CHAPTER IX

★

TARIFFS AND THE BRITISH CRISIS

THE gravity of the British economic and financial difficulties, and the collapse of the empire which for centuries dominated the commercial world, emphasize the necessity of prompt aid and continuing co-operation by the United States. Especially is this true in the field of trade and tariffs. For a complete economic debacle in England would have a tremendous effect upon our own situation and might easily be the signal for the coming of that industrial depression which our economists foresee and fear may be the greatest in our history.

There could not possibly be a clearer example of the economic interdependence of nations and their inability to live in financial isolation than is afforded by what has occurred in the United Kingdom. Its troubles are primarily due to its readiness to enter two vast global wars which have plunged it deeply into debt, changed its historic status of a creditor nation into that of a debtor country, robbed it of a million and a quarter of men, exhausted its natural resources, compelled it to alter its relationship to some of its subject peoples, rendered it impossible for it to keep its industries modernized and made it more than ever dependent upon overseas purchases in order that its people may not starve. At an hour when, above all else, it should be profiting by its former free trade policies, it faces the absolute necessity of increasing its foreign trade by 75 per cent more than it achieved in the last prewar year, 1938. If it cannot accomplish this, the standard of living is bound to sink to a level no Englishman has ever thought possible. Any nations that now put on tariffs against British goods or place other obstacles in the way of England's trading with other countries, are inviting not only disaster in England, but throughout the world.

The English problem can easily be stated. It must enlarge its imports in 1947 at an increased cost of $1,400,000,000 to raise its import total to the 75 per cent of its 1938 imports which must be its goal for this year. To pay in part for its total imports it must seek to sell abroad $3,600,000,000 of British made goods if it is to equal the 1946 figure and $4,800,000,000 if it is to reach the goal set by the Government's White Paper of February, 1947—this in the face of the unprecedented tempests and cold of 1946–47. This projected export total is to be reinforced by earnings of $400,000,000 on its shipping, $200,000,000 through its international insurance activities and an income of $400,000,000 from its greatly reduced investments in foreign countries. Whereas the trade deficit was $200,000,000 in 1938, even with the increase in exports foreseen by the Government, its trade deficit will admittedly be $1,400,000,000 and may run as high as $2,200,000,000 in 1947.

By August, 1947, with only $400,000,000 left of the American loan which was intended to carry them over until 1950, the British were compelled to throw themselves upon Washington's mercy and to ask for the nullification of that clause in the loan in accordance with which England was pledged, from July 15, 1947, on, to end the ban upon the convertibility of pounds into dollars by her creditors. After July 15, there was such a "run on the pound" that the loan balance was reduced by $453,000,000 within ten days. Naturally, Washington agreed to a temporary suspension of the convertibility clause—originally imposed in order to remove a trade barrier and to increase foreign trade—and, perhaps, to close its eyes to British violations of the "non-discriminatory clause" of the agreement. This clause originally bound England not to reduce its buying from the United States without similar cuts in its purchases from other countries so that it would not have any incentive to reduce its business with us by helping itself out elsewhere. By September, 1947, England even found it necessary to stop buying American foodstuffs.

Under the circumstances there was nothing else for England to do but withdraw from Greece and India, turn Palestine over to the United Nations, free Burma, and seek a satisfactory relationship to Egypt and the Soudan. Actually one in every four pounds sterling paid out by England for foreign exchange has been spent for war or military outlays, occupation costs and for relief of distressed nations. Only 75 per cent of the sums available for expenditures abroad have, therefore, gone for upkeep and food. Plainly, the necessity of immediate retrenchment is vital, especially as the Government has not only been planning universal military training but at this writing still maintains 1,350,000 men in the armed services and has kept at least 400,000 more in factories to supply equipment and munitions for army and navy. The burden of maintaining the British zone in Germany at a deficit of $300,000,000—$500,000,000 additional is to be spent in the next two years as Britain's share of the cost of rebuilding German factories destroyed by us and by her, so that Germany can support herself—is now one of the heaviest burdens upon the Chancellor of the Exchequer's shoulders. Aside from cutting down these foreign commitments and decreasing the armament outlays, the only other possibilities of financial relief lie in fresh recourse to her gold reserve and to her remaining investments abroad, in further depressing the English standard of living and obtaining additional loans.

Few Americans were able to understand why the granting of the $3,750,000,000 loan to England on our terms aroused such intense feeling in Great Britain. In the first place, Britain's loss of prestige in begging for the loan, especially in the eyes of its Dominions, from some of which it has been receiving cash donations as good-will offerings, made acceptance the bitterest dose since the beginning of England's long career as the world's chief mercantile nation. It made undeniable the fact that England was no longer the greatest of trading nations, just as it is true that Britannia has had to yield her ruling of the waves by her naval forces or merchant marine, to the United States. Outwardly just a matter of one nation's borrowing a huge sum of money from another, it was actually an historic episode in international tariff bargaining and an official admission of the passing of the Empire's financial supremacy.

Had the United States not been willing to grant the loan, the result would have instantly been measured in British tariff readjustments, in England's withdrawal into a hopeless economic isolation, together with its Dominions, its satellites, its mandates and such other nations, like the Argentine and Iceland, as it could lure into its inner circle. From this large trading bloc the United States would have been excluded except on the group's terms and England, it was stated, would then have had to resign both from the International Monetary Fund and the World Bank. This would have divided the world into three great trading groups, the British, the Russian and the American, each with their attendant nations. The United States would probably have been joined by Canada and Newfoundland, would have held the Americas with the exception of the Argentine, and would have been reinforced by the adherence of China, what is left of Japan, and the Philippines. England would have found recruits in Scandinavia, Western Europe and the Middle East. This dangerous readjustment of the economic world would not only have meant the loss to us of our foremost European customer, it would have strengthened Russia by splitting apart the Anglo-Saxon nations and would have made inevitable an economic rivalry to jeopardize still further the peace of the globe.

At once there would have been a grave trade war between England and the United States. Instead, they have become close economic partners, however painful for the elder one the terms of the alliance. The loan encouraged Washington in its then amazing desire to reverse our historic protection policy, which had looked upon every foreign country as a hostile force, and genuinely to lead in bringing about international exchanges of goods on a hitherto unparalleled scale, in pursuit not only of our own advantage but of our avowed purpose to do everything in our power to raise the standard of living for the entire world. Politically and economically it strengthened the possibility of a co-operating, anti-Russian front of the Western European States and America. There could surely be no more remarkable illustration of the influence of tariffs upon a nation's external politics and internal economic arrangement than is afforded by this whole loan episode.

The final arguments for American agreement to the loan were the realization that the United States was practically deprived of trade with India, South Africa, Australia, New Zealand, Egypt, Iraq, Palestine and other sterling areas and that, if the loan worked out as planned, three-quarters of the world's trade would be conducted in sterling and dollars instead of one-half as was the case prior to the coming of the Second World War. As Secretary Byrnes pointed out on February 11, 1946, without the loan England would have had to buy exclusively from countries which normally buy equal or larger amounts from it, or were ready to pay in pounds in England for goods bought from her in return for her purchases of them. Mr. Byrnes stated that England would have had to regulate these transactions by Government decree and thus would have been compelled not only to continue some of her wartime controls of business, but to extend them, controls which would necessarily discriminate against the United States, not because of any hostility to us, but because the logic and the economics of the situation would have compelled these policies. He added that if the then existing discrimination against American trade continued to be enforced, "the United States might find it necessary to retaliate in kind against this discrimination"—proof of the statement made above that failure of the loan would have produced dangerous economic stress.

Because of untoward circumstances and, perhaps, British failure to grapple with its problems with adequate foresight and vigor, some of the dangers which Mr. Byrnes anticipated have come to pass, namely, a decrease in trade between the two countries and England's maintaining its sterling bloc. Nonetheless, the remaining benefits to the United States justify the loan. For political and other reasons, it is quite probable that, should it become necessary, additional financial help will be granted to England to keep her from bankruptcy and economic collapse for such an occurrence would make impossible the reconstruction of Europe as well as play into the hands of Russia.

Why was it that England abandoned her historic free trade policy for protection after the general election of 1931? There were inconsistent objectives, such as obtaining more revenue, protecting home industries, the familiar use of tariffs as weapons with which to bargain for foreign tariff reductions, and the diversion of trade from abroad. English free traders are certain that if instead of trying to obtain revenues from duties on goods their Government had worked with other nations to develop and safeguard free world trade, the yield of that trade would have exceeded by far the revenue gained from protective duties. They insist that only a few cities profited from those duties at the expense of undermining the great ports of the country, making the depressed English areas worse than ever and injuring the export and shipping industries. Incidentally, it was only after the resort to protection that England began paying subsidies to her shipowners.

Two acts of Parliament, the Import Duties Act of February 29, 1932, and the Ottawa Agreements Act of November 15 the same year, transformed England into a protectionist country, with a general range of tariffs on imported food, raw materials and manufactures, the first named act putting a general 10 per cent tariff on a long list of imports from abroad. In many cases, through the decision of a salaried advisory committee for the revision of the tariff, the original 10 per cent tax has been raised to 15 per cent, 20 per cent and even 33⅓ per cent. The Ottawa Agreements Act still further fastened the protection shackles upon Great Britain since preference could not be granted to Dominion goods without putting on tariffs against foreign nations. That there were some gains from imperial preference is true, but the London *Economist* has stated that, roughly, the trade value of all the concessions made by the Dominions has not been more than twenty million pounds on a total British export trade of seven hundred million pounds. Before Ottawa, there was no tax on imported wheat; following it there was a tax of two shillings a quarter on all wheat imported from abroad. In other words, by 1932, England had abandoned the great achievements of Sir Robert Peel, Richard Cobden, John Bright, William E. Gladstone, and the others who overthrew the Corn Laws, took duties off food intended for English people, and welcomed trade with all the world.[1]

These taxes on food are the more important because of the desperate plight in which England now finds herself when every effort should have been made to remove any obstacle to the free flow of the necessities of life into a country that is being driven almost wild by the dreadful uniformity of its diet and its limitations. Taxes on food are the more ridiculous when it is remembered that despite all the exertions made by the British Government during the war and all the patriotic efforts of its citizens the country still cannot in any way approach the point where it can feed its own citizens.

What happens when trade restrictions are removed was demonstrated in December, 1945, when Great Britain ended import restrictions on furs and permitted payment for them in the currency "normally applicable to the goods." No explanation was given for this sudden abolition of the import ban and this placing of American fur merchants on the same footing as those of the sterling bloc countries, but the result was immediate. Within one week after the ban was removed, shipments and orders for American raw furs for export to England exceeded $1,000,000, with a prospective movement of skins of prewar size. Despite this and other examples, however, there are now duties on eggs in England and the price of meat pastes and sausages has been raised 30 per cent by a customs tariff, while there are artificial prices set for asparagus, peas, beans, lettuce, tomatoes, potatoes, with imports of preserved fruit limited by duties ranging from 15 per cent to 25 per cent. The Labor Government has been unable to bring itself to help its country by removing these obstacles to importation!

[1]See "The Repeal of the Corn Laws," by Francis W. Hirst, published by the Cobden Club, Dunford House, Midhurst, England, an admirable statement of the change that has come over England, to her hurt.

If England and the United States should jointly reduce their tariffs to a minimum or abolish them, we should witness the establishment of one of the greatest free trade areas ever seen. What that would accomplish—if the Dominions went along—any one can imagine who recalls that the two countries which have emerged from the war as the most powerful nations on earth, Russia and the United States, are also the two largest free trade areas in existence if we omit undeveloped China and India. Enormous natural wealth has of course played its part—and a very great one—in creating these two industrial giants. Nonetheless freedom of trade within their boundaries and the size of their free home markets made certain their great rise to power in so relatively short a time, just as similar circumstances gave rise to the German Empire when it was united. In the dire emergency in which Great Britain finds herself today, it is the greatest misfortune for the United Kingdom and for all the world that no Sir Robert Peel, no Gladstone, no Bright or Cobden, has arisen to win his countrymen once more to a policy which, as Francis Hirst has pointed out, "gave such a marvelous impetus to the trade of the country and the popular welfare."