

## Recent Findings of Research in Economic &amp; Social History

In the 1840s the momentous decision was taken to move towards unilateral free trade. This had far-reaching consequences for the British economy and for British political life. Free trade secured cheap imports of food and raw materials for industry, but, in addition, it made a permanent impact on the Victorian and Edwardian state systems and upon the evolution of liberalism and of the Liberal Party. Britain's foreign economic policy was also dominated by the fact that she was committed to unilateral free trade, and the policy even had an influence on British imperial expansion and imperial rule. Precisely the impact which free trade had on economic growth is a matter of dispute, but it did subject agriculture and industry to fierce competition after 1870 and stimulated the growth of a service economy. As competition intensified, the business community became increasingly hostile to the policy of free trade, but the widespread working class support it continued to attract made free trade unassailable before 1914.

## *British Free Trade, 1850-1914: Economics and Policy*

Traditionally economic and political historians of the late nineteenth and early twentieth centuries have displayed far more interest in protectionist sentiment and organisation than free trade, but recently this has begun to change. This article reviews four aspects of free trade history where significant advances have been made: the place of free trade in shaping the limited economic role of the Victorian state; Britain's foreign and imperial economic policy under free trade; the links between free trade and the development of 'New Liberalism'; and the contribution of free trade to economic growth. First, though, it is necessary to review briefly why, and in what manner, free trade became established.

### *The revolution of the 1840s*

The trend to freer trade began in the late eighteenth century. Great strides forward were made in the 1820s, but it was the 1840s that saw the beginning of a true revolution in policy. Earlier moves towards freer trade had been conditioned by an insistence on reciprocity (i.e. agreements with other states on mutual tariff reductions), but from the 1840s policy was determined unilaterally. The most dramatic instance of this was the Repeal of the Corn Laws in 1846. The conviction that Britain could act independently in reducing import duties stemmed in part from her failure to secure acceptable reciprocity agreements with foreign powers wary of granting concessions that might allow Britain's leading industries to dominate their domestic markets. It also reflected a growing belief that cheap imports were the key to prosperity because they would benefit the consumer as well as reduce business costs and help to maintain industrial supremacy. After 1846, the idea of using tariff to protect British agriculture and industry from foreign competition, or to give preferential treatment to Britain's overseas empire, was also abandoned. A further seminal innovation was Peel's introduction of the income tax in 1842. It was aimed at providing compensation for initial losses in government revenue as tariffs came down, but it became a permanent feature of British finance thereafter, as we shall see. The essential features of the system were complete by 1860, survived the war of 1914-18 and were not fully overturned until 1932 [4, 5].

### *Free trade, economic policy and the state*

It fell to Gladstone, as Chancellor of the Exchequer in the 1850s, to complete Peel's revolution. By 1860, he had removed import duties on 400 items; tariffs were retained, for revenue purposes, on less than twenty imported 'luxury' goods [13]. These were commodities which were in 'inelastic' demand, (that is, changes in their price affected demand for them very little) and could be relied upon to bring in a steady income for the state. They were also chosen to bear duties because they were goods that had no direct impact on business costs. Many of them were not produced in Britain at all and, if they were, a corresponding excise, or internal tax, offset the import tax. Four of the imports chosen to bear duties - tobacco, tea, spirits and wine - produced 95 per cent of the revenue from customs in 1880 [8]. Like Peel, Gladstone was confident that market freedom would stimulate trade and enhance the productivity of revenue duties steadily, rendering income tax unnecessary. But, in order to protect government revenues while tariffs were being cut in the 1850s, he actually lowered the income tax threshold from £150 to £100 per annum [13].

Like most of his contemporaries, Gladstone fervently believed that, as a key part of a self-regulating economy, free trade would generate faster growth benefiting all [13]. However, promoting economic prosperity was only one part of Gladstone's strategy: free trade was also introduced to reconcile the

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different classes in Britain and to preserve domestic political stability. The high-spending, high-tax, protectionist state of the late eighteenth and early nineteenth centuries had been resented bitterly by both the business and working classes who saw it principally as a device for furthering the interests of the landed elite who ran it. Gladstone, like Peel, supported free trade because it gave a clear signal that no individual group could use the state to obtain privileges: abolishing agricultural protection, for example, meant that the landed class could no longer expect the state to support their particular interests [4, 13]. Free trade certainly became a hugely popular cause in Britain, even though the burden of the revenue duties fell mainly on the working classes [13]. It was attractive not only because it guaranteed cheap food, but also because it supported the belief, widespread amongst both the business class and their workforce, that the state should be kept out of economic life [5]. Indeed, free trade was a key element in Gladstone's plans to reduce state expenditure.

Given that income from customs was limited, a rise in state expenditure almost inevitably entailed an increase in income tax. Since the income tax payers were also the voters, Gladstone hoped that this would emphasise to the propertied the need for fiscal restraint, diminishing, in particular, the zeal for war and facilitating a cut in defence expenditure.

Despite the radicalism of his economic reforms, Gladstone's political and social intentions were profoundly conservative. In curbing the traditional elite's ability to use the state for

their own economic advantage, he succeeded in reconciling the mass of the population to its continued existence as a governing class in the 'night-watchman' state and to the highly uneven distribution of wealth supporting that elite [13].

The free trade system put in place by 1860 is usually seen as unique, but Nye has recently challenged this view. If the degree to which nations are free trading or not is determined by comparing net customs revenues as a percentage of the value of imports for each country, a comparison between British and French experience produces surprising results. Using this criterion, Nye has shown that British tariffs were not only higher than French in 1815, but that French duties remained lower even after the transformation effected by Peel and Gladstone. The position was not reversed until the late 1870s when French tariffs began to rise significantly (see Table 1). Nye also argues that British tariffs in the free trade era were not purely revenue devices: the wine duties did not treat all countries equally and they had an indirectly protective element in encouraging beer drinking. British duties on spirits also inhibited French exports to Britain severely. On this basis, until the 1870s, France has as much right as Britain to be called a free trade country [14].

However, in direct response to Nye, Irwin insists that this measure is not the key in determining relative degree of commitment to free trade or protection [8]. The vital difference was that the French tariff was always designed to protect some domestic production such as textiles while the British tariff was "an extension of the domestic excise system, levied only on a select number of commodities to raise fiscal revenue without discriminating against foreign goods in favour of domestic goods" [8]. In the specific case of beer, an excise duty had to be paid which offset the wine duties. Nonetheless, the wine duties did have a discriminatory element; for example, as a result of a treaty signed in 1860, they favoured French wines over those from other European countries.

## British free trade, foreign economic policy and imperialism

Britain's commitment to unilateralism was breached by the 1860 treaty with France since it was based on the reciprocity principle. In this case, the wide range of benefits expected from the treaty outweighed the objection that

policy should be determined purely by domestic considerations. One of the architects of the Anglo-French treaty was Richard Cobden, a convinced unilateralist who, as leader of the Anti-Corn Law League, had been a significant force behind the Repeal of the Corn Laws. Cobden believed passionately that free trade would create international economic interdependence, eventually making war unacceptable. He had expected that pressure from a growing band of internationally minded consumers, anxious to reap the benefits of free trade, would soon force European nations to follow Britain's lead and had been disappointed by the slow rate of progress towards this goal. His experience forced him to reconsider the role of the state; and an Anglo-French treaty appealed to him as an important means of encouraging the spread of sound economic doctrines, even though it offended purist unilateralists [4].

A unilateralist himself, Gladstone shared many of Cobden's concerns: a French treaty would spread the gospel of free trade, make peace more likely, reduce defence expenditure and, he hoped, permit lower taxation [12]. In his 1860 budget he made a treaty possible by lowering the duties on French wines in return for cuts in French tariffs on manufactured goods. The Anglo-French treaty inspired a number of reciprocity treaties signed by both Britain and France with other countries in the 1860s. All the treaties were bilateral that is, they involved only two nations but they included a 'most favoured nation' (MFN) clause that

**Table 1: Net Customs Revenue as a Percentage of Net Import Values (5-year averages), Britain and France, 1846–1913.**

Year	Britain	France	Year	Britain	France
1846–50	25.3	17.2	1881–85	5.9	7.5
1851–55	19.5	13.2	1886–90	6.1	8.3
1856–60	15.0	10.0	1891–95	5.5	10.6
1861–65	11.5	5.9	1896–1900	5.3	10.2
1866–70	8.9	3.8	1901–05	7.0	8.8
1871–75	6.7	5.3	1905–10	5.9	8.0
1876–80	6.1	6.6	1911–13	5.4	8.8

**Source:** J.V. Nye, 'The Myth of Free Trade Britain and Fortress France: Tariffs and Trade in the Nineteenth Century', *Journal of Economic History*, 51 (1991), p.26.

extended to all signatories of that clause the lowest scale of tariffs agreed in any of the bilateral treaties. As a result, an interlocking, multilateral system of trade treaties came into existence [4, 12].

The treaty system was always subject to critical attack from a number of quarters. Some politicians and officials stuck to the belief that free imports were the key to prosperity and that negotiation was not only unnecessary but also undignified. On the other hand, some exporters, keen to drum up more business on the continent, were disappointed with the treaties. A large part of the problem was due to Britain's limited ability to bargain because she had already abolished most of her tariffs. Because the few tariffs retained were designed to raise revenue for the state they could not be cut much without seriously threatening the state's income and raising the spectre of increased domestic taxation [4, 12]. Again, those British manufacturers and merchants who had a clear interest in getting freer trade in Europe were often frustrated by exclusion from the negotiations. Cobden had been careful to consult interested parties, such as the Bradford wool interests, when bargaining with the French but they often had no part in designing later treaties. They complained that, as a result, the MFN clause was often useless to them because the concessions designed by foreign states during bilateral negotiations were specified in such a way as to discriminate against Britain's particular products [11, 12].

Cobden and Gladstone also misunderstood the nature of the European interest in moves towards freer trade. The British statesmen believed they were helping to spread universal economic truths and a new moral order based on international peace and mutual prosperity. Their European counterparts thought mainly of their own national producer interests and how to strengthen them, promote nation building, and increase military strength. When, during the prolonged depression of the late 1870s, it appeared to them that freer trade no longer served these aims, they readily reversed the process: Britain was unable to arrest or mitigate the movement to higher tariffs because she had so little with which to negotiate [3, 12].

The European drift away from free trade finally killed off the idea that Britain's example would eventually be followed by all the leading nations. Moreover, the fact that tariffs were rising in Europe after 1870 just as the leading nations there were beginning to catch up with Britain industrially shook the complacent assumption that free trade was the key to growth and prosperity. Pressure also grew from the late 1870s for Britain to adopt

retaliatory tariffs as a means of negotiating down foreign trade barriers. Gladstone's Liberal Party was completely committed to free trade, and so those disaffected by the policy

tended to drift towards the Conservatives whose leader, Lord Salisbury, was flexible enough on the issue to argue for retaliatory tariffs in the early 1890s. But, industrialists remained hopelessly split on the issue and the broad mass of voters was still strongly in favour of free trade; Salisbury's initiative contributed to the defeat of his party at the 1892 election [3, 4, 12]. Britain's imperial policy and free trade were also closely intertwined (see figure 1). Imperial expansion increased military and naval costs, put pressure on state budgets and thus made governments more reluctant to cut the revenue duties that were Britain's only negotiating weapon

in Europe. British governments also practised what is called 'free trade imperialism'. They forced dependent parts of the empire such as India to accept free trade and used their naval power to cajole smaller or weaker nations outside Europe into signing free trade treaties [2]. These treaties could be squared with unilateralism in that they involved no concessions by Britain herself: but the link with

imperialism horrified the pure Cobdenites who believed they were hostile to the true spirit of the movement [4]. Free trade imperialism remained an important element in British imperial expansion in the 1880s and 1890s. As tariffs rose on the continent, British businessmen became increasingly interested in compensating themselves for lost European markets by vigorously supporting imperial expansion in Africa and Asia, thus preventing France and Germany from establishing protectionist regimes in those places where future economic prospects looked most favourable [4, 6].

## Free trade and the development of British Liberalism

The conflict between unilateralism and reciprocity and the emergence of the idea of 'free trade imperialism' indicates that free trade was a developing concept open to many interpretations. It has also recently been argued that

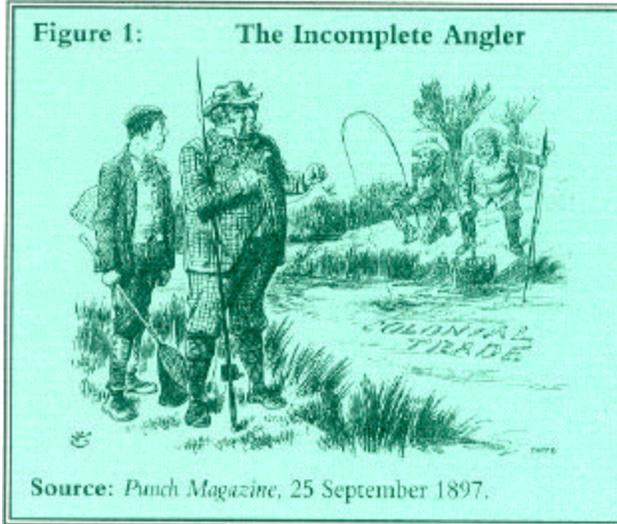
the later nineteenth century saw the emergence of a 'rights' version of free trade in competition with a 'market' version which initially held the field, both of them invoking the name and support of the great iconic figure of Victorian free trade, Cobden [5]. At the level of specific policies the difference between the two approaches is well illustrated by the conflict over the

sugar bounties in the late nineteenth and early twentieth centuries. Some European countries

granted bounties to encourage beet sugar production giving beet producers an advantage over empire cane sugar suppliers in British markets and boosting

continental sugar refining to the detriment of Britain's. Those who took a 'market' view of free trade were willing to support a countervailing duty on imported beet sugar in the hope of eventually getting world free trade in sugar. On the other hand, 'rights' free traders wanted no interference with the existing system because it cheapened imports for the mass of consumers. They also claimed that, although sugar refining in Britain had suffered, this was compensated by cheap sugar encouraging the growth of new domestic industries such as jam-making and cocoa production. Moreover, 'rights' free traders attacked countervailing duties as a dangerous precedent which could be used as an excuse for introducing more extensive and dangerous protectionist measures in the future. Market free traders were chiefly interested in extending free trade globally: rights free traders were more concerned with maximising its benefits to the domestic consumer [4].

Howe also argues that the difference between these two versions of free trade went deeper and had important implications for the development of

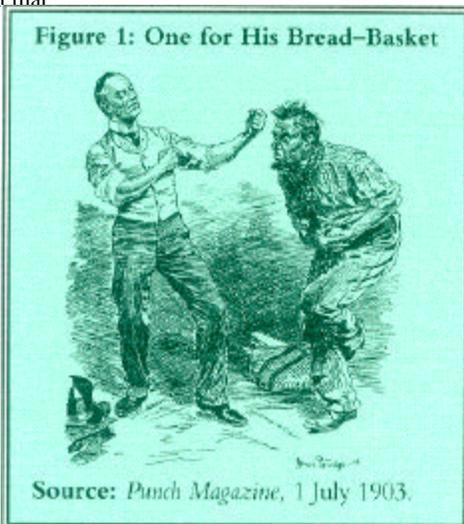


Source: Punch Magazine, 25 September 1897.

**Table 2: Percentage of Exchequer Revenue Accruing from Indirect and Direct Taxation, Great Britain, 1851–1909.**

Year	Indirect Taxation	Direct Taxation	Year	Indirect Taxation	Direct Taxation
1851–55	62.9	30.8	1881–85	59.3	40.7
1856–60	64.8	35.2	1886–90	56.1	43.9
1861–65	64.9	35.1	1891–95	56.0	44.0
1866–70	66.6	33.4	1896–1900	52.4	47.6
1871–75	65.4	34.6	1901–05	48.8	51.2
1876–80	65.3	34.7	1906–09	48.3	51.7

Source: H.C.G. Mathew, *Gladstone, 1809–1898*, (Oxford University Press, 1996), p.126.



Source: Punch Magazine, 1 July 1903.

British liberalism in general, and the Liberal Party in particular. He traces the difference back to a fundamental ambivalence in Cobden's political attitudes. Cobden had wanted to expel the state from British economic life, a strand in his thinking which mirrored Gladstone's political stance. Free trade then became a key element in the form of liberalism that produced the mid-Victorian minimalist state described above. This approach implied a 'market' view of free trade in that its principal objective was to remove the state from economic life while leaving all changes in economic and institutional structures to be decided by the play of market forces. Yet Cobden often favoured the idea of positive state action to get rid of the wealthy classes who still controlled the state and who might use it again to restore their old supremacy [4]. According to Howe, the second strand of Cobdenite thinking eventually developed into the movement known as 'New Liberalism'. As the electorate grew to include a mass of voters with incomes below the levels at which direct taxation was paid, the pressure for social reforms and for an active state increased. New Liberalism responded by combining free trade with a programme of income and wealth redistribution. This became the guiding inspiration motivating the Edwardian Liberal Party to lay the foundations of the modern welfare state [5]. Whether free-trading New Liberalism was a natural development of Cobdenite and Gladstonian liberalism, or whether it can best be described as a peculiarly British form of socialism, remains controversial. But, it is widely accepted that, as pressure mounted for government economic intervention, the Liberals, precluded from using protective tariffs as a weapon against foreign industry or as a means of raising revenues, were inevitably forced to meet increased state expenditure by raising direct forms of taxation [4]. As Table 2 indicates, the latter steadily contributed more to government revenues.

In 1903, Chamberlain's attempt to reintroduce protection into English politics provoked a widespread and highly successful counterattack by the forces of free trade (see Figure 2) which saw the Tariff Reform campaign, and the Conservative party which became unhappily associated with it, overwhelmingly defeated at the 1906 election. Business was clearly deeply divided on the issue, though the divisions manifested themselves more within industries than between them: even cotton textiles and the banking and commercial fraternity of the City of London, two of the success stories of free trade, had their protectionist elements [2, 10]. Supporters of protection were also split over whether empire unity, retaliation against foreign tariffs, or straight protection for domestic industry and agriculture was the key matter. Yet it is now clear that protectionist sentiment was much more widespread in the business community than has previously been thought; as the Liberal Party raised direct taxation to pay for its welfare reforms after 1906, support for protection intensified [10]. But the overwhelming majority of working class voters remained hostile to protection. It was still widely viewed as selfish and as leading to corrupt relations between business and the state, attitudes skilfully encouraged by excellent propaganda from organisations such as the Cobden Club [4]. The Cobden/Gladstone legacy amongst working class voters thus remained strong, so strong that some businessmen felt obliged to suppress their protectionist sympathies for fear of the obloquy their heresy might provoke [10].

## Free trade and British economic growth

It) recent years, the connection between free trade and economic growth has been much debated. Starting from the assumption that most contemporary politicians and economists believed that unilateral free trade would enhance the growth of income and output, McCloskey has argued that this was not the case before 1880. Britain was by far the biggest importer in the world in the 1840s (accounting for 30 per cent of world imports) and the move to free trade enhanced her import demand. This caused the 'terms of trade' to move against Britain: that is, her import prices were forced up relative to export prices. Since Britain now had to pay out a higher proportion of her export income to secure the same quantity of imports, national income was actually reduced. Although unilateral free trade increased world output, Britain herself would have gained more by retaining tariffs. McCloskey therefore argues that Britain was being 'magnanimous', albeit unknowingly, in adopting free trade in a protectionist world [9].

McCloskey's main contention has been supported by Irwin [7] but it has also been subject to criticism. Contemporaries were actually well aware of the claims made by McCloskey: for instance, the economist-politician Robert Torrens used similar arguments in the 1840s when he asserted that Britain would lose in moving to free trade unless it did so on the basis of reciprocity. McCloskey's conclusions about the effects of unilateralism have also been challenged. Even though Cobden was disappointed by the rate of progress, the downward movement of European tariffs after 1850 may have been influenced by the British example and, as mentioned above, protection was also overcome to some degree by free trade imperialism. These movements towards freer trade must have mitigated the effects McCloskey describes [1, 7]. More challengingly, it is claimed that, even if unilateral free trade did produce adverse terms of trade immediately, it had the reverse effect in the longer run. British free trade, along with increasing British investment in overseas transport, stimulated the growth of world agricultural output, depressing agricultural prices so that, by the 1870s, the trend in the terms of trade had been reversed [1].

The effect of free trade on growth after 1880, when foreign competition was becoming serious for Britain in agriculture and industry, has been less debated and is an interesting area for future research. One argument against protection after 1880, much touted by free traders at the time, was that it would provoke retaliation which would harm British exports. In particular, it is claimed that the network of MFN treaties gave Britain an important niche in the European market and that this would be lost if protection were adopted. However, doubts have recently been cast on this proposition. First, as seen above, the MFN treaties may have been less effective than assumed in safeguarding Britain's markets in Europe because so many of them were drawn up in a way which excluded Britain's particular products. Secondly, the level of tariffs suggested by the Tariff Reform movement was not very high and, even if they had been applied, Britain would have remained by far the most open market in the developed world. Foreign nations might well have accepted these modest tariffs without demur for fear of provoking an even more drastic response in Britain. This last point is a reminder that Britain was still a major player in international trade. Even in 1913 it accounted for

17 per cent of world imports and it is possible that tariffs could even then have shifted the terms of trade in its favour and increased national income [11].

Whatever its effect on overall rates of growth, free trade, in combination with heavy foreign investment, certainly helped to change the shape of the British economy in the late nineteenth century. In 1900, a particularly acute commentator known only by his pseudonym, Ritortus, argued that the long run effect of unilateral free trade had been to increase competition for British agriculture and industry, lower profits and stimulate capital exports. He was aware that this regime had yielded great benefits. British capital, pouring into foreign railways and other industries overseas, had helped to reduce agricultural commodity prices, shifting the terms of trade in Britain's favour and raising national income. Dividends and interest payments on foreign investments had also increased greatly and these returns were realised by importing cheap foreign produce freely. Furthermore, Ritortus recognised that this unilateral free trade-foreign investment system had provided a strong boost to Britain's commercial and financial sector. Nonetheless, he was concerned that it had subjected domestic agriculture to ruinous competition and that, as Europe and America industrialised behind protective barriers, British industry was beginning to face equally exacting competition. He had two main objections to maintaining this system. First although it had been successful over the previous generations, he believed that the threat it posed to industrial survival would undermine the rate of economic growth in the foreseeable future. Secondly, he thought that Britain's political influence would be diminished as she became increasingly dependent on foreign supplies of food and vital industrial equipment, an outcome that would be extremely dangerous in the event of war. He therefore advocated both agricultural and industrial protection [15]. Ritortus's arguments and conclusions need close scrutiny by modern economic historians. It is reasonably clear that the free trade-foreign investment regime did help to encourage the structural shift in the British economy towards the service sector during the late nineteenth and early twentieth centuries [2], but whether this justified Ritortus's plea for protection is another matter altogether.

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