

IMPERIAL PREFERENCE^{ToC}

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IMPERIAL CONFERENCE,^[2] DOWNING STREET, *May 7, 1907*

The economic aspect of Imperial Preference, both from the point of view of trade and of finance, has already been dealt with very fully by the Chancellor of the Exchequer and the President of the Board of Trade, and I desire in the few observations with which I shall venture to trespass upon the ^[86]indulgence of the Conference to refer very little to the economic aspect, and rather to examine one or two points about this question of a political, of a Parliamentary, and almost of a diplomatic character. I want to consider for a moment what would be the effect of a system of preferences upon the course of Parliamentary business. The course of Colonial affairs in the House of Commons is not always very smooth or very simple, and I am bound to say that, having for eighteen months been responsible for the statements on behalf of this Department which are made to the House of Commons, I feel that enormous difficulties would be added to the discharge of Colonial business in the House of Commons, if we were to involve ourselves in a system of reciprocal preferences. Every one will agree, from whatever part of the King's dominions he comes, or to whatever Party he belongs, that Colonial affairs suffer very much when brought into the arena of British Party politics. Sometimes it is one Party and sometimes it is another which is constrained to interfere in the course of purely Colonial affairs, and such interferences are nearly always fraught with vexation and inconvenience to the Dominions affected.

^[87]Now, the system of Imperial preference inevitably brings Colonial affairs into the Parliamentary and the Party arena; and, if I may say so, it brings them into the most unpleasant part of Parliamentary and political work—that part which is concerned with raising the taxation for each year. It is very easy to talk about preference in the abstract and in general terms, and very many pleasant things can be said about mutual profits and the good feeling which accrues from commercial intercourse. But in regard to preference, as in regard to all other tariff questions, the discussion cannot possibly be practical, unless the propositions are formulated in precise, exact, and substantial detail. Many people will avow themselves in favour of the principle of preference who would recoil when the schedule of taxes was presented to their inspection.

I, therefore, leave generalities about preference on one side. I leave also proposals which have been discussed that we should give a preference on existing duties. It is quite clear that no preference given upon existing duties could possibly be complete or satisfactory. It could at the very best only be a beginning, and Dr. Jameson and Dr. Smartt, when they urged us with so much ^[88]force to make a beginning by giving a

preference on South African tobacco, have clearly recognised and frankly stated, that that preference would in itself be of small value, but that it would be welcomed by them as conceding "the larger principle." Therefore, we are entitled to say, that before us at this Conference is not any question of making a small or tentative beginning on this or that particular duty, but we have to make up our minds upon the general principle of the application of a reciprocal preference to the trade relations of the British Empire.

If that be so, surely the representatives of the self-governing Dominions who ask us to embark on such a system, ought to state squarely and abruptly the duties which in their opinion would be necessary to give effect to such a proposal. The question whether raw material is to be taxed is absolutely vital to any consideration of Imperial preference. Although it is no doubt a very good answer, when the direct question is raised,—What are your notions? to say that the Colonies would leave that to the Mother Country, those who urge upon us a system of reciprocal preference are bound to face the conclusions of their own policy, and [89]are bound to recognise that that request, if it is to be given effect to in any symmetrical, logical, complete, satisfactory, or even fair and just manner, must involve new taxes to us on seven or eight staple articles of consumption in this country. I lay it down, without hesitation, that no fair system of Imperial preference can be established which does not include taxes on bread, on meat, on that group of food-stuffs classified under the head of dairy produce, on wool and leather, and on other necessaries of industry.

If that be so, seven or eight new taxes would have to be imposed to give effect to this principle you have brought before us. Those taxes would have to figure every year in our annual Budget. They would have to figure in the Budget resolutions of every successive year in the House of Commons. There will be two opinions about each of these taxes; there will be those who like them and favour the principle, and who will applaud the policy, and there will be those who dislike them. There will be the powerful interests which will be favoured and the interests which will be hurt by their adoption. So you will have, as each of those taxes comes [90]up for the year, a steady volume of Parliamentary criticism directed at it.

Now that criticism will, I imagine, flow through every channel by which those taxes may be assailed. It will seek to examine the value, necessarily in a canvassing spirit, of the Colonial Preferences as a return for which these taxes are imposed. It will seek to dwell upon the hardship to the consumers in this country of the taxes themselves. It will stray farther, I think, and it will examine the contributions which the self-governing Dominions make to the general cost of Imperial defence; and will contrast those contributions with a severe and an almost harsh exactitude with the great charges borne by the Mother Country.

There has just been a debate upon that subject in the House of Commons; but the manner in which that question when raised was received by the whole House, ought, I think, to give great satisfaction to the representatives of the self-governing Dominions.

We then refused to embark upon a policy of casting-up balances as between the Colonies and the Mother Country, and, speaking on behalf of the Colonial Office, I said that the British Empire existed on the principles of a family and not on those of a syndicate. But ^[91]the introduction of those seven or eight taxes into the Budget of every year will force a casting-up of balances every year from a severe financial point of view. It has been said, and will be generally admitted, that there is no such thing in this country as an anti-Colonial party. It does not exist. Even parties, like the Irish Party, not reconciled to the British Government, who take no part in our public ceremonial, are glad to take opportunities of showing the representatives of the self-governing Dominions that they welcome them here, and desire to receive them with warmth and with cordiality. But I cannot conceive any process better calculated to manufacture an anti-Colonial party, than this process of subjecting to the scrutiny of the House of Commons year by year, through the agency of taxation, the profit and loss account, in its narrow, financial aspect, of the relations of Great Britain and her Dominions and dependencies.

Then this system of reciprocal preference, at its very outset, must involve conflict with the principle of self-government, which is the root of all our Colonial and Imperial policy. The whole procedure of our Parliament arises primarily from the consideration ^[92]of finance, and finance is the peg on which nearly all our discussions are hung, and from which many of them arise. That is the historic origin of a great portion of the House of Commons procedure, and there is no more deeply rooted maxim than the maxim of "grievances before supply." Now, let me suppose a system of preference in operation. When the taxes came up to be voted each year, members would use those occasions for debating Colonial questions. I can imagine that they would say: We refuse to vote the preference tax to this or that self-governing Dominion, unless or until our views, say, on native policy or some other question of internal importance to the Dominion affected have been met and have been accepted. At present, it is open to the Colony affected to reply: These matters are matters which concern us; they are within the scope of responsible, self-governing functions, and you are not called upon to interfere. It is open for the Dominion concerned to say that. It is also open for the representative of the Colonial Office in the House of Commons to say that, too, on their behalf.

But it will no longer be open, I think, for any such defence to be offered when sums ^[93]of money, or what would be regarded as equivalent to sums of money, have actually to be voted in the House of Commons through the agency of these taxes for the purpose of according preference to the different Dominions of the Crown, and I think members will say, "If you complain of our interference, why do you force us to interfere? You have forced us to consider now whether we will or will not grant a preference to this or that particular Dominion for this year. We say we are not prepared to do so unless or until our views upon this or that particular internal question in that

Dominion have been met and agreed to." I see a fertile, frequent, and almost inexhaustible source of friction and vexation arising from such causes alone.

There is a more serious infringement, as it seems to me, upon the principle of self-government. The preferences which have hitherto been accorded to the Mother Country by the self-governing States of the British Empire are free preferences. They are preferences which have been conceded by those States, in their own interests and also in our interests. They are freely given, and, if they gall them, can as freely be withdrawn; but the moment reciprocity is established [94] and an agreement has been entered into to which both sides are parties, the moment the preferences become reciprocal, and there is a British preference against the Australian or Canadian preferences, they become not free preferences, but what I venture to call locked preferences, and they cannot be removed except by agreement, which is not likely to be swiftly or easily attained.

Now I must trench for one moment upon the economic aspect. What does preference mean? It can only mean one thing. It can only mean better prices. It can only mean better prices for Colonial goods. I assert, without reserve, that preference can only operate through the agency of price. All that we are told about improving and developing the cultivation of tobacco in South Africa, and calling great new areas for wheat cultivation into existence in Australia, depends upon the stimulation of the production of those commodities, through securing to the producers larger opportunities for profit. I say that unless preference means better prices it will be ineffective in achieving the objects for the sake of which it is urged. But the operation of preference consists, so far as we are concerned, in putting a penal tax upon foreign goods, [95] and the object of putting that penal tax on foreign goods is to enable the Colonial supply to rise to the level of the foreign goods plus the tax, and by so conferring upon the Colonial producer a greater reward, to stimulate him more abundantly to cater for the supply of this particular market. I say, therefore, without hesitation, that the only manner in which a trade preference can operate is through the agency of price. If preference does not mean better prices it seems to me a great fraud on those who are asked to make sacrifices to obtain it; and by "better" prices I mean higher prices—that is to say, higher prices than the goods are worth, if sold freely in the markets of the world.

I am quite ready to admit that the fact that you make a particular branch of trade more profitable, induces more people to engage in that branch of trade. That is what I call stimulating Colonial production through the agency of price. I am quite prepared to admit that a very small tax on staple articles would affect prices in a very small manner. Reference has been made to the imposition of a shilling duty on corn, and I think it was Mr. Moor[3] who said, [96] yesterday, that when the shilling duty was imposed prices fell, and when it was taken off prices rose. That may be quite true. I do not know that it is true, but it may be. The imposition of such a small duty as a shilling on a commodity produced in such vast abundance as wheat, might quite easily be swamped or concealed by the operation of other more powerful factors. A week of unusual sunshine, or a night

of late frost, or a ring in the freights, or violent speculation, might easily swamp and cover the operation of such a small duty; but it is the opinion of those whose economic views I share—I cannot put it higher than that—that whatever circumstances may apparently conceal the effect of the duty on prices, the effect is there all the same, and that any duty that is imposed upon a commodity becomes a factor in the price of that commodity. I should have thought that was an almost incontestable proposition.

Here you have the two different sides of the bargain, the sellers and the buyers, the sellers trying to get all they can, and the buyers trying to give as little as they can. An elaborate process of what is called "the higgling of the market" goes on all over the world between exchanges linked up by [97]telegraph, whose prices vary to a sixteenth and a thirty-second. We are invited to believe that with all that subtle process of calculation made from almost minute to minute throughout the year, the imposition of a duty or demand for £1,000,000 or £2,000,000 for this or that Government, placed suddenly upon the commodity in question as a tax, makes no difference whatever to the cost to the consumer; that it is borne either by the buyer or by the seller, or provided in some magical manner. As a matter of fact, the seller endeavours to transmit the burden to the purchaser, and the purchaser places it upon the consumer as opportunity may occur in relation to the general market situation all over the world.

That is by way of digression, only to show that we believe that a tax on a commodity is a factor in its price, which I thought was a tolerably simple proposition. What a dangerous thing it will be, year after year, to associate the idea of Empire, of our kith and kin beyond the seas, of these great, young, self-governing Dominions in which our people at present take so much pride, with an enhancement, however small, in the price of the necessary commodities of the life and the industry of [98]Britain! It seems to me that, quite apart from the Parliamentary difficulty to which I have referred, which I think would tend to organise and create anti-Colonial sentiment, you would, by the imposition of duties upon the necessaries of life and of industry, breed steadily year by year, and accumulate at the end of a decade a deep feeling of sullen hatred of the Colonies, and of Colonial affairs among those poorer people in this country to whom Mr. Lloyd George referred so eloquently yesterday, and whose case, when stated, appeals to the sympathy of every one round this table. That would be a great disaster.

But there is another point which occurs to me, and which I would submit respectfully to the Conference in this connection. Great fluctuations occur in the price of all commodities which are subject to climatic influences. We have seen enormous fluctuations in meat and cereals and in food-stuffs generally from time to time in the world's markets. Although we buy in the markets of the whole world we observe how much the price of one year varies from that of another year. These fluctuations are due to causes beyond our control. We cannot control the causes which make the earth [99]refuse her fruits at a certain season, nor can we, unfortunately, at present, control the speculation which always arises when an unusual stringency is discovered.

Compared to these forces, the taxes which you suggest should be imposed upon food and raw materials might, I admit, be small, but they would be the only factor in price which would be absolutely in our control.

If, from circumstances which we may easily imagine, any of the great staple articles which were the subject of preference should be driven up in price to an unusual height, there would be a demand—and I think an irresistible demand—in this country that the tax should be removed. The tax would bear all the unpopularity. People would say: "This, at any rate, we can take off, and relieve the burden which is pressing so heavily upon us." But now see the difficulty in which we should then be involved. At present all our taxes are under our own control. An unpopular tax can be removed; if the Government will not remove it they can be turned out and another Government to remove the tax can be got from the people by election. It can be done at once. The Chancellor of the Exchequer can come down to the House and the tax [100] can be repealed if there is a sufficiently fierce demand for it.

But these food taxes by which you seek to bind the Empire together—these curious links of Empire which you are asking us to forge laboriously now—would be irremovable, and upon them would descend the whole weight and burden of popular anger in time of suffering. They would be irremovable, because fixed by treaty with self-governing Dominions scattered about all over the world, and in return for those duties we should have received concessions in Colonial tariffs on the basis of which their industries would have grown up tier upon tier through a long period of time.

Although, no doubt, another Conference hastily assembled might be able to break the shackle which would fasten us—to break that fiscal bond which would join us together and release us from the obligation—that might take a great deal of time. Many Parliaments and Governments would have to be consulted, and all the difficulties of distance would intervene to prevent a speedy relief from that deadlock. If the day comes in this country when you have a stern demand—and an overwhelming demand of a Parliament, backed by a vast [101] population suffering acutely from high food-prices—that the taxes should be removed, and on the other hand the Minister in charge has to get up and say that he will bring the matter before the next Colonial Conference two years hence, or that he will address the representatives of the Australian or Canadian Governments through the agency of the Colonial Office, and that in the meanwhile nothing can be done—when you have produced that situation, then, indeed, you will have exposed the fabric of the British Empire to a wrench and a shock which it has never before received, and which any one who cares about it, cannot fail to hope that it may never sustain.

Such a deadlock could not be relieved merely by goodwill on either side. When you begin to deflect the course of trade, you deflect it in all directions and for all time in both countries which are parties to the bargain. Your industries in your respective Colonies would have exposed themselves to a more severe competition from British

goods in their markets, and would have adjusted themselves on a different basis, in consequence. Some Colonial producers would have made sacrifices in that respect for the sake of certain advantages which were to be gained [102]by other producers in their country through a favoured entry into our market. That one side of the bargain could be suddenly removed, without inflicting injustice on the other party to the bargain, appears to me an impossibility.

I submit that preferences, even if economically desirable, would prove an element of strain and discord in the structure and system of the British Empire. Why, even in this Conference, what has been the one subject on which we have differed sharply? It has been this question of preference. It has been the one apple of discord which has been thrown into the arena of our discussions. It is quite true we meet here with a great fund of goodwill on everybody's part, on the part of the Mother Country and on the part of the representatives of the self-governing Dominions—a great fund of goodwill which has been accumulated over a long period of time when each party to this great confederation has been free to pursue its own line of development unchecked and untrammelled by interference from the other.

We have that to start upon, and consequently have been able to discuss in a very frank and friendly manner all sorts of [103]questions. We have witnessed the spectacle of the British Minister in charge of the trade of this country defending at length and in detail the fiscal system—the purely domestic, internal fiscal system of this country—from very severe, though perfectly friendly and courteous criticism on the part of the other self-governing communities. If that fund of goodwill to which I have referred had been lacking, if ever a Conference had been called together when there was an actual anti-colonial party in existence, when there was really a deep hatred in the minds of a large portion of the people of this country against the Colonies and against taxation which was imposed at the request or desire of the Colonies, then I think it is quite possible that a Conference such as this would not pass off in the smooth and friendly manner in which this has passed off.

You would hear recrimination and reproaches exchanged across the table; you would hear assertions made that the representatives of the different States who were parties to the Conference were not really representatives of the true opinion of their respective populations, that the trend of opinion in the country which they professed to represent was opposed to [104]their policy and would shortly effect a change in the views which they put forward. You would find all these undemocratic assertions that representatives duly elected do not really speak in the name of their people, and you would, of course, find appeals made over the heads of the respective Governments to the party organisations which supported them or opposed them in the respective countries from which they came. That appears to me to open up possibilities of very grave and serious dangers in the structure and fabric of the British Empire, from which I think we ought to labour to shield it.

My right honourable friend the Chancellor of the Exchequer has told the Conference with perfect truth—in fact it may have been even an under-estimate—that if he were to propose the principle of preference in the present House of Commons, it would be rejected by a majority of three to one. But even if the present Government could command a majority for the system, they would have no intention whatever of proposing it. It is not because we are not ready to run electoral risks that we decline to be parties to a system of preference; still less is it because the present Government is [105]unwilling to make sacrifices, in money or otherwise, in order to weave the Empire more closely together. I think a very hopeful deflection has been given to our discussion when it is suggested that we may find a more convenient line of advance by improving communications, rather than by erecting tariffs—by making roads, as it were, across the Empire, rather than by building walls. It is because we believe the principle of preference is positively injurious to the British Empire, and would create, not union, but discord, that we have resisted the proposal.

It has been a source of regret to all of us that on this subject we cannot come to an agreement. A fundamental difference of opinion on economics, no doubt, makes agreement impossible; but although we regret that, I do not doubt that in the future, when Imperial unification has been carried to a stage which it has not now reached, and will not, perhaps, in our time attain, people in that more fortunate age will look back to the Conference of 1907 as a date in the history of the British Empire when one grand wrong turn was successfully avoided.

FOOTNOTES:

[2]The following, among others, were present at the Conference:

The Earl of Elgin, Secretary of State for the Colonies; Sir Wilfrid Laurier, Prime Minister of Canada; Sir F.W. Borden, Minister of Militia and Defence (Canada); Mr. L.P. Brodeur, Minister of Marine and Fisheries (Canada); Mr. Deakin, Prime Minister of the Commonwealth of Australia; Sir W. Lyne, Minister of Trade and Customs (Australia); Sir Joseph Ward, Prime Minister of New Zealand; Dr. L.S. Jameson, Prime Minister of Cape Colony; Dr. Smartt, Commissioner of Public Works (Cape Colony); Sir Robert Bond, Prime Minister of Newfoundland; Mr. F.R. Moor, Prime Minister of Natal; General Botha, Prime Minister of the Transvaal; Sir J.L. Mackay, on behalf of the India Office.

[3]The Prime Minister of Natal.