

The Fortunes of Free Trade in Britain

by

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IT IS convenient to commence a study of free trade in Great Britain with the publication of Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* in 1776. As with almost all great works in the field of ideas, there is much discussion as to what extent this was original, and to what extent Adam Smith drew on earlier sources. But for our present purposes this scarcely matters; the important thing is that Smith "hit the headlines." By 1780 he had greatly influenced the mind of William Pitt the Younger, and three years later Pitt was combining the offices of Prime Minister and Chancellor of the Exchequer. In 1786 he concluded a commercial treaty with France which greatly reduced trade barriers between the two countries.

France was soon plunged into revolution, and in 1793 there began the war between Britain and France which continued intermittently until the fall of Napoleon in 1815. This war destroyed Pitt's work towards the liberalisation of trade; indeed, for a time Britain was largely cut off from European trade.

In the immediate aftermath of the French wars, tariffs were introduced with the primary object of maintaining the price of home-produced articles. Among these tariffs were the notorious Corn Laws. The idea of an import duty on corn was no new thing. In 1791, Pitt, turning what we might call his other face towards trade, had passed an Act which stipulated that duties should be paid on imported corn when the home price was below 54s. a quarter, and in 1804 he had raised this to 66s. In 1815 it was increased to 80s.—although some protectionists had asked for an even higher figure.

In the 1820s there were signs of weakening in the protectionist system. When William Huskisson became President of the Board of Trade in 1823 there were no fewer than fifteen hundred statutes that operated against trade. Inevitably they did not form a coherent whole or a logically consistent system of protection, for they had simply grown up over the years. Huskisson consolidated and simplified these statutes, and generally reduced the burdens on trade.

The Reform Act of 1832 began the break-up of the old political parties, and the extraordinary thing about the free trade agitation of the ensuing years is that it took place very largely outside the political parties, and outside Parliament. Parliamentary elections were still most often uncontested right down to the middle of the century.

In 1836 an Anti-Corn Law Association was formed in London, and in 1838 a more famous Anti-Corn Law Association—or League as it later became known—was established in Manchester. This was the body associated with the names of Cobden and Bright. The free trade propagandists recognised that the Corn Laws formed the pivot of the whole system that they were attacking; if the Corn Laws could be repealed, the whole apparatus of protection would crumble. The agitation—like the contemporary agitation of the Chartists—was conducted mainly through public meetings and other propaganda not related to any electoral contest. As time went on larger and larger sums were contributed for the work of the League; at one meeting in 1845 there is a record of the fantastic sum of £60,000 being subscribed—more like half a million pounds in today's money.

Prominent members of the League sat in Parliament, but they sat very loose of Party ties: in 1844, Cobden noted that in four divisions out of five he had supported Peel, the Prime Minister of the Tory

Government, rather than his own nominal leader, Lord John Russell—holding the view that Peel was at least as liberal as Russell.

C. P. Villiers was the original leader of the Anti-Corn Law movement, and he had the added distinction of serving as an M.P. from 1835 right down to his death in 1898 at the age of 95, long surviving both Cobden and Bright. Each year Villiers moved his Anti-Corn Law resolution in the House of Commons and it is indicative of the great freedom that existed in politics at the time that on one occasion, at least, two members of the Cabinet voted with him.

It was not argument, however, but starvation that finally tipped the scales. The failure of the Irish potato crop in 1845 produced a famine of appalling dimensions, and the fact that this coincided with a poor wheat harvest in England exacerbated the distress on both sides of the Irish sea. This led to a situation not unfamiliar in politics. In a time of great crisis a relatively small group of determined men were able to secure acceptance for policies that they had long advocated, not because the intellectual arguments in favour of these policies had become any stronger, but because desperate people were willing to experiment. The case for free trade in the 1840s was in truth neither stronger nor weaker than it had been for nearly seventy years.

In June 1846 Peel gave his support to the men who had been hammering at the Corn Laws for a decade. Corn duties were reduced immediately, and were abolished, with effect from 1849. By this action, the old Tory Party was split from top to bottom, and an extremely able group, including both Peel and the young Gladstone, broke off from the main body of their Party.

The repeal of the Corn Laws not only produced free importation of grain; it also shattered the *morale* of the protectionists. The Navigation Acts, which had imposed duties on goods brought in foreign ships, were abolished in 1849. Gladstone's great budgets of 1853 and 1860 reduced tariffs further: with the abolition of the timber duties in 1874, the only remaining import duties were designed purely to raise revenue, and were paralleled, where this was possible, by similar excise duties on home-produced articles. The dependent parts of the British Empire were free trade as well, although some of the self-governing territories gradually went protectionist.

The effect of mid-century free trade was not, as most critics had imagined, the ruin of British agriculture. The rapidly-increasing

prosperity of the towns led to a great demand for food, and for thirty years after 1846 agriculture prospered exceedingly. As industry prospered, however, British agriculture was unable by itself to feed the rising population. In the early 1840s British wheat production had been almost 90 per cent. of home consumption, but thirty years later it was below 50 per cent.

By the middle 1870s free trade was tacitly accepted by pretty well everyone in Britain. But the end of the decade saw a series of disastrous harvests. They did not result in urban famine, as they would have done in the old protectionist days, for the new American wheat fields were able to meet the British shortfall, but from that date English grain production declined rapidly in importance.

English agriculture had a three-tier structure: landlord, tenant-farmer and labourer. The wages of the labourers were largely kept up, partly because of massive emigration of surplus labourers and partly because there were jobs available in the towns for men who could not get satisfactory pay on the land. The farmers suffered an initial decline in numbers, but in the last decade or so of the century were holding their own. The real impact, however, was felt by the landlords, for reasons that require little explanation. Farm rents fell tremendously, often almost to zero, and this greatly reduced the prestige and power of the rural land owners. Many years later Lloyd George talked of the "great slump in Dukes," but in truth this slump had been in existence for a very long time and may be traced to the economic changes of the 1870s.

In Europe, the Third French Republic moved towards protection and the new German Empire, which had been established in 1871, was receptive to the nationalist and protectionist doctrines that G. F. List had propounded thirty years earlier in his *Das Nationale System der Politischen Oekonomie*.

Although Britain continued to adhere to free trade, protectionist propaganda began to be advanced with increasing force. For a large part of the 1880s there was a great trade depression. In 1886 a Royal Commission was established to inquire into the causes and cure of that depression. A minority reported in favour of fairly heavy duties on imported manufactured goods, and even a light tariff on food. In the following year the National Union of Conservative Associations accepted a resolution in favour of a tariff policy. But although the Conservatives were in office, they were deeply split on

the protectionist issue, and as usually happens in such circumstances, the *status quo* was continued. The Liberals were in power from 1892 to 1895, and when the Conservatives returned the depression had largely disappeared. The fiscal system was therefore left untouched.

The first nibbling at the free trade position occurred during the Boer War, and it is interesting that the Conservative Chancellor of the Exchequer who applied these measures, Sir Michael Hicks-Beach, was a keen free trader. However, he had to provide money for what Lord Salisbury, the Prime Minister, called "Joe's War." The 1901 budget therefore imposed an export duty on coal and restored the import duty on sugar. The 1902 budget went further and imposed a small import duty on corn and flour—redolent of the hated Corn Laws. In fairness to Hicks-Beach, however, it appears that these duties were designed to raise revenue rather than to impose protection.

The Boer War ended in 1902, and Hicks-Beach was replaced by a stronger free trader, C. L. Ritchie, whose 1903 budget removed the corn duty. This seems to have been the spark which began the conflagration of Joseph Chamberlain's "Tariff Reform" campaign. Chamberlain, this apostate Liberal on whom so many Radical hopes had once been fixed, was Colonial Secretary, and by common consent the "strong man" in the Government. His original intention seems to have been the establishment of an Imperial *Zollverein*—a sort of British Empire Common Market—with free trade between the member-countries but tariffs against outsiders. A rather complicated political manoeuvre occurred in September 1903, as a result of which both Chamberlain on one side and the leading free traders on the other resigned from the Cabinet, and Chamberlain took his tariff reform to the hustings.

It soon became clear that the self-governing parts of the Empire, while naturally desiring preferential treatment for their products in British markets, were not prepared to give British goods free entry to their own, or to impose Chamberlain's common tariff. Increasingly, therefore, "tariff reform" turned from a campaign for an Imperial *Zollverein* to a campaign for a protectionist Britain.

This tariff reform debate shook the Conservative administration to its foundations. Arthur Balfour, the Prime Minister, tried to damp down the temperature, but both tariff reformers and free traders in the Conservative ranks were obviously anxious for a showdown.

Free traders, both Liberal and Conservative, joined the new Free Trade Union (which now exists as the Free Trade League). Eleven Government supporters—including Winston Churchill—crossed the floor. Churchill challenged the Conservatives of his own constituency, Oldham, to demand his resignation, confident that he could defend his seat in the new interest if challenged. But they did not dare accept the challenge. J. E. B. Seely, who also crossed the floor, did resign his seat in the Isle of Wight to fight a by-election in the Liberal and free trade interests, but so strong was his position that no-one was nominated against him, and he was returned unopposed. Where by-elections occurred they were disastrous for the Government; in a couple of years they lost fourteen seats that way. The following general election, in January 1906, gave the Liberals and their allies a majority of 356 seats. It would be false to regard free trade as the only issue on which the 1906 election was fought, but it was certainly the most critical.

In the immediate aftermath of the election, Balfour came down from the fence on which he had been sitting so long and concluded an agreement with Chamberlain in favour of tariff reform. At last, it seemed, the fiscal issue was a simple one, between the free trade Liberals and the protectionist Conservatives.

In July 1906, Birmingham went wild in celebration of the 70th birthday of its hero, Joseph Chamberlain. A couple of days later he was shattered by a stroke which rendered him incapable of playing any further active part in politics, although he continued to write protectionist propaganda until his death in 1914.

But the incapacity of Chamberlain meant that the main protectionist influence was removed from British politics. In any case, the Conservatives soon found other issues with which to belabour the Liberals—the celebrated 1909 budget; the constitutional proposals of the Government, the Irish question, the new social policy, and the Liberal advocacy of land-value taxation. By the outbreak of war in 1914 the free trade v. protection issue had rather passed into the background, largely because the Liberals had been able to provide old age pensions and other social benefits without recourse to tariffs.

The outbreak of war in 1914 found free trade Britain in possession of a merchant fleet which was able, in spite of German submarines, to keep this country supplied with food. But the loss of merchant

shipping was heavy, and in 1915 the McKenna Duties were introduced.

The background is interesting and important. In May 1915, Asquith, the Liberal Prime Minister, had been driven to accept a coalition that included a number of Conservative members. It appears, however, that the Liberals insisted that the post of Chancellor of the Exchequer must remain in Liberal hands—no doubt fearing an attack on free trade if it were held by a Conservative. Reginald McKenna, whose radical enthusiasm in other directions was in doubt, but whose adherence to free trade was not questioned, was appointed to the post.

For the very reason that McKenna was a Liberal and a free trader, he was able to persuade the Liberal supporters of the Government to accept wartime tariffs, which no doubt a Conservative would have found far more difficult to apply. The McKenna Duties were passed. They imposed a 33.1/3 per cent. *ad valorem* duty on what were usually described as “luxury” imports (although these included such items as tea and cocoa), but thirty or forty free traders, headed by the veteran Liberal Tommy Lough, still fought the Government on the issue.

At the end of 1916 Asquith was replaced as Prime Minister by Lloyd George, and in the 1918 general election, which followed almost immediately on the end of the war, Lloyd George’s coalition secured a crushing majority. But a simple count of noses showed that the overwhelming majority of the Government’s supporters were not Liberals but Conservatives; indeed, the Conservatives had far more seats than everybody else put together.

Lloyd George’s Chancellor of the Exchequer was Sir Austen Chamberlain, son of the formidable Joseph, half-brother of the unimpressive Neville. Chamberlain handled the situation with considerable subtlety. In his 1919 budget he did not impose new tariffs but repealed the McKenna Duties on Empire goods—thus establishing a system of Imperial Preference without applying new taxation. Two years later, the Safeguarding of Industries Act applied a 33.1/3 per cent. tax on goods produced by a large number of what were called “key industries.”

The Lloyd George coalition broke up through a revolt of the Conservative backbenchers, signalled at the famous Carlton Club

meeting of October 1922. Most of the leading Conservative members of the Government dissented from this decision, and therefore were in practice unavailable for inclusion in the new administration. After some hesitation, Bonar Law became Prime Minister, and formed a purely Conservative government—but composed of what Churchill called “the second eleven.” In the ensuing election Law indicated that there would be no change in fiscal policy, and he was confirmed in office.

Bonar Law’s health broke down in the spring of the following year, and he was succeeded as Prime Minister by Stanley Baldwin.

In October 1923 Baldwin made a most important speech in which he indicated the view that protection was essential to cure unemployment; however, Bonar Law’s pledge bound him, and he would fight a general election on the issue if challenged. What lay at the bottom of Baldwin’s offer of a general election is still a matter of conjecture. He implied that he was taking the only honourable course he could. Privately, he indicated that he “had to get in quick” to “dish the Goat” (an offensive nickname for Lloyd George, applied to him not exclusively by reason of his hirsute appearance). It is also arguable that he sought a period of opposition in order to reconstitute the Conservative front bench and reconcile the men excluded in 1922.

Whatever the reason for the election, Baldwin received a very clear answer from the electorate. The Conservatives, who had 345 seats in the old House, now had only 258; Labour advanced from 142 to 191 and the Liberals from 116 to 158. The Liberal and Labour Parties were both more or less entirely free traders. After a period of political excitement in the course of which practically every possible permutation was discussed, a Labour Government took office in January 1924, with the hesitant, but essential, support of the Liberals. Ramsay MacDonald was Prime Minister. Economics—indeed, clear thought in any direction—was never his strong point, but his Chancellor of the Exchequer was that free trade stalwart, Philip Snowden. Snowden’s one budget swept away the McKenna duties and largely restored Britain to her free trade position.

In most other respects the Labour Government was inept. A series of complicated anglings for political position resulted in the Government inviting, and obtaining, defeat on the “Campbell case”

in October 1924 and going to the country. The election cost Labour an aggregate of 39 seats while the Liberals suffered eclipsing disaster: their parliamentary representation was quartered.

Baldwin was back in office, and remained there for a further five years. Winston Churchill, now a Conservative, was the new Chancellor of the Exchequer, and his first budget, in 1925, restored the McKenna duties. There were a few minor attacks on free trade, but the Prime Minister no longer pushed hard for that protection which he had averred to be essential as a cure for unemployment a year earlier.

The Conservatives were out again in 1929 and the second Labour Government took office, again with Snowden at the Exchequer. Like its Labour predecessor it had no overall majority, and the Liberals could, at least theoretically, have brought it down at any time by voting with the Conservative opposition.

Within a year or so, the unemployment for which MacDonald had promised a "complete cure" had doubled itself. Enormous pressures were set upon the Government from several very different directions. The Conservatives, and Labour's maverick Chancellor of the Duchy of Lancaster, Sir Oswald Mosley, urged protection. The Liberals tried desperately to spur the Government to apply the "Yellow Books" policies on which they had fought the 1929 election, and which Labour had seemed to endorse at the time. Jimmy Maxton and others advocated what was in effect a policy of revolutionary socialism.

Between all of these fires the Government did more or less nothing, and a growing body of opinion was ready for almost any policy as an escape from the dithering ineptitude of a government that had neither administrative competence nor a sense of purpose.

At the end of July 1931 the celebrated May Committee, which the Government had set up earlier in the year, published a report indicating that the country was seriously in the red, and urging economies. For more than three weeks the Government talked round and round these economies, failing to reach any agreement on measures adequate to meet the situation, while, as they talked, the situation continued to deteriorate. At last, on 24th August, MacDonald formed the "National Government," with a Cabinet composed of four Labour, four Conservatives and two Liberals.

A series of most extraordinary events occurred which would require a long time to describe. The upshot was that the Labour members of the National Government were repudiated by their own Party, and the Liberals split in three, one group supporting the Government all the way, one giving it tentative support, and the other opposing it. The Government fought a general election and was returned with the greatest majority in our Parliamentary history, but the followers of the Government in the House of Commons were now overwhelmingly Tory protectionists. The Conservatives had 473 seats, and everybody else together, including the Conservatives' closest allies, totalled only 142.

Enormous changes now took place in the Government itself in recognition of the new parliamentary situation. Snowden, who had followed MacDonald into the National Government and continued as Chancellor of the Exchequer, had not retained his seat at the general election, and therefore could not continue in his old office. He remained in the Cabinet as Lord Privy Seal, but no longer had the *locus standi* to defend free trade. Those erstwhile Liberals who had been willing to compromise on free trade and support the Government at all costs—the so-called Liberal Nationals, or Simonites—received their thirty pieces of silver, and entered the Government. There were still a few free traders in the Cabinet, but their position was desperate.

Anticipating tariffs, foreigners naturally stepped up their exports to Britain to get them in before the door slammed. An Abnormal Importations Act was passed just before Christmas, empowering the Government to impose large duties on goods entering the country in exceptional quantities. The Minister in charge of the legislation was the new President of the Board of Trade, Walter Runciman, who, as Viscount Runciman, went as Chamberlain's emissary to Munich in 1938. Runciman is in many ways one of the great paradoxes of politics. A lifelong Liberal, he had been regarded in the 1920s as the very high priest of free trade, and had opposed tariffs even as late as September 1931. Yet now he was actually introducing the first major protectionist legislation. Stranger still, he continued to make excellent free trade speeches for years afterwards.

At the general election an impartial inquiry into tariffs had been more or less promised. There was no impartial inquiry, but there was

a highly partial Cabinet committee which sat through Christmas and recommended a general tariff. The free trade ministers—that is, the real Liberals, headed by Sir Herbert (later Viscount) Samuel, and poor, isolated Snowden—could not stand this at any price. Everybody expected the Government to break up and the free traders to resign, but an extraordinary arrangement was reached, with no twentieth century parallel.

By ordinary constitutional practice, a minister who disagrees with a Government decision on a matter of fundamental policy must either swallow his disagreement or resign. On this one occasion there was an “agreement to differ” by which the free trade ministers were allowed to speak and vote against the Government on the issue of the tariff proposals, yet to retain their seats in the Government.

But the overwhelming Conservative majority put the issue beyond doubt. The tariffs were applied. Free trade had been murdered, without any straight issue being set before the electorate. The free trade ministers did not long remain. After the Ottawa agreements, later in 1932, they resigned, and a year later they crossed the floor to the Opposition side of the House. Samuel had predicted that “if goods cannot cross international frontiers, armies will.” He was soon proved right. The policies of economic autarchy led inevitably to war.

In the course of the war itself, and in the aftermath, there were indications of a growing recognition that the free traders had been right after all. The General Agreement on Tariffs and Trade—GATT—was established in 1947 in order to bring about reciprocal tariff reductions. The European Free Trade Area—EFTA—was set up thirteen years later, aiming at the establishment of free trade between certain European nations, with freedom to pursue what tariff policy they wished towards the outside world.

Other economic units, of which the European Economic Community—the Common Market—is the most familiar example, have been established on the completely different principle of a *Zollverein* with internal free trade and a common tariff towards outsiders. These people are doing the wrong thing, but some of them at least are doing it for the right reason.

What morals may we draw from this story? First, I would say that

we should not imagine that the possession of the right ideas is a guarantee of early victory. The free traders of the nineteenth century had to wait seventy years after the publication of Adam Smith's great work, and when victory came it did not come because they were right, but because the free traders knew where they were going when nobody else did. In the free trade victory of 1846, and in the protectionist victory of 1931-32, we see men playing almost exactly the reverse roles from what friends and enemies alike had anticipated a few years earlier.

Secondly, therefore, I would say we learn that it is most inadvisable to pin any strong faith on any particular politician, or, conversely, to assume that those with whom at present we disagree will necessarily be enemies when the last trump sounds.

I would add something more. Great changes do not happen when people are free to contemplate arguments coolly. They come in times of famine, or war, or slump. Nothing very much is happening to the fiscal policies of Britain today; the great things never do happen when times are relatively easy. The genesis of civilisations—the source of the great salvations in the history of the human race—indeed, in the history of life itself—is challenge, and response to challenge.

But while we cannot expect an early victory, we can now be playing an indispensable part in eventually bringing that victory about. What is urgently needed now is a serious *corpus* of academic work by free traders that will provide the intellectual leadership for the future—for that sudden, unexpected moment of decision when men are bewildered and cast around wildly for a lead. Nor should we despise or ignore the acquisition of experience in political organisation and practice. But we must not allow ourselves to forget that our primary aim is to establish a just society, not to help one ephemeral political party against another, or to get Joe Soap into parliament.

At all levels, in all ways, we must prepare ourselves to capture the future. Thus far, the diverse bodies of thinkers who claim to derive their teachings from Marx have been making the twentieth century their own, because they have been prepared, as nobody else has been prepared, to fight for the things in which they believe by every means and in every situation.

Until libertarians are prepared to do the same, we shall not begin to see the glimmer of the dawn.

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