

Trade Agreements and the Evolution of British Agricultural Policy in the 1930s*

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THE plight of the farming community during the depression was an important element in the protectionist campaign gathering momentum in the UK from 1929 onwards. Britain was caught up in the world crisis of primary producers. With her open market, she became a dumping ground for surplus world food production. Imports of commodities also produced by British farmers increased in volume by as much as seventeen per cent between 1927-9 and 1931.¹ In the three years from September 1929, farm prices fell by thirty-four per cent, and by June 1933 were back at the level they had been before the First World War. Although touching the sympathies of successive Ministers of Agriculture in the minority Labour administration of 1929-31, and of Ramsay MacDonald himself, proposals for assistance foundered on the rock of Snowden's opposition. The Conservatives, however, fully pledged to agricultural protection from October 1930, were a dominant force in the National Government which came to power in the autumn of 1931. When, in the winter of 1931-2, Britain abandoned free trade, an era of protection and subsidized support for farmers was inaugurated.

The measures taken by government have been discussed in several works, including Edith Whetham's authoritative account in

volume eight of *The Agrarian History of England and Wales*.² The availability of documents in the Public Record Office allows greater insight into the objectives of government and the way in which policy evolved. Making use of these records, this paper attempts to show that there were formidable obstacles in the way of implementing full-scale agricultural protection. In the first place, such a policy had to be carried out by a government with substantial National Liberal and Labour representation in Cabinet. Until the death of Maclean in June 1932 and the resignation of Snowden, Samuel and Sinclair at the end of the following September, there was explicit defence of free trade within the Cabinet, and in later years there remained a pronounced wariness among ministers about the likely impact of agricultural protection on prices. Secondly, the incompatibility between protection and imperial preference, a contradiction that had dogged tariff reformers in the past, also stood in the way of effective support for UK farmers. Finally, the legacy of Britain's nineteenth-century industrial, financial, and political supremacy was reflected in a structure of departmental interests in Whitehall which militated against the ambitions of the Ministry of Agriculture and Fisheries (MAF) for

* K A H Murray, *Agriculture*, 1944, p 31.

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² E H Whetham, *The Agrarian History of England and Wales*, Vol VIII: 1914-1939, Cambridge, 1978, esp pp 241-72, 325-9; S Pollard, *The Development of the British Economy, 1914-1967*, 1969, pp 134-45; Viscount Astor and B S Rowntree, *British Agriculture: The Principles of Future Policy* 1938; C H Mowat, *Britain Between the Wars 1918-1940*, 1955, pp 436-41; J H Richardson, *British Economic Foreign Policy*, 1936, 156-98. I M Drummond, *Imperial Economic Policy 1917-1939: Studies in Expansion and Protection*, 1974, does use government papers to discuss the interaction between British agricultural and imperial policy.

British farmers. Britain remained pre-eminently an industrial nation. Assistance to UK agriculture had therefore to be accommodated within a framework that gave priority to industrial protection, and sought to stimulate industrial exports as well as to facilitate the servicing of overseas investments. This is nowhere more apparent than in the series of trade agreements that Britain made in the 1930s: these were exclusively with primary producers, and involved a series of concessions by Britain almost wholly on food and raw material imports, in exchange for advantages for her industrial exports.³ This paper aims to show that these trade pacts not only represented the continued subordination of agriculture to industry, but that the terms of the treaties dictated the eventual shape of agricultural policy in the UK, helping to determine the emergence of Exchequer-financed subsidies as the principal support device between the late 1930s and the 1970s.

I

The foundations of agricultural protection were laid in the Horticultural Products (Emergency Duties) Act of November 1931 and the Import Duties Act of February 1932. Tariffs were applied to certain flowers, fruit and vegetables, to barley, and oats, and to dairy products and eggs. The Cabinet's Agricultural Policy Committee had recommended either low wide-ranging duties or selective but higher ones.⁴ The Cabinet chose selective but low

duties. Moreover, under pressure from the Dominions, the government decided to exempt imperial produce from any of the new tariffs pending the results of the Ottawa Conference to be held in the summer of 1932. Between passage of the Import Duties Act and the Conference, the most important piece of agricultural legislation was the 1932 Wheat Act. Cereal producers had been the earliest and worst affected by the collapse of world prices. The Wheat Act provided for subsidies of up to ten shillings per cwt to be paid to UK wheat farmers, funded by a levy on all flour whether imported or milled in Britain.

The Ottawa Conference did little to aid British agriculture.⁵ It is true that the principle was established that home farmers were to have first claim on the UK market, that the Dominions were to be entitled to an expanding share of imports, and that foreign producers were to supply the residual. But implementing this was another matter. Certainly British farmers obtained scant additional protection. The major beneficiaries of the Conference were the Dominions. Free entry for imperial produce was confirmed, for many products for the full five year duration of the treaties. There were some new duties, notably a levy of two shillings per quarter on foreign wheat and flour imports, and tariffs on dairy products and eggs were raised. There were also some new quotas: foreign shipments of frozen beef, mutton, and lamb were to be cut back by thirty-five per cent. But quotas and higher duties were an attempt to meet the demands of the Dominions, and for the most part were aimed at switching trade to the Empire at the expense of foreign suppliers. The major consequence of Ottawa for British farmers

³ The most important treaties were those with Australia, Canada, India, New Zealand and South Africa at Ottawa in 1932, and, between 1933 and 1935, with Argentina, Denmark, Norway, Sweden, Finland, Estonia, Latvia, Lithuania and Poland. Trade treaties with Germany (1933) and France (1934) were of very limited scope, while that with the USA (1938) involved concessions by Britain on agricultural commodities and reductions of imperial preference.

⁴ PRO, CAB 27/465, Agricultural Policy Committee Report, 16 January 1932. Evidence of a lack of sympathy for agricultural protection is suggested by the Minister having on two occasions to apologize for statements to the Cabinet or to redraft a public statement that was too protectionist in tone. Cabinet meetings of 25 November 1931 and 3 February 1932.

⁵ A full and authoritative account of the Ottawa Conference can be found in I M Drummond, *op cit*, Chs 5 and 6. Drummond would not necessarily support the view that British agriculture received little benefit from the agreements. This is argued in T Rooth, 'British Commercial Policy in the 1930s with Special Reference to Overseas Primary Producers', Univ Hull unpubl PhD thesis, 1984.

was not the negligible additional protection they received but the way in which concessions to the Dominions put a straitjacket on British agricultural policy. Not only were Empire products to be duty-free, but margins of preference were guaranteed. Moreover, the majority of imperial supplies were granted freedom from quantitative controls. The one major exception to this was meat, where Britain only pledged herself not to introduce import quotas on Dominion shipments before July 1934. In practice the Dominions were so hostile to such controls that they had to be ruled out.

Sir John Gilmour had not been successful at Ottawa, his colleagues generally overruling him when he sought to preserve the interests of British agriculture. Walter Elliot, taking over his job as Minister of Agriculture, did have a greater measure of success in helping British bacon producers, and also in restraining the largesse of the Board of Trade in the foreign trade negotiations that followed the Imperial Conference.

The principle of priority for UK agricultural expansion was given substance in one important case, that of bacon. A Reorganisation Commission for Pigs and Pig Products, reporting in the autumn of 1932, recommended that bacon prices should be forced up in an effort to stimulate UK output. The main method of raising prices was to be a cut-back in foreign supplies. The proposals, eventually implemented within the framework of the Agricultural Marketing Acts legislation of 1933, underline the emphasis that was placed in government at this time on supply restriction as a solution to the agricultural crisis. The prospects for foreign supplies of bacon were dismal. Total bacon supplies were to be reduced from their 1931 level of 13.3 million cwt to 10.7 million. Within this total, not only was domestic output supposed to increase, but the Canadians, currently supplying only minimal quantities, yet extravagantly promised at Ottawa a

quota of up to two and a half million cwts, had also to be accommodated.

This advance for the Ministry of Agriculture viewpoint therefore threatened the planned foreign negotiations. The most important of these were held with the Scandinavians and the Argentine in late 1932 and in 1933.⁶ Broadly, what foreign suppliers wanted was as much security for their food exports as they could induce Britain to concede. For food they demanded guarantees of duty free entry for meat, including bacon, and the maintenance of duties on dairy products and eggs. They were also very anxious about the threat that quota controls might pose, and sought either guarantees that these would not be used at all (eggs and dairy produce), or, where they already existed and were inescapable, as on meat, that they would not be tightened further. The Board of Trade, aiming at valuable export concessions for coal and industrial products, would have been glad to have granted all this. Only too aware of the Board of Trade attitude, the Minister of Agriculture attempted to postpone the negotiations. Overruled on this, he tried to block any guarantees of free entry or freedom from import controls for foreign supplies. This was an impossible negotiating stance for Britain, particularly in the wake of Ottawa. A senior Board of Trade official minuted that if the Ministry's views were to prevail, 'we do not stand any chance of making any agreement with the Argentine at all'.⁷ A pact with Denmark on these terms would also have been difficult if not impossible.⁸ The MAF were persuaded to agree to existing free entry and duties. It was more successful in inserting clauses

⁶ R Gravid and T Rooth, 'A Time of Acute Dependence: Argentina in the 1930s', *Jnl Eur Econ Hist*, 7, 1978, pp 337-78; E F Early, 'The Roca-Runciman Treaty and its Significance for Argentina, 1933-41', Univ London unpubl PhD thesis, 1981. T Rooth, 'Limits of Leverage: The Anglo-Danish Trade Agreement of 1933', *Econ Hist Rev*, 2nd ser XXXVII, 1984, pp 211-28.

⁷ PRO, BT 11/143, Sir Henry Fountain, 31 January 1933.

⁸ PRO, FO 371/17212, minute by F Ashton Gwatkin, 6 February 1933.

that would allow physical import controls on dairy products and eggs, although subject to the proviso in the treaties that Britain would only be able to impose these if they were combined with UK marketing schemes for the product concerned.

II

By the time the first major series of trade treaties had been completed, the British government had burdened itself with a range of obligations that limited drastically its freedom of action in assisting home farmers. For meat, foreign supplies of frozen mutton, lamb and beef were being progressively reduced so that by mid-1934 they would be at sixty-five per cent of their Ottawa Year (the twelve month period ending 30 June 1932) level. From July 1934 Whitehall would, in theory at least, be able to control Empire supplies by quantitative regulation; Argentina had rights in effect to ninety, or in some circumstances 100 per cent of her Ottawa Year chilled beef supplies, although she might be restricted below ninety per cent if Dominion meat imports were cut by similar proportions. But Britain had also bound herself not to tax meat imports during the currency of the Argentine and Ottawa agreements, ie until November 1936 or August 1937 respectively. The bacon situation was easier: Canada was guaranteed a market for 2½ million cwts, but foreign supplies theoretically could be cut to whatever level was thought wise or desirable. Here too, though, free entry had been conceded, so if duties were to be introduced this would involve the acquiescence of the trade partner. A mixed bag of obligations on dairy products and eggs also hampered freedom of action. Foreign supplies could be quantitatively controlled only if domestic sales were also regulated by a marketing scheme. Dominion produce was to be free of duties or quotas until mid-1935, but minimum preference mar-

gins were fixed until 1937. Because existing duties were stabilized until 1936 in the various foreign agreements, it was therefore impossible to tax Dominion supplies without infringing the preferential tariff margins.

The scope of action available to the MAF was thus severely curtailed, although more so for import levies than in the field of quotas. This accorded with Neville Chamberlain's idea that producer control offered the best prospects for raising prices. As early as November 1932 the Pacific Dominions and South America had been induced to cut back their meat shipments, and these arrangements had been continued in 1933.⁹ Mutton and lamb prices were fairly well maintained, partly because of restricted supplies, partly because demand trends were favourable. Beef prices continued to fall during 1933 however, and pressures built up from domestic producers and landowners for further help.¹⁰ The structure of the industry was such that the fatteners, principally located in the East Midlands (summer grazing) and East Anglia (winter feeding), were able to wield greater political influence than the breeders, geographically more remote and operating on a smaller scale. The fatteners were also worse hit by price falls. The cattle they bought cost them seventy-five to eighty per cent of the price they hoped to realize for the finished beef. When prices fell at the pace they did in 1932 and 1933, this margin could be eliminated during the six months the animals were normally kept.¹¹ Elliot's solution to these problems, first mooted when the ink on the agreements with Argentina was barely dry,

⁹ PRO, CAB 27/495, Cabinet Committee on Meat Policy. This committee met only once and produced no reports. The one meeting, at which Elliot pressed for the Board of Trade to be given powers to regulate meat supplies from abroad produced the usual opposition from the Board of Trade, Dominions Office and Treasury as well as from the Prime Minister. The voluntary restrictions, also involving bacon, did serve to firm prices temporarily.

¹⁰ PRO, CAB 27/560 PMS(33), 1st meeting, 1 December 1933 (the landowners included the bursars of Oxford Colleges).

¹¹ Viscount Astor and B Seeborn Rowntree, *op cit*, p 194.

proposed the introduction of a levy-subsidy, and, as an inducement to Argentina's acquiescence, suggested the waiving of British rights to reduce chilled beef imports below ninety per cent of the Ottawa Year level. At this stage Ministers were lukewarm about, or opposed to the idea of a subsidy. Chamberlain asserted that if beef producers had one, every other industry would demand a subsidy.¹² Ideas reverted to supply restriction. The Canadians were to be persuaded to stabilize their cattle exports, and a fifty per cent cut was made on the imports of Irish cattle. Although this arose out of the dispute with the Irish Free State, it involved a reduction of over five per cent in total supplies of fresh beef, the type most directly competitive with home produced meat, and was aimed at helping British beef producers.

The emphasis on restriction of supplies as the main method of holding or raising prices lasted until the middle of 1934. It has been criticized by I M Drummond who argues that it failed to generate budgetary revenue, and 'raised everyone's price'. Because price elasticity of demand was high, cut-backs in supply would lead to less than proportionate increases in price: the total sales revenue of overseas suppliers would be reduced, and their purchasing power, together with their ability to service debt, would be impaired. Instead, a fall in prices might have done the trick. Drummond suggests that policy makers, although aware that lower prices would stimulate consumption, failed to appreciate their power in reducing production.¹³ But perhaps this is to romanticize the efficacy of the price mechanism, for in the conditions of the 1930s supply elasticities for agricultural output as a whole were low. Certainly prices fell dramatically, and output did not contract. Capital was tied

up in farms, and opportunities for alternative employment in industry were virtually non-existent.¹⁴ Governments committed to maintaining agriculture and rural population frequently had resort to subsidies, particularly for export crops. Overseas exchange depreciations could nullify tariff imposts. In the circumstances, therefore, lower prices would either fail to reduce output, or, at best, do so only very slowly.

Yet if the price mechanism was a weak instrument of adjustment, neither were import controls alone likely to render much assistance to British farmers. This was because of the high price elasticities that characterized several imported meats and probably dairy products as well. The result was that only very severe cuts in supplies would be successful in raising prices significantly. Also relevant is the degree to which products were readily substitutable for each other. Forrest Capie, working on *a priori* assumptions about quality, found it was the preservative category (fresh, chilled or frozen), not the animal, that proved a more reliable grouping.¹⁵ For example, consumers regarded British lamb and fresh beef as good substitutes for each other.¹⁶ A second quality grouping included Argentine chilled beef and New Zealand lamb — these also showed a high degree of substitutability.

¹⁴ For a review of various explanations of supply inelasticity of agriculture during depression, see D Gale Johnson, 'The Nature of the Supply Function for Agricultural Products', *Amer Econ Rev*, 40, 1950, pp 539-64. Johnson argues that during a depression it is the absence of alternative uses for factor inputs that accounts for inelastic supply functions. The price elasticity of land is practically zero for a period of five to ten years, disinvestment eventually leading to reduced output; capital equipment is generally specific to agriculture, and with high unemployment in the other sectors of the economy, the supply curve for labour becomes nearly vertical. Farm prices, wage rates and land rents thus fall in roughly the same proportion, and output and employment are thereby maintained. It must be stressed that this argument applies to agricultural output as a whole — there may be greater elasticity for individual products, but if efforts to restrict supplies of one commodity are successful, presumably they would cause aggravated problems for another.

¹⁵ F H Capie, 'The British Market for Livestock Products, 1920-1939', Univ London unpubl PhD thesis, 1973, pp 64-5, 76-82.

¹⁶ *Ibid*. Cross price elasticities were positive and high.

¹² PRO, CAB 27/560 PMS(33) 2, memorandum, 5 December 1933, and 3rd meeting, 14 December 1933.

¹³ Drummond, *op cit*, pp 302 and 329.

At the low quality end of the market, Australian beef and Argentine mutton were readily interchangeable and replaced by each other. Therefore cutting back imports of Argentine *frozen* beef, for instance, was unlikely to engineer a sizeable switch of demand to high quality British fresh beef. Thus both on grounds of price elasticity and because most imported meats were not directly competitive with British supplies, only savage import restrictions were likely to be very effective in raising the price of home produced meats. Moreover, such moves were liable to be attacked because they hit hardest the poorer households, the main customers for cheap imported meat. Furthermore, it was understood at the time that when dealing with products of which Britain was the major buyer, the incidence of tariffs was likely to be borne by producers rather than reflected in higher prices. Nor, as was suggested above, was there reason to think that this would have any immediate impact on production. Thus the objective conditions of supply and demand, together with the maze of treaty obligations, severely restricted the scope of the British government in protecting its farmers from the crisis.

Quite apart from their relative ineffectiveness, there were other problems in regulating imports by quota. The government found the actual implementation of voluntary supply regulations fraught with difficulties. After Elliot's proposals on levy-subsidies for meat producers had been rejected in 1933, London remained committed to restricting the quantity of imports by direct methods. Foreign meat supplies were being compulsorily reduced. But the Dominions had been guaranteed unrestricted entry until July 1934; until then their co-operation in regulating their shipments was necessary. Through 1933 and 1934 efforts were made to control meat imports on a quarterly basis.¹⁷ This

involved almost continuous wrangling with the Dominions, and both the administrative burden and the costs to imperial goodwill were high.

The experience of attempting to limit meat imports helped to shape Whitehall's attitudes to butter regulation. The problem was less serious than for meat because home production was only a small proportion of UK consumption. Imports rose by 3.9 million cwt, or sixty-seven per cent, between 1927 and 1934, and the price of New Zealand imports, for example, fell from 103 shillings per cwt in 1933 to an average of 73s 3d in 1934.¹⁸ The first initiatives to deal with the price falls came from New Zealand, and involved supply restrictions. It soon became apparent that the New Zealanders were really only interested in cutting back foreign dairy supplies. Britain, wanting a good treaty with Denmark and already nervous about the deal she was to offer on bacon, was not prepared to accept the New Zealand scheme, although the Danes were induced to agree to a possible 2 to 1 ratio restriction scheme. But by mid-1933 the initiative in seeking supply cuts came from London: pressure was building up from British farmers. Already involved in the meat discussions, Whitehall was not prepared to push the matter hard. Because Danish supplies could not be cut without the Dominions reducing their shipments, the Danes had Antipodean obduracy to thank for escaping British pressure. The low prices led Elliot to suggest a levy-subsidy scheme for milk products. Walter Runciman anticipated the Danes would argue that the present duty could be applied for the subsidy. The Dominions were thought unlikely to favour a levy or be prepared, in early 1934 anyway, to restrict production: but further anticipated price falls in the spring might make them more pliable, even to the extent

¹⁷ The process is traced in Drummond, *op cit*, pp 307-17.

¹⁸ Imperial Economic Committee, *Dairy Produce Supplies in 1934*, pp 12, 17.

they would approach the UK for regulation of supplies.¹⁹ Quantitative regulation remained in the ascendant, but circumstances were compelling a search for new expedients in helping British agriculture through its problems.

Emergency assistance to the UK farmer was one thing. But how far should British agriculture be allowed to expand? In what directions should it expand? With a slowly growing population and with food consumption virtually static, the answers to these questions were clearly vital for all suppliers. Two key reports were produced in the autumn of 1934, one by the Committee on Economic Information (the Stamp Report), and the other by a powerful interdepartmental committee chaired by Leith-Ross. The production of these reports has been fully and ably analysed by J S Evers.²⁰ The gist of the reports, stated more clearly in the Stamp Report than in the Leith-Ross document, was that there was little scope for a substantial increase in British consumption of agricultural produce, that a rise in domestic production would entail a corresponding reduction in imports, and that this in turn would lead to reduced exports. Other, broader, approaches to stimulating economic activity, advocated by Keynes, were abjured by the rest of the Stamp Committee. Evers argues that Elliott was unable to challenge successfully the assumption that agricultural expansion at home must entail lower imports. Although the reports were discussed in Cabinet and at a series of meetings of the Produce Markets Supply Committee (PMS), no explicit decision was taken on the larger issues of policy. Elliott's memoranda on the possibilities and implications of agricultural expansion were

challenged by those from Runciman.²¹ But in effect Elliott lost the battle for any notable agricultural growth. While Elliott, as Evers suggests, may have contributed to this failure by poor tactical leadership and mobilization of argument, the real problem for the MAF was the formidable array of assumptions and departmental interests ranged against it. Britain's long reliance on a free trade policy, a tendency to regard agriculture as an industry much like any other industry, a tradition of cheap food for the urban population, coupled with the long period of British expansiveness overseas during which export levels had been built up and investments made — all this militated against a sudden development of agriculture at the expense either of overseas producers or of domestic consumers. High unemployment made the government all the more wary of losing markets for industrial products. The Board of Trade was the main guardian of the export interest, but received frequent assistance from the Foreign Office and Dominions Office. The Treasury was keen to safeguard overseas investments and also, when subsidies were introduced, not to make them so generous as to stimulate a large increase in subsidized output. From early 1935, therefore, although discussion did not end, a major growth in British output was ruled out, and the main thrust of policy was directed merely to propping up British agriculture.

Yet this left vital issues unresolved. The actual method of agricultural support was obviously of crucial concern to farmers, and was also likely to affect British consumers and taxpayers. Furthermore, in the conditions of the 1930s, even a policy directed largely towards stabilizing home agricultural output might incur considerable costs for overseas suppliers — much would depend on the choice of technique. One of the outcomes of the policy reviews

¹⁹ PRO, CAB 27/560 PMS(33) 3, memorandum, 7 December 1933; PMS(33) 7, memorandum, 15 December 1933; PMS(33) 8, appendix: memorandum by interdepartmental committee, 12 February 1934.

²⁰ J S Evers, 'Government Direction of Britain's Overseas Trade Policy, 1932-37', Univ Oxford unpubl DPhil thesis, 1977, pp 99-147.

²¹ PRO CAB 27/560 PMS(33) 26 and 28, 1 November 1934 and 8 January 1935.

of autumn and winter 1934-5 was the confirmation of the government in its switch to levy-subsidies as the main technique of agricultural support. Disillusion with quantitative controls stemmed from the fact that they either failed to work or, if they did work, did so at a heavy cost. The bacon restriction scheme had been educational in that respect. Here was one case where British agriculture was being expanded, and directly at the expense of foreign imports. By 1934 these had fallen from their 1932 peak of eleven million cwts to only 6.3 million cwts.²² In contrast to other meats, Danish bacon had a distinct brand image and low price elasticity, and the result was sharply rising import prices.²³ The Leith-Ross Committee was strongly against quotas, and had been influenced by the operation of the bacon quota restrictions which had been 'admittedly a failure'.²⁴ Runciman and J H Thomas both expressed the resentment felt by consumers at the increasing price of bacon, reporting that the Danes and the Dutch were selling surpluses abroad at thirty shillings per cwt below the London price.²⁵ Another major source of disillusion had been the trouble and ill-feeling generated in the regulation of meat imports from the Dominions. It was widely felt within government that the cost was too heavy and that alternatives, more acceptable to overseas suppliers, should be sought. In June 1934 Elliot had brought forward the idea of deficiency payments only because the 'political difficulties with the Dominions in regard to restriction of imports were of so grave a nature'.²⁶ It was a view shared by Chamberlain, worried about antagonizing the Dominions with

meat restrictions, and by the Foreign Office which stressed the damage caused to relations with Northern Europe and South America.²⁷

Although deficiency payments for the Milk Marketing Board had been announced in Parliament in 1934, import quotas had then been the favoured instrument of Ministers. By the summer though, for the reasons suggested above, opinion was swinging towards levy-subsidies, and on 13 June the Produce Markets Supply Committee of the Cabinet decided in principle to introduce them for beef producers.

III

If British Ministers had hoped such proposals would be more acceptable to the Dominions, they were soon to be disillusioned. Curiously, when Thomas had first suggested to the Dominion High Commissioners that in order to protect British livestock farmers additional and tougher import restrictions would be necessary, the Commissioners themselves had put forward the idea of a preferential levy.²⁸ The proposals were formally published in a White Paper in July.²⁹ They were presented in the form of alternatives and show how far Britain had travelled since Ottawa: (a) drastic restriction of imports by quantitative regulations; (b) a levy on imports of meat (apart from bacon and ham) without import regulation; (c) a levy on imports 'coupled with some degree of direct supply regulation in the interests of all suppliers'. The threat of tougher quantitative controls was essentially a device to induce the Dominions and Argentina to waive their treaty rights and agree to the levy-subsidy. But the attitude

²² Imperial Economic Committee, *Dairy Produce Supplies in 1934*, p. 46.

²³ W Beckerman, 'Some Aspects of Monopoly and Monopsony in International Trade as Illustrated by Anglo-Danish Trade, 1921-38', Univ Cambridge, unpubl PhD thesis, 1952.

²⁴ PRO T 188/101, Leith-Ross papers, memorandum by Leith-Ross to Runciman, 6 December 1934.

²⁵ PRO CAB 27/560 PMS(33), 12th meeting, 7 December 1934.

²⁶ *Ibid.*, 7th meeting, 12 June 1934.

²⁷ See *Ibid.*, PMS(33) 30, Simon to Baldwin 9 January 1935, for an emphatic account of the difficulties caused in relations with those countries, and for a demand that quotas be abandoned immediately.

²⁸ *Ibid.*, 9th meeting, 2 July 1934.

²⁹ Cmd 4651, 'The Livestock Situation', July 1934.

of the High Commissioners was a false augury of Dominion and Argentine reaction. The proposals stirred up a storm of protest.³⁰

The Australian reaction was particularly vehement. Already agriculture was severely depressed. Long term prospects were clouded by fears of stagnant or declining population in the UK. Now Britain proposed to shore up its livestock industry in ways which were directly at the expense of Australian output. These trends and actions cut right across prevailing Australasian assumptions. Australians especially had long assumed that if they could produce foodstuffs and raw materials then a grateful world would buy them. An Inter-State Commission, discussing in 1916 the tariff and employment prospects, had stated:

We need have no anxiety in regard to our export trade in those natural products for which there is an increasing world wide demand . . . Fortunately, Australia offers the possibility of unlimited expansion in agricultural, mining and pastoral industries, for the products of which the world's demand is practically unlimited.³¹

To many Australians the whole basis of national development still appeared to depend on the expansion of such production and exports; the growth of population, central to Australian national aspirations, was seen as stemming from the associated settlement. Broadly similar views were held in New Zealand.³² Neville Chamberlain thought that it was at Ottawa that the UK had first shaken 'the complacent Dominion assumption that the United Kingdom would continue to afford an unlimited market for their product, or at any rate a market in which no limit was in sight'.³³ If so the prospect of stagnating

population strongly reinforced such realizations.

The Pacific Dominions therefore felt intensely this blow to their underlying assumptions about national development. But if heavy shadows were cast over their long term future, more immediate and urgent pre-occupations sharpened their reaction. Acute balance of payments difficulties could be relieved by export expansion. Exports appeared to offer the only route out of the depression. J A Lyons, the Australian Premier, purported to believe that 'only by full restoration of our exporting industries can internal purchasing power be re-established, leading to the employment of the workless and to renewed progress'.³⁴ This explains the force of the Pacific Dominions' reaction, and their negotiating tactics. In a framework of virtually stagnant demand the main prospect for recovery and for the continuation of traditional patterns of national development appeared to be in the progressive displacement of the foreigner in the British market. Wherever it was technically possible or economically feasible Britain, they thought, should help them to achieve this by use of commercial policy.

It was in this context that the second challenge came to the post trade agreements' *status quo*. After considerable experiment, it at last became technically possible to ship chilled meat from the Pacific Dominions and to land it in the UK in a marketable state.³⁵ This transformed the prospects for Australian and New Zealand beef. Previously they had been confined to frozen beef, the demand for which was shrinking rapidly. By 1930 Australian frozen beef had been virtually eliminated from the UK retail trade and depended on institutional demand; even

³⁰ PRO, DO 35/255/9105/198. Response summarized.

³¹ Quoted by A J Reitsma, *Trade Protection in Australia*, Leiden, 1960, p 20.

³² See, for example, PRO, DO 35/317/9513/98, Telegram from Governor-General of New Zealand to Thomas, 9 July 1934.

³³ PRO, CAB 27/619 TAC(36), 8th meeting, 17 December 1936.

³⁴ CPP, 1932-4, Vol IV p 510 Quoted by C B Schedvin, *Australia and the Great Depression*, Sydney, 1970, p 317.

³⁵ See eg K Burley, *British Shipping and Australia 1920-39*, 1968, pp 85-7.

then, irregular shipments made it difficult to secure large contracts.³⁶ It is true that there remained a formidable range of problems for Australian beef producers — poor quality stock, bad grazing conditions, including sporadic droughts, and the fact that breeding and fattening were carried out on the same ranches and at considerable distance from the meat works.³⁷ But with the first wholly successful shipment of chilled beef from Australia in 1934 the prospect, at least to Australian eyes, became brighter. Instead of an unyielding market for frozen beef, offering little or no chance of expansion, there was now the opportunity to supplant Argentina as supplier of the huge British market for chilled beef.

Australian energies were turned to the twin tasks of holding off UK attempts to restrict beef imports generally, and of seeking the gradual displacement of Argentine chilled beef supplies. Given the state of Australian beef, and to a lesser extent that of New Zealand, they were only going to be able to supplant Argentina if the British could be persuaded to use their commercial armoury to improve the Australasian position.

Considerable pressure was put on the UK to secure her beef producers' problems at Argentina's expense rather than that of the Dominions. London's response to these pressures is significant: while wanting a solution to the low prices crippling British livestock producers, it did not want one that penalized foreign suppliers markedly more than imperial countries. The concessions to the Empire had been made in 1932 — after Ottawa there was extreme reluctance in London further to endanger foreign markets for the benefit of the Dominions. Consequently the Australians

considered Whitehall unduly sympathetic to Argentina. Britain was accused of favouring the Argentine because her investments there were largely in trading companies with variable returns while those in Australia were mainly in fixed-interest securities.³⁸

The Australians used a combination of threats and cajolery to secure concessions. The main threat was to play on British fears of the Australian Labour Party, which was strongly protectionist and highly critical of the Ottawa agreements, regaining power. But the Australians also offered inducements, notably some steep tariff increases on Japanese textiles, the major purpose of which seems to have been to direct trade to the UK.³⁹ This move probably encouraged London to treat the Australian beef demands more kindly.⁴⁰ But if the Australians were able to resist UK demands, the Argentines had also been recalcitrant.

It is interesting to compare the original UK proposals with the final result. At one time, in 1935, when the levy-subsidy principle was in favour, Britain wanted levies of 1½d per pound on foreign chilled beef and ¼d on imperial supplies. Various proposals were outlined for additional levies if shipments increased and prices fell further, and there were to be smaller levies on frozen beef.⁴¹ The final arrangements allowed Empire beef free entry, and charged duties of only ¾d per pound on foreign chilled beef and ⅔d on frozen supplies. In addition, there was to be a five per cent cut in foreign chilled beef ship-

³⁶ R Duncan, 'The Australian Beef Export Trade and the Origins of the Australian Meat Board', *The Australian Journal of Politics and History*, V 1959, p 192.

³⁷ R Duncan, 'The Australian Export Trade with the United Kingdom in Refrigerated Beef, 1880-1940', *Business Archives and History*, 2, 1962, especially pp 108-11.

³⁸ J Curtin speaking on Meat Export Control Bill in Australian House of Commons, quoted by UK representative, 19 November 1935. PRO, DO 35/259/9105/3/157 and DO 35/256/9105/446, Lyons to Baldwin, 17 June 1936.

³⁹ For further details and discussion of the motivation behind these measures see D F Nicholson, *Australia's Trade Relations*, Melbourne, 1955; D P Copland and C V Janes, *Australian Trade Policy — A Book of Documents 1932-1937*, Sydney, 1937; N F Hall, 'Trade Diversion — An Australian Interlude', *Economica* n s 5, 1938, pp 1-11; H Burton, 'The Trade Diversion Episode of the 'Thirties', *Australian Outlook*, 22, 1968.

⁴⁰ PRO, CAB 27/619 TAC(36), 6th meeting, 24 June 1936.

⁴¹ Eg PRO, CAB 32/126, 3rd draft of meat proposals, 6 June 1935.

ments, staged over three years, and replaceable by Empire supplies.

IV

Most significantly, the refusal of Australia and Argentina to accept London's original proposals drove the UK towards long term Exchequer-financed agricultural subsidies. The government had to assist British beef producers — but it became clear that the subsidies involved could only be paid for by a level of import duty that was totally unacceptable to Argentina and the Dominions. The obduracy of her overseas suppliers, protected by their treaty rights until 1936 and 1937 respectively, and the refusal of the UK to endanger markets and investments in these countries, created a stalemate. It was broken only by the important decision of May 1936 that the Treasury would be prepared to subsidize cattle producers on a long term basis.⁴² The immediate result was to remove pressure on UK negotiators to raise all the money from the levies; re-negotiation of the Anglo-Argentine treaty in 1936 was therefore eased. But more profoundly, Chamberlain's decision established the fundamentals of British agricultural policy between 1936 and the early 1970s.

Yet Whitehall did not abandon the levy-subsidy concept immediately. It had been the attempts to grapple with the problems of Britain's beef producers which had led to greater acceptance of levy-subsidies in mid-1934. The MAF was asked subsequently to investigate the possibilities of their wider application. One such scheme, for wheat, was in effect already operating. Some products such as oats and potatoes, imports of which supplied only a small part of total consumption, were dismissed as unsuitable. Others, such as

meat, were in theory more promising because a larger import ratio could generate funds more readily.⁴³ An inter-departmental committee further examined the practicalities of various alternative levy-subsidy schemes for meat, and this led to the adoption of the scheme as the preferred long term policy for beef,⁴⁴ the difficult and largely unsuccessful implementation of which is detailed above. The MAF was less certain about bacon, recommending a sub-committee to investigate the issues more closely. Leith-Ross summarized the considerations that influenced the ministerial sub-committee.⁴⁵ A major factor was that while foreign bacon imports had been halved prices had increased sharply. 'The restriction of supplies of foreign bacon are unpopular with the foreign countries but the increase of foreign bacon has compensated them, in monetary value: so we get the odium of restriction, without any financial benefit'. Higher prices were not only unpopular at home and difficult to defend, but British bacon producers had not experienced anything like the same price increase as the foreign supplier. The sub-committee's recommendations represented a considerable advance for the Board of Trade argument. Significantly, a two-year virtual cessation to the expansion of home production was suggested, although admittedly at a figure slightly above the estimated production of 1935, which itself represented roughly an eighty per cent advance on home output before the scheme was introduced.⁴⁶ This would allow for the 'momentum' of expansion, a reference to the higher proportion of breeding sows in the British pig population. But the sub-committee adopted a modified version of the Board of Trade's scheme which allowed for a liberalization

⁴² PRO, CAB 27/619 TAC(36), 3rd meeting, 4 May 1936.

⁴³ PRO, CAB 27/560 PMS(33) 29, memorandum, 11 January 1935.

⁴⁴ *Ibid.*, PMS(33) 35, memorandum, 1 February 1935 and PMS(33), 16th meeting, 4 February 1935.

⁴⁵ PRO, T 188/112, Leith-Ross papers, note by Leith-Ross to Runciman, 5 June 1935.

⁴⁶ PRO, CAB 27/561 PMS(33) 39, Report of Sub-Committee on Pigs and Bacon, 15 May 1935.

of foreign imports together with fairly high levies (7s 6d to 10 shillings per cwt), and kept in reserve a more restrictive MAF scheme which proposed minimally higher foreign imports, but, with price levels more easily maintained, lower levels and subsidies. The Ministry concurred, though, in the virtual standstill of bacon production for at least two years — additional output would be discouraged by distributing the subsidy only for an agreed output of 3.3 to 3.5 million cwts.

Adoption of either scheme involved the renunciation by foreign suppliers of their rights to free entry. It was hoped that the inducement of bigger quantities, together with at least a temporary stabilization of British output, would be persuasive. The implications for the price of foreign bacon could have been severe however: on the Board of Trade's plans for an increase in foreign bacon imports of over two million cwts, prices were thought likely to fall by between thirty and thirty-two shillings, and, when the levy was added, the reduction in foreign suppliers' receipts would have been nearly £2 per cwt.⁴⁷

Negotiations with the foreign suppliers were undramatic but unsuccessful. Nine countries had treaty rights to free entry for their bacon, and discussions took place with three of them, Denmark, Poland and Sweden (generally the others were prepared to follow Denmark's lead). The Danish farming community was particularly hostile to the idea of directly financing the subsidy of British bacon, but all countries objected and all agreed that there was no advantage in sending more bacon to the UK if their total receipts were to fall.⁴⁸ The Danes now gave explicit acknowledgement that market regulation brought them advantage. They also doubted the ability of the British industry

to maintain its expansion in the face of rising fodder prices.⁴⁹

Countries had again been able to use their treaty rights to ward off unwelcome developments in British agricultural policy. Although the British bacon industry wanted the scheme implemented, it was decided not to attempt re-negotiation of the treaties until future British agricultural policy as a whole was clear — a much higher price would have to be paid if there were to be two sets of negotiations, one for bacon and one later for other products, than for one comprehensive set.⁵⁰

Empire suppliers were rescued by their treaty rights from duties on butter imports. The original subsidy to the Milk Marketing Board was paid on the assumption that a levy would later provide reimbursement. But although the Dominions were guaranteed free entry only until August 1935, and by 1935 were worried about UK intentions towards their dairy supplies, they were in fact saved by guarantees that preferential margins would be maintained until the expiry of the Ottawa Agreements. Since the UK had conventionalized dairy duties in the 1933 and subsequent agreements, the Dominions could on this occasion hide behind the foreign treaties.

V

The trade agreements, both imperial and foreign, had thus been a major obstacle to the realization of plans for protecting British agriculture. This was especially true of the inability of the government to implement levy-subsidies once they had emerged as the central instrument of policy.

Yet the farming community had been promised that levy-subsidies would be

⁴⁷ *Ibid.*, Appendix to report.

⁴⁸ PRO, FO 371/20326, Ramsay to Eden, Annual Report on Denmark and Iceland for 1935, 25 March 1936, and CAB 27/620 TAC(36) 28, memorandum, 21 July 1936.

⁴⁹ PRO, FO 371/30323, A W E Randall (Chargé d'affaires) to Eden, 27 August 1936, Survey by the Commercial Secretary of the Economic and Financial Situation in Denmark, January to July 1936.

⁵⁰ PRO, CAB 27/620 TAC(36) 23, memorandum, 22 June 1936 and *ibid.*, 6th meeting, 24 June 1936.

introduced as soon as was feasible. It had been decided in principle to use them in protecting the British bacon industry. Farming organizations had made applications to the Import Duties Advisory Committee (IDAC) for new or higher duties on butter, cheese and eggs, and, in addition, a Re-organization Commission had recommended higher egg tariffs. If these duty changes were to be made, the treaties would need revision. Since the agreements with foreign countries expired in 1936, and the imperial agreements in 1937, there was an opportunity, at least in theory, to re-negotiate terms that would allow new tariff schedules.

In practice, it was clear that the MAF was going to have a battle in Whitehall to secure its objectives. The first setback for the Ministry came when Walter Elliot attempted to obtain the agreement of the Cabinet's Trade and Agriculture Committee (TAC) to denounce the treaties at the earliest practicable opportunity.⁵¹ He was overruled by opposition from the Board of Trade on the grounds that this action would give no possible additional bargaining leverage. In December 1936 a Minister of Agriculture was defeated again when he attempted to preserve maximum freedom of manoeuvre in the formulation of policy. The issue revolved around a proposed new Anglo-Canadian agreement, negotiated on Canadian initiative before the expiry of the original Ottawa treaty. When in opposition MacKenzie King, a strong opponent of the Ottawa agreement, had announced his intention of revising it if he returned to power. The negotiations with Canada had been difficult, partly because of constitutional objections in the Dominion, and partly because Canadian demands for their bacon and beef conflicted with Britain's desire to limit supplies.⁵² Elliot's successor, W S Morrison, worried that the principle of free

entry for Dominion produce was becoming crystallized, argued powerfully for the insertion of a clause in the treaty specifically reserving British powers to impose duties.⁵³ While he was successful in obtaining the Committee's agreement that free entry was not a Dominion right, he failed to persuade them that a clause should be added to the impending agreement. Insistence on such a clause was thought likely to jeopardize the treaty, still uncertain of acceptance by Canada, and undermine C A Dunning's support for it.

Apart from the re-negotiation of the treaty with Argentina, 1936 had passed without denunciation of the foreign trade agreements, all of which expired that year. It was still accepted, albeit reluctantly by the Board of Trade and Foreign Office, that the European trade treaties would have to be revised as soon as agricultural policy was settled. These departments had been successful in insisting that there should be only one set of negotiations, and that the new bacon scheme would have to wait until other aspects of agricultural policy had been decided. However, in 1937, the bacon contract arrangements in the UK broke down. This induced the MAF to bring forward a modified scheme. The original arrangements had failed largely because rising feed prices had pressed against bacon prices, squeezing the profit margins of the curers.⁵⁴ The Ministry evolved a complicated scheme whereby all bacon suppliers (home, Dominion and foreign) would pay a levy of up to 2s 6d per cwt to be distributed to pig producers and/or curers according to the behaviour of feed costs and bacon prices. These proposals first came before the TAC where they were widely attacked.⁵⁵ The Cabinet then decided to create a separate body, the

⁵¹ *Ibid.*, TAC(36), 6th meeting, 24 June 1936.

⁵² Drummond, *op cit*, pp 378-85.

⁵³ PRO, CAB 27/620 TAC(36) 32, memorandum, 1 Dec 1936.

⁵⁴ E S Wherham, *op cit*, pp 248-9.

⁵⁵ PRO, CAB 27/620 TAC(36) 43 and CAB 27/632 AP (37) 4, memoranda by Minister of Agriculture on 'The United Kingdom Bacon Industry', 24 May and 6 July 1937; CAB 27/619 TAC(36), 13th meeting, 23 June 1937.

Agricultural Policy Committee (APC), to consider the complex issues affecting the bacon and milk industries. The long-term milk policy advocated by the MAF aimed at cleaning up the herds and taking other measures to improve the quality and safety of milk, using Exchequer-financed bounties as an inducement to farmers. The 1934 Milk Marketing Act had aimed at achieving this and had made provision for government loans which it was hoped later to repay when prices rose. Now discussion centred around how long a subsidy should be paid, and whether it should be financed by a levy on milk product imports. A levy might well be imposed on Dominion supplies as well as involving higher duties on foreign imports. As with the bacon plan, it was the likely impact of these proposals on the Dominions that appeared uppermost in the minds of the Secretary of State for the Dominions and the President of the Board of Trade.⁵⁶ Dairy levies would have hit the Antipodean Dominions hard, falling with particular severity on the New Zealanders. The treaty with Canada, signed in February 1937, had included a three-year guarantee of free entry for her bacon. It was unthinkable to approach the Canadians for the cancellation of this treaty article. The introduction of low duties on European bacon might have been negotiable without great cost, but if levies on domestic and imperial producers were ruled out, and if the scheme was to be self-financing, a duty of between 5 shillings and 7s 6d per cwt was needed on foreign imports. The President of the Board of Trade warned that the price of re-negotiation on these terms would be paid by British exporters of coal, cottons, woollens and herrings.

Unwilling to introduce bacon duties or raise those on butter and cheese imports, yet under pressure to assist domestic industry, the government was driven

inexorably but reluctantly to Exchequer-financed subsidies. In practice, therefore, Whitehall was moving away from levy-subsidies, but had still not abandoned them in principle. Issues came to a head with the publication of the milk proposals in a White Paper published on 29 July 1937.⁵⁷ The government's difficulties were aggravated by the need to announce before Parliament's summer recess that they were accepting IDAC's recommendations against new duties on imported butter and cheese. This, together with an expected IDAC decision against higher egg and poultry duties, had been discussed anxiously in an Agricultural Policy Committee meeting on 26 July.⁵⁸ Ministers clearly thought that the rejection of applications for higher duties would be unpalatable to farmers, but that the milk plans would prove more welcome. They were correct on the first count, wrong on the second. Publication of the White Paper raised a storm of protest. The National Farmer's Union (NFU) promptly denounced the scheme, and during the summer county branches expressed widespread opposition.⁵⁹ The NFU meeting on 16 September, registered

the strongest protest against the indefensible departure of the Government from its previously declared policy, the promised introduction of which induced the overwhelming majority of the producers to give their support to the Milk Marketing Scheme: in view of the intense dissatisfaction evinced by the county branches it recommended the council to call for the immediate withdrawal of the White Paper policy and the introduction in its place of the Levy-Subsidy policy announced by the then Minister of Agriculture in July 1935.⁶⁰

Two aspects of the White Paper particularly upset the dairy farmers: one was the absence of any levy, the other that the

⁵⁶ PRO, CAB 27/632 AP(37), 2nd meeting, 19 July 1937.

⁵⁷ Cmd 5533: 'Milk Policy'.

⁵⁸ PRO, CAB 27/632 AP(37), 3rd meeting, 26 July 1937.

⁵⁹ *The Times*, 31 July 1937. For instance, the policy was denounced as 'a betrayal of promises' by the Dorset Farmers Union, which planned to send an emphatic protest to the Government, *ibid.*, 13 August 1937.

⁶⁰ *Ibid.*, 17 September 1937.

Exchequer subsidies were to be only temporary. Behind this, however, lay a suspicion among farmers that the government's avowed policy of putting the domestic producer first was being abandoned, and that home output was being restricted in favour of overseas competitors. Agriculture, the agriculturalists argued, was being treated far less favourably than industry: not only did farmers have to pay for industrial inputs the prices of which might well be artificially inflated by import duties, but industry's protection, unlike that of major sectors of agriculture, was permanent.

Faced with the danger of serious political agitation developing in the rural constituencies, with the establishment by farmers of a political fund to fight for effective tariff protection, and with the prospect of angry deputations, the Prime Minister and Minister of Agriculture set up an inter-departmental committee under the chairmanship of Sir Horace Wilson to consider the whole issue of levy-subsidies. The committee was to investigate what attitude to take to the demands for levy-subsidies, and, if it was decided to abandon them, what line to take to meet the farmers' case. It was hoped that in the process they would provide some ammunition for MPs besieged by agricultural constituents.

The committee's report listed the advantages and disadvantages of levy-subsidies, and, in the event of the Cabinet choosing to reject them, outlined some other ways of tackling the milk crisis.⁶¹ The report, submitted to the Cabinet, was referred back to the APC for immediate consideration.⁶² The debate in the committee repeated many of the Wilson report's arguments, and, indeed, with few changes in the script, rehearsed again many of those heard in the 1936 and 1937 meetings of the

Trade and Agriculture Committee.⁶³ A number of reasons were advanced for dropping the levy-subsidy plans. First, the cost of living was rising, so any measure likely to exacerbate this should be avoided. Secondly, the Treasury objected in principle to assigned revenues.

However, it was probably the third set of considerations that was decisive in the rejection of levy-subsidies, and this was the impact on overseas suppliers. Duties on milk products were likely to fall with particular severity on New Zealand, nearly forty per cent of whose exports would be affected. Amongst the Dominions this amounted to virtual discrimination against New Zealand products, and was made worse because government marketing of dairy supplies meant that the levy was paid, in effect, from the New Zealand Treasury. The timing could hardly have been worse. A Labour government had been elected in 1935 at least in part because of the failure of earlier administrations to solve the crisis of the dairy farmers.⁶⁴ It had reflatated the economy, introduced exchange controls, and was about to launch an accelerated programme of industrialization. This threatened British exports. Walter Nash, the Finance Minister, had been in London for much of 1936 and 1937 attempting to secure the British government's acceptance of a bilateral clearing scheme. The proposals were both impracticable, and, to Whitehall, unwelcome, but Nash had pursued them with great tenacity.⁶⁵ In the wake of refusing the Nash proposals, the introduction of levy-subsidies on dairy products would have made the renewal of the New Zealand trade agreement all but impossible, and British exports to New Zealand would have been endangered. Exports to Australia and Canada were also at risk. In each

⁶¹ PRO, CAB 24/272 CP 268(37), memorandum by an interdepartmental Committee of Officials, 5 November 1937.

⁶² PRO, CAB 23/90 41(37) 9, 10 November 1937.

⁶³ PRO, CAB 27/632 AP(37), 4th meeting, 11 November 1937.

⁶⁴ K Sinclair, *A History of New Zealand*, 1969, pp 267-9.

⁶⁵ Drummond, *op cit*, pp 358-61.

case, therefore, commercial issues were involved. But there was another vital aspect of imperial relations influencing British action. This was the planned Anglo-American trade negotiations. If the negotiations were to have any hope of success, meeting American demands would mean the Dominions surrendering preferences in the British market without receiving any tangible reciprocal benefit. Australian-American relations were strained, and any benefits to the Dominions from an Anglo-American accord looked remote. Indeed, because of likely adverse public opinion in the Dominion, Britain had to wait until after the Australian elections of November 1937 before making formal overtures to the United States.⁶⁶

Hardly less important was the likely impact on European countries. After all, if it had been merely a question of avoiding trouble with the Dominions, additional levies could have been raised from foreign suppliers. The Wilson Committee report did not elaborate on the political implications of levies on Northern Europe, but contented itself with a reference to the Foreign Secretary's memorandum to the TAC.⁶⁷ The Board of Trade was worried about the dangers of pushing the Baltic States into the arms of Germany,⁶⁸ although its officials later dissuaded the Foreign Office from circulating another memorandum to the TAC. This had said:

The political importance of these agreements consists in the part they play in maintaining the influence of the United Kingdom against rival influences, mainly that of Germany, potentially perhaps that of the USSR. As neutrals or even as allies in a European war, the friendly attitude of the Scandinavian and Baltic States could be of the highest importance.⁶⁹

The immediate dangers to British

exports were at least equally important in governmental thinking. The Wilson committee had emphasized how valuable the trade agreements had been in boosting UK exports and stated that it hardly seemed worthwhile hazarding an export trade of over £80 million for the sake of raising £1 million on imports of dairy produce. Oliver Stanley, Runciman's successor at the Board of Trade, stressed that in the context of trade relations levy-subsidies were the most onerous form of agricultural protection. Overseas suppliers, both foreign and Dominion, objected with particular vehemence to a system which forced them to subsidize directly their British competitor. He asserted that a heavy price would have to be paid in the trade agreements. This was all the more likely, the Wilson report suggested, because Britain's bargaining position was no longer so strong as it had been in 1933.

The APC therefore recommended the Cabinet to abandon the levy-subsidy principle for meat, bacon, milk and dairy products. This the Cabinet agreed.⁷⁰ Stanley was keen to use this decision in trade negotiations, but the Cabinet also wanted to retain the right to impose quantitative regulation of imports in case of emergency. The precise wording of this reservation of powers, left to Stanley and Morrison to draft, occasioned difficulty. Eventually, with Chamberlain's assistance, a compromise was reached.⁷¹ The Board of Trade had wished to retain existing powers, linked to internal marketing schemes, rather than upset overseas suppliers by taking on additional powers. The Minister of Agriculture, conscious perhaps of the failure in 1936 to introduce quantitative restrictions of egg imports, wanted a less circumscribed commitment. It was clear, however, that the powers to limit imports by quantitative regulation were simply for

⁶⁶ M Ruth Megaw, 'Australia and the Anglo-American Trade Agreement of 1938', *Journal of Imperial and Commonwealth History*, 3, 1975, pp 191-211.

⁶⁷ PRO, CAB 27/620 TAC(36) 29, 20 July 1936.

⁶⁸ *Ibid.*, TAC(36) 23, memorandum by Runciman, 25 June 1936.

⁶⁹ PRO, BT 11/735, draft memorandum, enclosed in Ashron Gwatkin to Brown, 4 January 1937.

⁷⁰ PRO, CAB 24/272 CP 275(37), 12 November 1937; CAB 23/90 42(37), 17 November 1937. The Cabinet later recognized that eggs and poultry were also in this category.

⁷¹ PRO, CAB 23/90 44(37), 24 November 1937.

crisis conditions: they were no longer envisaged as being part of the regular system of import control.⁷²

By the end of 1937, therefore, the UK government had accepted the principle of Exchequer-subsidized agriculture. It appears as an inevitable consequence of the obligations that London had entered into in the trade agreements of 1932 and 1933. If major sectors of British agriculture were to be preserved, and the increasingly effective agricultural lobby was to be appeased, protection was necessary. Quotas had been disastrous, either because they raised prices unacceptably to consumers, or because they involved constant wrangling with suppliers, above all suppliers in the Dominions. Moderate duties on foreign products were possible, but particularly if combined with Dominion free entry, generally did not provide adequate protection. Duties on imperial produce, if the preferential margins were to be maintained, meant high tariffs on foreign imports — this might have raised consumer prices to politically unacceptable levels at a time when prices were rising again and been very harmful to overseas relations. Levy-subsidies looked as though they might provide a way out, but the reaction of foreign and Dominion countries was hostile. The political and economic cost was simply too great. The maintenance of the trade agreements in the late 1930s was regarded in Whitehall as essential: the abandonment of the levy-subsidy plans was the price.

VI

In the 1930s government agricultural policy was revolutionized, and British farmers were protected for the first time in nearly a century. Protection appears to have had some success in limiting imports.

⁷² This does not mean that the British government abandoned all attempts to limit supplies. The International Beef Conference, set up in 1937, operated under instructions which included the stipulation that total beef imports were not to exceed 'recent' levels.

After increasing in the first two years of the decade, they fell in volume by twelve per cent between 1931 and 1935. (The measure of trade diversion is remarkable, for within this total foreign supplies slumped by thirty-two per cent while those from the Empire increased by forty-two per cent.) Moreover, UK agricultural output is estimated to have expanded by seventeen per cent between 1930-1 and 1936-7.⁷³ Yet the whole policy was circumscribed by the need to preserve the interests of Britain as an industrial nation. In the new protectionist era, agriculture continued to be subordinated to industry. The government was wary of taking measures which raised prices too overtly. Because of the need to maximize exports, a major expansion of UK agriculture was rejected. Similar objectives lay behind the trade agreements programme, conducted almost wholly with primary producers. These treaties determined the way in which Whitehall eventually resolved the dilemma of reconciling assistance to farmers with maintaining industrial exports and low food prices.

In general, this solution was helpful to British economic recovery in the 1930s. The collapse of food and raw material prices between 1929 and 1933, by contributing to rising real incomes for the employed, was of central importance to the revival of the UK economy. A policy of insulating British domestic agriculture by forcing up the price of imported food could have stifled industrial expansion. As it was, the devaluation of sterling should have raised import prices, but was largely nullified by the currency depreciation of most of Britain's suppliers. The small size of the agricultural sector (it employed only 6.4 per cent of the workforce in 1931) meant that it was easier to avoid a highly protectionist farm policy. Farmers had less political muscle than their counterparts in Continental Europe, and their comparatively small numbers made it possible to find a

⁷³ Whetham, *op cit*, p 315.

solution to their problems without imposing heavy burdens on the rest of the community.

Such a relatively costless outcome was by no means certain in 1932-3. More restrictive policies would not only have undermined expansion of the domestic economy but might have threatened treaty-making prospects as well. At Ottawa the demands of British agriculture placed no serious restraint on the ability of the UK ministerial team to conclude trade agreements. Ministers were inhibited in meeting Dominion demands more by consideration of their impact on the cost of living or on foreign suppliers than on UK agricultural output. But by the time it came to negotiate with the Scandinavians and Argentina the Minister of Agriculture was presenting his case more effectively, and it played a prominent part in the discussions. Nonetheless it is doubtful whether agricultural protection seriously affected the value of the agreements that Britain was able to make with foreign countries. Imperial trade diversion did hurt foreign competitors, but it was only in the case of bacon and egg production that UK agriculture threatened total imports from Northern Europe. Moreover, it was not the attractiveness of the offers that Britain could make to her trade partners that was the crucial determinant of the outcome of the negotiations, but the capacity to threaten or blackmail them. Denmark, along with Argentina, was the principal victim of imperial preference and protection, but yielded probably the most valuable of the agreements.

Therefore British agricultural policy, although both complicating the trade negotiations, especially with foreign suppliers, and dictating the actual terms of the agreements, did not seriously reduce Britain's bargaining leverage. More important was the likely effect of agricultural protection on UK economic recovery as a whole. Here the fondness of the MAF for

quota restrictions on imports could have raised the price of food to British consumers and have slowed the pace of recovery. This should not be exaggerated because it was not until mid-1932 that the Ministry started to press for such measures, and by then the fall in import prices had already made a major contribution to rising real incomes. But that quotas could raise prices was shown by the effect of the bacon scheme, and the widespread and harsh application of such measures would almost certainly have restrained the continued revival of the British economy. That they were not generally adopted was in large measure a consequence of the terms and operation of the various trade treaties. Either the stipulation of the pacts prevented Britain from applying quotas, or the experience of attempting to operate quotas was shown to be costly to consumers and to relations with the supplying countries. From early 1935 any major expansion of UK agricultural output had been ruled out, but farmers had still to be protected. As an alternative to quotas, levy-subsidies were given serious consideration. At least the British consumer would not have borne the burden, but overseas suppliers would have done so instead. But they made clear their hostility, and used their treaty rights to delay the introduction of levy-subsidies. London, considering the maintenance of the trade agreements as essential, paid the price for this in abandoning levy-subsidies. So, faced with apparently incompatible objectives — the need to assist British farmers, to keep living costs low and to preserve valuable export markets — Whitehall was driven to Exchequer-financed subsidies. The ultimate form of agricultural protection was thus shaped by the agreements. They helped ensure that low price policies prevailed, that consumption was encouraged, and that British farmers were maintained in a way that inflicted minimum damage to exports.