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THE SAFEGUARDING OF INDUSTRIES ACT

ORDERS UNDER PART II

THE Safeguarding of Industries Act was introduced and passed because it was commonly believed at the time that Great Britain had to fear an outburst of economic energy on the part of Germany. The popular view is well expressed by the following extract from the official Coalition magazine of July 1921:—

“ Mr. Baldwin carried the House with him as he proceeded to show that the real purpose of such a measure lay in the desire of the Government to be faithful to its trust by taking effective steps to protect employment in the country in the face of the certainty of still fiercer competition on the part of Germany in the future.”

As we now know, these fears have not been realised. Indeed, so long ago as last Christmas well-informed observers knew that things would happen otherwise. Sir Robert Horne on the 22nd November last, speaking on the Reparation problem, said “ there were practically only two subjects of production in which Germany was even approaching her pre-war exports—namely, electrical machinery and toys—and it could not be truthfully asserted that Germany had done any real injury to our trade ” (*The Times*, 23.11.1921).

The true present position was accurately described by Mr. Asquith in his speech in the House of Commons on the 31st July last:—

“ Of 123 applications, the residuum is only four, which have gone through the meshes of the net of the Board of Trade and are now submitted to the House. What becomes of the outcry against dumping founded upon a depreciated exchange ? It is reduced to insignificant and even contemptible proportions.”

But though the anticipated danger has never appeared the machinery for meeting it has not been left idle. What has actually occurred is that some small and well-organised industries, which had profited by the isolation of the home market during the War and naturally felt the effect, small though it was, of the renewal of continental supplies, have been able to persuade the Committees set up under the Act that they could satisfy the conditions required for a Tariff.

Before examining what those conditions were it is well to look at the powers and procedure of the Committees themselves.

Clearly if the expected events happened and the spirit of the Act was to prevail, those bodies had before them research unusually extensive and intensive, as was freely emphasised when their proposed constitution was the subject of debate.

First of all, how was the personnel to be provided? Liberal pressure in the Cabinet was successful in extracting an understanding, which was privately given, that the consumers' interest should predominate. In *The Times* of the 7th May, 1921, the following passage appeared:—

“What those present regarded as definite guarantees were given by the Prime Minister, namely”—

(The first two assurances are immaterial.)

“(3) That the administration of the duty will be in the hands of a Committee consisting mainly of consumers. . . .”

Naturally disquiet was allayed by this promise, but it is hard to see how the actual machinery fulfils it.

What of the information laid before the Committees and their powers of sifting it? The first point to note here is that official statistics on the material points were not forthcoming. To specific questions which would have given the House of Commons sufficient information to make an independent judgment on the issues involved, the Board of Trade were bound to return the answer that they themselves had not the necessary figures. They referred the questioners for information to the Reports of the Committees of Inquiry. On what were these based? Partly upon confidential documents. This was to be expected. Traders were not anxious to reveal more of their secrets than could be helped. Let me quote one extract from the shorthand notes of the Hollow-ware Inquiry:—

Mr. Faraday: I have copies of these figures if the Committee would like them?

The Chairman: Yes.

Mr. Artemus Jones: If they are not confidential I should like to have a copy.

Mr. Faraday: They are confidential and for the convenience of the Committee, *not for the information of the Opposition*.

If such *ex parte* evidence was to be tested at all it could only be done by cross-examination. But this was not allowed

“A witness whom the Committee desire to hear may, if he wishes, be accompanied by solicitor or counsel who may address the Committee on his behalf, but no witness shall be examined or cross-examined by the Members of the Committee.”
—Statutory Rules and Orders, 1922, No. 90.

A comment, also taken from the shorthand notes of the Hollow-ware Inquiry, shows that the judges themselves felt the handicap under which they suffered:—

Mr. Artemus Jones : Precisely. You are actually asked to make a grave recommendation like this to the Department upon a casual observation made by one gentleman in the trade. It may be inaccurate; it has not been tested; it has not been investigated.

The Chairman : I have felt all through that if you and Mr. Faraday had cross-examined the witnesses we should have had a very much easier task.

Mr. Faraday : I should have liked the chance.

Mr. Artemus Jones : I am glad to hear you make that observation, Sir, because it will go down on the notes, and if an Order is made by this or some other Committee, no doubt it will be noticed in the House of Commons.

The Chairman : That is not a question for us here. We need not discuss it. I frankly say that I have thought it a great disadvantage.

* * *

And now as to the questions to which the Committees had to find answers. I will not arrange them in the somewhat complicated order nor impose the limited scope of the Statute, but will put them as four plain conditions which the man in the street would naturally ask should be satisfied before a duty was imposed in a country still avowedly free trade in practice and only utilising tariffs as a temporary necessary expedient.

The four questions are:—

Firstly: Is the home industry efficiently conducted?

Secondly: Are the competing foreign goods really being sold at a dumped price?

Thirdly: Is this the result of the depreciation of the foreign exchange in question?

Fourthly: Will the result of an Order be on the whole to safeguard employment in this country?

Let us ask how the tests were applied and with what result.

The first is, Is the industry efficiently conducted? What is meant by efficiency? Does it mean that the factory complies with the Home Office regulations and that the standard of production is good? If it merely means this, any ordinary manufacturer might pass. But what of the natural advantages of the place of manufacture? What of the acquired aptitudes of the workmen? What of those subtle qualities of the product which make it marketable? Are not these also ingredients of true efficiency? Indeed, when we ask what is the test to apply there can surely be but one answer, namely, the test of the market.

What is efficiency in business except the power to make a profit, and how can a profit be made unless the public can be induced to buy the product at a price more than sufficient to cover the cost of manufacture? This really searching question was not fully put by the Committees. They looked at the aluminium ware, they looked at the gloves, and came to the conclusion that they were well made. They were not at the sale counter, they were not the public asking themselves whether they would buy the goods, but were applying the artificial test, "Is this a good article which the public might reasonably buy?" Consider these sentences in the Report on Aluminium ware. They spoke of German articles as "admittedly almost entirely of the inferior grades." But they happened to be what the public wanted. They explained that the mass of the British population preferred to buy the German article "because it is cheap even though in the long run the stronger and more durable English article may give better value for the money." But who can be judge of the suitability of an aluminium pot except the buyer? He may prefer a thin pot in place of "a stronger and more durable" one because he finds less heat is required to boil the kettle. He knows what he wants, and the test of efficiency is the power to supply it. The case of gloves is even clearer. Sir Henry Rew's Committee came to the conclusion that the makers appear to be "carrying on the manufacture with reasonable efficiency and economy and in most cases are maintaining a standard of production equal to that of any foreign competitor." That may be a perfectly fair opinion *in vacuo*, but the market view is different. One witness who dealt in English gloves said:—

"I have known my customers come in and walk out again without buying the English goods. The British public prefer the German article. I stuck to the English manufacturers for a time, and if I had not gone to the German manufacturers, I should have been out of the market."

And another gave evidence even more illuminating:—

"Many men have tried who are not really glove manufacturers; they have tried to produce an article which was out on the market. The buyers bought it, and naturally they thought it was a saleable article, but to their cost they made only big losses. In the early part of 1921 we held a meeting of buyers and manufacturers, and the buyers very loyally stood round and told the British manufacturers they would gladly put up all the samples so as to give them fair play and every encouragement. The samples have gone forward, and the results have been, I should say, 80 per cent. Saxon orders and 20 per cent. English. German competition,

I contend, would have helped the British manufacturer: it puts them on to produce efficiency."

Incidentally a witness explained that another protective experiment—that in dyes—was having its effect, and that the British article was handicapped on account of the compulsory use of British colours.

The second question is, Are the foreign goods being sold at really dumped prices? The definition in the Act is, to say the least of it, naïf. The test price is one which is lower than that at which similar goods can be profitably manufactured in the United Kingdom. As the only evidence to work on is the evidence of the British maker it is hard to see when the datum line will ever permit free importation from abroad. The less the competition the less the need for inventive economy. The less the economy the higher the price at which the articles can be profitably manufactured. And again, assuming catalogue prices to be made the test, what period is to be taken? Is it to be the artificial war price or the pre-war price? Obviously the pre-war price. Judged by this test the fabric glove Order fails, for German prices to-day are about $2\frac{1}{2}$ times higher than pre-war, while English prices are only about twice as high.

This leads us to the third question, namely, Whether it is in fact the depreciation of the currency which is responsible for the low selling price?

Before Part II of the Act can be applied it is necessary for the Committee to find as a fact that the goods in question are being sold or offered for sale in this country at prices below those at which similar goods can be profitably manufactured in this country, and that this has been brought about by the depreciation of the currency of those countries in relation to sterling. Or, as Sir John Barran puts it in his minority report on the Domestic Illuminating and Mounting Glassware case (p. 12)—

"It is not enough to prove that the prices of certain foreign goods are exceptionally low *now*: it must further be shown that in past years also, before ever exchanges fell, these same goods were not in fact low enough to take the trade . . . nor again is it enough to prove a percentage degree of unemployment now in a particular group of employees: it must further be shown that it is the goods imported under a depreciated currency, those and no others, which have caused this particular unemployment."

It would be natural to expect, in the case of glassware, for instance, that the comparative figures for 1913 and 1920 would show a great increase in German and Czecho-Slovakian imports,

which would, owing to their cheapness, have killed not only the home industries but also the imports from other foreign countries with a normal exchange. This is not the case, as the following table, compiled from the Board of Trade Annual Statement, proves.

	Germany.	Belgium.	Sweden.
1913. Imports of "glass, Flint, plain cut, or ornamented, and manufacturers' Flint glass, except bottles"	936,917 cwt.	241,574 cwt.	114,808 cwt.
1920. "Globes and shades other than oil lamp chimneys." ..	24,074 cwt.	1,001 cwt.	28,912 cwt.
"Domestic and fancy glassware (including cooking utensils, table glassware, ornamental glassware")	92,724 cwt.	206,921 cwt.	20,674 cwt.
Total for 1920	116,798 cwt.	207,922 cwt.	49,586 cwt.
Normal Exchange 1913	20 marks	25.22 francs	18.15 kronen
Average Exchange 1920	227 "	49.02 "	17.75 "

It would also be reasonable to expect that as the exchange rose and fell in foreign countries so would the volume of imports rise and fall. It is possible to compare the figures of imports of domestic glassware in 1920 and 1921 when the exchanges of Germany and Czecho-Slovakia moved in a downward direction. In the following table the quantities are taken from p. 14 of the Report on Glassware. The exchange is arrived at by taking the quotation at the beginning of each month in *The Times* and averaging it over the year.

English output and foreign imports for 1920, 1921 compared.

Domestic Glassware.	1920.		1921.		Percentage increase or decrease.
English output in maximum year 1920 (see Report, p. 14) ..	£356,000		£214,000		40% decrease
Total foreign imports ..	£2,404,000		£1,402,000		42% decrease
	Exchange.		Exchange.		
Belgium	£892,000	49.02	£594,000	51.60	33% decrease
U.S.A.	£361,000	3.59	£115,000	3.80	68% "
Germany	£515,000	227	£195,000	364	62% "
Czecho-Slovakia ..	£216,000	233	£335,000	307	55% increase

It is noticeable that English output and foreign imports have declined in almost exactly the same proportion, the advantage being slightly on the side of the home industries. It is manifest that the import from the different countries does not correspond at all closely with the movements of their exchanges. Without attempting in any way to go behind the findings of the Committee who had the advantage of seeing figures and documents which are not available for the general public, it is difficult to come to any other conclusion than that the decreased home output corresponds almost exactly with the decreased imports, and that this was due to the general world trade depression, and that the exchange has very little to do with the matter.

There only remains the final question as to whether employment is being affected, and here in passing we may ask, Does the Act require it to be shown that men are out of work at the time when the Order is made or is it sufficient to show that they were out of work nine months ago when the evidence was collected? One hears that to-day the glove-makers are very busy. "We are very busy working double shifts," writes one, "and your humble servant oftentimes until 10 p.m." Further, what is the datum line of employment? Is it to be the war level or the pre-war level? Production was distorted during the war by Government control. The cotton trade was only allowed to work at 60 per cent. of its power. Agriculture was purposely stimulated. The level of employment in each industry during the war was an artificial one. If, on the other hand, the pre-war level is taken it is seen that there is to-day little unemployment in the glove trade, and the cotton trade is only now regaining its German markets. As a matter of fact, the Statute makes no provision for examining the condition of employment in the cotton trade, nor in the many trades affected indirectly by the other Orders. Were such examination allowed Orders would not easily be made.

It may truly be said, therefore, that the Statute was provided against a flood which never rose; that the Committees were given a task in any case difficult, and impossible to their limited powers; and that in consequence their answers to the four test questions were unconvincing.

WEDGWOOD BENN