TARIFF LEVELS AND THE ECONOMIC UNITY OF EUROPE

An Examination of Tariff Policy, Export Movements and the Economic Integration of Europe, 1913–1931

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AN EXAMINATION OF
TARIFF POLICY, EXPORT MOVEMENTS
AND THE ECONOMIC INTEGRATION OF
EUROPE, 1913–1931

BY

H. LIEPMANN

WITH AN INTRODUCTION BY

SIR WALTER LAYTON

TRANSLATED FROM THE GERMAN BY

H. STENNING

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FOREWORD

By Sir WALTER LAYTON

DURING the past two decades rapid and far-reaching changes have been taking place in the character and distribution of the world's trade. The Great War itself shut off many nations from the outside world and threw them on their own resources, while the economic activity of the rest of the world, which until that time had been mainly focussed upon Europe, was violently interrupted and thrown out of gear. No country, for example, was immune from the effect of the famine of ships. In general, the results were similar to those which would have followed the sudden imposition of a régime of extreme protection. Some of these effects would in any case have been lasting, but subsequent developments have tended to create fresh disturbances rather than to restore the pre-War state of things. The export of machinery from old countries and the general extension of technical knowledge has created new centres of industry; the oil age has challenged the dominance of coal in international commerce; science has destroyed Chili's nitrate monopoly; artificial silk factories in the Orient have undermined Lancashire's supremacy. The world had in any case to adjust itself to these new conditions.

It is, however, a commonplace that these changes have not been left to work themselves out under a régime of unrestricted competition. On the contrary, all the governments of the world have intervened in an attempt to mould and control the development of their own economies. Economic nationalism has been carried to a pitch unknown for many decades before the War and has played a most important part in bringing about a highly unsatisfactory and dangerous state of general politics.

Yet, in spite of the political as well as the economic importance of tariff policy and its close connection with the peace of the world, there have been surprisingly few attempts to make factual studies of tariffs or to trace their effects upon the actual course of trade. Dr. Liepmann's book is an important addition to the very limited literature on the subject.

Much the most important attempt to survey the tariff situation and to examine its effects was made in the extensive documentation prepared for the World Economic Conference of 1927. And one of the most interesting and ambitious of the studies then made was the attempt of the Secretariat of the League of Nations to calculate a quantitative estimate of the level of the chief tariffs of the world.

This estimate, which was a lengthy and laborious computation and when made was subject to considerable defects of interpretation, has never been repeated by the Secretariat of the League. But students in various countries have submitted the methods then adopted to critical examination and some attempts have been made to produce calculations for later years. One of the most interesting parts of Dr. Liepmann's book is his calculation of the potential and actual tariff level of a number of the countries of Europe for several years ending in 1931, when the break-down of the gold standard threw international trading relations once more into the melting-pot.

Dr. Liepmann's book, however, is by no means only a statistical study, for he has supplemented his calculations by a detailed realistic examination of the trade of the countries of Europe and of changes in the distribution of the exports of each nation. Though this examination is long and detailed, it is a necessary preliminary to understanding the economic changes that are taking place in Europe.

His exposition will no doubt be subjected to criticism in detail and indeed, in an attempt to focus attention on the effect of tariffs, there is almost inevitably a danger that the picture presented may be incomplete. For example, in the case of Great Britain during the nineteen-twenties the protected industries showed a very rapid growth which was in sharp contrast to the experience of the old-established and unprotected industries; but as the former include the artificial silk and motor industries, while the latter include cotton, wool, coal, iron and steel, shipbuilding, etc., the contrast is not mainly or even primarily to be attributed to our tariffs. Again, Dr. Liepmann's study, particularly in relation to recent years, inevitably brings out the very harmful effects which our statistically moderate tariff has produced on many of the nations of Europe. This damage is undoubted; but if the story as told by him gives an impression of great ruthlessness, there is more than one side to this question.

Dr. Liepmann's primary object, however, is not to pass judgment, but to present material for forming an opinion. This he has achieved with great care and skill, and by so doing has produced a book that will be of real value not only to economic students, but to all who wish to understand the economic problems which are so closely interwoven with the politics of the world of to-day.

February 1938.

PREFACE

THIS book was written in the years 1932–35. The manuscript was completed in February 1936. The work was planned for the series: *Zum wirtschaftlichen Schicksal Europas*, Part I: *Arbeiten zur europäischen Problematik*, edited by Alfred Weber. This series was published with the assistance of the *Rockefeller Foundation.* Unexpected difficulties have postponed the publication of the study until to-day, so that it only now appears in an English translation.

Although all the figures in the concluding chapter about the economic development of Europe in 1934–35 are already part of the economic history of Europe, yet the consequences of European protectionist commercial policy, especially since 1929, and all its dangers, which these figures were intended to illustrate, still persist. Owing substantially to public works and growing rearmaments we are witnessing "national recoveries" in many countries, financed by swelling debts. At the same time, however, the development of world trade remains unsatisfactory. The doubts recorded at the beginning of 1936 regarding the stability of such prosperity are justified even to-day. I have therefore allowed the statistics and conclusions of the last chapter to stand in the form in which they appear in this book.

I desire to express my gratitude to Professor *Alfred Weber* of Heidelberg, at whose instigation the study was undertaken, for his friendly advice and assistance in overcoming many difficulties, and my indebtedness to Sir *Walter Layton* and to Mr. *G. K. Logie*, the former for his Introduction and the latter for his constructive criticism of the book in proof.

HEINRICH LIEPMANN.

LONDON, 1937.

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PART I

OBJECTS, METHODS AND LIMITS OF THE INVESTIGATION

I

THE OBJECTS OF THE INQUIRY

PROBLEMS of tariff policy occupy a pre-eminent place in the history of European post-War economy. The number of books and articles in periodicals and newspapers upon tariff questions in the post-War literature of all European countries is beyond computation. An instance of the paramount importance which the tariff problem had attained in questions of post-War economy was the request of the Preparatory Committee of the World Economic Conference of 1927,[1] addressed to the Economic Secretariat of the League of Nations, to make a statistical inquiry into the levels of tariffs throughout the world. This memorandum was prepared under the supervision of Mr. *A. Loveday*, the Director of the Economic Department of the League of Nations, and published in the year 1927 with the title *Tariff Level Indices*.[2] Its statistical statement of the general tariff levels of fifteen European and five overseas countries, 1913 and 1925, to which observations by eminent experts on the methods and the difficulties of such investigations were attached, attracted great attention in economic circles, and caused discussions of the problem, even after the conference had closed.[3]

Voluminous, however, as is the post-War literature upon the tariff problem, especially upon questions of single tariff rates, the number of inquiries which attempt to provide statistical measurements of levels of whole customs tariffs or greater groups of commodities, in the manner of the Geneva investigation, is very small. Only three noteworthy examples of this character may be cited: first, the inquiries of the English

[1] Hereinafter referred to as "W.E.C. 1927."

[2] *Tariff Level Indices*, Geneva, 1927, hereinafter called *Tariff Levels*.

[3] Comp. *Loveday's* London lecture in 1928 and its discussion, "The Measurement of Tariff Levels," in *Journal of the Royal Statistical Society*, vol. cxii, pp. 487–529, hereinafter called "Loveday."

"Committee on Industry and Trade" into the height of duties imposed on England's most important exports between 1914 and 1924 in her chief markets, which was published in 1926 in the second chapter of the Balfour Report (*Survey of Overseas Markets*).[1] Secondly, the inquiry of the Vienna Section of the International Chamber of Commerce into tariff levels in fourteen European states in the year 1926, which was remitted to the World Economic Conference of 1927.[2] Thirdly, the report on *The Economic Situation of Austria*, presented in 1924 to the League of Nations by Sir *Walter Layton* and Professor *Rist*.[3]

Moreover, comparative studies of the development of the tariff levels in Europe since 1927 are lacking. Recently Professor *Condliffe* has complained of this fact in the *World Economic Survey* of the League of Nations, published in 1933.[4]

In the following inquiry an attempt will be made to repair this omission, for the period from 1927 to 1931, at least with regard to tariff developments in Europe. It will be explained later why the statistical analyses are only continued to the end of the year 1931, and why only the lessons for the present situation (1936) of Europe and the world are drawn from the material discussed in this study.[5]

There are two main questions which we shall endeavour to answer in this work. These may be quite generally formulated as its two main themes as follows:—

First, statistical bases have been provided for the levels of European tariffs in 1927 and 1931, and for their better appreciation the corresponding figures for the year 1913 are added as a

[1] *Survey of Overseas Markets*, chap. ii, pp. 539 et seq., London, 1926, hereinafter called "Balfour Report."

[2] *Zollhöhe und Warenwerte*, Vienna, 1927, hereinafter called *Vienna Study*.

[3] Comp. *W. T. Layton* and *Ch. Rist*, *The Economic Situation of Austria*, Part II, chap. iii, pp. 88–89, Geneva, 1925, hereinafter referred to as the Layton-Rist report.

[4] *World Economic Survey*, 1932–33, p. 194, hereinafter called "Survey I."

[5] Comp. pp. 41–42 of this book.

pre-War comparative basis. This has been done in the tables and graphs of the appendix; and the European tariff policy which is expressed by these figures is elucidated in the second part of this study.

Secondly, the influence of the European tariff policy upon the development of the reciprocal foreign trade relations of Continental countries has been analysed. These intra-European foreign trade relations, investigated by Drs. *Gaedicke* and *v. Eynern* in a manner very valuable for the present book, are called *Die Produktionswirtschaftliche Integration Europas* ("The Economic Integration of Europe"), after the title of the study of these two authors;[1] so that the second main theme of our study consists in an analysis of the effects of European tariff policy upon the economic integration of Europe between 1927 and 1931. The relevant investigations are contained in the third part of the book and are elucidated by numerous smaller tables in the text and a few larger tables in the appendix.

Here important results of recent years (1933–34) are indicated.

The anticipations of the economic future of Europe which are suggested by the individual inquiries in the second and third parts have been summarised in a final chapter on the outlines, causes, and dangers of European post-War commercial policy (between 1927 and 1935).

Before we begin our concrete studies it is necessary, by an examination of the applied methods and limits of such an analysis, to furnish some indication of its very great theoretical and practical difficulties. This will explain why so few statistical inquiries into the levels of whole customs tariffs have thus far been undertaken.

[1] Comp. *Gaedicke* and *v. Eynern*, "Die produktionswirtschaftliche Integration Europas," Text-u-Tabellenband (*Zum wirtschaftlichen Schicksal Europas*, Teil i), Berlin, 1933.

II

THE METHODS OF THE INVESTIGATION

PRELIMINARY REMARK: *Every measurement of a tariff level demands as its data a knowledge of the system of the customs tariffs involved, of the rates of duties of the goods in question, and of the prices of these commodities. Finally, it must be ascertained what kind of averages have been used in the inquiry.*

(a) *Tariffs*

EVERY duty is a tax imposed by a State on the entry of foreign goods into the country, or on the export of its own commodities abroad. In the former case, we are concerned with import, in the latter with export duties. As export duties played a minor part in European commerce both before and after the War, except in a number of the smaller states (e.g. the Balkan States), they will be left out of account in this study.

Two objectives may occasion the imposition of import duties: the state may desire to raise revenue, in which case they become *revenue* or fiscal duties.

The second type of import duty did not develop until the mercantilist age, and only in the nineteenth century did it assume considerable proportions.[1] The purpose of this duty consists in impeding—on urgent occasions—in preventing, the importation of foreign goods which are already produced by home industries or are likely to be produced in the future, although at higher prices than those quoted by foreign competitors. These are the *protective* duties, which, when they prevent import, may be designated *prohibitive* duties. Their intended effect always lies in raising the price level of the goods

[1] Comp. *Bräuer*, article "Zölle," in *Handwörter buch der Staatswissensch.*, vol. viii, p. 1157.

upon which a tariff is imposed above the level which unrestricted foreign competition would bring about in the home market. Pure fiscal and pure protective tariffs are antagonistic. For whereas the former strive after the highest possible revenue, and therefore the greatest possible importation of the taxed goods, the latter aim at securing the most comprehensive protection of that branch of home industry which is protected, and therefore the most effective prevention of import. The nature of a revenue tariff, free from any protectionist taint, may only be ascribed to those duties which a country imposes on such imported goods as are neither produced by it nor are likely to be produced by it in the future. (Example: the duties of European countries on colonial produce.)

In view of the pronounced differences in the productive possibilities of European climates or European technique, as well as the frequent admixture of financial and protectionist motives of the various countries when fixing their tariff rates, by far the greater number of all duties of the European states possess a fiscal *and* protectionist character.[1]

Owing to this mutually exclusive nature of revenue and protective duties, such investigations as those of the League of Nations Memorandum of 1927, or the *Vienna Study* on the protectionist nature of tariffs, have omitted the fiscal duties on alcohol, tobacco and colonial produce,[2] or have subjected them to special calculations.[3]

In the present study we shall be concerned only with such duties as those imposed by European countries upon products of European origin between 1913 and 1931; we shall therefore have to include duties on *European* alcoholic beverages and European tobacco.

For, in the first place, it is not correct that these duties have a purely or primary fiscal importance for *all* European countries,

[1] *Bräuer*, loc. cit., p. 1158.
[2] Comp. *Tariff Levels*, p. 18.
[3] Comp. *Vienna Study*, pp. ix–x and 3.

and are therefore of no significance whatever,[1] in the analysis of the changes in protectionist tariff levels. Secondly, the treatment of the relation between the economic integration of Europe and the development of tariff levels in Europe necessitated their inclusion. For this question involved the discussion of all European tariffs operating to impede the export of important exportable goods of any one European country to any other. Inasmuch as they impede the free exchange of goods, both revenue and protective tariffs have similar effects. Therefore, as was justly stated in the discussion of Mr. *Loveday's* lecture in London, against their omission from such calculations, they are "*both* obstruction to trade." [2]

On the other hand, this study will take no account of duties imposed on products of undoubted non-European origin.

(b) *The Selection of Goods and the Notion of the "Potential Tariff Level"*

We have therefore to investigate the European tariff levels which have impeded the exchange of goods within the boundaries of Europe. By tariff level we understand a magnitude which is equal to the average of the percentages which the duties imposed by any tariff (or group of duties of a tariff) constitute of the values of the commodities subjected to that tariff (or group of duties).[3]

Modern international trade comprises a very great variety of goods. In order to comprehend this variety, modern

[1] Rather are they for some countries (e.g. England or the Scandinavian states) pure revenue tariffs; for others, such as France, Spain, Germany, etc., of a definitely protectionist character. Compare discussion of Mr. *Loveday's* lecture, pp. 522 and 501. In order, however, that the duties on alcohol, tobacco, and petrol, imposed often for fiscal reasons, should play no undue part in the calculations, the average figures of their groups of goods were also calculated without them. (See Figures A^1, A^2, B^1, B^2 in the tables of the Appendix.)

[2] See *Loveday*, pp. 494 and 522.

[3] Comp. the definition of the term "tariff level" in *Tariff Levels*, pp. 11, 12, § iii.

tariffs have therefore to contain many divisions and subdivisions rising from a few hundred items—e.g. the tariffs of Great Britain and the Scandinavian States—to several thousands —e.g. the tariffs of Poland, Roumania, France, etc.[1] Most of these tariffs contain mainly *specific* duties (duties per unit of weight or per piece); while some (e.g. Great Britain and Holland) as a rule impose *ad valorem* duties only. There are also tariff rates, which consist of a combination of specific and *ad valorem* duties, e.g. in the case of Austria, Roumania, etc.

Wherever specific duties are imposed, these must, for the purpose of estimating the tariff levels, be converted into *ad valorem* duties. The theoretically exact level of a whole tariff is a weighted or unweighted average of the height of all the individual duties. As many tariffs consist of thousands of separate rates, an enormous number of separate calculations would have to be made in order to arrive at a correct figure of the tariff level. Such a calculation, however, would be inappropriate. For, besides the duties of imported goods of great importance to the country whose tariff was under investigation, it would also include those hundreds of commodities which play little or no part at all.

Inquiries into the level of a whole tariff or a group of its duties can, therefore, rationally embody nothing more than calculations of the averages of duties upon *selected* goods or groups of goods; these figures are then to be regarded as representative for the level of the *whole* tariff. The selective principle, which determines the admission of any goods into the computation, can only be determined by the purpose of the inquiry.

When the Economic Secretariat of the League of Nations made its inquiry in 1927, it hoped to provide a statistical basis for estimating the hindrance to world trade by tariffs, and therefore tried to determine the tariff levels of the most important importing countries of the *world*. Consequently, it sought, by compiling two lists of 78 or 278 commodities, to provide "fair

[1] See *Loveday*, p. 495.

samples of the whole quantity of goods constituting *international* trade." [1]

In this study we shall apply this method in dealing with the obstructions to the *European* exchange of goods, under the two main headings previously mentioned.

First of all, we shall endeavour to compile a fair sample list of the whole quantity of goods constituting European trade. For this purpose the official export statistics of the European countries for the years 1913, 1927, and 1931 have been examined, and with their aid a list of 144 commodities has been compiled ("A-List," see Appendix of Tables). Each could be regarded as an important export commodity of at least one European country, and several represented important export goods of many others.[2]

This list is arranged into three main groups:

A.—Foodstuffs and live animals (agrarian economy).
B.—Semi-finished industrial goods } industrial economy.
C.—Manufactured industrial goods }

Each of these three main groups is again divided into 6, 5, 8 classes respectively. The height of the rate of import duty for each of these 144 commodities in fifteen European countries, with respect to the years 1913, 1927, and 1931, has been calculated on the basis of the "normal prices" indicated in the "A-List," which gives the export prices of the leading European export countries in those years. The average duties for each of the nineteen classes, for the three main groups and for the total list, had then to be established, and these average figures had to be taken as representative for the tariff levels of fifteen countries of Europe between 1913 and 1931.[3]

If it be asked whether each of the fifteen countries *really* imported all the 144 goods of the A-List in each of the three

[1] Comp. *Tariff Levels*, p. 12, § iv.

[2] See in Appendix of Tables the A-List, which shows in the case of each commodity, by indicating the price source, for which country it has a special export importance.

[3] See details in section dealing with this list, Part II.

years and actually imposed the estimated duties, the answer is in the negative. For we are concerned with prominent export commodities of the different countries, and for this reason alone their importation into countries where they constitute the most important export commodities is improbable. (E.g. Southern fruit would scarcely be imported into Italy or timber into Finland or Poland.) Other goods in this list have been excluded from the imports of various states owing to prohibitive duties.[1] In all cases where no importation of these goods in the A-List has occurred, such imports have been presumed according to the prices of the A-List and the height of the duties has been calculated according to the rates in operation. In this way, independently of the question of what importation has actually occurred, we have obtained statistical bases for the tariff levels of the principal European export goods in the fifteen most important European importing countries.

As we are concerned to a considerable extent merely with fictitious imports, the tariff levels so determined have been designated "potential tariff levels."

The momentous changes between 1913 and 1931 are shown in Tables AI (absolute figures of the potential tariff levels) and AII (relative figures of the rates of duty and the potential tariff levels in comparison with 1913). In the second part of the study we shall analyse the details of every country.

(c) *The Averages*

The averages derived by adding together the single duties have proved to be useful even without weighting. For the indices of the League of Nations Memorandum calculated with weighted figures show only slight deviations from its unweighted figures.[2] Moreover, it is the opinion of Mr. *Loveday*, who is by far the best authority on these problems, that

[1] Partly, of course, for other reasons unconnected with tariff policy, see p. 38 of this study.

[2] See *Tariff Levels*, tables, pp. 15 and 20, § v.

"the practical importance of weighting may not be exaggerated." [1]

Consequently, all the averages of the potential tariff levels in this work are simple arithmetic means.

On the other hand, it would seem very inappropriate to follow the example of the League of Nations Memorandum, and to give only one figure for a whole tariff and another for the duties upon finished goods.

The tables of the potential tariff levels and their textual analysis in Part II of this investigation show very distinctly in almost all tariffs what great differences have developed in the tariff levels of the three main groups, and within their subdivisions.

These differences, only revealed by detailed subdivision of the list of goods, appear both in regional as well as in temporal comparisons. They are an expression of the great differentiation of the general economic structures of the European countries concerned. To ignore them would render all inquiries into the tariff levels of Europe abortive, so that a calculation of merely a few general averages would obscure these differences, which throw light on the tendencies of tariff policy and the real nature of the tariffs of different countries. The lack of further classified figures for the tariff levels of sufficiently homogeneous groups of goods must therefore be regarded as the weakest side of the admirable Geneva study of 1927. Even at that time, this omission prompted the Belgian delegate *Brunet* to declare that such general figures were too vague and took no account of the profound differences which may exist between various systems of protection.[2]

[1] *Loveday*, p. 510.

[2] See *Brunet's* criticism in *Tariff Levels*, p. 26. Perhaps we should add that the special purpose of the Geneva study was the investigation into the disturbances of world trade by tariffs, which precluded detailed inquiries into single tariffs. *Tariff Levels*, pp. 5, 18, § ii.

(d) *The Prices*

The prices of the goods in the A-List were taken from the official export statistics. This method caused a slight increase in the calculated tariff levels. For both specific duties, and, as a rule, the *ad valorem* duties, are imposed upon the prices of the imported goods at the level which they reach at the frontier of the importing country ("cif. prices"). These cif. prices include at least charges for the freight and insurance for the transport of the goods from the frontier of the exporting to the frontier of the importing country, and are therefore higher than the export prices used here; consequently, the tariff rates of the importing countries represent a somewhat slighter burden than the figures here submitted.[1] But these deviations are only slight [2] and are, moreover, present in all tariff calculations in this study. They have been accepted here in view of the great advantage of all export over import statistics.[3]

(e) *The Duty Rates*

The rates of duty which were employed in the computation of the potential tariff levels were the conventional rates in all cases where commercial agreements have turned the autonomous tariffs into conventional tariffs.

In 1913, 1927, and (still) in 1931 Europe was covered with a network of most-favoured nation agreements, which meant that practically every European country enjoyed the benefit of conventional rates.[4] Autonomous rates have only been employed where conventional tariffs did not exist.[5]

[1] See *Tariff Levels*, p. 14, § xv.

[2] See the slight differences between the figures of method A (import prices) and the method B1 (export prices) in *Tariff Levels*, p. 15.

[3] See p. 28 of this study.

[4] With regard to some exceptions, see p. 30 of this study.

[5] Conventional and autonomous rates for the year 1913 were taken from the publication of the "Deutschen Reichsamtes des Innern,"

(f) *The "Actual Tariff Levels" and the Economic Integration of Europe*

The figures of the potential tariff levels have only been obtained with the aid of the "As if" imports of all the 144 goods in the A-List. The official import statistics, which state only actual imports, could not generally be used for a selection of representative European export goods in order to frame such a general list of goods, to serve as the basis of the comparative calculation of tariff levels: for the variation of imports described by the import statistics is, in fact, to a very considerable extent the *result* of that which has first to be investigated, viz. the changes in the tariff levels and their repercussions upon the actual imports of States.[1] Thus, these "As if" imports were essential for understanding the *general* changes and tendencies of European tariff policy *as a whole*, but they could not explain adequately the *concrete* effects of these changes upon the foreign trade position of the single countries.

It was only possible to estimate the different effects upon the exports of the single countries caused by the changes in the tariff policy of the single countries, if the *actual* exports were contrasted with these changes.

Consequently, we shall endeavour (in the third part of this study) to provide a realistic basis for the sometimes hypothetical figures of the potential tariff levels by calculating the duties upon the principal goods *actually* exported by European countries in 1913, 1927, and 1931. By making generous use of the inquiries of *Gaedicke* and *v. Eynern* and the official export

Systematische Zusammenstellung der Tarife des In-und-Auslandes, vol. A-E, Berlin, 1911–13, hereinafter cited as *Zusammenstellung*, for the years 1927 and 1931, from the current publication of the tariffs and commercial treaties of the world in the official *Deutsches Handelsarchiv*, 1919 et seq. (hereinafter cited as *H.A.*).

[1] This is the reason which from the standpoint of method is decisive, why only export statistics but not import statistics were used here. *Loveday* has discussed these reasons with great lucidity in his lecture, pp. 497–498 and 514–515.

statistics, the export connections of twenty-four European countries, with their most important Continental customers, were taken as the starting-point for the comparison of the changes in the duties imposed upon their important exports between 1913 and 1931.

If therefore, in the investigations of the potential tariff levels, the individual countries figured prominently as *importers* of a constructed representative list of goods, we have considered in the third part the various countries, in the first place, as actual *exporters*.

As the tariffs of the chief customers are different, and as the main exports of each country to different customers may belong to distinct groups of commodities, the averages of the duties upon the important exports of a single country to its customers will also vary. The average of the duties upon the important exports of country A to country B, calculated from the duties in the tariff of country B and the prices of the respective goods in country A, may be called the "national index" of the "actual tariff level" of country B for the imports from country A.[1] The actual tariff level of country B then is the simple arithmetic average of all the national indices for the imports of country B. In this way we obtained, first, figures for the height of duties upon important export goods of countries imposed by their most important European markets (Tables D of the sections of Part III); then, in Tables BI–IV of the Appendix, the averages of the national indices of the actual tariff levels of the larger European import countries have been calculated and the figures thus gained are represented in the Tables B of the Appendix as the figures of "actual tariff levels."[2]

For fourteen of twenty-four European states such tables of actual tariff levels could be compiled in accordance with the scheme of commodities used in the A-List.[3]

[1] Comp. *Haberler, Internationale Handelspolitik*, p. 265, Berlin, 1933.

[2] Or of all actual imports of a country as far as recorded here.

[3] Comp. more details about actual tariff levels, pp. 189–191 of this study.

With regard to the sources for the selection of data, little need be stated in supplementing what has been said about the calculation of the potential tariff levels.

Here, too, for the reasons above mentioned we were precluded from using import statistics, and only the export statistics for goods and price ascertainments were taken into account.

In every case where a tariff was tied by conventional rates, these again were treated as the rates actually imposed against all importing countries. To this rule there were two exceptions:

(1) In the estimation of German exports to Poland and *vice versa* from 1927 to 1931 only the autonomous duties could be reckoned owing to the absence of a treaty between the two States at this period.[1]

(2) The same applied to exports from Czechoslovakia to Hungary and *vice versa* in 1931, as the commercial treaty between both countries expired on the 15th November 1930.[1]

The rates of duties of all countries were mostly taken from the *Deutsche Handels-Archiv*.[2]

[1] For details see Part III, pp. 218–220, 317-318; 291–292, 327–328.

[2] In a number of cases other sources were available, which are indicated in due course.

III

THE LIMITS OF THE INQUIRY

PRELIMINARY REMARK: *An explanation of the methods which have been employed to measure the potential and actual tariff levels would be insufficient without a supplementary description of their chief difficulties and the theoretical limits of the value of the figures obtained.*

Fundamentally the difficulties which prompted the greatest caution when using the tables were twofold: first, sources of error which arose from the methods themselves—that is to say, "inherent" difficulties. Secondly, considerations which were suggested by comparing the relative importance of tariffs in the system of European post-War commercial policy and in that of the pre-War era.

(a) *Inherent Difficulties of Methods*

(aa) *Selection of Goods and Structure of Custom Tariffs*

It is well known that the export and import statistics of the European countries are compiled in accordance with the scheme of their tariffs. As all attempts to assimilate the tariffs of the different countries to each other with reference to the classification of goods have so far failed, there is no agreement between the items of the foreign trade statistics of one country and the goods scheme of the tariff of another. Consequently, all tariff measurements which, like the present, definitely avoid the employment of import statistics encounter extraordinary difficulties when trying to ascertain the precise equivalent items in the corresponding tariffs for the goods selected as important.

Only in the case of plainly defined standard goods is the solution of this problem a simple one; but otherwise "the

variety of tariffs is so great that no one has ever succeeded in compiling a synoptic confrontation of various tariffs." [1]

The more detailed the subdivisions of a customs tariff are, then in order to render protection effective, the greater are the difficulties such a tariff system will offer to the classification of goods taken from more comprehensive schemes of foreign trade statistics.

With few exceptions, Europe's post-War tariffs show a tendency towards great subdivision.

List A of the League Memorandum of 1927 mentions the article "Unbleached cotton yarn, single." When the French tariff for this article was checked, it was found that forty rates of duties had to be consulted to discover this "one" article.[2]

From the material collected in this book two examples of the differentiation of European post-War tariffs may be quoted:

In the Polish tariff of 1924 item No. 167, "Machinery and apparatus," was split up into 50 subdivisions, which again were so specialised that the "one" item No. 167 comprised 167 different rates of duty.[3]

In the Italian tariff of 1921 the item No. 301, "Iron pipes," was subdivided into 70 separate rates. Further difficulties resulted from the variety of units of measure for the same goods in export statistics and in tariffs—difficulties which have sometimes been so great as to make it impossible to continue the calculations because no common denominator could be found.

If in calculating potential tariff levels the list of goods were to take full account of the refined subdivision of important tariffs, it would have to consist of a long series of sharply defined commodities in which the different tariffs would permanently

[1] See article by *H. Flach*, "Die internationale Vereinheitlichung des Zolltarifschemas in der europäischen Zollunion," in *Europäische Zollunion*, Berlin, 1926, pp. 206–207, and *Loveday*, pp. 506, 514, on the extraordinary difficulties of "marrying" export statistics and tariff items.

[2] See *Tariff Levels*, p. 19, § iv.

[3] Comp. *H.A.*, 1928, pp. 1023–1024.

deviate. And thus the list would not fulfil the essential condition of representing export importance for several countries.

If actual tariff levels for the export goods of a country were to be calculated according to the schemes of tariffs of the chief customers, such a computation would encounter the same difficulties.

Consequently, in the inquiry that follows we had no alternative, in calculating both potential and actual tariff levels, than to employ a minimum and a maximum rate of duty in the case of all those goods in respect of which the duty rates were not perfectly plain. These two rates confined the "space" within the classification of goods of any tariff whose level was to be measured. As, however, double calculations were necessary for almost all goods in groups B and C, also for many of A, the result in nearly all cases has been double figures of the height of duties. This explains why all tables of tariff levels or single duties contain double figures.

(bb) *The Problem of Price Data*

Prices were often a source of considerable miscalculation. They were taken from the export statistics, which in most cases classify goods belonging to closely related branches of production into smaller groups.[1] For any attempt to record the thousands of *individual* export goods—in the strict sense of the word—would be frustrated by the complexity of the material.[2] Further, in most cases these statistics did not indicate the different export prices for the different markets, but provided

[1] Comp. the essay of *Graevell*, "Scheinbare Widersprüche in der Aussenhandelsstatistik," in *Wirtschaftsdienst*, Bd. 19, Heft 3, 1934.

[2] The greater the number of finished goods among the total volume of exports, the stronger is the tendency to classify in groups of goods, as the production of finished goods is the sphere of greatest differentiation. Consequently, the prices of the trade statistics of the great industrial countries represent averages of groups of commodities which often contain a considerable number of single articles.

only a value per unit for a given weight or piece of an export article, arrived at by dividing the amount of total export value by the amount of total weight (or total number of pieces).

In all those countries whose exports consisted mainly of highly manufactured goods, these export values per unit may lead to considerable error in calculating the height of duties. For great variations appear in the prices of these goods in the exports to different countries.

This may be made clear by an example taken from the trade statistics of Switzerland, in which different export prices were given according to different export markets.

The average value of an exported Swiss gold wrist-watch in 1927 amounted to Sw. Fr. 44·30.

But the regional classification of the prices of this "one" article showed:

1.	The value of a watch exported to			Italy	was Sw. Fr.		66·90
2.	„	„	„	Germany	„	„	55·70
3.	„	„	„	Great Britain	„	„	28·00

Every calculation based on the average value of 44·30 would show much too high a figure for the German and Italian specific duties on Swiss watches; while, on the other hand, much too low a figure for the amount of the English duty on Swiss watches, if England had a specific duty.

Yet in the present work the value per unit of the export statistics must be taken as the base of price data, just as was done in the *League Study* of 1927. The choice of regionally different values was precluded by the lack of such detailed export prices.[1]

The choice of exact individual prices, however, obtained by inquiries among exporters,[2] is, on the one hand, possible only

[1] Only in the statistics of a few states, e.g. in the Swiss, Belgian, and German export statistics, are such variations in export values given.

[2] This method was employed by the Vienna inquiry upon the tariff level for 402 Austrian export articles, and produced undoubtedly the best price data for inquiries into the hindrances against the export of only one country (see *Vienna Study*, pp. viii, ix).

in the case of strictly defined individual goods; but, on the other hand, cannot be used for investigations which are to comprise more than one country, as it would be impossible to procure the necessary exact price data.[1]

(cc) *The Problem of the Averages*

The manner in which averages are arrived at deserves special attention. It is known that arithmetical averages only give a true picture of the magnitudes of their elements, if the latter are fairly homogeneous. This is well expressed in the statement of the German delegate *Trendelenburg*, contributed to the League Memorandum of 1927: "Between rates of duty of 0 and 33⅓% no average rate can be calculated which can be looked upon as representative." [2]

The classification of potential and actual tariff levels into nineteen subclasses, however, reveals astonishingly great differences in the levels of the various classes and groups, which were more sharply accentuated in 1931 than in 1927 and 1913. The greatest differences are to be found in group A; also groups B and C seldom show homogeneity in the tariff levels of their classes.

Consequently the averages of the general potential and actual tariff levels, regarded as absolute figures, have the least practical value, as they form the average of nineteen, mostly very heterogeneous class averages; therefore these averages can be hardly representative.[3]

Also the averages of the groups A, B, and C are in each case to be tested by the greater or lesser degree of homogeneity of

[1] See *Loveday*, pp. 498–499.

[2] *Tariff Levels*, p. 28.

[3] The exceptional height of the duties on alcohol, tobacco, and mineral oil products was, in addition to their strong fiscal character, the main reason why, on the one hand, they have been omitted in almost all cases when calculating the average of a whole tariff, and why, on the other hand, in calculating the group averages of A and B, they were only employed to ascertain special group averages (A^2 and B^2). See Tables A and B in the Appendix.

their class averages, before any opinion can be expressed upon their capacity to represent the tariff levels for foodstuffs, semi-manufactured and finished goods of the country concerned. The class averages everywhere have the greatest practical value for appraising the general tendencies of European tariff levels and of European protection. And even with them it is always necessary to pay attention to duties on single commodities differing very much from their class average.

These considerations prompted us, in computing potential tariff levels, to exclude all those countries which admitted the greater part of their imports duty free, but imposed (often very high) duties on a few articles. These duties alone could be utilised in calculating the potential tariff levels, while the majority of imports, admitted duty free, would not enter into the arithmetical average at all. Great Britain is the chief country we have in mind. Before the War she imposed only a few high duties on alcohol, colonial produce and sugar, while in 1927–31, despite the introduction of numerous new duties, she admitted so many goods of the A–List duty free as to render unfair any comparison with the elaborate tariff systems of other countries.

The same applied to Denmark and Norway, as well as to Holland, whose tariff, while admitting a large number of goods in all groups free, never imposed a higher tax than 5% in 1913, and never more than 8% of the value of the goods in 1927–31. (Exceptions: duties on sugar, alcohol, oils, of which indications have been given in the discussion of the actual tariff levels in Part III.)

(dd) *The Problem of Comparisons*

Finally, a warning must be uttered against inferring proportional differences in the *degree of protectionism* from a comparison of the absolute figures for potential and actual tariff levels of various European countries. *Loveday* has convincingly shown that tariff measurements cannot establish anything of the sort.[1] The decisive reason for this lies in the

[1] *Loveday*, pp. 491–493 and 513.

differences in the economic structure of countries. The American delegate, *T. W. Page*, and the Italian delegate, *di Nola*, were right in emphasizing the point (to which *Haberler* has recently called attention [1]) that the same absolute tariff levels may have entirely different effects upon the exclusion of the taxed goods, according to the *purchasing power* of the countries concerned, and the elasticity of the demand for the taxed products.

The foregoing difficulties of the methods of measuring potential and actual tariff levels will have sufficiently indicated with what caution the calculated figures must be used for drawing conclusions.

The inquiry was continually beset by the same danger: the significance of individual duties was often lost in too comprehensive averages. We have therefore frequently returned, in the textual analysis in Parts II and III, to illustrative examples of *single* duties, which the Japanese delegate, *M. N. Sato*, declared in his remarks to the *League Study*, 1927, to be necessary for an "approach to the problem from the economic point of view." [2]

More importance should be attached to the *relative changes* in tariff levels in the course of time than to the absolute figures. For as the same limitations of method were in force during each of the three test years, and therefore had no appreciable influence on the course of development, there is all the greater reality in the changes revealed by the figures—i.e. the broad lines of development of European tariff policy and tariff levels, especially as the intervals between the years are sufficiently wide to allow structural tendencies to emerge.

In whatever manner the problem of tariff level measurement may be approached, it can only be rightly understood if all the figures are interpreted with the necessary circumspection and if its "extreme complexity" [3] be kept constantly in mind. As is

[1] *Haberler*, op. cit., pp. 263–265.
[2] *Tariff Levels*, p. 35.
[3] Phrase used by the Italian delegate *Nola*; see *Tariff Levels*, p. 34.

justly emphasized in the *League Study* of 1927: "Much more important (than the various absolute figures) are the ratios which the figures bear to one another." And Mr. *Loveday* has even denied great significance to the absolute figures.[1]

(b) *Decreasing Importance of Tariffs in the System of European Post-War Trade Policy*

In the foregoing sections we have pointed out why the statistics we have collected should be interpreted with the utmost caution. We have now to touch upon the question of cause and effect as between tariff levels and import movements, and we must show why the whole problem of tariff levels has no longer the same importance as it had in pre-War times.

Generally it should be borne in mind that *many* causes, such as changes in consumption, bad harvests, national boycott movements, and so on, may operate in bringing about changes in the import structure of a country. Here we were only concerned with those import variations which were exclusively produced by means of a restrictive trade policy. So long as the tariff remains the most effective means at the disposal of national trade policy to reduce imports, absolute height and changes in tariff levels of those countries whose production is integrated deserve the greatest consideration. In such cases, obviously changes in imports and exports can be treated as caused by simultaneous changes in tariff levels.

Much greater caution must be observed in applying the relationships of cause and effect when, owing to vital innovations in protectionism, the number and weight of factors restricting imports undergo change.

The axiom of trade policy of pre-War times was, "that

[1] *Tariff Levels*, p. 11, § ii, and *Loveday*, p. 499. Recently (1936) Prof. *J. Viner* has again pointed out the difficulties of ascertaining exact figures of Tariff Levels. See his memorandum "On the Technique of Present-day Protectionism," pp. 58–68, in *Improvement of Commercial Relations between Nations*, Joint Committee, Paris, 1936. Hereinafter quoted as *Carnegie Report*.

impediments to the exchange of goods apart from the imposition of tariffs were inadmissible." [1]

With the fundamental change in the relationship of the State and the body economic which has supervened everywhere in consequence of the World War,[2] the preponderant position of the tariff as an instrument of protectionist policy has been diminished. The trade policy of European States in the post-War period produced a number of entirely new kinds of impediment to foreign competition. Their common characteristic is that in the case of imports they do not seek to influence what is the most important sphere of free economic competition, viz. the price mechanism, as every tariff does, but that they seek in a much more drastic fashion to exclude foreign supplies. The importance of tariff policy and tariff levels for preventing imports which are already impeded otherwise, declines in proportion to the degree and extent of these new instruments of protectionism.

If the whole trade policy of a country is determined by such devices, a tariff and the investigation of its level would be futile. Soviet Russia has been a country of this kind since the introduction of the foreign trade monopoly in the year 1917. Imports and exports are regulated by the necessity of national planning. The laws of free competition, and therefore all possibility of import duties to produce an effect on imports, are abrogated. Consequently, post-War Russia is excluded from our investigations, and only the level of the Russian pre-War tariff is calculated for purposes of comparison with its development in Poland from 1927–31.

The importance of tariff policy for the regulation of imports has also considerably diminished in all those European post-

[1] Comp. the essay of *G. Stolper*, "State, Nation, Economics," in *Europäische Zollunion*, p. 49. Comp. also Memorandum of Dr. *Leo Pasvolsky* "On the Technique of present-day Protectionism," p. 50 in *Carnegie Report*.

[2] Comp. *A. Bergsträsser's* Introduction to *W. Greiff's* study, "Der Methodenwandel der Europäischen Handelspolitik im Jahre 1931," *Zur handelspolitischen Lage der Gegenwart*, pp. 4–9.

War countries where "laws to protect the home industry" have been passed, embodying regulations for extending preferences to home over foreign products. How far imports can be restricted without tariffs depends on the progress made by state regulation of economic activities and on the extent of legal regulations concerning consumption.

The Spanish law of 1924 to encourage the development of industry, the Hungarian law of 1925, and that of Italy of 1926 are examples of the commercial policy which Dr. *Stolper* had described in 1921 as "administrative protection"; and which, irrespective of any tariff policy, sought to displace foreign goods in favour of home products, a policy which, in Stolper's opinion, was likely to be more effective than tariffs.[1]

It must also be borne in mind that the imposition of taxes upon imports, besides customs duties, during the post-War period meant very high burdens on the imports of a number of countries, which were not perceptible at all in the tariff levels. As an example may be mentioned the taxes upon imports to cover loan-services, or the requirements of municipal finance, as in Greece, which by commercial agreements with Italy and England were fixed at a maximum of 75% of the duty rates.[2]

Since the world economic crisis of 1929, European trade policy has been marked by ever-increasing efforts to restrict imports by other measures than tariffs.

As examples of such novel devices of trade policy, mention need only be made of the introduction of compulsory milling regulations in the most important corn-importing countries in 1929 and 1930; of the French prohibition of mixing French with foreign wines as from 1930, and of regulations for compulsory mixing of alcohol with petrol in Germany and Czechoslovakia.

Instead of the single device of the tariff, a much more com-

[1] See *Stolper*, op. cit., p. 57; further *Jones*, *Tariff Retaliation*, examples of Italian administrative protection, pp. 73–75; also *Greiff*, op. cit., in many places.

[2] *H.A.*, 1926, p. 2267; 1928, p. 253.