Report

'Exchange goods, not bombs'

Fringe meeting, March 2002, with Anthony Howe, David Dutton and Duncan Brack

Report by **Martin Ryder**

The Liberal Democrat History Group's spring meeting, 'Exchange goods, not bombs: Free trade, Liberalism and the Manchester School', took place in Manchester, being hosted by the People's History Museum, in conjunction with its exhibition, 'Reforming Manchester: Liberals and the City' – a particularly appropriate setting for the discussion. Anthony Howe (LSE), David Dutton (Liverpool University) and Duncan Brack (Royal Institute of International Affairs) delivered a complementary set of talks which, for the purposes of this report, have been integrated into one. The meeting was ably chaired by Patsy Calton MP.

As Duncan Brack argued, from the campaign for the repeal of the Corn Laws in the 1840s to the current debates around the reform of the World Trade Organisation (WTO), political parties' views of international trade and, more broadly, Britain's relations with its neighbours overseas have differed markedly, and have helped to define their stance in the political spectrum. For a large part of its life, the fortunes of the Liberal Party have been closely related to the strength of popular feeling for the liberalisation of international trade.

'The school of Manchester'

This attachment had its origins in the 'Manchester School' which, as Anthony Howe argued, should be seen as 'the most authentic and British form of Liberalism'. Its greatest exponent was Richard Cobden, who, arriving in Manchester in the 1820s, became a successful calico printer. His views, shaped by the political economy of the Scottish Enlightenment, the Anglo-American democratic tradition, and the secular pacifism of the European Enlightenment., came to focus on what he saw as the misgovernment of Britain by its aristocratic rulers, in particular through a foreign policy of profligate military adventurism. 'No foreign politics' was Cobden's earliest rallying cry: the free exchange of goods contained its own foreign policy in leading to peace between nations while at the same time maximising prosperity and reducing needless expenditure on armaments.

In the 1830s Cobden extended his criticism of the state by beginning the great campaign for the repeal of the Corn Laws, which he saw as another bastion of aristocratic self-interest, distorting the natural order of economic development, raising the cost of living, and reducing prosperity. Some opponents attacked the campaign as inimical to the interests of the workers, as cheaper food would enable manufacturers to pay lower wages, but Cobden always viewed repeal as improving the welfare of the working classes – a successful connection which helped to tie working class political support to the Liberal Party for decades.

Free trade, peace and reform remained Cobden's watchwords throughout his career. At the heart of Manchester Liberalism sat a drastic curtailment of state power, primarily as a means of curbing aristocratic misrule. But Cobden was never a pure advocate of laissez-faire – he accepted the need for legislation for those who could not act for themselves, such as children, or women (and was also an early advocate of women's suffrage), recognised the case for state support for education, was a strong supporter of local self-government, and by the 1860s began to recognise an important role for trade unions. He was an opponent of colonialism and – rarely for his time – British rule in India, and argued for the compulsory arbitration of international disputes.

Popular support for the Crimean War shook his belief in the ability of the people to follow a rational path of self-interest, and he criticised the press for hoodwinking the public through bogus war scares. Against this background, he began to recognise a greater role for national governments in the promotion of peace, and in 1860 negotiated a commercial treaty between Britain and France. This was to a certain extent a retreat from 'no foreign politics', but it was a different kind of diplomacy; emulated in a succession of similar treaties, it can be seen as laying the early foundations of the European Common Market. Although often criticised as a 'little-Englander, peace-at-any-price' politician, he is more accurately seen as one of the first serious practitioners of internationalism; in one of his contemporary's words, as a 'Christian-love, exchange-of-cotton-goods' internationalist, in opposition to the alternative vision of Bismarck's 'exchange-of-hard-knocks, blood-and-iron' international system.

On his death in 1865, Cobden was widely recognised by continental Liberals as a model of a European statesman. He inspired a generation of Liberal thinkers, including Gladstone and Hobson in Britain and Bernstein in Germany, and shaped a domestic creed of political and economic reform. His views on foreign policy inspired further generations of idealists – as A. J. P. Taylor dubbed them, 'trouble-makers' – in their dissent from official foreign policy, a continuous strand in British radicalism until the 1930s. He was never simply a Manchester manufacturer, but a free trader, an anti-imperialist a good European, a lover of peace, and an early prophet of globalisation.

Richard Cobden and his friend and

ally John Bright converted the Liberal Party and the country to the cause of free trade. In 1852, even after the repeal of the Corn Laws, there were still more than a thousand dutiable articles in the British tariff. After Gladstone's budget of 1860 (in what is generally recognised as the first government of the modern Liberal Party), only sixteen remained. Free trade became a national obsession; 'like parliamentary representation or ministerial responsibility,' commented *The Times* in 1859, 'not so much a prevalent opinion as an article of national faith'.

Free trade remained an article of Liberal faith for decades, even after it became somewhat harder to justify, as British economic power weakened towards the end of the nineteenth century. Their opponents in the Conservative Party gradually became committed to 'tariff reform', a cause taken up most strongly by the former radical leader Joseph Chamberlain; but in the short term all this achieved was one of the greatest electoral landslides of the century, in the Liberal victory of 1906. Liberal candidates habitually appeared on election platforms with two loaves of bread, contrasting the Liberal 'big loaf' with the Tory 'little loaf' which would follow the imposition of grain duties – and the Museum's exhibition provided many other examples of the Liberal determination to identify with the cause of cheap food for the working classes.

Free trade in the 1930s

David Dutton took up the story from the 1920s, as free trade was becoming almost the only cause with which an increasingly divided Liberal Party could identify. (As Ramsay Muir put it in 1934, in frustration at Liberals' inability to cohere round a consistent set of principles, 'It is at once the strength and the weakness of the Liberal Party that it consists of Liberals – that is to say, of people who insist upon exercising their own freedom of judgement'.)

Liberal leaders – in particular Gladstone – had always proved skilful in using single issues to unify a very broad political church. But by the early twentieth century, constitutional issues such as Home Rule for Ireland of reform of the House of Lords were proving less successful. Free trade, however, still provided a unifying factor, not least because of the Conservative abandonment of this previously shared commitment. Thus in 1923, Conservative Prime Minister Baldwin's decision to call an election in search of a mandate for protection achieved what Liberals themselves had failed to manage, in bringing together the warring Lloyd George and Asquith factions; the 1923 Liberal result was the best of any inter-war election.

Ironically, however, the same issue lay at the heart of the disastrous Liberal split of 1931–32, arguably even more important than that of 1916 in explaining the party's eclipse. Although laissez-faire and free trade were often seen as virtually interchangeable, from at least the 1890s onwards many Liberals were increasingly separating the two. Most notably, the New Liberalism of the early twentieth century recognised a strong case for the state to intervene in the workings of the economy. Indeed, Ramsay Muir questioned whether Liberalism had ever been a laissez-faire philosophy, arguing that state interventionism began as early as the Liberal government of 1832, and most of the functions which the state assumed in the economic field since had been due to Liberal legislation. There were always a few Liberals who were bitterly critical of any enlargement of the functions of the state, but they were a minority.

In the 1920s, however, and against a background of stubbornly high unemployment, some Liberals went further and began to question the case for free trade. As Keynes argued in his address to the Liberal Summer School in 1925, 'we have to invent new wisdom for the new age', and by 1930 he had accepted the case for increased tariffs. Similarly, E. D. Simon saw the Manchester School doctrine as inappropriate to the twentieth century, when Britain was no longer the workshop of the world, and at the 1930 Summer School suggested a 10% revenue tax on most imports (including food, though not raw materials).

The Liberal leadership reacted in horror, partly because they feared loss of the public identification of the party with free trade, but the critics struck a chord within the parliamentary party. Sir John Simon, Lloyd George's main critic, particularly over his closeness to the Labour Government, began to question the ark of the Cobdenite covenant, declaring, in 1931, that he was not prepared to shut out from his mind the need for fiscal measures that would not be required in more prosperous times, and arguing that the limits of direct taxation had been reached and new sources of revenue were needed. In June 1931, Simon and his followers resigned the Liberal whip and founded the 'Liberal National' group. Although both the official party and the Simonites joined the National Government in the crisis of 1931, the Liberal Nationals steered a distinct course, in September signalling their support for any measures the Government thought necessary to deal with the trade imbalance and staying in the cabinet when the Samuelite Liberals resigned a year later over the Ottawa Agreements establishing preferential tariffs for the Empire.

This split was of profound importance to the future of British Liberalism. David Dutton believed that the early 1930s saw an opportunity for the Liberals to turn the tide of electoral decline, particularly in light of the crushing Labour defeat in 1931 – but to do this they needed unity, which the conflict over free trade deprived them of. The split proved to be permanent, until the Liberal Nationals finally fused with the Conservatives after the 1966 election. The party's division into two factions sowed confusion in the minds of the electorate, and the Conservatives were able to use their Liberal National allies to proclaim their 'liberal' credentials to the public, helping to capture the bulk of former Liberal voters in seats where the Liberals had no candidate in the knife-edge 1951 election.

It was a matter of considerable irony that the principle of free trade – almost, by then, a definition of what it meant to be a British Liberal – was responsible for splitting the party a century after the same issue had torn the Conservatives

apart over the Corn Laws. That fission paved the way to the era of Liberal supremacy in the mid nineteenth century; and in turn, the Liberal divisions of 1932 ushered in a period of Conservative hegemony from which the Liberal Party has still fully to recover.

New challenges

Duncan Brack took up the story after 1945. In December 1944, the statesmen who met at Bretton Woods, in the US, to plan the post-war world were determined to avoid a repeat of the disastrous trade wars of the 1930s. The establishment of new international institutions – the United Nations, the World Bank, the International Monetary Fund – brought with it the hope of effective regulation of international economics and an equitable international system to govern the relationships of nations.

Although at this point the Liberal Party itself was almost irrelevant, Liberal thinkers still helped to shape the future. John Maynard Keynes (building on the ideas of James Meade) was largely responsible for the plans for the establishment of an International Trade Organisation alongside the World Bank and IMF. Although the proposal was vetoed by the US, its 'provisional' substitute – the General Agreement on Tariffs and Trade (GATT), originally a small part of the ITO – was able, over the following forty years, to coordinate successive rounds of tariff reductions, culminating in the Uruguay Round, concluded in 1993, and its own transformation into the WTO. As on so many other issues, Liberal ideas came to be adopted by other parties as trade liberalisation once again became the accepted faith.

Ironically, the Liberal Party itself suffered from divisions over trade as its parliamentary representation came to rest increasingly in rural areas. After a 1953 assembly vote for a policy of gradual abandonment of guaranteed markets and fixed prices for agriculture, Jeremy Thorpe seized the microphone and proclaimed that he and other candidates for rural seats would disown such an electorally damaging position. In 1958 moves to delete the word 'unilateral' from a motion on free trade ended in uproar. The 1959 manifesto, however, still demanded the dismantling of all protectionism within one parliament. The moral argument for trade was still powerful; the 1959 manifesto ended with the slogan: 'exchange goods, not bombs'. In 1956 the Liberals became the first party to argue for British participation in the Common Market: the Cobdenite vision of trade building links between peoples was an important factor, overriding concerns over potential European protectionism against the rest of the world. The EC's Common Agricultural Policy resolved the argument within the party between trade and farming, until the CAP's own contradictions forced reform in the 1980s.

The conclusion of the Uruguay Round, and the transformation of the GATT into the WTO in 1995 have shifted the grounds of debate once again. The WTO has come to be seen as the prime agent of all of the negative aspects of 'globalisation': the spread of a global culture and the stamping out of local diversity; the elevation of trade liberalisation over every other aspect of public policy, such as environmental protection or development; and the extreme inequalities of wealth between rich developed nations and the abject poverty in much of the developing world. To a certain extent, these are the problems of success: the removal of the barriers to trade for which Liberals campaigned for almost two centuries has proceeded so far that it has unbalanced the international system. The WTO is a much more powerful institution than other international organisations, such as those dealing with the environment, or development, and most governments afford a higher priority to trade liberalisation than to other policy goals. The purpose of the debate within the party currently under way should be to suggest ways in which the international system can be rebalanced, seeing trade liberalisation as just one part of a wider approach to the spread of growth and prosperity.

It is notable that in every major debate over free trade over the last two centuries, Liberals and Conservatives have ended up on different sides; Liberals have consistently supported the open, international option. Yet, as Duncan Brack argued, this was never a primarily economic argument; Liberals never fought for the reduction of tariffs as an end in itself. As the record shows, the political justifications for the removal of trade barriers were what inspired the campaign for free trade: the extension of opportunity to every individual, every enterprise, and every country, no matter how small; and the building of relationships between peoples and nations, pulling communities together rather than driving them apart.