

## Britain's Place in the World: A historical enquiry into import controls 1945-60

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There is considerable agreement among historians that any explanation of Britain's post-war relative economic decline must take into account the foreign economic policy choices made by British governments after 1945. A common argument in the 1960s used to justify programmes of economic and social modernisation was that Britain for too long had pursued grandeur at the expense of growth, and had been slow to come to terms with its altered status in the post-war world. Specifically British Governments were charged with giving priority to rebuilding Britain's former position in the world, restoring its imperial, commercial and financial supremacy, rather than with strengthening and reconstructing the domestic industrial base. One of the first such accounts was provided by Andrew Shonfield and it was later developed by Stephen Blank. British economic decline was ascribed to a policy choice which gave greater priority to foreign economic policy, involving heavy additional costs in the shape of overseas military spending and the measures required to defend sterling as an international currency. These policies ultimately proved unsustainable, but while they were in force they imposed a severe handicap on domestic economic performance.

Such accounts have often been considered more plausible than cultural explanations of British decline, because they point to identifiable actors and policy choices. But there is still a problem in explaining exactly why British Governments should have acted the way they did. Was Churchill's rhetoric about Britain being

at the centre of the three circles of Europe, Commonwealth, and Anglo-America ever really credible? One argument has been that British policy was based on illusions about Britain's post-war strength, and that it took a very long time for these illusions to be dispelled. But this assumes that there was a plausible alternative strategy which British governments might have followed which would have brought greater success. There has been considerable debate among historians as to whether Britain's relative economic decline after 1945 was because British governments failed to liberalise sooner, or because they gave priority to spending on welfare and defence, or because they failed to create their own developmental state.

More recently, however, the idea of British decline has been questioned. Britain, it is argued, during the previous two centuries had evolved its own distinctive form of capitalism (predominantly commercial and financial) and its own form of developmental state (predominantly military) and that as a result policy was not based on illusions, but on a rational understanding of the specific interests of the British economy and the British state. If policy was at fault in the 1950s it was because it returned too slowly to the principles which had given Britain commercial and financial supremacy in the nineteenth century, and which had been abandoned for twenty years after 1931.

Milward and Brennan bring new light to bear on this debate through a detailed study of a particular aspect of foreign economic policy in Britain between 1945 and 1960, the question of import controls. They argue (convincingly) that import controls have been neglected in comparison with tariffs, which however important in earlier periods of state building, had become much less important by the middle of the twentieth century. Their purpose is to draw attention to a key policy area that has been relatively neglected in discussions of the period, or dismissed as simply a hangover from the 1930s and the war-time economy. They also raise some fundamental questions as to the nature of Britain's engagement with Europe. In doing so they endorse a version of the Shonfield/Blank thesis, but it has a different twist, because it is grounded less in high politics and more in the detail of trade negotiations and the policies of individual ministries to the industries they supervised.

Their main idea is quite simple. Quantitative import restrictions in the form of import quotas rather than tariffs were the main instrument of trade policy used by Governments after 1945. The ostensible reason for quotas was to save hard currency (especially dollars) but although this was important they show convincingly that there were many other objectives -including the strategic military importance of particular industries, regional development and employment, and safeguarding infant industries in new technological fields. The system of quotas was a patchwork without an overall design or rationale. This is one of the reasons the authors argue why its importance has been overlooked, both at the time and subsequently. Policy-makers failed to understand the extent to which the success of the British economy in the post-war period of reconstruction in rebuilding exports and eliminating the balance of payments deficit was due to the quantitative restrictions on trade, which provided in their detailed application an embryonic industrial policy. Certain sectors were protected and allowed to develop. Some of these became key industries of the future, such as chemicals, pharmaceuticals, and electronics. Other industries such as jute were protected purely for regional employment reasons and would not otherwise have survived.

The general view in the UK of quantitative import controls, which was in line with the official view at the time, is that they were a temporary and transitional measure, a legacy of the depression and the war economy which were dismantled as quickly as possible. They have no part to play in a dynamic, open, free market global economy, because they reduce flexibility and are likely to misallocate resources and so depress productivity and living standards beyond what they might otherwise be. Only an open economy can be competitive enough to deliver a high productivity, high income economy. On this view, which has recently been forcefully restated by economists like Paul Krugman in his diatribes against 'strategic trade policy' protectionism has always been a political interference in markets which undermines economic efficiency by allowing powerful lobbies to impose their preferences through the political process, the cost being borne by all citizens.

Milward and Brennan are careful not to make a general case for protectionism, still less for quantitative import controls. There are many circumstances in which their use would not be appropriate. They merely

point out that in the post-war period the extent to which Britain's trade recovery depended on them was insufficiently understood, and that this led to serious policy errors in the 1950s, particularly in relation to the moves to European integration. British policy-makers, according to Milward and Brennan, thought that Britain's commercial position was stronger than it really was in relation to Europe. This illusion allowed them to oppose the moves to a European bloc and propose instead a vision of a one-world system in which all currencies would be convertible and there would be no trade discrimination. The purpose behind this plan, which had several versions, the most notorious being Operation Robot in 1952, was to re-establish Britain as a leading commercial and financial power, the right arm of the US, and maintain sterling as one of the leading international currencies.

For this to be possible the British balance of payments had to be strong. The Treasury estimated that to support the overseas military spending and overseas investment which the British state and British companies wished to fund an annual surplus of #200 -#300 million was required. The economic liberals who were ascendant in key departments and agencies - the Treasury, the Board of Trade, and the Bank of England - failed to recognise that their strategy actually required a continuation of quantitative import controls, and participation in the kind of regime regulating trade and competition which the EEC initiated after 1956. Instead they encouraged the dismantling of these controls and strongly opposed participation in the discussions which led to the setting up of the EEC. The result was to weaken many sectors of the British economy substantially, contributing to the periodic weakness of the balance of payments which led to the sterling crises, and ultimately creating the conditions in the 1970s which produced the elimination of large parts of the manufacturing base.

The strength of this argument depends on the calculations the authors make about the effects of quantitative import controls. They estimate that at its height in 1946-9 it reduced the import bill by 20 per cent; by 1955 this had declined to 5.3 per cent. In terms of manufacturing they estimate that 16.5 per cent of British manufacturing output would have disappeared if quantitative import controls had not been in place. They acknowledge that in many cases special interests and lobbies were at work in pressing for controls, and that many of the industries protected had no future unless protection were prolonged indefinitely. But for many others, such as the petrochemical and pharmaceutical industries the fourteen years of protection were essential in getting them established.

If this argument is sound then it necessitates a substantial revision of the way in which post-war history has been written, and it provides new insights into Britain's tangled relationship with Europe. The essential question is whether the British governments have ever been correct to imagine that they could protect British interests outside a European regional arrangement. Milward and Brennan argue that the crucial error of British policy was to believe that Britain could maintain leadership of Europe and leadership of the Commonwealth simultaneously. It sought both in order to convince the United States that it would continue as its most important ally. But the liberalisation policy it pursued through the OEEC to maintain leadership in Europe - the one world system of convertibility of all currencies and abolition of all controls and trade discrimination - was rejected by the other European countries, and in particular by the French, who wished to build a customs union within Europe which would discriminate against countries outside it, particularly the USA. The other European countries were strongly opposed to non-discrimination, and found it odd that the British were urging non-discrimination on them while at the same time seeking to maintain its own system of discrimination and preferences within the Commonwealth.

The reluctance of the British to put themselves at the heart of the European project did not begin in the 1980s. Maintaining a global role, and all which that has entailed, has been the dominant objective of British governments this century, and was only shaken briefly when the Conservative party first under Macmillan, and even more so under Heath, became committed to membership of the EC. Under Thatcher the Conservatives reverted to an increasingly sceptical stance and many began to argue in the manner of the 1950s that British interests were best served if Britain stayed independent of any political and economic union in Europe. Milward and Brennan doubt this. They ask: "Will Britain's partners in the European Union indefinitely allow imports from the United Kingdom unhindered access to a large Single Market while allowing Britain to retain the sovereign privilege of undervaluing its currency at will ?" (p. xv)

If Milward and Brennan are right the failure of the British economy to modernise successfully in the 1960s and 1970s and to perform as well as the other European economies was directly related to the policy mistake of backing liberalisation in the 1950s and shunning the protection which would have been provided inside the EEC. The modernisation programmes of the 1960s and early 1970s proclaimed objectives considerably beyond the capacity of government to deliver. The result of those failures was to polarise political opinion and encourage a revival of economic liberalism on the right and national protectionism on the left. Milward and Brennan do not rehabilitate protectionism but they do enter a warning against assuming that the ascendancy of market liberalism in the 1980s and 1990s means that all previous economic history in Britain needs to be reinterpreted. The advocates of market solutions believe that a much more thorough going liberalisation in the 1950s would have avoided many of the problems of the 1960s and 1970s. What Milward and Brennan show however is that in important respects liberalisation went too far in the 1950s. It disrupted the partial and piecemeal industrial strategy which the quantitative import controls represented without putting anything in its place, in the belief that the British economy was strong enough to perform successfully in a global economy free of trade barriers. This turned out not to be so.

Milward and Brennan treat the ideas of the economic liberals in the government in the 1950s as doctrines which were blind to some of the practical realities which government faced. They were not just ideological however. There were also powerful interests lined up behind them to promote their adoption, both within the government machine and in the industrial sectors. Their appendices show in detail how different industries were treated and the arguments that were deployed for protection. These varied considerably, but the strongest arguments were often strategic. With the war so recent the need to preserve particular manufacturing capacities was seen as essential. The case that is made is for the relative success of an industrial policy which did use criteria for picking winners and shaping the pattern of industrial activity. The policy was pragmatic rather than ideological. No overarching concept like the development state informed it. Yet the results were remarkably similar to the kind of economic success which states consciously pursuing what later was designated a developmental state strategy experienced.

The implication of the analysis is that this embryonic developmental state might have developed further had Britain participated as a full member in the European Community from the outset. On this view European co-operation is a matter of negotiation between states, and the process of European integration has been accepted because in general European co-operation has proved a success, boosting the living standards and economic security of most citizens within the EU. On this view there is no alternative to participation in European integration for Britain which will deliver as much, and British economic performance has suffered in the post-war period by the reluctance successive British governments have shown to become more involved.

Milward and Brennan do make a powerful case for re-evaluating the importance of quantitative import controls in Britain's post-war reconstruction, and they shed new light on the economic reasoning which led British governments in the 1950s to reject at that time participation in the EEC. But the lessons they wish to draw from this will remain controversial. They tend to underplay some of the persistent structural features which can account for some of the policy choices they find so perverse. Maintenance of Britain's global role was indeed incompatible with full participation in the EEC, yet if Britain could not present itself as the leader of Europe, then its importance to the United States was bound to decline. But the counter-argument is

that in the long run Britain's interests did lie in the creation of a one world system rather than a European regional bloc. On this reasoning it is irrelevant that policy-makers had illusions in the 1950s (it would be surprising if they had not). What they did have was a deep sense of the particular character and strengths of the British economy which would be best served by returning as quickly as possible to the one-world system of convertible currencies and free trade which had been lost in 1931. Britain's economic and political structures have been so shaped by that experience that it has proved very difficult to pursue any other kind of policy. The period between 1931 and 1951 - the high tide of national protectionism - does look aberrant in the long sweep of British economic and political history. Part of Milward and Brennan's case is that it need not be aberrant. Properly understood, Britain's post-imperial destiny is to be part of a regional European bloc which is informed more by the French than the British view of how the global economy should be organised. This is certainly the big strategic issue of political economy for Britain in the second half of the twentieth century and it is still unresolved. Milward and Brennan provide an important new angle from which to reflect on it.

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