I greatly regret that I cannot concur in the Report approved by the majority of the Committee (C.P. 25 (32)).

The question of the Balance of Trade cannot, I suggest, be considered apart from the general policy of the Government in relation to industrial recovery. Any measures that may be immediately necessary in connection with the Balance of Trade should form an integral part of that policy, and I submit that the question can best be approached from that end.

It is essential that the statement to be made to Parliament upon its re-assembly should be comprehensive and definite, and should not disappoint the expectations aroused by the formation of the National Government and the endorsement it received from the electors. I will try first to present, in the briefest form, an outline of a policy which would, I believe, fulfil those conditions, and on which we might find ourselves in general agreement. It will be understood that what follows is no more than a sketch, and that each part would, of course, need careful elaboration if the general ideas were to be approved.

1. Industrial Recovery. No expedients can take the place of efficiency in our industries and cheapness and quality in their products. A series of noteworthy articles recently appearing in the "Times" indicate possible lines on which the State might assist. The Dye-stuffs Act furnishes in some respects a model. The proposals of the Agricultural Committee of the Cabinet in relation to pig products (affecting about £40,000,000 of imports) is another example. Plans have been put forward by sections of the Iron and Steel Industry. The practical steps to be taken immediately might consist of the appointment of an "Industrial Commission"; to that Commission any industry which was prepared to show that it was ready to rationalise itself, and to organise its production so as to work full time and reduce its overhead costs, but that some measure of security was essential for a limited period to enable it to do so, might present a scheme. If a system of licences, of quotas, or possibly in some cases of tariffs, was shown to be necessary, suitable powers should be taken to apply it. An essential condition would be that the level of prices should not be raised above world prices. An Advisory Council, consisting largely of representatives of the consumers, should be appointed to assist the Commission. It would, I think, be necessary for the Government to accept responsibility for any action taken.

2. Agricultural Recovery. The statement would refer to the Wheat Quota. Milk and bacon would be dealt with by schemes on the general lines suggested above, which have been formulated more definitely in the Report of the Agricultural Committee of the Cabinet. Other proposals of that Committee, so far as agreed by the Cabinet, would be included.
3. Fisheries.—The recommendations of the Committee of the Economic Advisory Council, so far as approved, would be embodied.

4. Immediate Legislation.—The Abnormal Importations Act will lapse in May, and the situation that will then arise should be anticipated by action now. We should consider whether it is necessary and advisable to replace the present duties by others, possibly at a fairly high level, on a range of goods of somewhat similar extent, their application to be limited to a period of perhaps two years. If the Cabinet came to the conclusion that, for the sake of the Balance of Trade, the quantity of imports, which are non-essential, should be limited by duties, the choice of commodities would be made so as to achieve that object. Regard would also be had to the trades which are likely to present schemes of reorganisation and development. The possible use of the duties for bargaining purposes would not be left out of account.

5. Expansion of Exports.—(i) This constructive policy, if successful, would of itself promote the export trade—

(a) by reducing the cost of our products;
(b) by so organising certain of our industries as to give them a power of bargaining with foreign cartels.

(ii) In addition, a definite and vigorous effort should be made to secure a lowering of foreign tariffs. Advantage should be taken of the present political situation here in order to bring pressure to bear on other countries, along the lines suggested in the Foreign Office memorandum of the 26th November, 1931 (C.P. 301 (31) p. 4). The formation of low tariff customs unions should be encouraged (the "Oslo countries," Central European group, &c); with them, and with separate countries elsewhere, we might endeavour to enter into agreements. It is a matter for consideration whether and how far this would involve modifications in the terms of the Most-Favoured-Nation clauses in our treaties; and if they are involved, whether or not the probable gains would be outweighed by losses.

(iii) The possible expansion of our exports obviously depends most upon the purchasing capacity of the overseas markets, and the policy would link up with the general questions of Reparations and War Debts, and with particular questions such as the value of silver in China, a political settlement in India, &c.

6. Imperial Economic Co-operation and Development—along the lines already approved by the Cabinet.

With respect to the proposal for a 10 per cent. duty on imports generally, with certain exceptions, the following considerations cannot be left out of account:—

(a) Anything which the Government does to increase the costs of British industry is in precisely the opposite direction to the course which everyone declares it is essential to pursue—the reduction of British costs, in order that our manufacturers may place their goods on foreign markets on more equal competitive terms than now. The Majority Report does not specify what articles are to be exempted under the designation "principal raw materials." But even if all the commodities in Class II of the Board of Trade Returns were exempted, the 10 per cent. would be added to the price to be paid by our manufacturers for all such articles as copper bars, non-ferrous metals generally; cotton, woollen and flax yarns; leather, oil and resin, steel plates, bars and angles; and hundreds of other commodities of the same order. All our steel-using industries would be subjected to precisely the disabilities, to the extent of 10 per cent., which the President of the Board of Trade deprecated in his recent speeches in the House of Commons and elsewhere. An analysis of the imports in 1929 of the class of "Articles Wholly or Mainly Manufactured," indicates that it consisted of about £150,000,000 of articles which were more or less of the kinds mentioned above; of about £44,000,000 of goods already subject to tariffs; and of about £110,000,000 of fully manufactured and untaxed articles. (These figures were not official, and may be open to criticism; but the division is substantially of that order.) I would draw attention to the fact that the Majority Report says that it is impracticable to allow any drawback to manufacturers who export goods partly made of imported materials subject to duties.
Whatever measures may be devised, the customs restrictions must have a very serious effect upon our entrepot trade.

The proposal includes a 10 per cent. tax on imported flour, rice, butter, cheese, lard, margarine, eggs, fish, condensed milk, bananas, canned fish, canned fruits, and possibly maize and other feeding-stuffs. Although the cost of living is not yet rising, at any time when trade begins to revive it will do so. These duties are not intended, however, to be temporary. To remove them, when once imposed, would obviously be a matter of great difficulty.

The proposal does nothing to promote rationalisation, full-time working, &c. The experience of five years of the Safeguarding Duties indicates that in hardly any cases has such result followed from unconditioned protection. A table furnished by the Board of Trade to our Committee shows that most of those industries have suffered a decline in their exports greater than the average decline in British exports of manufactured goods in the same period. In the artificial silk industry, unconditioned protection has been followed by a striking measure of de-rationalisation, short-time working and all round loss.

So far as the Balance of Trade is concerned, the proposal would impose taxation upon £168,000,000 of food-stuffs in order to lessen our imports by £110,000,000, and upon £177,000,000 of “Articles Wholly or Mainly Manufactured” in order to exclude £200,000,000.

So far as bargaining with other countries is concerned, this measure would deprive us of a large part of our available ammunition. It runs directly counter to the course recommended in the Foreign Office memorandum quoted above. It would mean that any measures which might later be found to be necessary would have to be over and above a 10 per cent. tariff, and might involve protective duties so high as to give rise to strong resistance at home.

No doubt the revenue to be derived from this source would be very helpful to the next Budget. But we have not been informed what the budgetary situation is likely to be, and it is too early yet for a definite estimate to be framed. We do not know whether it will be essential to seek fresh sources of revenue. If that should prove to be so, we have not yet examined whether this is the best form of taxation available. Nor will the consideration be forgotten that the last Budget was justified on the principle of an equitable distribution of sacrifices, and that if taxes are imposed on the food-stuffs consumed by the masses of the population in order that the income-tax paying classes may be relieved, very formidable political issues will be raised.

I would venture to add these general observations on the Balance of Trade. It is, I think, unfortunate that the Committee declined to bring into consultation at this stage the expert economists and financiers who have previously been advising the Government. The matter is exceedingly complex, and for my own part I am not prepared to arrive at definite conclusions upon the main issues on the strength of the facts and opinions so far presented. The Committee, however, raised no objection to my inviting outside opinions on my own behalf, and I accordingly consulted Sir Walter Layton and Sir Josiah Stamp. I also had a short conversation with Mr. Keynes, who had been quoted in one of the Chancellor of the Exchequer’s memoranda as favouring a 10 per cent. all-round tariff. In default of considered statements by them and others, I would convey to the Cabinet, very briefly, the substance of what was said by those whom I have consulted.

Sir Walter Layton thinks that there are too many unknown factors to make it possible to forecast the course of events in 1932. But failing a collapse in Germany, or other catastrophic occurrences, he thinks that conditions will gradually improve. On the whole, the balance of trade is likely to get steadily better. Any deficit would be covered largely by the repatriation of capital assets, which he thinks is likely to happen in any case. If nothing is done by the Government, there is no reason to fear a serious slump in the £, certainly not as a consequence of balance of trade factors. Sterling is likely to rise, but this is largely dependent upon events abroad. The most important thing is to try to increase exports, and we ought to make vigorous efforts to get foreign tariffs reduced. A restriction of imports must restrict exports, unless it is a lever to secure lower tariffs elsewhere. Our only course is to reduce the cost of our products abroad, by cheapening costs generally and by acquiescing in the depreciation of sterling. He is against a restriction by tariffs for reasons of balance of trade.
Sir Josiah Stamp thinks that the adverse balance will persist; but 1932 may perhaps be better than 1931; this is to be taken as an impression and nothing more. If it did persist and no action were taken by the Government, the effects would be a further reduction of lending abroad; the money engaged in foreign trade would be less; there would be a contraction in the amount of fluid money in foreign bills; foreign balances here would be reduced. The present value of the £ has little to do with Balance of Trade. It is governed by the artificial position of capital, which is not yet in its final resting-place. This factor is gradually becoming less important, and the trade factor will become more important. The pressure on the £ is not likely to be serious, unless there is some special cause which gives rise to nervousness. He favours an all-round tariff, but mainly with the object of “redistributing incomes.” It should only be temporary, and he holds strongly that it should be on all imports of every class, with no exceptions.

Mr. Keynes is “not now worrying about the Balance of Trade.” In his opinion the Government need take no special action with regard to it. He had been in favour of an all-round tariff, but the currency depreciation is doing what he wanted to do by that means, and better. Circumstances might, however, arise in the future which would change the situation and make some restriction advisable. If so, it would be better effected by a system of licences. And it is possible that budgetary or political conditions might be found to require a tariff for revenue.

It is obvious that the whole economic situation is still in a very fluid state. Our experience of the effect of currency depreciation is too short to enable any sure conclusions to be drawn. The trade returns in two or three months’ time may wear an entirely different aspect. The Majority Report of the Committee, while it estimates an adverse balance in 1932 of possibly £150,000,000, proposes direct measures which touch only about one-third of the problem, leaving two-thirds to the course of events. In any case it does not appear that a temporary situation can in itself furnish a warrant for measures which are not intended to be temporary and which, indeed, by the consequences which they will necessarily bring with them, can hardly fail to be of a permanent character.

January 10, 1932.

Postscript.—Since writing this memorandum, I have had the opportunity of reading in its final form the report of the majority of the Committee and have noticed a point which seems to be of great importance, and to which I should have drawn the attention of my colleagues had I observed it earlier.

In paragraph 18 an assumption is made that the depreciation of sterling will raise the cost of our imports this year by 10 per cent. For this reason the adverse balance of trade is estimated to be increased by £72,000,000. But I cannot find that any allowance is made for the effect of this increase in a reduction in the volume of imports. In paragraph 36 it is estimated that if an all round tariff of 10 per cent. were to be imposed it would reduce imports by £46,000,000. But for the effect of an all round increase of the prices of imports by the same amount no allowance whatever is made.