially those of the Dominions, grew rapidly. Tariff barriers were made higher for the benefit of the Empire and Allies, and, perhaps most important of all, the United States, with the lease-lend policy, entered as almost a common sharer with the British Commonwealth itself.

With the advent of peace, the whole world has looked ahead to something new, something better, in all aspects of life; and in accordance

with this feeling, international trade has become an all-important question. The United Kingdom is cultivating more energetically than ever her European market, yet continues to gain the utmost advantage from her Imperial position.

Empire trade discussions, preliminaries to a proposed international trade and tariff barriers conference, are at the present time being conducted in London. One of their main objects is to ascertain the attitude of the Empire towards certain proposals, particularly by the United States, which boldly asks for the 'elimination of discriminatory preferences.' There does not appear to be, at this stage, any desire, either on the part of Great Britain or the Empire, for a united 'Empire front' on world trade, such as that visualised by the Ottawa delegates; rather, the tendency has been for each part of the Empire to choose freely its own markets, and, to a large extent, its own commercial policy.

To all who have the future of the Empire in their thoughts, the material interests of its component parts are, and must be, inseparably intertwined. To the Dominions, the United Kingdom is now an ever-expanding market for raw materials, and this market depends for its purchasing power on the continued demand for British manufactured goods, either in foreign or Dominion markets. To be sold in the Dominions, these countries must limit their tariff barriers, and thus there must be some kind of economic

understanding between the United Kingdom and the Dominions. That great Imperialist, Joseph Chamberlain, believed that 'the establishment of commercial union throughout the Empire would be the decisive step towards the realization of the ideal of Imperial Federation'.

Yet a system of preferential trade, which to me should be the basis for a future policy, must not operate in such a way as to cut off, or even limit inconveniently, intercourse with foreign countries. Foreign trade is, and must be, smoothly compatible with Imperial reciprocity; but, nevertheless, foreign trade treaties must be conditioned by the pattern of interimperial arrangements, rather than the reverse. Within the Empire there should ^{also} be some control of production, aiming at specialization (for why, as an example, should there be competition between United Kingdom agricultural products and the cheaper Dominion produce?); yet regulation, in any form, must not encroach upon that freedom of the individual which characterises the life of the British Commonwealth.

From all these ideas, however, we must not exclude the external element, for, as Mr. Baldwin declared at Ottawa - and this is particularly applicable to the present, and the future - 'no nation or group of nations, however wealthy or prosperous, can maintain prosperity in a world where depression and impoverishment reign'; and we must not, in our enthusiasm, forget our fellow-man. It is, nevertheless,

my hope that, in the years ahead, Imperial commercial co-operation will be practised - in every tiny colony, in each youthful Dominion, in the steadfast Mother country; and, in harmony with the inherent democratic principles of the Empire, will prove to be to the ultimate and lasting benefit of the great British Commonwealth of Nations, and, to no lesser degree, of humanity.

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