Newsletter 46: Free Trade vs National Economy

Dear Reader,

In this selection for my complimentary newsletter I offer a section from my bestselling book, **A Century of War: Anglo-American Oil Politics**. Today there is intensive debate over imposition of trade tariffs by Washington on China and other trading partners. What is useful is to look at the same debate as it shaped the economic policies of Great Britain in the 19th Century when the international banks of the City of London managed to win repeal of Corn Laws and the protections for national industry and agriculture. That was 1846. By the end of that century, British industry leadership was in ruins and its place had been taken by two emerging industrial nations with protective national economic policies—the German Empire and the United States.

I hope you find this interesting as the history is all but erased from the literature today.

Please also consider purchasing this book or my other books or consider a support contribution through my PayPal here.

Thank you for your interest,

William Engdahl

http://www.williamengdahl.com/

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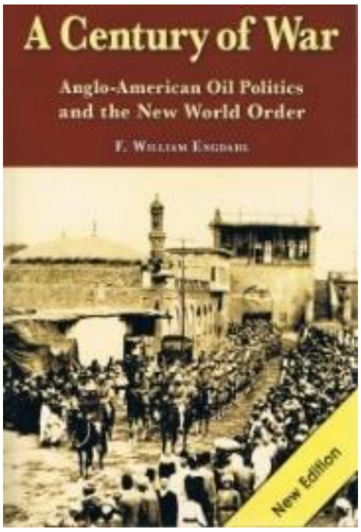

THE THREE PILLARS OF THE BRITISH EMPIRE

The Empire Needs a New Strategy

No other element has shaped the history of the past one hundred years so much as the fight to secure and control the world's reserves of petroleum. Too little is understood of how political and economic power around the raw material, petroleum, has been shaped by interests principally under the control of two governments--England and, later, the United States of America.

Britain, approaching the end of the 1890's, was in all respects, the pre-eminent political, military and economic power in the world.

British gold, under the jealous, guarding eye of the Bank of England, was the basis for the role of the Pound Sterling as the source spring of world credit, since 1815. Prussian military superiority was the actual key to the defeat of Napoleon's army at Waterloo. But Wellington and the British took the credit, and with it, the lion's share of world gold reserves which subsequently flowed into London. "As good as Sterling" was the truism of that day. After a law of June 22 1816, gold was declared the sole measure of value in the British Empire. British foreign policy over the next 75 years or more, would be increasingly preoccupied with securing for British coffers--the vaults of the Bank of England--the newly mined reserves of world gold, whether in Australia, California or in South Africa. The corollary of this minerals policy was a policy of "strategic denial" of those same identified gold reserves from competitor nations whenever possible.

After 1815, British naval superiority was unchallenged on the world's seas. British ships carried British steel, coal and exports of the Manchester textile industry. English manufactures had led the world for decades.

But behind her apparent status as the world's pre-eminent power, Britain was rotting internally. The more that British merchant houses extended credit for world trade, and City of London banks funneled loan capital to build railways in Argentina, the United States and Russia, the more the domestic economic basis of the English nation-state deteriorated. Few understood how ruthlessly lawful was the connection between the two parallel processes at the time.

Since the 1814-15 Congress of Vienna, which carved up post-Napoleonic Europe, with the diplomatic maneuvering of British Foreign Minister Lord Castlereagh, the British Empire had exacted rights to dominate the seas, in return for the self-serving "concessions" granted to Habsburg Austria and the rest of Continental European powers, which concessions served to keep central Continental Europe divided, and too weak to rival British global expansion. British control of the seas, and, with it, control of world shipping trade, was thus to emerge after Waterloo as one of the three pillars of a new British Empire. The manufactures of Continental Europe, as well as much of the rest of the world, were forced to respond to terms of trade set in London, by the Lloyds shipping insurance and banking syndicates. While Her Royal Britannic Majesty's Navy, the world's largest in that day, policed the world's major sea-lanes and provided cost-free "insurance" for British merchant shipping vessels, competitor fleets were forced to insure their ships against piracy, catastrophe and acts of war, through London's large Lloyd's insurance syndicate.

Credit and bills of exchange out of the banks of the City of London were necessary for most of the world's shipping trade finance. The private Bank of England, itself the creature of the pre-eminent houses of finance in London's "City" as the financial district is called--houses such as Barings, Hambros, Rothschilds--manipulated the world's largest monetary gold supply, in calculated actions which could cause a flood of English exports to be dumped mercilessly onto any competitor market at will. Britain's unquestioned domination of international banking was the second pillar of English Imperial power following 1815.

The third pillar, more and more crucial as the century wore on, was British geo-political domination of the world's major raw materials--cotton, metals, coffee, coal and, by the century's end, the new "black gold," petroleum.

Free Trade and the Sinews of British Power

In 1820, Britain's Parliament passed a declaration of principle which was to usher in a series of changes that had as one consequence, outbreak almost a century later, of World War I and its tragic aftermath.

Acting on the urgings of a powerful group of London shipping and banking interests centered around the Bank of England, and Alexander Baring of Baring Brothers merchant bankers, Parliament passed a Statement of Principle in support of the concept several decades earlier advocated by Scottish economist, Adam Smith, so-called "absolute free trade."

By 1846, this declaration of principle had become formalized in a Parliamentary repeal of domestic English agriculture protection, the famous Corn Laws. The Corn Laws repeal was based on the calculation of powerful financial and trade interests of the City of London, that their world dominance gave them a decisive advantage, which they should push to the hilt. If they dominated world trade, "free trade" could only insure their dominance grew at the expense of other less-developed trading nations.

Under the hegemony of free trade, British merchant banks reaped enormous profits on the India-Turkey-China opium trade, while the British Foreign Ministry furthered their banking interests by publicly demanding China open its ports to "free trade," during the British Opium Wars.

A new weekly propaganda journal of these powerful City of London merchant and finance interests, The Economist, was founded in 1843 with the explicit purpose of agitating for the repeal of the Corn Laws.

The British Tory Party of Sir Robert Peel pushed through the fateful Corn Law Repeal in May 1846, a turning point not only in British but in world history, for the worse. Repeal opened the door for a flood of cheap products in agriculture, which created ruin among not only English but also other nation's farmers. The merchants simple dictum, "Buy Cheap...Sell Dear," was raised to the level of national economic strategy. Consumption was deemed the sole purpose of production.

Britain's domestic agriculture and farmers were ruined by the loss of the Corn Laws protectionism. Irish farmers were enmiserated, as their largest export market suddenly lowered food prices drastically, as a result of Corn Law repeal. The mass starvation and out-migration of Irish peasants and their families in the late 1840's--the tragic Irish Potato Famine of 1845-6 and its aftermath--was a direct consequence of this "free trade" policy of Britain. England's prior policy toward Ireland prohibited development of a strong self-sufficient manufacture, demanding it remain the economically captive bread basket to supply England's needs. Now that bread basket itself was destroyed in pursuit of the fictional free trade.

After 1846, Hindu peasants from Britain's Indian colony competed, with their dirt poor wage cost, against British and Irish farmers, for the market of the British "consumer." Wage levels inside Britain began falling with the price of bread. The English Poor Laws granted compensation for workers earning below human subsistence wage, with income supplement payment pegged to the price of a loaf of wheat bread. Thus, as bread prices plunged, so did living standards in England.

In effect, repeal of Corn Laws protectionism opened the floodgates throughout the British Empire to a "cheap labor policy." The only ones to benefit, following an initial surge of cheap food prices in England, were the giant international London trading houses, and the merchant banks which financed them. The class separations of British society were aggravated by a growing separation of a tiny number of very wealthy from the growing masses of very poor, as a lawful consequence of “free trade.”[1]

E. Peshine Smith, an American economist and fierce opponent of British free trade, writing at the time, summarized the effect of the British Empire's free trade hegemony over the world economy of the 1850's: "Such has been the policy which still controls the legislation of Great Britain. It has, in practice, regarded the nation collectively as a gigantic trader, with the rest of the world, possessing a great stock of goods, not for use, but for sale, endeavoring to produce them cheaply, so that it might undersell rival shopkeepers; and looking upon the wages paid to its own people as so much lost to the profits of the establishment." [2]

Peshine Smith contrasted this "nation as giant shopkeeper" doctrine of the Britain of Adam Smith & company, to the growing national economic thinking emerging on the Continent of Europe in the 1850's, especially under the German Zollverein and other national economic policies of Friedrich List.[3]

"Their policy" Smith notes, "will be dictated by the instincts of producers, and not that of shopkeepers. They will look to the aggregate of production, not to the rate of profits in trade, as the test of national prosperity. Accordingly, the great Continental nations, France, Russia and the German States-- united in the Zollverein or Customs Union--have practically repudiated the idea which has so long controlled the commercial policy of England. What England has gained by that policy is thus described by one of her own learned and respected writers, Joseph Kay, who speaks of that nation as the one 'where the aristocracy is richer and more powerful than any other country in the world, the poor are more oppressed, more pauperized, more numerous in comparison to the other classes, more irreligious and very much worse educated than the poor of any other European nation, solely excepting uncivilized Russia and Turkey, enslaved Italy, mis-governed Portugal and revolutionized Spain.'"[2]

So a campaign began to shape ruling English ideology in 1851, using a viciously false Malthusian argument of over-population, rather than admit the reality of a deliberate policy of forced under-investment in new productive technologies. The name given the political doctrine which rationalized the brutal economic policy, was English Liberalism. In essence, English Liberalism, as it was defined towards the end of the 19th century, justified development of an ever more powerful imperial elite class, ruling on behalf of the "vulgar ignorant masses," who could not be entrusted to rule on their own behalf.

But the underlying purpose of the liberal elites of 19th century British government and public life was to preserve and serve the interests of an exclusive private power. In the last part of the 19th century, that private power was concentrated in the hands of a tiny number of bankers and institutions of the City of London.

Britain's 'Informal Empire'

Such free trade manipulation has been the essence of British economic strategy for the past one hundred fifty years. Britain's genius has been a chameleon-like ability to adapt that policy to a shifting international economic reality. But the core policy has remained--Adam Smith's "absolute free trade," as a weapon against sovereign national economic policy of rival powers.

By the end of the 19th century, the British establishment began an intense debate over how to maintain its global empire. Amid slogans about a new era of "anti-imperialism," beginning the last quarter of the 19th century, Britain embarked on a more sophisticated and far more effective form for maintaining its dominant world role, through what came to be called, "informal empire." While maintaining core imperial possessions in India and the Far East, British capital flowed in prodigious amounts into especially Argentina, Brazil and the United States, to form bonds of financial dependence in many ways more effective than formal colonial titles.

The notion of special economic relationships with "client states," the concept of "spheres of influence" as well as of "balance-of-power diplomacy," all came out of this complex weave of British "Informal Empire" towards the end of the last century.

Since the English defeat of Spain's Armada in 1588, Britain had used the special circumstance that it was an island apart from Continental Europe. It was saved the costs of having to raise a large standing army to defend its interests, leaving her free to concentrate on mastery of the seas. Britain's looting of the wealth of the vast reaches of the world allowed her to maintain, as well, a balance-of-power on the Continent, creating or financing coalitions against which ever nation seemed on the verge at a given time of dominating the European land mass stretching from Russia to Spain.

In the aftermath of the 1815 Congress of Vienna, in the reorganized Europe following the defeat of Napoleon, England had perfected the cynical diplomatic strategy known as "Balance of Power." Never was it admitted by Her Majesty's Foreign Office establishment that, as on a scale, with weights added to equalize opposite sides of a center "balance point," British Balance of Power diplomacy was rigorously defined, always, from the fulcrum or center point of London, that is, how England could play off rival economic powers to unique English advantage.

After 1815, the peculiar "genius" of English foreign policy lay in its skill, abruptly if necessary, in shifting alliance relations as their perception of strategic power in Europe or globally shifted. English diplomacy cultivated this cynical doctrine, which dictated that England never held sentimental or moral relations with other nations as sovereign respected partners, but rather, England developed her "interests." English alliance strategies were dictated strictly by what England determined at any given period might best serve the definition of English "interest." The shift from hostile relations with France in Africa to England's "Entente Cordiale" after the Fashoda showdown in 1898, or the shift from decades-long English backing for Ottoman Turkey to block the expansion of Russia, in what was known in Britain and India, as the "Great Game," were indicative of such dramatic alliance shifts.

Increasingly during the last decades of the 19th century, English capital flowed into select capital-deficit countries such as Argentina, during the last decades of the 19th century, in order to finance, build, then run their national rail and transport infrastructure, a role usually encouraged by generous concessions from the host government. English capital also went to develop the local country's steamship lines and their ports. So were the economies of Argentina and other English "client states" effectively made into an economic captive, with terms of trade and finance dictated from the City of London, by British merchant houses and trade finance banks. These client states of England thereby found that they had surrendered control over their essential economic sovereignty far more efficiently than had British troops occupied Buenos Aires to enforce tax collection in support of the British Empire.

During the 1880's Argentina's new railroads brought her goods, especially beef and wheat to its ports for export. Exports doubled and her external debts, mainly to London banks, increased 700 percent. The country was a debt vassal of the British Empire, "imperialism on the cheap" as one commentator dubbed it. It was manifestly not the intent of British policy to develop strong sovereign industrial economies from these client state relationships. Rather, it was to make the minimum investment necessary to control, while ensuring other rival powers not gain coveted raw materials or other treasures of economic power.

During this time, in order first to safeguard her sea lanes to India, British troops occupied Egypt in 1882. The Suez Canal must not be allowed to fall into rival French hands she reasoned. The British military occupation so destroyed any structure of Egyptian rule that British soldiers remained a permanent presence after 1882, in this nodal point to the spinal cord of Empire between London and India.

Similarly, British presence in South Africa initially was in order to safeguard the southern route to India, preventing foreign rival powers from securing bases there which could flank British shipping trade. British control in the 1840's and 1850's over South Africa was not formal. Instead, Britain shut the Boer Republics from access to the Indian Ocean in stages, beginning their annexation of Natal in 1843, keeping the Boers out of Delagoa Bay and intervening to block the union of the Boer Republics under Pretorius in 1869. The goal was to ensure, by least means necessary, British supremacy in the entire southern African region.

Secure monopoly for Britain's control of trade was primary in this 19th century era of British Imperialism.

British Secret Intelligence Services in this time also evolved in an unusual manner. Unlike the empires of France or other nations, Britain modelled its post-Waterloo empire on an extremely sophisticated marriage between top bankers and financiers of the City of London, Government cabinet ministers, heads of key industrial companies deemed strategic to the national interest, and the heads of the espionage services.

Representative of this arrangement was City of London merchant banking scion, Sir Charles Jocelyn Hambro, who sat as a director of the Bank of England from 1928 until his death in 1963. During the Second World War Hambro was Executive Chief of British secret intelligence's Special Operations Executive (SOE), inside the Government's Ministry of Economic Warfare, which ran wartime economic warfare against Germany, and trained the entire leadership of what was to become the postwar American Central Intelligence Agency and intelligence elite, including William Casey, Charles Kindelberger, Walt Rostow, Robert Roosa, later Kennedy Treasury Deputy Secretary and partner of Wall Street's elite Brown Brothers, Harriman.

Rather than traditional service to provide data from agents of espionage in foreign capitals, Britain's Secret Intelligence Service head himself was part of a secret masonic-like network which wove together the immense powers of British banking, shipping, large industry and government. Because secret, it wielded immense power over credulous or unsuspecting foreign economies.

This covert marriage of private commercial power with government, in the Free Trade era after 1846, was the secret of British hegemony. British foreign policy was based on the cultivation, not of good neighborly relations with allies, but rather of calculated "interests," which could dictate shifting alliances or national allies, abruptly, if required.

The Great Depression of 1873

However, as a direct consequence of this British free trade transformation, a deep economic depression began by the early 1870's in England following a financial panic. The Free Trade doctrine had been premised on the assumption that British influence could ensure that same dogma became economic policy in all the world's major trading nations. That homogeneity was not to be won.

Following a severe London banking panic in 1857, the City of London banking establishment including the directors of the Bank of England, resolved on a novel device intended to prevent future outflows of gold from London banks. The Panic of 1857 resulted from a foreign run on the international gold reserves held by the Bank of England. The run collapsed bank credit in the City and across the country. In response to the crisis, the English authorities devised a policy which resulted in a simple if dangerous evolution of central bank practice.

The Bank of England, a private holding controlled not by the Government at the time but rather by the financial interests of the City, realized that if it merely raised its central bank discount or interest rate to a sufficiently high level relative to rates in competing trading countries which at any time might be draining Britain's gold reserves, then the drain would cease and eventually, if rates were driven sufficiently high, gold would again flow back into the banks of the City of London from Berlin, or New York or Paris or Moscow.

This interest rate policy was a powerful weapon in central banking which gave the Bank of England a decisive advantage over rivals. No matter, that the usurious high interest rates created devastating depressions in British manufacture or agriculture; the dominant faction in British economic policy, increasingly after the 1846 Corn Laws repeal, was not industry or agriculture, but finance and international trade. In order to insure the supremacy of British international banking, those bankers were willing to sacrifice domestic industry and investment, much as in the United States after the Kennedy assassination in the 1960's.

But the consequences for British industry of this new Bank of England interest rate policy came home with a vengeance with the Great Depression which set hit Britain in 1873 and lasted until 1896.

Beginning with a financial crisis in the English banking world, as the pyramid of foreign lending to the Americas, North and South, for railway construction collapsed, the British Empire entered what was called then The Great Depression. Reflecting the rising unemployment and industrial bankruptcies of that depression, British prices collapsed in an unbroken fall from 1873 to 1896 by almost 50 percent in nominal terms. Unemployment became widespread.

The lack of capital investment into British manufactures was evident already at the International Exhibition of 1867, where products from entirely new manufactures of machinery, even textiles from Germany and elsewhere, clearly overshadowed the stagnant technological levels of British manufacture, only two decades before the world leader. Export of British iron and steel, coal and other products declined in this period. It was a turning point in British history which signaled that the onset of "free trade" some three decades earlier, with repeal of the Corn Laws, had doomed English industrial technology to decadence in order that finance assume supremacy in the affairs of the Empire.

The period of Britain's easy leadership among the world's industrial nations, by the 1890's was clearly over.

The free trade dogma of 19th Century British Empire, and its malthusian rationalizations, were doomed to eventual failure. Its foundations were based on cannibalizing the economies of increasing parts of the globe in order to survive. It was only a quarter century after the repeal of the Corn Laws when the British Empire sank into the worst and longest economic depression of its history as a consequence. After 1873, British efforts to spread the virus of the "English Disease," Adam Smith's "cosmopolitan economic model" of absolute free trade, became markedly less successful, as nations of Continental Europe, led by

Germany, initiated a series of national economic protectionist measures which allowed them to unleash the most dramatic rates of industrial growth seen in the past 200 years.

This all set the stage for a new debate within the British elite over how to maintain Empire and power in a rapidly changing world. Into this debate the geopolitics of petroleum was introduced in 1882, in the realm of a debate on how to maintain British naval supremacy.

Footnotes:

1. Commenting on the British free trade policy in 1851, American economist Henry C. Carey, architect of the national economic strategy of Abraham Lincoln, noted, "We have thus here a system that is unsound and unnatural, and second, a theory invented for the purpose of accounting for the poverty and wretchedness which are its necessary results. The miseries of Ireland are charged to over-population, although millions of acres of the richest soils of the kingdom are waiting drainage to take their place among the most productive in the world, and although the people of Ireland are compelled to waste more labor than would pay, many times over, for all the cloth and iron they consume...Over-population is the ready excuse for all the evils of a vicious system, and so will it continue to be until that system shall see its end. To maintain it, the price of labour in England must be kept steadily at a point so low as to enable her to underwrite the Hindoo, the German, and the American, with all the disadvantage of freight and duties."

Carey continues, "England had monopolized machinery for so long a time that she had acquired skill that could not readily be rivaled; while she had, by this improper division of her population, kept the price of labor and capital at a lower point...than among her neighbours. Her establishments were gigantic, and always ready to sink those who might undertake competition; while the unceasing changes in her monetary arrangements, the necessary consequences of the colonial system, were of themselves sufficient to spread ruin among all the nations connected with her."

Carey cites the experience of America, with bank panics and an economic depression beginning 1837. American credit had shifted more and more into the control of the banks of the City of London after the 1820's, and away from List's notion of national economy.

In Britain, under the free trade effects on labor, he notes, "Women have been substituted for men, and children of the most immature years for women, and the hours of labor have been so far extended as to render Parliamentary interference absolutely necessary." He rails at the "awful consequences that have resulted from this effort to tax the world by monopolizing machinery. The moral effects are as bad as the physical ones. Frauds of every kind have become almost universal. Flour is substituted for cotton...The quality of iron and of all other commodities is uniformly reduced to the point required for preventing other nations from producing such commodities for themselves."

Carey cites the 1846 Corn Law repeal as the watershed of policy: "Let us now look to the results ((of the 1846 Corn Laws Repeal Act)) as exhibited in the immediate dependencies of England. With this vast increase in the importation of food from abroad has come the ruin of the people of Ireland. Deprived of manufacture and commerce, her people were driven to live by agriculture alone, and she was enabled to drag on a miserable existence, so long as her neighbor was content to make some compensation for the loss of labor by paying her for her products higher prices than those at which they might have been elsewhere purchased."

"With the repeal of the Corn Laws, that resource has failed," Carey continues, "and the result is a state of poverty, wretchedness and famine, that has obliged the ((Irish)) landowner to maintain the people, whether they work or not; and thus is one of the conditions of slavery re-established in that unhappy country. From being a great exporter of food, she has now become a large importer. The great market for Indian corn is Ireland-- a country in which the production of food is almost the sole occupation of the people...The whole system has for its object an increase in the number of persons that intervene between the producer and the consumer...thus it is that Ireland is compelled to waste more labor annually than would be required to produce, thrice over, all the iron, and convert into cloth all the cotton and wool manufactured in England." --Carey, Henry C. "The Harmony of Interests: Agricultural, Manufacturing & Commercial." 1851. Philadelphia. J.S. Skinner. pp. 60-65.

2. Smith, E. Peshine. "A Manual of Political Economy." 1853. New York. George P. Putnam & Co. pp. 149-152.

3. List, Friedrich. "The National System of Political Economy." 1885 edition. London. Longmanns, Green & Co. reprinted by Augustus M. Kelley, New York, 1966.