

# Between the Devil and the Deep sea

H.M. Hirschfeld: "The Netherlands is trapped between the devil and the deep sea."

*How to deal with British protectionism?*

Student: M.S. de Klerk

Student number: 265283

Email: sandrien.de.klerk@hotmail.com

Date: August 2012

Theme: Protectionism during interwar period

Professor: H.A.M. Klemann

Second reader: dr. M. Lak

Erasmus University Rotterdam

## Table of contents

Preface .....	3
Summary .....	4
Chapter 1. Introduction.....	6
1.1 Relevance.....	6
1.2 Time frame.....	9
1.3 Structure and research question.....	9
1.4 Research methods.....	16
Sources .....	16
1.5 Theoretical Approach .....	17
1.6 Concepts .....	18
Chapter 2. The interwar period; the Great Depression and causes for protectionism .....	20
2.1 Introduction .....	20
2.2 Kindleberger’s hegemonic stability theory .....	20
2.3 Debate: What caused the protectionism of the interwar Period? .....	22
2.4 Conclusion .....	30
Chapter 3. British protectionism and the Empire.....	32
3.1 A long run towards protectionism .....	32
3.2 Rising problems.....	32
3.3 Tipping point.....	35
3.4 Ottawa Conference .....	36
3.5 Results .....	37
3.6 Conclusion .....	37
Chapter 4. Dutch trade policy: from free trade to active trade policy .....	39
4.1 Dutch tradition of free trade .....	39
4.2 Increasing pressure from foreign trading policies .....	40
4.3 Increasing influence of T.J. Verschuur and the shift of power .....	42
4.3.1 Issues with the other ministries .....	43
4.4 The beginning of a contingency policy .....	45
4.4.1 Consequences of the London Conference .....	48
4.4.2 The Crisis Import Law and the Crisis Export Law.....	49
4.4.3 Clearing Law .....	50
4.4.4. Agricultural Crisis Law.....	51
4.5 Results .....	53

4.6 Conclusion .....	54
Chapter 5. Towards a policy response: How to deal with the Empire? .....	56
5.1 The focus on Britain .....	56
5.2. The Sumatra treaty .....	57
5.3. Problems concerning the British violation of the Sumatra treaty .....	58
5.4 The Dutch dilemma: holding on to the Sumatra treaty, yes or no? .....	60
5.4.1 A British response.....	62
5.5. Reflection.....	63
6.1 Realism .....	65
6.2 Important factors of influence .....	66
6.2.1 The Dutch international position during the interwar period .....	67
6.2.2 National factors of influence.....	69
6.3 Conclusion .....	70
6.4 Final remarks.....	72
Bibliography.....	73

## Preface

History always has been a field of interest to me as to so many people. However, most people just see it as a hobby. The same applied for me when I left home to study. I started public administration to pursue a career within the Dutch government. The desire to deepen my historic knowledge never disappeared and a bold idea came up to start a second study in History. I could have chosen to focus on a second master; this would, including a transition year, only take another two years. But because it was out of pure interest, I chose to follow the bachelor curriculum, with all the more general history courses. Although it was hard work at times, I never regretted this decision and in the summer of 2008 I got my Master's degree in Public Administration as well as my Bachelor's degree in History. After 7 years of study, it was time to start a new phase in my life. I got a position at the Ministry of Finance, at the Inspectry of the budget, still the best decision I made so far. But the desire to prolong my history degree never faded away, so I decided to start studying again. This time the goal was to get a Master's in International Relations.

Not everyone was equally happy with this decision and to be honest, some did not believe it would be possible to study besides a full time job. This is why I am especially grateful to my lecturer, Prof. dr. H.A.M. Klemann, who enthusiastically welcomed me back at the faculty and who was flexible enough at times when the political situation in the country made it difficult to keep [me] to certain deadlines. History is a special field of knowledge and interest and its value to a person's perspective of the world is limitless. This is why intrinsic motivation to discover the past should be encouraged and this is exactly what he did.

Also special thanks goes to my colleagues. Several discussions during lunchtime helped me to order my research questions and to find new valuable sources. They gave me more than enough space to finish my thesis and they were more than flexible, especially during the last weeks.

Last but not least, I want to thank my parents. Sometimes I wonder why I always want to maximise my potential. And although I know they are proud of me at whatever it is I do, they have learnt me always to do my best in life. I know you will always support me!

## Summary

The Netherlands have for a long time been known for its tradition of free trade and non-intervention. This was also the case during the beginning of the Great Depression. From the early 1930s, however, most surrounding countries were changing their trade policy into more protectionism. The Dutch trade faced increasing difficulties and an internal debate grew about how to deal with these external threats concerning the Dutch economy. At first the Dutch government was reluctant to change its policy but after the failure of The London Conference it became clear that free trade and non-intervention were out of date. The Dutch trade policy thus developed into a more active policy with protectionist features.

The Dutch trade relations with Britain became all the more important, because the trade relations with Germany faced increasing difficulties and became limited by German trading quotas. The British were on their turn also a difficult trade partner. The Ottawa Conference had resulted in *imperial preferential politics* favouring trade within the British Empire. Furthermore, they ignored many agreements made in earlier trading treaties.

This was the case in the agreements made in the Sumatra Treaty of 1871. The treaty agreed upon favourable import tariffs for Britain on Sumatra as well as favourable tariffs for the Netherlands in British Guinea. But Britain announced higher import tariffs in their colonies for all countries including the Netherlands. A fierce debate between Dutch government officials started whether to comply Britain to its agreements or to let the matter rest. They all agreed that the British violations of the treaty harmed the Dutch trade, but they disagreed upon the most effective response. This discussion prolonged for several years. One of the most important arguments against compliance was that an interpretative discussion with Britain about the contents of the treaty might threaten Dutch-British political relations. In 1937 the Dutch government finally responded in a letter to the British Foreign Office that they: “reserved themselves the right to refer to this matter again in the future and that any payments of customs duties on Netherlands goods in British Eastern ports which are in excess what they should be to our interpretation of the treaty must be considered as being without prejudice to future reference.”<sup>1</sup> The political climate within Europe became more and more complicated and a dispute with the most important informal ally was seen as dangerous. The Dutch treatment of the British violations of the Sumatra

---

<sup>1</sup> NA, 2.05.37, doos 4016, Formele brief aan de Britse Foreign Office, 24 sept 1937.

Treaty was thus the outcome of a trade-off between economic interests and national security, which is in line with Realist theories about international relations and the Dutch international position.

The Dutch international policy has always been a policy of trade-offs and responding to external threats. The shift towards a more active policy should therefore not so much be seen as a real shift but rather as an adaptation which gives the most security to our vulnerable position.

## Chapter 1. Introduction

The title of this thesis, 'Between the Devil and the Deep sea' refers to a quote of Director-General H.M. Hirschfeld of the Dutch ministry of Trade and Industry in a meeting of the Commission for Contingency in 1932 about trading with Britain and Germany. Furthermore, it relates to the title of H.A.M. Klemann's dissertation which is entitled *Tussen Reich en Empire (Between R&E)*, also referring to the problematic situation that the Netherlands were caught between Germany and Britain. In his dissertation Klemann emphasizes the Dutch trading relations with Germany as well as Britain,<sup>2</sup> whereas my focus will be more solely on the increasing importance of the Dutch trading relations with Britain.

### 1.1 Relevance

At this moment, we are in the middle of a financial and economic crisis which has already been compared to the Great Depression of the 1930s. The long-term effects of the Financial and Economic crisis, which started in the end of 2008, only begin to show off. It is not yet clear what will happen to the European monetary system, neither with its currency, nor with all the trade agreements. Everybody is anxious how countries are going to respond to this crisis. The Dutch economy is known for its tradition of free trade and openness. Moreover the Netherlands were the instigators of the European Coal and Steel Cooperation, the first pillar of the European Union and great supporters of one internal trading market. The question that arises, is how this crisis will influence the Dutch economy, being an export market and strongly depending on international trade. According to rating agency Fitch 'a dramatic worsening of the current Eurozone crisis could have a severe damaging impact on the Netherlands' small and open economy and potentially bring downward pressure on the rating,'<sup>3</sup> while the famous German economist Hans-Werner Sinn, who is of the opinion that 'Die Euro-Rettung schadet Deutschland' and probably also the Netherlands and the IMF warns of 'Sizable Risk' of Deflation in Euro Zone.<sup>4</sup> The open character of the Dutch economy

---

<sup>2</sup> H.A.M. Klemann, *Tussen Reich en Empire, De Nederlandse handelsbetrekkingen met zijn grootste handelspartners: Duitsland, Groot-Brittannië, België en de Nederlandse handelspolitiek, 1929-1936* (Amsterdam 1990).

<sup>3</sup> [http://www.fitchratings.com/creditdesk/press\\_releases/detail.cfm?pr\\_id=753577](http://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=753577) (26 juni 2012).

<sup>4</sup> Spiegel—on-line, <http://www.spiegel.de/wirtschaft/soziales/euro-krise-hans-werner-sinn-ruft-zu-protest-gegen-bankenunion-auf-a-842662.html>; New York Times, [http://www.nytimes.com/2012/07/19/business/global/imf-warns-of-sizeable-risk-of-deflation-in-euro-zone.html?\\_r=1&hp](http://www.nytimes.com/2012/07/19/business/global/imf-warns-of-sizeable-risk-of-deflation-in-euro-zone.html?_r=1&hp).

is fully recognized even by rating agencies such as *Fitch*. How the crisis will affect the Dutch economy is however, a question too soon to answer. Many times this current crisis has been compared to the crisis of the 1930s. During this period the Dutch economy already was depending on international trade. To illustrate, the next table represents the import per capita per nation in 1938 and shows that the Netherlands was one of the countries with the highest imports.

<b>South-Africa</b>	28.50	<b>Netherlands</b>	52.68
<b>Canada</b>	35.42	<b>Switzerland</b>	50.97
<b>US</b>	8.84	<b>Czechoslovakia</b>	16.37
<b>Chili</b>	13.10	<b>Bulgaria</b>	5.64
<b>Brazil</b>	3.96	<b>Denmark</b>	55.18
<b>Argentina</b>	20.19	<b>Spain</b>	20.63
<b>Japan</b>	6.10	<b>Norway</b>	58.58
<b>USSR</b>	0.93	<b>Poland</b>	4.16
<b>Germany</b>	17.87	<b>Rumania</b>	4.05
<b>Austria</b>	21.43	<b>Ireland</b>	40.36
<b>Belgium/Luxembourg</b>	52.15	<b>GB</b>	52.06
<b>France</b>	18.69	<b>Australia</b>	43.59
<b>Italy</b>	7.96	<b>New-Zealand</b>	78.49

Source: Blaisse, *De Nederlandse Handelspolitiek, De Nederlandse volkshuishouding tussen twee wereldoorlogen* (Utrecht 1948) 25.

In addition to Krugmans statement that one can speak about a *supertrading country* when the Export/GDP ratio is over 50%, Klemann argues that the Netherlands has been a supertrading country already from the nineteenth century.<sup>5</sup> According to Professor and former Minister of Economic Affairs J.R.M. Van den Brink this is because on the one hand the

<sup>5</sup> H.A.M. Klemann, *Waarom bestaat Nederland eigenlijk nog? Nederland-Duitsland; Europese integratie en politieke consequenties 1860-2000* (Rotterdam 2006) 11.



country lack natural resources and of the other hand is very densely populated.<sup>6</sup> During the previous years before the economic crisis of the 1930s there was an enormous population growth. The economist P.A. Blaisse also emphasizes the lack of natural resources in combination with the tradition of international shipping which led to increasing international trade.<sup>7</sup> Therefore the country need international trade to compensate for its shortages. Therefore, an economic crisis which jeopardizes international trade will have an enormous impact on a the Dutch economy and society which is so dependent on it. This thesis focuses on how such a strong economic fall-back in the past was experienced and what the Dutch government tried to do to protect its international trading position and thereby its economy.

In the first half of the 1920s nobody would have believed that the end of that same decade would be the start of an enormous global depression which turned out to have severe consequences for Dutch society as a whole. Unemployment grew rapidly, economic growth was replaced by negative growth, and net income decreased. According to Klemann, the Dutch government only had two possible responses to this crisis: firstly, finding connection with one of the surrounding economies of Germany and Britain, which were the most important trading relations of the Netherlands, to profit from their economic growth, and secondly protecting the most important domestic industrial sectors with most potential growth.<sup>8</sup> This thesis will focus on the protectionist behaviour of the European countries during the interwar period. Germany and Britain were the most important trading countries with the Netherlands and the Dutch economy can be seen as a small economy in between. Thus production factors are concentrated in a few sectors, which means that for everything else the country needed and needs international trade.<sup>9</sup> In many academic publications, the Dutch trade relations with Germany with regard to the upcoming Nazism have been highlighted. This thesis will focus on the increased importance of Dutch trading relations with Britain instead. These relations became so important as a consequence of the decreased trading relations with Germany, and the Dutch responses to protectionist measures of the British Empire. Furthermore, the goal is to find evidence that the Dutch, in

---

<sup>6</sup> P.A. Blaisse, *De Nederlandse Handelspolitiek; De Nederlandse volkshuishouding tussen twee wereldoorlogen* (Utrecht 1948) 5.

<sup>7</sup> Blaisse, *De Nederlandse Handelspolitiek*, 15.

<sup>8</sup> Klemann, *Tussen Reich en Empire*, 3.

<sup>9</sup> H.A.M. Klemann, The international economic relations of Small Countries in the 1930s. Belgium and the Netherlands. In: Timo Myllyntaus, *Economic Crisis and reconstructing in History. Experiences of Small Countries* (St. Katharinen 1998) 145.

their negotiations with Britain, tried to use the Sumatra Treaty of 1871, in which a trade-off was made between the Dutch receiving free trade or preferential tariffs in the British colonies in the East Indies in return for the same agreements on Sumatra. This treaty could mean that the Dutch could enforce free trade clauses against the proposed protectionist and imperial preferential measures.

## 1.2 Time frame

The main focus of this thesis will be the Dutch response to the protectionist behaviour of the British Empire, which was in itself a response to the economic depression of 1929. This year is thus the beginning of the chosen time frame. It was only during the first half of the 1930s that the Dutch government started to implement an actual foreign trade policy. This was also the period that the real protectionist measures of the surrounding trading partners became visible. That is the reason that this period will be the main focus of my thesis. The year 1936 will be the end of the used time frame because that year the Dutch government, as one of the last countries, finally left the Gold Standard. Therefore that year can be considered as the beginning of a new monetary era for the Dutch economy.

## 1.3 Structure and research question

### ***Research question***

As mentioned above, the focus of this thesis will be the Dutch response towards foreign and especially British protectionism. The research question will be how the Dutch reacted on the protectionist behaviour of Britain and the British Empire and how this can be explained. To answer this central question the following sub-questions will be discussed:

- What were the main causes for protectionism during the interwar period?
- What was the British reaction to the Great Depression and how did it affect their domestic and foreign economic policy?
- What were initially the Dutch political views on how to deal with the Depression and foreign protectionism?
- How and why did the Dutch trade policy change?

- Can the Dutch response towards British protectionism be considered in line with realist paradigms?

In each of the next chapters the analyses will focus on one of these questions.

## Chapter 2. The interwar period: the Great Depression and causes for protectionism

Chapter 2 will focus on the depression and the causes for protectionism during the interwar period and will briefly explain what exactly happened in the period towards the Great Depression. Further it will discuss the causes of protectionist behaviour. A fierce intellectual debate in academic historical literature about the causes for protectionism during the interwar period can be found. The most important authors will briefly be discussed. Stephan Krasner and Charles P. Kindleberger emphasize the importance of hegemonial rule. According to them the fall of the British empire and the failure of the United States to take the lead, are the main causes for this period of depression, insecurity and protection. D. Verdier seeks explanations from a different perspective. According to him, the most influential reasons for protectionism can be found in domestic factors and regime change. Verdier uses the coalition theory that posits that the trade preferences of producer groups reflect their position in the international economy. If the export-group is politically dominant, the policy outcome will be openness; when the import-sensitive group is dominant, the policy will be protectionist.<sup>10</sup> But he adds another component to the theory that protection is a rent, and that the total amount of the rent distributed is a reflection of the type of political regime, which is not related to the trade preferences of the politically dominant producer groups.<sup>11</sup> Capie also emphasizes on the importance of the domestic factors which led to protectionist behaviour. Although the international debate in various international bodies (Brussels Financial Conference 1920, Porto Rosa Conference 1921, Genoa 1922, Geneva 1923, World Economic Conference 1927) during the interwar years focused on how to maximize free trade and condemn any forms of restrictions, the domestic forces led in an opposite direction.<sup>12</sup> To cite J.B. Condliffe in the *Commerce of Nations*: “Protectionists worked on the home front while the internationalists were encouraging each other abroad. No national government was strong enough to resist the political pressures of the minority interests groups.”<sup>13</sup> Capie states that the domestic forces in Great-Britain towards protectionism were already formed in the earlier period towards and during the First World War and that they were a response to pressures from the Empire, in particular

---

<sup>10</sup> D. Verdier, ‘Democratization and Trade Liberalization in Industrial Capitalist Countries, 1830s-1930s,’ *Comparative Studies in Society and History*, Vol. 40, No. 4 (Oct. 1998) 588.

<sup>11</sup> Verdier, ‘Democratization and Trade Liberalization’, 589.

<sup>12</sup> F. Capie, *Depression and Protectionism; Britain between the Wars* (1983) 4.

<sup>13</sup> Capie, *Depression and Protectionism*, 5.

the Dominions with their interests to keep foreigners out but pave the way for preferential arrangements for Empire countries.<sup>14</sup> Other explanations deal with the problems of strategic interaction and the macroeconomic instability. Then the more recent article of Chase will be compared with the former explanations. According to Chase the causes already mentioned are not sufficient to entirely explain the rise of protectionism. Systemic theories cannot explain why some states were more inclined than others to close their economies and form trading blocs.<sup>15</sup> Bilateral and regional arrangement were not equally restrictive during the interwar period and policy measures from nation-states were not all similar. Institutional approaches emphasize domestic factors as political party politics and regime change, but miss underlying sources of global trends. Chase believes that a complete explanation must capture the systemic causes but also at the same time account for different national responses.<sup>16</sup> Chase adds another important cause for the rise of protectionism which was lacking until then and that is the importance of the economies of scale. Economic integration and market competition affect interests and behaviour at the micro-economic level and shifting preferences and domestic coalitions all shape policy responses in different countries. Systemic theories fail to address these internal political struggles because they focus on the interests and actions of nation-states.<sup>17</sup> He argues that the domestic pressure for protection and the formation of trading blocs in the 1930s responded to technological changes after the turn of the century that increased the optimal scale of manufacturing. It was the reaction to the industries of the US as one of the main causes that led to protectionism in the interwar period.

In the chapters about British protectionism and the Dutch path towards a more active trade policy, I will try to compare their shifts in policies with all the causes mentioned in this chapter and to find some plausible explanations.

### **Chapter 3. British protectionism and the Empire**

Chapter 3 provides a brief summary of British economic and political developments during the interwar years and how these integrated the Commonwealth in its protectionist policy.

---

<sup>14</sup> Capie, *Depression and Protectionism*, 7.

<sup>15</sup> K.A. Chase, 'Imperial Protection and Strategic Trade Policy in the Interwar Period', *Review of International Political economy*, Vol.11, (No.1. Feb. 2004) 177.

<sup>16</sup> Chase, 'Imperial Protection', 178.

<sup>17</sup> *Ibidem*, 179.

Britain suffered most from problems in the (former) colonies. Traditionally, Britain was an exporting country to other continents and not so much within Europe and this had only been increased during the last 1920s. The export to the Empire increased from 34.7% in the first years of the twentieth century to 46.6% in the 1930s.<sup>18</sup> When the crisis hit these (former) British colonies, Britain lost a great part of its export market. Another problem which the British economy was facing, was that the industrial sector was falling behind (lacking the necessary investments in innovations and modernization) and could no longer compete with upcoming powers such as the United States. One of the effects was that the unemployment rate increased to 22% in 1931. In combination with the high pound, this resulted to a troublesome situation causing a balance of payment deficit.<sup>19</sup> All these developments led to a domestic urge for protectionist measures. As mentioned in chapter 2, the first signs to protectionism in Britain were already present in the period towards and during the First World War. At first, however, no actual measures were taken because of the Labour dominated government, but on the 27<sup>th</sup> of October 1931 a new Conservative government was installed and this led to a new policy of protectionism and imperial preferential politics. In March 1932 after the Empire Conference held in Ottawa, Britain granted preference to Empire countries.<sup>20</sup> Great-Britain announced a tariff barrier of 10% for every exporting country, except for the Dominions.<sup>21</sup>

#### **Chapter 4. Dutch trade policy: from free trade to an active trade policy**

During the first half of the interwar period, the Dutch government did not have any real trade policy. The tradition of free trade had always been dominant and therefore they were empty handed when in negotiation with other countries. Although this policy already seemed unsuccessful at that time, the Dutch continued to hold on to this for a long time. This was for example still the main formal goal formulated on the Geneva Convention.

However, in 1929 the third cabinet of the Ruijs de Beerenbrouck was formed which was an extraparlimentary cabinet. Mr. T.J. Verschuur was appointed as the new Minister of

---

<sup>18</sup> Capie, *Depression and Protectionism*, 20.

<sup>19</sup> Klemann, *Tussen Reich en Empire*, 135.

<sup>20</sup> Capie, *Depression and Protectionism*, 31.

<sup>21</sup> Klemann, *Tussen Reich en Empire*, 150.

Labour, Trade and Commerce and he already concluded in an earlier phase that the Dutch economy had to reform to survive in this changing environment of foreign protectionism. The policy of international economic relations had always been a matter of the Ministry of Foreign Affairs. After the development of the Directorate-General Trade and Commerce, at the Ministry of Labour, Trade and Commerce and the appointment of Director-General of Trade and Commerce H.M. Hirschfeld, more and more economic affairs became under the responsibility of this ministry, but foreign trading negotiations still stayed a matter of the Ministry of Foreign Affairs for a long time.<sup>22</sup> As mentioned before, at first, the Netherlands did not have a real trade policy, but in a period of increasing protectionism in Germany and a failing convention of Genève, the Dutch government began to realize it had to take action. They found cooperation with other small European countries with an open economy similar to the Netherlands and which were also in favour of free trade. These were the Scandinavian countries together with Belgium and so the Oslo-group was formed.<sup>23</sup> Although this appeared to be a great step forward, in practice these countries were competing units in the agricultural sector and consequently, they were no interesting market for each other. Protectionism in other markets (like for example Britain) would lead to an opposite situation of increasing competition between the members because they were interested in the same export markets.<sup>24</sup> Another very important influence during the depression was the lobby activities of the agricultural sector. After the financial crisis of 1931, there was no longer a profitable market for dairy outside the country. Meat and dairy production were the most important industries in the Dutch agricultural sector, so not surprisingly measures had to be taken. The biggest problem was the decreased export. The Dutch faced problems in trading relations with Germany, but Britain also had a dangerous and powerful position which created a weak position for the Netherlands in negotiations. Despite this problematic position towards the British market and its imperial preferential policy, this market remained important for excess agricultural products (in other words dumping). Together with Denmark, the Netherlands was the largest exporting country of butter and Britain was a very important market because it had almost no agricultural production of its own.<sup>25</sup> The Dutch export to Britain turned sky-high despite the depression and the preferential rights of

---

<sup>22</sup> Ibidem, 114.

<sup>23</sup> Ibidem, 125.

<sup>24</sup> Ibidem, 132.

<sup>25</sup> Ibidem, 121.

the Dominion, but this was also necessary to compensate for the loss of export markets of Germany and Belgium.<sup>26</sup> From 1935 Germany was no longer the greatest export market but Britain. It was not important as a profitable market, because the greatest profit per unit was still on the German market, but it was a market for dumping. The Dutch trading policies thus led to a construction in which the dumping in Britain was paid for by high domestic prices and profits (because of the high prices) in Germany to protect the Dutch agricultural sector. The urge to protect the Dutch agriculture was furthermore, enforced because the farmers formed the strongest lobby. This Dutch preferential policy by Dutch politicians to the farmers is especially interesting because it is strikingly contrasting with formal advices from the highest civil servants of the Treasury and Ministry of Economic Affairs.<sup>27</sup> In contrast to rational economic choices to protect the growing industrialisation, the agricultural sector was protected at the cost of all other sectors. Firstly, the Crisis Law was announced, followed by the Crisis Pig Law to protect the agricultural industry.<sup>28</sup>

#### **Chapter 5. Towards a policy response: how to deal with the British Empire?**

The increasing importance of the British market for the Dutch agricultural export became apparent. Secondly, the British neglects of all sorts of trading agreements and its imperial preferential policy also created negative effects on Dutch exports and imports. The weak negotiating position of the Dutch created tension about how to deal with the British behavior. One of the concrete examples of Britain neglecting former trading agreements was the Sumatra Treaty. During 1932, trading commissioners gave notice that the British were not acknowledging the agreements. The agreements were on the one hand useful, because it gave the Dutch preferential import tariffs towards the British empire, but on the other hand it gave the Dutch an extreme weak trading position because the British were given a low import tariff on Sumatra and because Sumatra could not be seen as separate from the rest of the Dutch Indies, this was applied to the whole of the Dutch Indies. And in relation with the most favoured nation clause, other nations could, depending on the status of the Dutch Indies, also make use of this lower import tariff. A fierce internal discussion took place between government officials how to deal with British protectionism and the British neglects of earlier made agreements.

---

<sup>26</sup> Ibidem, 176.

<sup>27</sup> Ibidem, 144.

<sup>28</sup> Ibidem, 140.



## **6. Dutch trade policy: breaking with the past, yes or no?**

The answer of the central question will be put in an international relations theory perspective. Was the Dutch response to the British protectionism of the interwar period a logic and rational reaction, or might other policy responses have been more adequate, according to the theories? And which factors national and international influenced the policy process?

### **1.4 Research methods**

Information for this thesis is acquired by a literature study based on primary and secondary sources. This contents analysis and secondary analysis are techniques of data collection which are based on sources used for all sorts of purposes. An important source of information has been the memo's, notes and policy advises during that period, which can be found in the National Archive. I have chosen for a qualitative approach because my material is focused on how the Dutch government should respond to British protectionism and is based on qualitative documents. The focus in this thesis is more on the change in the policy decision process and the mind-set within the Dutch government. This does not mean, however, that specific quantitative information about the Dutch and foreign economies are not relevant in this thesis. Certain quantitative results are used to illustrate patterns of economic developments which influenced the Dutch trade policy, but no quantitative analysis has been used to draw conclusions.

#### **Sources**

Large amounts of written information is available about the interwar period and protectionism during the interwar period. I have used secondary literature from well-known authors as C. Kindleberger, F. Capie and A.M. Klemann. These sources were especially useful for chapter 2 about causes of protectionism. For the research about the Dutch shift towards a more active trade policy I have used primary sources from the National Archive. Notes, memo's, policy advises and other correspondence can be found concerning dealing with foreign protectionism. Furthermore, the memoires of former Director-General H.M. Hirschfeld were useful because he set out the developments and changes within the Dutch government both in a chronological and thematic way. In addition to this, some of the sentiments can be found which were present in Dutch society and Parliament. His memoires

about this period are based on his own experience as well as from all sorts of other primary sources, like Cabinet documents. The chapter concerning the British circumstances during the interwar period is primarily based on *Depression and Protectionism* from F. Capie. There is not much written about issues concerning the Sumatra Treaty. I had hoped to find information in reports of the Parliament, but unfortunately no such information was found. I did find correspondence about how to deal with the Sumatra Treaty in the National Archive concerning documentation of the Ministry of Foreign Affairs and later on documents of the Ministry of Labour, Trade and Commerce. The documents lists of *Bescheiden Betreffende de Buitenlandse Politiek van Nederland, 1848-1945* were also useful documents. These lists of documents are primarily based on the archive of the Ministry of Foreign Affairs, but also on documents from other governmental organizations, private collections and specific government officials. However, the period 1931-1940 is also largely based on other collections than that of the Ministry of Foreign Affairs because the archive concerning that period was mainly deliberately destroyed at the beginning of World War Two. This applies especially for the documents concerning the economic trading negotiations with Germany and Britain. To fill this archival gap, documents were added from the trading commissioners stationed in Berlin and London. These are a useful contribution to obtain a rather complete representation of documents of the period between both World Wars.<sup>29</sup>

### 1.5 Theoretical Approach

There are several levels of objects when doing research. The main object of this thesis is the Netherlands as a nation-state operating on an international level playing field. This interstate interaction is the level of focus. Specific players as statesmen, ministers and other government officials will sometimes be discussed, but only to describe a specific moment or as a crucial factor which influenced the policy process on a national level. Because the main object is on a nation-state level, this thesis is written through a *realist approach* within the International Relations Theories. Realism is based on the ideological tradition of conservatism, with a primary level of analysis on the interstate level and where the main

---

<sup>29</sup> Bescheiden betreffende de Buitenlandse Politiek van Nederland 1848-1945, deel II 1931-1932, VI.

focus are conflict and finding order in anarchy.<sup>30</sup> Realism deals with questions as how order can be maintained in a system of nation-states and deals with international interaction and the state of nature. Furthermore, its focus is on the struggle for security and the control for scarce resources.<sup>31</sup> The research question of this thesis deals with how the Dutch government in its role of the Dutch nation-state responded to foreign, especially British, economic threats and how this response can be explained. The explanation thus will be sought from a realist point of reference. Was the Dutch response considering its position on an international level and in relation to the British empire a logical response and in line with realist paradigms?

## 1.6 Concepts

To start a thesis first of all the most important concepts and definitions used in the thesis should be explained.

### **Protectionism**

What is protectionism? In this thesis the definition of protection is from Krugman and Obstfeld: “governments attempts to shield their industries from foreign competition by placing limits on imports or to help them in world competition by subsidizing exports.”<sup>32</sup>

Protectionism contains several different possible policy instruments. Eichengreen differentiates the use of tariff-barriers, import quotas (quota restrictions) which are also known as contingencies and exchange controls to restrict spending on foreign goods and established preferential trading blocs and bilateral clearing arrangements to channel trade toward favoured partners.<sup>33</sup> The focus here will be on tariff-barriers as well as on quota restrictions/contingencies. Different levels of protectionism can be found. It is important to keep in mind that there are different levels of protectionism, like measures only to defend domestic industries or measures which are of a more aggressive nature. The Dutch internal discussion about switching to more protectionist measures was about whether these measures could be considered purely defensive and still compatible with our tradition of

<sup>30</sup> L.T. Knutsen, *A history of International Relations Theory*, (Manchester University Press 1997 second edition) 258.

<sup>31</sup> *Ibidem*, 256.

<sup>32</sup> P. Krugman & M. Obstfeld, *International Economics; Theory and Policy* (1994, third edition) 5.

<sup>33</sup> B. Eichengreen & D.A. Irwin, ‘The Slide to Protectionism in the Great Depression: Who succumbed and why?’ *NBER working paper series, National Bureau of Economic Research* (Cambridge July 2009) 1.

free trade or whether these were based on aggressive methods which could be considered as strongly contrasting the tradition of free trade. An extreme form of protectionism is called dumping and in this thesis the usage of this term relates to public (that is subsidised) dumping which takes place when an export subsidy is granted and the export price is then able to fall below the marginal cost of production.<sup>34</sup>

### ***Trade policy***

Trade policy refers to a country's policy how to deal with foreign markets. According to Klemann, trade policy in general has two main goals; firstly it tries to protect a country's own market to shield those industrial sectors which are too weak to function without protection, and secondly it tries to open up possible foreign export markets.<sup>35</sup>

### ***Imperial preferential politics***

From the Ottawa Conference of 1932, Britain started to use an imperial preferential politics, although at that time it was known as imperial free trade politics. According to Capie: "Britain granted fairly substantial preference to Empire countries."<sup>36</sup> Empire countries included former colonies as Canada and Australia as well as colonies during the interwar period like British Guinea.

---

<sup>34</sup> Capie, *Depression and Protection*, 46.

<sup>35</sup> Klemann, *Tussen Reich en Empire*, 202.

<sup>36</sup> Capie, *Depression and Protectionism*, 31.

## Chapter 2. The interwar period; the Great Depression and causes for protectionism

### 2.1 Introduction

This chapter focuses on the protectionist behaviour of most European countries during the interwar period and in particular which causes led to this behaviour. Protectionism refers to a nation's economic and political policy to protect one's economy or certain branches of it (for a clear definition see chapter 1). An extreme form of protectionism is the strive for autarky, in which a country is fully independent in its production. Although this has been a goal for certain countries during the interwar period, it never really came into practice. Protectionism contains several different possible policy instruments.

There can be found a lively debate about the actual causes for protectionism during the period after the First World War and just before the Second World War. Some historians and economists seek explanations in the domestic sphere of a country, others seek it in pure economic circumstances, while others try to combine different factors. It is exactly this debate that will be subject for this chapter.

To start this debate, first will be discussed the view of one of the most important authors on this topic. Charles P. Kindleberger, is a well-known historical economist and is author of *The World in Depression; 1929-1939*, in which he explains his hegemonic stability theory in relation to the depression of the 1930s and the protectionist measures most countries took.

### 2.2 Kindleberger's hegemonic stability theory

In 1973 and later in 1986 Charles P. Kindleberger wrote his book *The World in Depression 1929-1939* in which he tried to capture the causes and the nature of the Great Depression. He starts his book with: "It seems odd, fifty years after the event, that economists still do not understand, or at least cannot agree on, the world depression of the 1930s."<sup>37</sup> This phrase illustrates the complex character of this debate. In contrast to most other American economists Kindleberger argues that the depression was a world-wide phenomenon in origin

---

<sup>37</sup> C.P. Kindleberger, *The World in Depression, 1929-1939* (1986) 1.

and interaction rather than an American recession that spilled abroad.<sup>38</sup> He blames other economists for using an uncausal explanation and ignoring other explanations. Examples of such uncausal explanations are the U.S. monetary policy (Milton Friedman), the misuse of the Gold standard (L. Robbins), mistaken deflation (J. M. Keynes), secular stagnation (A.H. Hansen) or structural disequilibrium (I. Svernilson).<sup>39</sup> He continues that Friedman's explanation is 'national, monetary and related to a policy decision'.<sup>40</sup> Kindleberger argues that the world system is no competitive system and that the fallacy of composition (the total differs from the sum of the parts) enters to affect the outcome. By protectionist measures (by advancing its own good by a tariff, currency depreciation or foreign exchange control) a country can worsen the welfare of other countries more than its own gain.<sup>41</sup> Each country will end up in a worse position for pursuing its own gain. This is exactly what happened after the First World War. The retaliation debts created a very complicated system in which all countries were depending upon the other for war repayments. Germany owed reparations to France. Belgium and Britain had borrowed war loans in America. Britain owed to the United States what it received from Germany and owed from France. France was to receive most reparations, but not only had substantial debts to the other former ally, but also suffered from most war damage as most of the war was fought on French and Belgian territory. So in this situation Germany was more ready to cancel reparations than to default on commercial debts, Britain was willing to cancel reparations but only if war debts were excused and France insisted in receiving reparations, but wanted war debts to be cancelled. No logical solution in which all countries would agree on the outcome seems at hand. It is in these circumstances that according to Kindleberger a world-leader is needed. "The international economic and monetary system needs leadership, a country that is prepared, consciously or unconsciously, under some system of rules that it had internalized, to set standards of conduct for other countries and to seek to get others to follow them, to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital, and discounting its paper."<sup>42</sup>

---

<sup>38</sup> Ibidem, xiv.

<sup>39</sup> Ibidem, 289.

<sup>40</sup> Ibidem, 4.

<sup>41</sup> Ibidem, 9.

<sup>42</sup> Ibidem, 11.

Britain was such a world leader until the start of the First World War. The United States became that after the Second World War. In this period in between such a world leader was missing, however. This theory about the lack of a world leader in the interwar period can be called the hegemonic stability theory. Kindleberger blames the United States for not taking over the leadership of the world economy from Britain, the former world leader. Britain was already in decline in being the world leader after the end of the First World War. Consequently, the US was not stepping up to act as a stabilizer in the world economy. The depression of the 1930s was so “wide, deep and so long because the international economic system was so rendered unstable by British inability and US unwillingness to assume responsibility for stabilizing it by discharging 5 functions.”<sup>43</sup> Kindleberger lists 5 responsibilities the US should have to take to stabilize the world economy: maintaining a relatively open market for distress goods, providing countercyclical, stable long-term lending, policing a relatively stable system of exchange rates, ensuring the coordination of macroeconomic policies and acting as a lender of last resort by discounting or otherwise providing liquidity in a financial crisis. These functions should be carried out by a single country that holds the responsibility for the whole system. According to Kindleberger, it was from 1931 on that Britain was no longer the world economic leader and that this became visible at the World Conference in 1933 that Britain had turned away from leadership by cultivating the Common Wealth and freedom to manage sterling, and largely leaving it to the United States to devise a world program.<sup>44</sup> At the same time, however, the United States was busy with itself. Its policy was more towards isolationism than to become the new world leader and instead of promoting international free trade it announced the Smooth-Hawley Act.

### **2.3 Debate: What caused the protectionism of the interwar Period?**

The collapse of the world economy and the increased protectionist measures of nation states during the 1930s still remains a bit of a mystery. Multiple answers seem possible depending on subject and theoretical background. As one author rightfully points out: “Each of us, according to training and taste, elaborates more upon one aspect of the depression

---

<sup>43</sup> Ibidem, 289.

<sup>44</sup> Ibidem, 296.

than others.”<sup>45</sup> This is in line with Kindleberger’s statement that even fifty years after the depression economists still do not know or do not agree about the causes of the depression. He goes even further by saying that his explanation in *The World in Depression, 1929-1939* is just ‘an explanation and not THE explanation’.<sup>46</sup> In this section the most important views about the causes of protectionism will be discussed and compared with the explanation of Kindleberger.

R. Reuveny and W.R. Thompson mention diverse explanations for protectionism in general: ideologies (most famous arguers of this explanation are J.S. Odell and J. Goldstein), business cycles (T.J. McKeown 1984, 1986, G.M. Gallarotti), elite orientations (J. Frieden 1988, Milner 1988), surplus capacities (S.Strange 1979, 1985), structural economic shifts, technological shifts, polarity structures, and the presence or absence of economic and political leadership (Kindleberger and Verdier on domestic politics).<sup>47</sup> These ideas will be discussed. Two well-known explanations are related to the decline of the hegemonic power of Great-Britain and with the failure of the US to act as a stabilizer and a new hegemonic leader. Kindleberger and his hegemonic stability theory has already been discussed. The other well-known theory is from international relations theorist Stephen Krasner. Krasner relates the structure of international trade to the hegemonial rule of a certain period, which is known as the *hegemonic trajectory*.<sup>48</sup> He does this through his state-power theory, which begins with the assumption that the structure of international trade is determined by the interests and power of a state acting to maximize national goals. According to the neoclassical trade theory, the Pareto-optimality of maximum aggregate economic utility would have been achieved under free trade, and this a primary goal of a country.<sup>49</sup> However, there are four and not one basic state interests: aggregate national income, economic growth, social stability and political power. Aggregate national income increases by the degree of openness, but social stability decreases (however, mitigated by a larger size and greater economic development) because of fluctuations in a world economy. The political power of a state and its relations to openness can be analysed in terms of relative

<sup>45</sup> E.S. Shaw, Review: Charles P. Kindleberger, *The World in Depression: 1929-1939*, *Journal of Money, Credit and Banking*. Vol.7, No.3 (Aug. 1975) 398.

<sup>46</sup> Kindleberger, *The World in Depression*, 289.

<sup>47</sup> R. Reuveny & W.R. Thompson, ‘The Timing of Protectionism,’ *Review of International Political Economy*, Vol.4, No.1 (Spring 1997) 179.

<sup>48</sup> *Ibidem*, 180.

<sup>49</sup> Krasner, *State Power and the Structure of International Trade*, 318.



opportunity costs of closure for trading partners; the higher the costs, the weaker the political position of the state. In times of economic growth openness in an economy is more important, because of the more efficient allocation of resources, but openness of an economy can be counter-effective in the long run due to leakage to other less developed countries. Less developed countries will try to copy the success factors of the economic growth. This in turn decreases the advancement of the economic leading country, so they have to continue their technological leadership to stay ahead.<sup>50</sup> According to Krasner, openness is most likely to occur during periods when a hegemonic state is in its ascendancy. The state has the resources and interests to create a structure characterized by lower tariffs, rising trade proportions and less regionalism.<sup>51</sup> He sees two economic powers which are classified as such economic powers, Great Britain in the nineteenth century and the United States after the Second World War. Krasner makes a periodization in which the fourth is the interwar period 1918-1939. This is a period of an increasing tariff levels.<sup>52</sup>

Krasner's theory is interesting and is generally confirmed by empirical evidence, but the greatest flaw is that the evidence does not fully explain all periods, especially not the interwar period. The US as emerging economic power period made little effort to open the structure of international trade and even announced the Smooth-Hawley Act of 1930. It also hardly seemed interested in political power, as it withdrew from Europe where it seemed to have won a dominant position. So, instead of trying to create openness and promote free trade as an ascending great power, it acted exactly the opposing direction and refused the position of a major power. It were the British who attempted to continue their hegemonic role.<sup>53</sup> The American policy during the interwar period fails to fit in the state power explanation of the behaviour of a rising hegemonic power. Krasner makes some adjustments to the theory by adding the necessity of catalytic external events to move states to policy initiatives in line with its interests,<sup>54</sup> but fails to come with a satisfactory explanation for the protectionism during the Interwar period. Another flaw is the lack of precise timing of hegemony and hegemonial power.

---

<sup>50</sup> Ibidem, 319.

<sup>51</sup> Ibidem, 323.

<sup>52</sup> Ibidem, 330.

<sup>53</sup> Ibidem, 338.

<sup>54</sup> Ibidem, 340.

According to R. Reuveny and W.R. Thompson there are contradicting views on the periodization of the hegemonic rule, in which the most well-known counter-statements come from I. Wallerstein and R. Gilpin in trajectory time.<sup>55</sup> Another example of theories concerning shifts of economic power is from F. Mills. He uses *a long cycle model* which links trade rules directly to the rise and fall of global political leadership.<sup>56</sup> Political scientist and author of *Hierarchy in International Relations*, David A. Lake also made a model about hegemonic leadership, but this is not the only possibility for freer trade. According to him the type of international economic structure is more important, and this is in turn depending on the numbers and sizes of the actors involved as well as on the mix of strategic types of actors operating in the system. Theories about external shocks are represented by for example W. Fischer. His model has several components, like war, depression, trade propensity, legislative political influence and the public opinion. States which are more involved in trade tend to be more free-trade oriented and tend to stay that, although wars and depression to lead to higher tariffs.<sup>57</sup>

Verdier and Simmons seek explanations from a different perspective. According to them, the most influential reasons for protectionism can be found in domestic factors and regime change.<sup>58</sup> Verdier uses the coalition theory in which the trade preferences of producer groups reflect their position in the international economy. If the export-group is politically dominant, the policy outcome will be openness; when the import-sensitive group is dominant, the policy will be protectionist.<sup>59</sup> But he adds another component to the theory that protection is a rent, and that the total amount of the rent distributed is a reflection of the type of political regime which is not related to the trade preferences of the politically dominant producer groups.<sup>60</sup> He focuses on 3 periods of economic recession; 1830s-1840s, 1873-1894 and 1930-1939. The Great Depression of the 1930s is a period of the mobilization of both farmers and workers. The crisis caused either party systems to realign along class lines or to bury democracy altogether ( as happened in most European countries). In all the crisis caused the trade orientation to change. And in the cases of democracy, there tended

<sup>55</sup> Reuveny, & Thompson, 'The Timing of Protectionism,' 180.

<sup>56</sup> Ibidem, 181.

<sup>57</sup> W. Fischer, 'Swings toward protectionism and free trade in history', in Herbert Giersch: *Free trade in the World Economy: Toward An opening of Markets*, Tübingen: Mohr (1987).

<sup>58</sup> B.A. Simmons, 'Who adjusts? Domestic sources of Foreign Economic Policy during the Interwar Years', 1997.

<sup>59</sup> Verdier, 'Democratization and Trade Liberalization in Industrial Capitalist Countries, 1830s-1930s,'

*Comparative Studies in Society and History*, Vol. 40, No. 4 (oct., 1998) 588.

<sup>60</sup> Verdier, 'Democratization and Trade Liberalization,' 589.

to be generated fewer rents than in autocracies, when there was a rise in political contestation.<sup>61</sup> How did this work? There was more labour than land and so socialist parties advocated free trade whereas agrarians advocated protection. So in the end some free trade had to be given up, but there was still lower protection on non-agrarian goods when the economy was ascending again.

Although this is an interesting theory and gives attention to the domestic political situation unlike theories about hegemonic powers which focus only on forces outside the country, it does not tend to work out very nicely with the evidence. Verdier himself acknowledges that first of all the small countries had no partisan alignment and hardly any policy change. They did adopt some protectionist measures, but this was more in response to the environment.<sup>62</sup> One could argue that this evidence is more in line with the hegemonic theory of Kindleberger and Krasner which focuses on the external influence of strong powers on the surrounding countries. Verdier defends this by saying that the lack in variation in the dependent variable (the policy orientation) does not necessarily disconfirm the prediction since there was also no variation in the independent variable (a political crisis), but is still a weakening of the theory. Furthermore, of the 46 countries tested only in 30 cases the theory was right, in 12 false and in 4 irrelevant.<sup>63</sup> Verdiers' conclusion that autocracies are likely to cope with domestic unrest by shifting the problem to other governments, whereas democracies will solve it internally, is somewhat overstated. At last there is an additional problem to this theory and that is that it focuses on a single regime type in a country at the time, assuming that everything else is constant (unit level analysis) whereas in trade, at least one other unit is involved. So this manner of finding evidence is dangerous since systemic effects (which have consequences for all variables and thus the interaction between all countries) cannot be taken into account.

Forrest Capie also emphasizes on the importance of the domestic factors which led to protectionist behaviour. As mentioned before, during the interwar period domestic forces in most countries where, in contrast to the international focus on free trade and condemnation of restrictions on trade, especially focused on protectionism and building trading blocs.<sup>64</sup> To cite J.B. Condliffe in the *Commerce of Nations*: "Protectionists worked on the home front

---

<sup>61</sup> Ibidem, 601.

<sup>62</sup> Ibidem, 603.

<sup>63</sup> Ibidem, 604.

<sup>64</sup> Capie, *Depression and Protectionism; Britain between the Wars* (1983) 4.

while the internationalists were encouraging each other abroad. No national government was strong enough to resist the political pressures of the minority interests groups.”<sup>65</sup> Capie states that the domestic forces in Britain towards protectionism were already formed in the earlier period towards and during the First World War. These were a response to pressures from the Empire, in particular the Dominions with their interests to keep foreigners out. It paved the way for preferential arrangements for Empire countries.<sup>66</sup> He rejects the view that the tariff was simply a response to the worldwide slump of 1929-31, but rather was a logic consequence of a long period of lobbying by British industrialists and political debate in and out of Parliament.

H.A.M. Klemann also believes that choices for protection were at least partly a result of the strongest lobby in an economy. Governments make choices about which sectors should be given protection and this depends on the question which costs are smaller than the benefits on the longer run, together with the influences of the strongest lobby groups.<sup>67</sup> Companies which are competing on international markets will try to defend their market share when confronted with a low international price as a consequence of the too highly valued valuta. They will adjust their prices to the prices of the competition and will take their loss for a limited period, but try to improve their situation by cutting costs and improving their market prices. This can be done, at least on the home market, by protection that will raise prices in the domestic market.<sup>68</sup> Klemann uses the Dutch agrarian sector as an example of a strong influential lobby group. Dutch politicians were highly responsive to actions from the farmers. It is even more striking when considering that most advices from the highest bureaucrats of the Treasury and the Trade department were in striking contrast with the decision to protect this sector.<sup>69</sup>

According to the international political scientist of Brandeis University Kerry Chase, the causes already mentioned are not sufficient to entirely explain the rise of protectionism. Systemic theories cannot explain why some states were more inclined than others to close their economies and form trading blocs.<sup>70</sup> Bilateral and regional arrangement were not

---

<sup>65</sup> Ibidem, 5.

<sup>66</sup> Ibidem, 7.

<sup>67</sup> Klemann, *Tussen Reich en Empire*, 113.

<sup>68</sup> Ibidem, 10.

<sup>69</sup> Ibidem, 144.

<sup>70</sup> K.A. Chase, 'Imperial Protection and Strategic Trade Policy in the Interwar Period,' *Review of International Political economy*, Vol.11, (No.1. Feb. 2004) 177.

equally restrictive during the interwar period and policy measures from nation-states were not all similar. Institutional approaches emphasize domestic factors as political party politics and regime change, but miss underlying sources of global trends. Chase believes that a complete explanation must capture the systemic causes but at the same time account for different national responses.<sup>71</sup> Chase adds another important cause for the rise of protectionism which was missing until then. That is the importance of the economies of scale. Economic integration and market competition affect interests and behaviour at the micro-economic level and shifting preferences and domestic coalitions all shape policy responses in different countries. Systemic theories fail to address these internal political struggles because they focus on the interests and actions of nation states.<sup>72</sup> He argues that the domestic pressure for protection and the formation of trading blocs in the 1930s responded to technological changes after the turn of the century that increased the optimal scale of manufacturing. Firms with limited markets could not take advantage of technologies while producing for national consumption alone. They had to secure the external markets to allow mass production, and secondly firms with goods with large returns to scale in short production runs had increasing difficulty with the competition from larger rivals, which were mainly the US with a much bigger export into Europe than before World War I.<sup>73</sup>

Protectionism in the interwar period represented policy responses to the inability to assimilate the technological changes in the pre-war era. Chase argues that the lobbying activities of firms were largely influenced by seeking protection of the industries with economies of scale. When there are economies of scale and the markets are imperfectly competitive, governments can 'capture economy wide externalities or transfer profits from foreign to domestic firms'.<sup>74</sup> The smaller the scale of production, the stronger the motives for firms to push for trade restrictions that will limit competition from abroad.<sup>75</sup> Firms with small national markets will try to create trading blocs. The greatest threat came from the US, a country which was the most ahead in the use of mass production techniques. European firms had to protect themselves against American companies. A small domestic market does not have to be a disadvantage as long as one can export, but this requires relatively low

---

<sup>71</sup> Ibidem, 178.

<sup>72</sup> Ibidem, 179.

<sup>73</sup> Ibidem, 178.

<sup>74</sup> Ibidem, 181.

<sup>75</sup> Ibidem, 182.

production costs. According to Chase the available evidence confirms that small scale production and limited domestic markets were most prevalent in Japan, the UK and Germany, which are the countries that first embraced protectionism and the formation of trading blocs.<sup>76</sup> So his conclusion is that the dramatic increase in the optimal scale of manufacturing during this period, played an important role that has been overlooked. It was the reaction to the industries of the US as one of the main causes that led to protectionism in the interwar period.

The ideas of Chase do not correspond with protectionist behaviour of the United States who can be seen as one of the earliest countries which announced all kinds of tariff barriers, such as the Smooth-Hawley Act of 1930. This seems to undermine Chase's whole argument that protectionism was primarily a reaction to US' upcoming industries. Another point of criticism, to be added, is that his explanations about the high level of industrial concentration and interest sharing with powerful social groups which are according to him mediating effects of collective organization and institutional structures, are in line with argumentation of Klemann and Capie.<sup>77</sup> So one could argue that his explanations are at least related to already existing ideas about causes for protectionism and thus not really an innovating theory, but his focus on economies of scale can be seen as a valuable recent contribution in the debate about the causes for protectionism during the interwar period.

Although Chase argues that his contribution was completely lacking so far in present theories about protectionism, it does also show similarities with the long wave model of Thompson and Vescera, authors of the book *The engine of world trade: the long wave theory of protectionism*. This model explains protectionism by the presence of successive waves of radical innovations that fuel spurts of economic growth. Radical innovations tend to initially be concentrated within one lead economy. Non-pioneers will lower their barriers to new products until they can produce them themselves. As the new technologies and the ability to produce them increases, follower incentives to raise protective tariffs will increase. The cycle is thus one of alternations in more and less protectionism depending on the phase of innovation.<sup>78</sup> This seem to have similarities with the theory of Chase so his argument about

---

<sup>76</sup> Ibidem, 186.

<sup>77</sup> Ibidem, 196.

<sup>78</sup> Reuveny & Thompson, 'The Timing of Protectionism,' 184.

the lacking of these kind of causes for protectionism does not seem to be valid. At the same time his theory still can be seen as a useful contribution to the set of theories available.

## 2.4 Conclusion

After having discussed the most important views on causes for protectionism during the interwar period it becomes clear that solely focusing on domestic political and national institutional factors like Verdier lack the systemic influences. But systemic theories on their turn miss the domestic influences such as the influence of strong lobby groups on government decisions, like the farmers in the Netherlands, regime changes like in Great Britain after the shift from Labour to Conservative in 1931 or other forces which can influence the policy process. Chase gives a nice addition by focusing on economic influences of economies of scale.

Unlike the credibility of the theories presented, most evidence doesn't confirm that one theory is more right than another. Time and location specificity does seem crucial to explain the protectionist measures of one country. This is also the conclusion of Reuveny and Thompson. They argue that there is no theory which encompasses a more general perspective on protectionism. Although the behaviour of the different countries can be compared and can be called similar to a certain degree, the causes for these protectionist measures do seem very different from each other. Small countries like the Netherlands and Belgium were very much influenced by developments in the surrounding countries and most by protectionist measures in the most important trading partners Germany and Britain. Behaviour of Britain, still a major power at that time, had a great impact on behaviour of the smaller European countries. The increased protectionist behaviour of the British empire certainly was one of the reasons why there became a more active trade policy in the Netherlands. So from this point of view Krasner and Kindleberger do seem to have a valid theory. Furthermore, nation-states had to deal with their own lobby and interest groups which also had a big influence in society in general. This was not only the case for the smaller countries but also for great powers as Britain. Examples as farmers in the Netherlands and industrialists in Britain joined groups and pushed the politicians to protect their industries. Klemann and Capie emphasize the role of domestic pressures as lobby groups and the impact of them on the political decision making process. Another domestic reason which can influence the decision making process towards a more protectionist policy is a (sudden)

change of regime in a certain country. Pressures towards protectionism were already present for a longer time in Britain but these only turned into actual policy the moment the Labour dominated government was replaced by a new more Conservative dominated government. Or one could also call it the return of power of the Conservative Party who overthrew the free trade system and started an Imperial Preference politics. And then there are also less ad-hoc reasons which should be seen as underlying more long-term processes such as the industrialization process which eventually led to economies of scale in specific sectoral industries. These economies of scale in the end also led to protectionist behaviour of sectors which couldn't keep up with the modernization process and thus had to find other means to protect their markets by import-tariffs on products from abroad.

All these elements can be found in the causes for protectionist measures in the different countries and in most cases it is a combination of causes. To conclude there are several plausible causes to appoint for protectionist behaviour but they have to be put in the particular context of a specific country. The hegemonic stability theory of Kindleberger certainly has been a large contribution to the debate about the depression and the causes for protectionism during the interwar period. But it seems as if Kindleberger has done exactly what he accused the other economists of doing; although he starts his conclusion in *The World in Depression 1929-1939* that he doesn't have THE answer but only AN answer, this is exactly what he did according to E.S. Shaw (reviewer of Kindleberger's book). According to Shaw Kindleberger treats all competing explanations of the depression lightly and only sees a monetary explanation as the uncausal explanation, which is the failure of leadership that had already started with the recovery from the first World War to 1925-1926.<sup>79</sup> So Kindleberger should have listened better to his own advice.

A final remark about the data which have been used so far, comes from Reuveny and Thompson, who argue that an important dimension of the problem is the awkwardness of the available data on protectionism. For a long time it has been impossible to generate long series capable of capturing directly the fluctuations in the level of protectionism at the systemic level or for a number of the most important economic actors.<sup>80</sup> For future research it is thus important to find more usable data to use as evidence to test the already available theories on protectionism.

---

<sup>79</sup> Kindleberger, *The World in Depression*, 402.

<sup>80</sup> Reuveny & Thompson, 'The Timing of Protectionism', 180.



## Chapter 3. British protectionism and the Empire

One of the questions asked in the first chapter was, what the British reaction was to the Great Depression and how it did affect their domestic and foreign economic policy? This chapter gives a brief summary of British economic and political developments during the interwar years and how it integrated its Empire, now known as the Commonwealth, in its protectionist policy.

### 3.1 A long run towards protectionism

The first half of the nineteenth century can be seen as the high-tide of free trade and non-intervention. Britain was one of the promoters of free trade. In the second half of the nineteenth century this was still the case, although during the second half of the nineteenth century the first signs of anti-free trade became apparent. Already in 1870 the Fiscal Reform League had been formed to lobby for the implementation of duties.<sup>81</sup> Important to note is that advocates of that period of the implementation of duties later on in the 1920s became influential politicians or businessman. The question of government interference in the British economy remained a hot topic in the first thirty years of the twentieth century. In 1923 the elections still favoured free trade, but the question about import tariffs became more and more apparent. In 1930 more than 80% of the import was duty free, but the Import Duties Act of February 1932 laid the base for real British protectionism. On some products import tariffs of 10% were placed but there was also a list of products which held 20% import tariffs. At the same time Britain started an imperial preferential system in which products from within the Empire remained free from import tariffs.

### 3.2 Rising problems

Between 1870 and 1914 the British Empire had more than doubled in size and the character of trade also changed in comparison to the period before. This all had to do with the great expansion of the British conquests of new territories.<sup>82</sup> This meant that because it gained more and more territory its export and import were also more and more with its own Empire. Table 2 clarifies this development of British export and import. The most important countries for British trading within the Empire where India, Australia, North American

---

<sup>81</sup> Capie, *Depression and Protectionism*, 62.

<sup>82</sup> *Ibidem*, 13.

colonies and the West Indies and these countries took up 80 to 85% of all the import and export.<sup>83</sup>

**Table 2. Distribution of British Overseas Trade 1870 and 1914**

	1870		1914	
<i>Imports from</i>	Million pond sterling.	Distribution in Percents	Million pond sterling.	Distribution in Percents
<b>Foreign</b>	238.4	78.6	508.8	73.0
<b>Empire</b>	64.4	21.4	187.8	27.0
<b>Total</b>	302.8	100.0	696.6	100.0
<i>Exports to</i>				
<b>Foreign</b>	188.7	77.3	342.3	65.1
<b>Empire</b>	55.4	22.7	183.9	34.9
<b>Total</b>	244.1	100.0	526.2	100.0

Source: Forrest Capie, *Depression and Protectionism*; British Parliamentary Papers, 1872, vol. LXIII; 1916, vol. XXXII.

By the annual growth rates of trade between 1904 and 1938 we can see even an increasing growth of import and exports within the Empire.

**Table 3. Annual growth rates of trade 1904-1938**

	1904-13	1922-9	1933-8	1904-38
<b>UK-Empire</b>	4.0	4.0	7.0	2.3
<b>UK-Foreign</b>	3.3	3.6	4.5	0.6
<b>Empire-Foreign</b>	4.9	3.4	5.6	1.5
<b>Intra Empire</b>	4.4	1.6	9.3	2.3

Source: Capie, *Depression and Protectionism*; Britain between the Wars, 1983, Statistical Abstracts for British Empire.

It becomes clear that Britain had important trading relations with its Empire. The export to the Empire increased from 34.7% in the first years of the twentieth century to 46.6% in the

<sup>83</sup> Ibidem, 15.

1930s.<sup>84</sup> When the crisis hit these countries, Britain lost a great size of its export market. Another problem which the British economy was facing was that the industrial sector was falling behind (lacking the necessary investments in innovations and modernization) and could no longer compete with upcoming powers such as the United States. After the World War the main pressure for protectionism came from the iron and steel industry.<sup>85</sup> Industrial and business Lobby groups had a lot of influence on the policy decision making process because they were represented in the political domain, as on average one-third of the Conservative Party were employers or managers.<sup>86</sup> On top of that, business interest-groups could mobilize themselves in strong single-interest organizations. The Empire Industries Association (EIA) was the most important industrial lobby group and highly influential on cultivating the press and public opinion.<sup>87</sup>

One of the effects of the problems the British industry was facing was that unemployment rates rose to 22% in 1931. This was a consequence of the high pound just as the troublesome situation of the balance of payment that showed a permanent deficit all increasing a domestic urge for protectionist measures.<sup>88</sup> However, the first leads to protectionism in Britain were already present in the period towards and during the First World War, not so much because of foreign threats or domestic problems, but because there were domestic sentiments about the Empire. A quote of the Secretary to the Colonies from 1895 to 1903 Joseph Chamberlain characterizes these: "I will speak of its variety and of the fact that here we have an Empire which with decent organisation and consolidation might be absolutely self-sustaining... There is no article of your food, there is no raw material of your trade, there is no necessity of you lives, no luxury of you existence which cannot be produced somewhere or other in the British Empire."<sup>89</sup>

Between 1929 and 1931 the anti-free trade movements gained momentum in Britain. People looked at European tariff walls and the US Smooth-Hawley tariff of 1930.<sup>90</sup> Although the results of the Ottawa Conference which will be elaborated further on in this chapter, are seen as the true shifts in British trade policy towards true protectionism and an imperial

---

<sup>84</sup> Ibidem, 20.

<sup>85</sup> Ibidem, 45.

<sup>86</sup> Ibidem, 71.

<sup>87</sup> Ibidem, 74.

<sup>88</sup> Klemann, *Tussen Reich en Empire*, 135.

<sup>89</sup> Capie, *Depression and Protectionism*, 25.

<sup>90</sup> Ibidem, 49.

preferential system, there were already some individual policy decisions towards protectionism in the first years of the twentieth century. In 1915 the McKenna duties were installed to protect luxury goods with a levied rate of 33 1/3%. Another measure was the Dyestuffs Act of 1920 with duties on chemicals. During the second half of the 1920s safeguarding duties were expanded.<sup>91</sup> During this period all the Labour-governments who were in favour of free trade, tried to repeal all the protectionist measures the Conservative governments had installed. And the Labour oriented governments were also more active on the international level by attending several held conventions during that period in favour of lower tariffs and less import quotas.<sup>92</sup> There they promoted all kinds of measures in favour of free trade, but back home they could not back them up. But in the end all these measures were still only marginal in size and importance and the results from the conventions were disappointing.

### 3.3 Tipping point

September 22, 1931, in the House of Commons, Mr Wardlaw-Milne asked the President of the Board of Trade: “Are the Government taking or do they intend to take any steps to prevent the dumping of foreign produce into this country caused by the expectation of the imposition on duties at an early date.”<sup>93</sup> This question would dominate the political debate for the next months. On the 27<sup>th</sup> of October 1931 a new Nationalist Conservative-dominated government was installed, what this led to a new policy of protectionism and imperial preferential politics.<sup>94</sup> Several measures were already prepared and could be implemented right away.

One of the first big shifts in economic policy of 1931 (however, still under the old Government coalition) was the abandonment of the gold standard and the depreciation of sterling against gold bloc currencies. This was not so much a political decision as well as a consequence of the power of financial markets, forcing Britain to abandon its artificially overvalued exchange rate. Some countries offset the consequences of this monetary measures by following the Britain’s step and binding its currency to sterling. Thus they

---

<sup>91</sup> Ibidem, 41.

<sup>92</sup> H.A.M. Klemann, The international economic relations of Small Countries in the 1930s. Belgium and the Netherlands. In: Timo Myllyntaus, *Economic Crisis and reconstructing in History. Experiences of Small Countries* (St. Katharinen 1998) 161.

<sup>93</sup> Capie, *Depression and Protectionism*, 51.

<sup>94</sup> Klemann, *Tussen Reich en Empire*, 146.

avoided the possible disadvantage. The Netherlands did, however, hold on to the gold standard until 1936. Besides the fact that it was not technically necessary for the Dutch monetary system to abandon the gold standard – the gold stick was enormous - the Dutch were convinced that inflation in Britain, a normal consequence of a paper currency, in combination with some deflation at home would end the disequilibrium.<sup>95</sup> This did not happen, however.

Apart from the monetary adaption to the crisis, Britain passed the Abnormal Importations Act was, allowing 100% duties on certain goods on the 25<sup>th</sup> of November 1931. This bill should protect the British market from abnormal levels of import, although according to Capie this can't be verified by statistics.<sup>96</sup> In the next two years several acts were passed which led to minimum tariff of 10% on all products. Another important change in British commercial policy was the breakdown of the operation of the most favoured nation principle and the substitution of bilateral agreements.<sup>97</sup> This was going to have an impact in Dutch trading relations with Britain, which will be further discussed in chapter 5.

### 3.4 Ottawa Conference

The agrarian depression and protectionist behaviour of the US led to an urge of the Dominions to a more favourable treatment of Britain. On the 1930 Conference this urge did not immediately led to a change in policy but it did on the Ottawa Conference of 1932 (also known as the Imperial Economic Conference or the British Empire Economic Conference).<sup>98</sup> The conference was held between 21 July and 20 August and was held to discuss the consequences of the Great Depression. During the conference the failure of the gold standard was generally accepted and the conclusion was that there would not be a return to it anymore. In March 1932 after the Empire Conference held in Ottawa, Britain replaced the tariff law by a more definite arrangement in which imperial preference was applied. A general tariff of 10% was installed on most products excepting the Dominions for this higher tariff.<sup>99</sup>

After the Conference there was limited room for other nations to negotiate about trading agreements with Britain. The Federation of British Industries was pressuring the

---

<sup>95</sup> Klemann, *The international economic relations of Small Countries in the 1930s*, 153.

<sup>96</sup> Capie, *Depression and Protectionism*, 53.

<sup>97</sup> *Ibidem*, 44.

<sup>98</sup> Klemann, *Tussen Reich en Empire*, 117.

<sup>99</sup> *Ibidem*, 150.

government to limit such negotiations with Scandinavian countries and Argentina, as it feared that the outcome would undermine the just achieved protection.<sup>100</sup> The US complained that imperial preference was damaging US exports to Britain and this was subject on all following trading negotiations. The biggest challenge for Britain was how to avoid any obligations following the most favoured nation clause while still having the benefits when needed.

### 3.5 Results

What can be said about the changes in British trade policy during the first years of the 1930s? Numbers sometimes can say the most: in 1930 right before the tipping point about 85% of the imports were duty free while in 1932 only 30% was still duty free, 33% was subject to 10%, and the rest was subject to even higher tariffs. Although the pressure for protectionism increased strongly already from the beginning of the twentieth century on, the first three years of the 1930s can be seen as a period of real change of trade policy.

### 3.6 Conclusion

The British process towards more protectionism is much longer than the effects of the economic crisis of the 1930s. When the British case is compared with the possible causes for protectionism mentioned in chapter 2, several different explanations can be detected. First of all the British Empire was facing increasing difficulties which jeopardized their global leading position. This Empire had been the strongest political entity during most of the nineteenth century and in it probably still was at the beginning of the twentieth century, although the first cracks were visible. It is easy to propagate free trade when this is in favour of one's own economy but when foreign threats are harmful, protectionist measures make more sense. Another cause must be found on a domestic level; strong lobby groups within the iron and steel industries, facing upcoming competition from new industries from the U.S., put pressure on the policy decision making process. These industries lacked the innovations to keep up with foreign competition. Another factor is that influential individuals, already involved in the case for protectionism during the first years of the twentieth century, got key positions on a political level during the 1920s preparing the actual shifts towards protectionism. Finally the regime change in 1931 towards a Conservative-dominated government led to a tipping point in British trade policy. So in the British case

---

<sup>100</sup> Ibidem, 151.

towards more protectionism in the 1930s, one could say that the decline of the British Empire as well as the domestic factors of strong lobby groups and regime change all influenced this process. The hegemonial rule and the hegemonial stability theory as an explanation from Capie and Kindleberger do seem valid when looking at the decline of their world dominating position and the rise of British protectionism<sup>101</sup>, but the same is true for the influence of domestic factors such as the change of regime which are advocated by Verdier and Simmons,<sup>102</sup> because this moment can be considered as the tipping point and the start of the actual implementation of f.e. the Abnormal Importation Act.

---

<sup>101</sup> Kindleberger, *The World in Depression*, 289.

<sup>102</sup> Verdier, *Democratization and Trade Liberalization*, 589

## Chapter 4. Dutch trade policy: from free trade to active trade policy

This chapter explores the Dutch reaction towards upcoming protectionism over the world. First, the arising problematic situation will be discussed which set the stage for the need to change. 1929 is a very important year that has to be discussed to understand what actually happened in economic spheres which eventually led to changes in foreign trade policies. The Netherlands were faced with increasing protectionism abroad, which first led to internal discussion about whether to join or stick to the tradition of free trade and state non-intervention. Although the Netherlands stayed behind with their inactive trade policy for a very long time<sup>103</sup>, in the end the country did decide to change their trade policy as well. The economic historian P.E. de Hen even speaks of an Industrial policy (Industriepolitiek) when discussing the Dutch government interventions during the 1930s. He means an active government intervention with the technical and economic developments of the industrial sector.<sup>104</sup> It started with the reorganization of the Ministry of Labour, Trade and Commerce. The Ministry of Labour, Trade and Commerce was reorganized several times before and during the interwar period, each time resulting into a change of the name of the ministry. For reasons of consistency in this thesis the ministry will remain titled as the Ministry of Labour, Trade and Commerce. After the shift of power from the Ministry of Foreign Affairs to the reorganized Ministry of Labour, Trade and Commerce, several laws were drawn up which allowed more active government intervention and protectionist measures.

### 4.1 Dutch tradition of free trade

The Dutch trade policy is known for its tradition of free trade and neutrality. Many authors, e.g. J.C. Boogman, J.L. Heldring and J.J.C. Voorhoeve, write that the Dutch foreign policy from the rise of the Republic in the seventeenth century until the Second World War was based on traditions as neutrality, free trade, commercialism, legalism and an aversion for continental power-politics.<sup>105</sup> This was all the more true for the beginning of the twentieth

<sup>103</sup> Klemann, *Tussen Reich en Empire*, 109.

<sup>104</sup> P.E. de Hen, *Actieve en re-actieve industriepolitiek in Nederland; De overheid en de ontwikkeling van de Nederlandse industrie in de jaren dertig tussen 1945 en 1950* (Amsterdam 1980) 9.

<sup>105</sup> D. Hellema, *Neutraliteit en Vrijhandel, De geschiedenis van de Nederlandse Buitenlandse Betrekkingen*, (Utrecht, 2001) 9.



century. After the ending of the First World War the Dutch economy recovered in a liberal-capitalist way.<sup>106</sup>

According to H.M. Hirschfeld, Director-General of Trade and Commerce, 1929 was one of the most important years during the interwar period. The Federal Reserve Board warned for excessive credit grants, the crisis on the New York stock market happened on 24<sup>th</sup> of October, the Young Plan was published to mention just a few. Although all these events made this a turbulent year, the economic horizon seemed somewhat positive. Germany had just regained its own trade policy, the need for colonial products resulted in great export numbers and the demand of Dutch agricultural products in Germany grew. The Dutch economy seemed successful and able to handle the problem to find jobs for the growing labour force.<sup>107</sup> Therefore, the Dutch policy of free trade seemed successful. However, underlying the economic growth, more fundamental, global problems were present, the Dutch open economy would be confronted with. The international balance of payments was severely distorted, Germany being highly in debt against America. Secondly, the agricultural sector was still protected by almost all governments. The Dutch government was not in the position, to do anything about these problems, however, as their magnitude grew, it became problems for major powers to solve. According to Hirschfeld, these powers were all moving in opposite directions, however.<sup>108</sup> Britain was the first to leave the Gold Standard and a devaluation of the pound formally took place, but only after Germany switched to currency control, thus undermining the weak post-war monetary system. The devaluation combined with this policy import tariffs, however, thus increased the protectionist tendency in the world.<sup>109</sup>

## 4.2 Increasing pressure from foreign trading policies

Already in 1929 several protectionist measures were taken in Germany. This German protectionism threatened the Dutch agricultural export market.<sup>110</sup> On the 21<sup>st</sup> of September 1931, Britain and most countries of its Empire left the Gold Standard, followed by the Scandinavian countries and Japan. A lot of attention has been given to the question why the

<sup>106</sup> J.H.J. van den Heuvel, & J.G.S.J. van Maarseveen, *Handelspolitiek in de jaren dertig* review: A. van Schaik, *Crisis en protectie onder Colijn; over economische doelmatigheid en maatschappelijke aanvaardbaarheid van de Nederlandse handelspolitiek in de jaren dertig* (*ESB* Feb. 10th 1988) 166.

<sup>107</sup> Klemann, *Tussen Reich en Empire*, 2.

<sup>108</sup> Hirschfeld, *Actieve economische politiek*, 26.

<sup>109</sup> Klemann, *Tussen Reich en Empire*, 5.

<sup>110</sup> *Ibidem*, 112.

Dutch did not follow the British example. The Dutch feared that this would lead to a damage of the Dutch international credits, so the conclusion was that the Netherlands should only leave the Gold Standard if there was no other option. After the First World War, the Gold Standard was repositioned in 1925. However, Britain had stabilized the pound at a too high exchange rate, causing an overvaluation. According to most historians, the Netherlands should have followed Britain by leaving the Gold Standard, which would have resulted into a totally different outcome and less need for government intervention.<sup>111</sup> At that time, the general opinion was, however, that Britain had lost much of its prestige and the Dutch had won by holding on to the Gold Standard. Although Britain already had left the Gold Standard in 1931, it also intensified its protectionist policy. It started to raise import tariffs of 10-20% or even higher, and simultaneously started an imperial preferential policy in which products from within the Empire remained free from import tariffs. Hirschfeld shortly mentions the difference between the Netherlands and the Dutch Colonies on the one hand and Britain and its Dominions on the other and also discusses why the imperial preferential politics were out of the question for the Netherlands, which had to do with the Sumatra Treaty of 1871.<sup>112</sup> This is, however, a strange conclusion because the Sumatra Treaty was directly linked with the British Guinea Treaty. The two treaties created simultaneously the same benefits for the Netherlands and Britain in the Dutch East Indies and British Guinea. So, the British were as much bound to this treaty as the Dutch. How the British dealt with this, was another story. In the next chapter the focus will be on the consequences of the Sumatra Treaty and how this was interpreted by the Dutch government when confronted with the British protectionist behaviour. An interesting point for discussion for now is, why Hirschfeld in his memoirs of that period truly believed that the Netherlands was bound and, to a certain degree, incapable of government intervention and Britain was not. In 1931 Minister T.J. Verschuur instructed Director-General of Labour C.J.P. Zaalberg to investigate the consequences of the monetary and protectionist development for Dutch industries. Within two years, 14% of the employees in the companies which were subject of investigation, were fired. C.J.P. Zaalberg's conclusion was that the Netherlands still was in an early phase of an economic crisis.<sup>113</sup>

---

<sup>111</sup> Hirschfeld, *Actieve economische politiek*, 54.

<sup>112</sup> *Ibidem*, 56.

<sup>113</sup> *Ibidem*, 57.

### 4.3 Increasing influence of T.J. Verschuur and the shift of power

In 1928, the Roman Catholic politician T.J. Verschuur (RKSP) became minister of Labour, Trade and Commerce in the new Cabinet led by the Roman Catholic party leader, Jonkheer C.J.M. Ruys de Beerenbrouck, mostly because of recommendation of P.J.M. Aalberse, a respected member of the Catholic Party.<sup>114</sup> Verschuur announced his plan on the 3<sup>rd</sup> of September 1930: "It is my proposition that the entire economic policy will be revised....there is a lack of highly qualified economic scientists and advisors...If this government is to be advised on matters of economic questions and international trading agreements, a proper economic body of civil servants will be needed."<sup>115</sup> Two months later when the matter was again subject for discussion, Verschuur related to the active economic policy of the other Western countries: "Sure, we don't want to know of protectionism or some sort of socialism, but when countries as Britain, the US and Germany are active helping their own industries, we should not stay passive."<sup>116</sup> In the end it took Verschuur two years to create a stronger economic direction under his authority. The Ministry of Labour, Trade and Commerce was divided in three Directorate-Generals, the sections Trade and Commerce, Agriculture, and Fishing.

His first task was focused on improving the quality of his department. In 1931, he announced the reorganization. The Ministry already had a tradition of reorganization. From 1900 to 1945, it was renamed more than 10 times. Verschuur wanted to enforce the development of the new trade section by making a new Direction-General of Trade and Commerce and an Economic Council. Because of the tradition of free trade and the more diplomatic focus of the Ministry of Foreign Affairs, the economic aspects of international trading agreements had been of minor importance. Although the Dutch were reluctant in governmental actions in economic affairs and of his personal reluctance of protectionist behaviour, in the end Verschuur was a pragmatic minister and he knew that a strong civil bureau was needed for installing a more active trade policy.<sup>117</sup> Verschuur was known to be a realist and pragmatic solutions were more important than ideological preferences.<sup>118</sup> He

<sup>114</sup> Klemann, *Tussen Reich en Empire*, 114.

<sup>115</sup> Hirschfeld, *Actieve economische politiek*, 31.

<sup>116</sup> *Ibidem*, 35.

<sup>117</sup> *Ibidem*, 28.

<sup>118</sup> *Ibidem*, 14.

installed H.M. Hirschfeld (1899-1961) who worked at the Javaansche Bank, the Central Bank of the Netherlands Indie in Batavia (Jakarta). The former President of this bank, then President of the Nederlandsche Bank, L.J.A. Trip had recommended Hirschfeld as very capable,<sup>119</sup> as the new Director-General of Trade and Commerce. In 1932, the department of Labour, Trade and Commerce was renamed to Economic Affairs and Labour. Minister Verschuur wanted to expand the Ministry of Labour, Trade and Commerce. This might have been on the recommendations of the president of the Dutch Central Bank Trip, another Catholic politician, who was befriended with both Verschuur and Hirschfeld. Secondly, Verschuur wished to install a semi-public institute for Economic Education ('Economische Voorlichting'). This institute was to guide the Dutch economic policy and the international trading negotiations. In 1933, the growing influence of the Ministry of Labour, Trade and Commerce was formalised during the formation of the new government under the new prime minister H. Colijn.<sup>120</sup> Colijn was a former Shell-man and the leader of the Calvinist Anti-Revolutionary Party. Within the cabinet there had been an internal struggle between the more democratic and more conservative, by which the Catholics were more in favour for protectionist measures, while the Calvinists were internally divided. Colijn, although being a conservative Calvinist with strong opinions on free trade, was seen as the new leader who would take charge and create balance. So Colijn was pressured from within his own political party and his followers to instigate the process towards the implementation of a more protectionist policy.

#### 4.3.1 Issues with the other ministries

The initiative of Verschuur to create a strong direction for the international trading relations and the desire to create an institute for Economic Education, was not entirely well received by his fellow ministers. The strongest opponents were the Minister of Foreign Affairs, F. Beelaerts van Blokland and his director of Economic Affairs J.A. Nederbragt who believed in the ideological and in the case of Nederbragt even theological concept of free trade. According to Hirschfeld the only real business of the ministry was the international trade policy, so when this section was to be moved to the ministry of Trade and Commerce, the Ministry of Foreign Affairs was left with basically nothing of real importance.<sup>121</sup> In 1932 the

---

<sup>119</sup> Klemann, *Tussen Reich en Empire*, 115.

<sup>120</sup> W.J.M. Klaassen & J. Woltring, *Buitenlandse Politiek van Nederland 1848-1945*, B.2 1932-1933 GS 199. VIII.

<sup>121</sup> Hirschfeld, *Actieve economische politiek*, 29.

Council of Commerce (Nijverheidsraad) even suggested to end the direction Economic Affairs within the Ministry of Foreign Affairs.<sup>122</sup> Besides power politics on a political level and the loss of prestige of a minister, it also meant a shift in mentality. Traditionally the Ministry of Foreign Affairs strongly believed in the concept of free trade. A more active trade policy was pertinent rejected.<sup>123</sup> On top of that, the Minister of Foreign Affairs demanded that all interaction with foreign commissioners should be dealt through the Ministry of Foreign Affairs. Another issue was that the quality of the economic knowledge of the foreign attachés was not always sufficient. There were just not enough civil servants to deal with all the economic issues. The issue of who was responsible of the trading negotiations was finally solved in the second Cabinet of Colijn when Jonkheer A.C.D. De Graeff became Minister of Foreign Affairs. So during the early 1930s, there was a gradual shift of power with regard to the Dutch international trade policy from the Ministry of Foreign Affairs to the Ministry of Labour, Trade and Commerce, and in this period the Ministry of Foreign Affairs gradually decreased in status and importance.<sup>124</sup>

The Minister of Finance also carefully watched Verschuur's plans. Traditionally, the Ministry of Finance was responsible for all fiscal policy, including import tariffs and it did not want to give up any part of the fiscal policy. For a long time this issue remained unsolved. It was only under Verschuur's successor M.L.P. Steenberghe that the trade policy and the protectionist part of the tariff-policy was transferred to the responsibility of the Ministry of Labour, Trade and Commerce.<sup>125</sup> Another topic somewhere on the borderline between the two departments, was the monetary policy and the foreign balance of payments. This led to a successful cooperation between the direction Trade and Commerce of the Ministry of Labour, Trade and Commerce and the General Thesauri of the Ministry of Finance. Another ministry with close connections with the Ministry of Labour, Trade and Commerce has to be mentioned here, the Ministry of Colonies. This became especially important when the crisis hit The Dutch Indies and discussions about the Sumatra Treaty became apparent.

In July of 1932 the reorganization was more or less completed by the announcement of the Economic Council. On the 25th of June 1933 the Catholic factory owner from Brabant

---

<sup>122</sup> *Buitenlandse Politiek 1848-1945 1931-1932*, VI.

<sup>123</sup> Klemann, *Tussen Reich en Empire*, 111.

<sup>124</sup> J. Woltring, *Bescheiden betreffen de buitenlandse politiek van Nederland 1848-1945* (1976), B.1. 1931-1932 GS 191.

<sup>125</sup> Hirschfeld, *Actieve economische politiek*, 43.

M.P.L Steenberghe (1899-1972) succeeded Verschuur as Minister of Labour, Trade and Commerce in the second Cabinet Colijn (1933-1935). This was somewhat remarkable because he doubted if the deflation policy of Colijn would help the economic situation at that time. Policy-wise his greatest contribution was the clearing agreements between the Netherlands and Germany which led to better guarantees in the international trading system. Steenberghe was known to be a pragmatic realist who believed in a little as possible government intervention in the economic system. Intervention was only necessary when the system could not solve problems by itself.<sup>126</sup> Considering the circumstances he continued Verschuur's policy of more active intervention because he also realized that a policy of free trade would not be sufficient anymore.

#### 4.4 The beginning of a contingency policy

Although most trading countries were already heading towards a more active policy in the first two years of the 1930s, the Dutch government still remained passive when concerning international trade. Some key figures were setting some changes in motion but the overall sentiment within Parliament but also within the Dutch intellectual scene still was in favour of free trade. Influential economists as S. Posthuma still published articles in favour of free trade although starting from a monetary point of view. In an 1930 article in *De Economist* he emphasized that protective tariffs are very complex and have a high risk of not solving, but only replacing the problem, creating a substitute effect. When one industry is protected it would be logical that this has a negative impact on another industry. This would eventually lead in some sort of spill-over effect.<sup>127</sup> Further on he stated that the agricultural output in the countries which acted conform a liberal policy grew more than countries which actively protected the agricultural sector, because the non-protected industries had more incentives to adjust and innovate than the protected industries. And he referred to the economic positions of all the countries with protective policies which were according to him certainly not better than the Netherlands. So there would be no reason to assume that protectionist measures will lead to improvement of the national economy.<sup>128</sup> Another reason would be that the Dutch government would have only limited possibilities to influence negotiations with trading partners. In most cases the Netherlands would start the negotiations from a

---

<sup>126</sup> <http://www.historici.nl/Onderzoek/Projecten/BWN/lemmata/bwn1/steenbergh> (April 22, 2012)

<sup>127</sup> S. Posthuma, 'Bescherming en actieve handelspolitiek', *De economist* (Haarlem, 1930) 756.

<sup>128</sup> *Ibidem*, 764.

weak position. So, protectionist measures would not lead to desired outcomes of trading negotiations.<sup>129</sup> Posthuma even goes further by stating that although the Netherlands would not be able to change the protective policy of its trading partners, it was still better off to hold on to a free trade policy.<sup>130</sup> This statement clearly resembles how deeply this Dutch believe in free trade and non-intervention truly was. The statements of Posthuma are just an example of the fierce intellectual discussion which took place during the first years of the 1930s. Other well-known Dutch economists like O.J. Botjes, H.W.C. Bordewijk or W.L. Valk all influenced this debate about whether to use a more active policy. But there were already some signs from trade and industry in favour of a more active policy. Especially catholic industrials focused on the internal market felt abandoned by the government.<sup>131</sup> This lobby group became more and more influential.

Although there was a the discussion about whether to change the trading en economic policy, eventually and especially after increased pressure from foreign trading policies, there was a shift in political and economic thinking about protectionism. This combined with the reorganizations started by Verschuur, the way was paved for a more active policy. The next question was in which direction this more active economic policy should go? Was it through import tariffs or by creating a contingency policy? The Dutch government chose for contingency policy. Because of the strong Dutch tradition of free trade, there was a small chance that the Parliament would favour a true protectionist tariff. Secondly, to integrate an import tariff in the fiscal system would take years, so this measure was not a very useful solution for an acute crisis. The Netherlands used a fixed tariff in contrast to other nations which used a minimum and maximum tariffs which left room for negotiation.<sup>132</sup> Although such a change seemed possible in Britain at that time, it should be noted that in Britain the public opinion as well as the political point of view had already been for a long time focused on protectionism, so the switch in policy had already been set in motion a long time ago. The situation in the Netherlands was different and such a switch would take a long time. The doctrine of free trade had imposed an strong impact on Dutch international trading relations. However, from the early 1930s Hirschfeld, the Director-General of Trade and Commerce, realized that the Dutch trade policy could no longer stay

---

<sup>129</sup> Ibidem, 782.

<sup>130</sup> Ibidem, 769.

<sup>131</sup> Hen, *Actieve en re-actieve industriepolitiek in Nederland*, 28.

<sup>132</sup> Klemann, *Tussen Reich en Empire*, 110.

behind and a shift in policy was necessary. During that period the Netherlands did engage in attempts to cooperate with other countries to remove trading barriers like the Oslo Convention. December 22 1930 the Netherlands together with Norway, Sweden, Denmark, Belgium, and Luxembourg agreed to cooperate and create an internal market with lower tariffs. However, in the end this cooperation only led to an agreed point of view about the problems and on which points of view they would take in within the League of Nations.<sup>133</sup> So although there were still initiatives to create an international agreement on free trade policy, gradually there was a shift in awareness about the changing economic environment.

A study group was formed which was to investigate the possibilities to install a contingency policy. On the 15th of December 1932, Hirschfeld opened the second meeting of the study group of ECD about contingency policy: “because of the crisis of 1929 a more protectionist policy has come into practice to protect the new developed industries and to protect the agricultural sector, which lost its stability. We have seen how Britain left the Gold Standard and how Germany is lowering its prices and wages. The Netherlands is trapped between the Devil and the Deep sea.”<sup>134</sup> According to the chairman the conclusion should be that the Netherlands should follow the example of other trading countries and implement a contingency policy. The way in which such a policy should be implemented, would be through a Crisis Import Law. In the most favoured nation clause all countries should be treated equally and this could remain if the countries would get appointed a certain import quote based on the amount of import in a chosen starting point. To create objective measures a commission should be installed which were appointed to choose the starting quotas. The chairman of the Commission for Contingency truly believed that this form of contingency would still be in line with the Dutch tradition of free trade and that this contingency policy differed from the foreign contingency policies which were ‘truly protectionist in nature’.<sup>135</sup> Other members of the commission had serious doubts whether this would not lead to real protectionist measures, while the Ministry of Foreign Affairs was somewhat reluctant because this policy could involve a high risk in maintaining good international relations. These hesitations were not completely imaginary because although signs of increasing protectionist behaviour were basically visible everywhere, the

---

<sup>133</sup> Buitenlandse politiek, 1931-1932, VIII.

<sup>134</sup> NA, Buza 2.05.03., doos 1608. Studiekring ECD; contingentieringspolitiek van Nederland 15 dec. 1932

<sup>135</sup> NA Buza 2.05.03., doos 1608. Studiekring ECD; contingentieringspolitiek van Nederland 15 dec. 1932



international community, mostly in the form of the League of Nations, still put a lot of effort in removing international trading barriers. The focus in 1932 and 1933 was still on trying to create and maintain free trade. The Convention of Ouchy and the London Conference were last efforts, but ended in a complete disaster.

#### 4.4.1 Consequences of the London Conference

On the 18<sup>th</sup> of July in 1932 the Convention of Ouchy was signed. This was a treaty between the Netherlands, Belgium, Luxembourg and the Scandinavian countries to create a policy of more free trade between these countries and it created an opportunity to agree on lower bilateral tariffs although avoiding the most favoured nation clause. These smaller European countries had already several times tried to combine their interests to advocate for lower tariffs and the abolition of quotas. The Geneva Convention of 1927 was such an example, followed by the Treaty of Oslo. In the Treaty of Oslo the countries agreed to the intension not to hurt each others economic interests, but this was more a symbolic agreement than one with concrete measures. These conferences were for a long time still the responsibility of the Ministry of Foreign Affairs which always had been in the liberal tradition in favour of free trade. The Geneva Conference and the Treaty of Oslo did not lead to lower tariffs or quotas. The set of goals in the Convention of Ouchy also never came into effect, but its intension was far reaching. The participation of the Convention of Ouchy was one of the last actions of the old trade policy of the Netherlands. But the London Conference can be considered as the real tipping point of the Dutch international trade policy.

In 1933 the London Conference was held as a last resort to solve the world crisis through international cooperation. An international Committee was assigned to set up the agenda for the Conference. The president of the Dutch Central Bank, Trip was one of the members of this Committee. A preparatory commission of experts was responsible to formulate concrete decision points. The formulated goal of the monetary subcommittee was: 'A return to a reasonable degree of freedom in movement of goods and service.'<sup>136</sup> On November 10<sup>th</sup>, the first general conclusion was that during the past two years there had been an immense number of restrictions, not only by means of increases of tariffs but also through prohibitions quotas, foreign exchange control with all its consequences which impeded international trade, and that the possibility of recovery could be strongly facilitated

---

<sup>136</sup> NA Buza 2.05.03., doos 1608. League of Nations, 7th of November 1932.

by relaxation and abandonment of these additional restrictions. Therefore, it was necessary to take steps to reduce the excessive protectionism which dominated commercial policies of most countries.<sup>137</sup> The advice was a gradual removal of measures limiting the quantity of the imported goods. Although the London Conference was initially created to solve the economic disorder and create international stability, already before the start of the Conference it was obvious that it would go in history as a complete failure. The attitude of the most important members as the US, Britain, and France was mainly focused on national financial interests. On July 28<sup>th</sup> 1933, The Dutch Prime Minister H. Colijn and chairman of the Economic Commission, was cited that: “there is no reason to congratulate us.”<sup>138</sup> All attempts to dissolve international trading barriers were in vain. It then became clear for Colijn and his colleagues that the only way to survive this economic and financial crisis was a further development of an independent active trade policy. This, did not mean that Colijn was ready to leave the Gold Standard. It just meant that the Dutch would increase measures to influence the import and export quotas and would try to influence the export tariffs of trading partners.

#### **4.4.2 The Crisis Import Law and the Crisis Export Law**

After the failure of the London Conference, Colijn gave Steenberghe permission to implement a more active trade policy because the Netherlands could not return to a policy of free trade because the international environment was not suitable anymore for such a policy of non-intervention. This seemed a conclusion more and more widely shared by government, parliament and also by employers- and employees organizations and society in general.<sup>139</sup> However, although the London Conference led to this conclusion only in 1933, all kinds of measures already had been implemented in the past few years.

The first real measure (beside the Agricultural Law, which will be discussed later on) and shift in economic policy was with the Crisis Import Law. With this law the imports of foreign products could be controlled. It was supposed to be a temporary policy and the precondition was that there should be an abnormal amount of imported goods. To favour

---

<sup>137</sup> NA Buza 2.05.03., doos 1608. League of Nations, 10th of November 1932.

<sup>138</sup> NA Buza 2.05.03., doos 1608. Times, 28 July 1933.

<sup>139</sup> Heuvel& Maarseveen, Handelspolitiek in de jaren dertig review: A. van Schaik, Crisis en protectie onder Colijn; over economische doelmatigheid en maatschappelijke aanvaardbaarheid van de Nederlandse handelspolitiek in de jaren dertig, ESB Feb. 10th 1988) 168.

the Parliament every time the government wanted to use the Crisis Import Law, the Parliament was consulted and it could decide whether or not to accept the contingency proposal. And to create another protective element to limit the power of the government, an Economic Advice Committee was established which should be informed by every initiative on contingency. On December 23 1931 the Crisis Import Law was implemented. At the same time the Crisis Export Law was made effective to act against negative consequences of contingency policies of Dutch trading partners. The minister could decide to raise tariffs on export products to increase the prices to the same level as foreign domestic prices, which in turn could be used to help the same export sector. The minister could influence the size of the contingency quotas by choosing the referential years of import or export. The effect of the contingency policy was of importance to some industrial sectors. Improvements of the Dutch production in the domestic use could be observed.<sup>140</sup> In a later phase the Crisis Import Law was revised, which created more policy-room for the Dutch government. This will be further explained in the next paragraph. One very important result of the Crisis Import Law and the Crisis Export Law was the trading agreements with Germany formulated in 1934. In 1933, the government announced a revision of the Crisis-Import Law which led to a wider interpretation of import quotas and thus created more possibilities to restrict imports. The section Contingencies (Bureau Contingenteeringen) was added to the direction Trading Agreements (Afdeeling Handelsaccorden).<sup>141</sup>

#### 4.4.3 Clearing Law

Besides the Crisis Import Law and the Crisis Export Law another measure was of importance in the Dutch process towards a more active trade policy, namely the Clearing Law. Overall, 1932 could be considered as a difficult year for Dutch trading relations. There were increasing difficulties concerning Dutch trading relations with Germany that wanted to install quotas on most agricultural products, which might have severe consequences for the Dutch farmers. The so called 'Tomato Commission' did save the Dutch farmers but resulted into a more difficult relationship with Germany and when late 1932 the 'Customs Treaty' expired, it was never continued.<sup>142</sup> These developments made the Dutch government believe that

---

<sup>140</sup> Hirschfeld, *Actieve economische politiek*, 70.

<sup>141</sup> *Ibidem*, 88.

<sup>142</sup> *Ibidem*, 76.

additional measures were necessary. The Clearing Law was implemented on 25 July 1932 and intended to arrange international payments with countries with inconvertible currencies, like Germany. This was an important step to a more active trade policy because the Dutch could now take action towards another country. When this law was discussed in Parliament, the situation was considered so serious that it was the first time that all members of Parliament agreed on the necessity of the new law. Again an Advisory Commission for Trade was established for advice on these matters. In the end, all matters related to trading policies were discussed in this commission. The Clearing Law did not immediately come into action, but it did make a sign to all trading partners that the Dutch were not a passive government anymore.

In 1934, the Dutch Clearing Institute was established to handle all matters concerning clearing. The Retorsion Law, which was implemented in 1933, was the base for all government actions concerning situations without any treaty or bilateral agreements. This law was never used, but the presence of such a law made the Netherlands a more serious partner in trading negotiations.

#### 4.4.4. Agricultural Crisis Law

The one sector that was most protected and was this already in an early phase of the crisis of the 1930s, was agriculture. The Dutch agricultural sector had expanded enormously during the late nineteenth century<sup>143</sup> and even further during the interwar period until 1929. When the crisis hit the agricultural sector, this led to a steep fall in prices as well as to increasing problems with export markets. Overwhelming production in 1928 and 1929 had led to an enormous fall of prices, so there was already a crisis in the agricultural sector but the economic crisis only worsened this.<sup>144</sup> Although the Dutch government was holding on for a long time to free trade policy, they immediately came into action when the agricultural sector faced difficulties. The question which arises is: why? This topic justifies a master thesis in its own, but for now it is important to realize that the Dutch society was in favour of the farmers.

According to Klemann another reason is that farmers were not loyal to the political parties but asked something in return for their votes. There was growing right wing

---

<sup>143</sup> H.A.M. Klemann, The international economic relations of Small Countries in the 1930s. Belgium and the Netherlands. In: Timo Myllyntaus, *Economic Crisis and reconstructing in History. Experiences of Small Countries* (St. Katharinen 1998) 145.

<sup>144</sup> Klemann, *Tussen Reich en Empire*, 112.

extremism among desperate farmers which was feared by The Hague.<sup>145</sup> The farmers successfully organized themselves to pressure the Dutch government as well as the German industry against further German protectionism.<sup>146</sup> The Dutch government at that time tried to justify its active policy regarding the agricultural sector due to its total different characteristics than the industrial sector. The first reason was that most farms were very small businesses with access to very limited reserves. Furthermore, the sector, which still counted for almost 25% of all employment, was supposed to have restricted possibilities to adjust to short term floatation. Finally, the agricultural sector was seen as a certain way of living.<sup>147</sup> The Dutch government thus tried to justify its systematic different approach to the Dutch farmers. The main reason though was that Dutch society was in support for protection of the agricultural sector. So from 1930 on, a number of protective laws were implemented, first the Crisis Grain Law followed by the Crisis Dairy Law in 1932. Two elements of this law were of importance. It created a price politics in which prices of export products were lowered with the raise of the domestic prices. Another protectionist law concerning the farming industry was the Crisis Pig Law, also implemented in 1932. This was basically based on the same principle as the Dairy Law; domestic prices were raised for losses on export prices. Guarantees were set up for the poultry industry and the horticultural sector.

All these measures were still introduced under the assumption that the economic malaise would persist for a short period and were thus made ad hoc and incidental. That is the reason it were only temporarily crisis laws, to be withdrawn when the crisis was over again. Late 1932 the Dutch government realized that the crisis was of a more fundamental nature and that measures should also be of a more structural nature. This conclusion led eventually, during a new government and after the failure of the London Conference in 1933, to a shift in government policy and it was decided to prepare a general Agricultural Crisis Law. March 1933 this law was announced. For financial support for the agricultural sector a central fund was created, called the Agricultural Crisis fund. The Crisis Pig Fund and the Crisis Dairy Fund were to be integrated into the general Agricultural Crisis Fund. The most important measures were the ability to force the organization (*organisatiedwang*) and secondly, the possibility to create a levy on domestic as well as foreign products.

---

<sup>145</sup> Klemann, *The international economic relations of Small Countries in the 1930s*, 155.

<sup>146</sup> *Ibidem*, 161.

<sup>147</sup> Hirschfeld, *Actieve economische politiek*, 108.

## 4.5 Results

There are different conclusions about the results in general of the Dutch switch to a more active and more protectionist trade policy. The results of the active trade policy with Britain remained the bilateral agreement that no discriminating measures would be taken. The Crisis Import Law thus had in practice no effect. With the US an important agreement was made in 1935. With Belgium, France, Switzerland, Czechoslovakia and Poland bilateral arrangements were made on import quotas, and with Germany detailed contracts [were made] about the bilateral balance of payments.<sup>148</sup> According to the memoirs of the former Director-General of Trade and Commerce Hirschfeld, the Dutch active trade policy could be considered as a success. In the first place because no measures had to be reversed because of international pressure. In the second place, no act of retorsion was put into practice against the Netherlands. Another reason according to Hirschfeld was that the Dutch succeeded in making some trade agreements on products which were known to be weak export products, like for example lettuce and flowers.<sup>149</sup> A last reason why the Dutch trade policy can be considered a success is that, after becoming in a negotiating impasse, [apparently] the trading countries always contacted the Dutch, so this must apparently have been because they did not want serious bilateral issues with the Netherlands. Van Schaik is less positive in his dissertation about the effectiveness of Dutch protectionism during the interwar period. His quantitative analysis does not show any clear relation between Dutch government intervention in a specific industry and industry results. An important remark, however, is that the sources available were only very limited so these conclusions are not very solid.<sup>150</sup> One could, however, argue that the objective effectiveness of policy and the perceived effectiveness in society are not the same, and sometimes the second could be as much be seen as a success as the first result.

The biggest changes which could be pointed out of the Dutch trade policy were the development of a strong Ministry of Economic Affairs, a more active trade policy and the creation of the Agricultural Crisis Policy. Interesting is the conclusion of the Director-General of Trade and Commerce made in 1946: "The non-intervention of the government based on a

---

<sup>148</sup> Ibidem, 101.

<sup>149</sup> Ibidem, 102.

<sup>150</sup> Heuvel van den & Maarseveen, *Handelspolitiek in de jaren dertig review: A. van Schaik, Crisis en protectie onder Colijn; over economische doelmatigheid en maatschappelijke aanvaardbaarheid van de Nederlandse handelspolitiek in de jaren dertig*, *ESB* (Feb. 10th 1988) 167.

liberal perspective could be best interpreted as a foregone ideal. State intervention is in the interest of society as a whole, though is bounded by certain limits which cannot be crossed without consequences.”<sup>151</sup>

A point of criticism on the active trade policy is the fact that at a certain point Dutch interventionism got elements of dumping. Belgium came up with arguments to withhold Dutch imports and in negotiations with the US, clear signs of criticisms on Dutch Agricultural policy were observed. A concrete example is the Dutch export of butter to the British market. After rumours about quota restriction in 1933, the Dairy Council decided to export as much butter as possible on the British market.<sup>152</sup> The Dutch never acknowledged that this policy act was in fact a form of dumping, however, when the export prices were sometimes half the domestic price, one could hardly claim otherwise. Denmark, being a serious competitor of the Netherlands on dairy products, thus felt that there were clear signs of unfair competition.

Another point of criticism on Dutch active trading policies is the fact that the levies on import products were set by the minister with advise from commissions crowded with interest groups. Parliament had no direct influence on this policy. As a consequence, this political process was the outcome of a vision on the crisis and its solutions from one particular perspective. There was no decision-making process in which all possible arguments and points of view would have been discussed and weighed.

#### 4.6 Conclusion

The fact that the Netherlands, having a tradition of free trade and non-intervention, in the end rearranged its trade policy to active protectionist measures to protect the Dutch industry from foreign competition by import quotas, gives way that the urge was very high. This was also the conclusion in A. van Schaik’s dissertation about the effectiveness of Dutch protectionism.<sup>153</sup> What were the main causes which filled this urge?

The Dutch process towards a more active and protective trade policy was solely in reaction to protectionist measures from foreign trading partners. The economic crisis which the

---

<sup>151</sup> Hirschfeld, *Actieve economische politiek*, 150.

<sup>152</sup> Klemann, *Tussen Reich en Empire*, 175.

<sup>153</sup> Heuvel & Maarseveen, *Handelspolitiek in de jaren dertig review: A. van Schaik, Crisis en protectie onder Colijn; over economische doelmatigheid en maatschappelijke aanvaardbaarheid van de Nederlandse handelspolitiek in de jaren dertig*, *ESB* (Feb. 10th 1988) 167.

Netherlands faced during the 1930s came from outside, the negative consequences for the Dutch export and import in the form of foreign protectionism also came from outside. It was a reaction to German isolationism and British protectionism which led to the realization that the Dutch were empty handed. However, the actual shift did come much later than one would expect. Domestic circumstances were the causes of this late shift. Firstly the tradition of free trade had always benefitted Dutch trade so why change? Secondly, the Ministry of Foreign Affairs was responsible for trading relations and this ministry had a strong culture of liberalism and did not have sufficient economic knowledge. Foreign diplomacy was more important than implementing a solid economic policy. It took some time to develop a new section within the Ministry of Labour, Trade and Commerce which was strong enough to take over the foreign trade policy. On the other hand there were also domestic forces leading to a more active trade policy. The Dutch farmers were a powerful interest group within Dutch society. The compartmentalization of Dutch society had led to loyal voters of the different political parties. Except for the farmers. Their interests were thus of importance to Dutch politicians. And their interests were to protect Dutch agriculture. Next the catholic industrialists increasingly faced difficulties from the economic crisis, which led to increased pressure from society. The appointment first of T.J. Verschuur as Minister of Labour, Trade and Commerce and later on H. Colijn as Prime Minister can be considered as a tipping point. Both individuals weren't strong believers of protectionism, nor did they have a true vision about Dutch international trade policy but in the end their influence turned out crucial for the shift in policy.



## Chapter 5. Towards a policy response: How to deal with the Empire?

This chapter discusses how the Dutch government tried to influence the British trade policy to protect its own economy; also is discussed how attempts were made to use the Sumatra Treaty of 1871 to influence its trading position with Britain and to limit British imperial preferential politics.

### 5.1 The focus on Britain

Germany is known to be the most important trade partner of the Netherlands. During the interwar period this was not any different. In 1929 the most important trading partner was indeed Germany with 23% of the total export and 31% of total Dutch import.<sup>154</sup> Trade with Germany was problematic for the Netherlands during that period, however, because the German trade was overshadowed by the German economic crisis.<sup>155</sup> The biggest problem the Dutch agricultural sector faced was the enormous decline of the German export market.<sup>156</sup> During 1932 many trade negotiations took place about the German trading blocs and the German monetary policy. Only the so called 'Sonderkonto' could temporarily solve some problems, but the general sphere was far from comforting. The device politics of Germany began to control the entire trading relations between the Netherlands and Germany. Clearing arrangements led to a fixed export volume. There was no room for tariff negotiations.<sup>157</sup> Although Dutch export prices were much higher on the German market than anywhere else, and profits most interesting, the total export to Germany was limited, while Dutch export to Britain was not. This situation showed that the trading relations with Britain became all the more important.<sup>158</sup> Therefore a Commission was set up to explore the opportunities for increased interaction with Britain and contact was being made with the Board of Trade en the Department of Overseas Trade. Due to the positive balance of payments with Britain, the Netherlands had a very weak starting-point for negotiating. Real trading negotiations with Britain thus were very limited, but as mentioned before, the export volume was not limited and therefore Britain was a very important export market.

<sup>154</sup> Klemann, *The international economic relations of Small Countries in the 1930s*, 145.

<sup>155</sup> *Buitenlandse politiek, 1931-1932*, VII.

<sup>156</sup> Klemann, *Tussen Reich en Empire*, 143.

<sup>157</sup> *Buitenlandse politiek, 1931-1932*, VII.

<sup>158</sup> Hirschfeld, *Actieve economische politiek*, 85.

After the shift towards a more protectionist focus of Britain and the implementation of its imperial preferential politics, the Dutch Prime Minister Ruijs de Beerenbrouck feared severe consequences for the Dutch export market and sent the foreign attaché R. de Marees van Swinderen to Walter Runciman, British Minister of Trade, and John Gilmour, Minister of Agriculture, to set out the Dutch objections against their increasingly protectionist focus,<sup>159</sup> but this did not lead to any change in the British policy, as could have been foreseen.

In general, it can be stated that the negotiations with the British were completely depending on the willingness of the British and the outcomes were mostly of the time in favour of the British. Therefore, the best option in most cases was to avoid confrontational situations.<sup>160</sup> The imperial preference policy was not officially recognized as an exception to the most favoured nation clause but was in practice accepted by practically all countries.<sup>161</sup> Britain was powerful and an important trading partner to almost every Western nation because of that Britain rejected the proposition of the reinterpretation of the most favoured nation clause. A specific example of Britain's power play and the Dutch struggle how to deal with it, can be found in its treatment of Dutch-British agreements in the Sumatra treaty of 1871.

Firstly, the treaty itself will be explained. Secondly, the problems are presented the Dutch government was facing as a consequence of British violation of the treaty. Also, the internal political debate will be set out about whether or not the Dutch government should tackle the non-compliance of Britain to the agreements in the Sumatra treaty.

## 5.2. The Sumatra treaty

The Sumatra treaty or the Anglo-Dutch treaties of 1870-1871 consisted of three related treaties between Britain and the Netherlands, which dealt with colonial agreements between both states. Actually it were renewed agreements from the Anglo-Dutch Treaties of 1824 (also known as the London treaties). These treaties were made to deal with discussions in the aftermaths of the Napoleonic Wars, and also dealt with old trade issues. Agreements were made with regard to free-navigation rights, the elimination of prices and the exchange of the Strait of Malacca and the Indian colonies with the Dutch southern part of the Strait and the colony of Bencoolen. The treaty also held an important concept, the idea of 'most

---

<sup>159</sup> Klemann, *Tussen Reich en Empire*, 147.

<sup>160</sup> *Ibidem*, 150.

<sup>161</sup> Klemann, *The international economic relations of Small Countries in the 1930*, 165.

favoured nation'. Subjects of Britain and the Netherlands were permitted to trade in British India, Ceylon and the Dutch East Indies (now Indonesia) and Malaysia on the basis of 'most favoured nation' although obeying local regulations. Nowadays, this is a well-known agreement within the World Trade Organization, but also during the nineteenth century the most favoured nation clause was already in use in virtually all trading agreements. The most favoured nation clause means that a country receives equal trade advantages (low tariffs or high import quotas) by the country granting such treatment. A tariff concession in favour of one country should be applied to all other trading partners.<sup>162</sup> Besides this agreement Britain and the Netherlands agreed that they wouldn't make any other treaties with other states that would exclude trade with the other nation. The treaty of 1871 was a renewal of this earlier treaty. The first had to do with Dutch control over Sumatra. In 1858 the Dutch had subjected the Sultanate of Siak Sri Indrapura to its rule. The British opposed the too high duties the Dutch set there. A new treaty was made; full recognition of the Dutch control over Siak in return for equal commercial rights for the British. The other articles of the complete treaty of 1871 regarded the recruitment of contract workers from India for the Dutch colony of Suriname, and the handover of the Gold Coast in return of Dutch control and influence in the East Indies. The Dutch overestimated their position by asking for the Aceh Sultanate as being part of Dutch sphere of influence. The British refused but the deal was already too far to withdraw. Initially, the Siak Treaty was rejected in the Dutch house of representatives. The treaty was being revised and renamed the Sumatra Treaty establishing full influence over Aceh Sultanate and signed in The Hague on 2 November 1871. The Dutch Senate then adopted the three treaties on 18 January 1872.

### 5.3. Problems concerning the British violation of the Sumatra treaty

During 1932 the Dutch trading commissioners gave notice that the British were not acknowledging the agreements of the London treaty of 1824. According to the treaty the Dutch should not pay more import tax than double the taxes paid by the British in British Guinea. This same principle was likewise applicable to trade in the Dutch East Indies. Apparently there was a misunderstanding about article 2 of the treaty and in particular

---

<sup>162</sup> Klemann, *Tussen Reich en Empire*, 110.

about the meaning of the concept of 'subject or vessels' which in Dutch was translated to the concept of 'subjects' (onderdanen). The advice of the Dutch trading commissioner 's Jacob was to object this violation of the British because this was unacceptable and not in line with the treaty. An internal debate about how to respond followed. This discussion was part of the broader discussion how to deal with the British imperial preferential politics, which became more and more visible after the Ottawa Conference. During the 100<sup>th</sup> meeting of the Committee of Trading Agreements (Commissievergadering voor Herziening van Handelsverdragen), the conclusion was that the Dutch couldn't be compared with the British Empire. A second conclusion was that the Dutch global position was much weaker. Therefore, The Hague should not wait for the British to formulate their trade policy to take action.<sup>163</sup> During another meeting of the Committee the matter about the interpretation of article 2 of the London Treaty was again discussed and it turned out that this paragraph of the treaty already had been subject for discussion for 12 years following the signing of the treaty in 1824. After 12 years of debate the Dutch finally were forced to accept the British interpretation which led to the fact that not only the British subjects but also the British vessels could pay the lower import tariffs. The Dutch accepted the British interpretation of the treaty but this interpretation would then also be applied to the import in British Malaya. However, on 14 October 1932 Britain had announced a new import tariff, ignoring the Dutch-British trade agreements. Two options were discussed: the first option was that the Netherlands should reclaim their rights agreed upon in the Sumatra treaty and the second one to do the same as Britain, meaning violation of the treaty.<sup>164</sup> Britain was partially ignoring parts of the agreement and was applying tariff differentiation in the British colonies. The Netherlands could do the same. But the possibility of creating conflicts with Britain was not without risk. Director-General Hirschfeld's opinion was that this was a treaty of 1824 and that times had changed and that therefore the treaty should be revised. This discussion was even more important because at that time the Dutch had to decide how to take part and to deal with the Convention of Ouchy. The conclusion of the 129<sup>th</sup> meeting of the Committee was that investigations were necessary with regard to the expected losses of total

---

<sup>163</sup> NA, 2.05.37 doos 4046, Notulen 100e Commissievergadering voor de herziening van Handelsverdragen, 12 mei 1932.

<sup>164</sup> NA, 2.05.37 doos 4016, Resumerende nota Nederlands-Britse handelsrelaties.

preferential import tariffs in British dominions (if the treaties were completely left aside) and possible gains if the Dutch could higher their import tariffs in the Dutch East Indies.<sup>165</sup>

#### 5.4 The Dutch dilemma: holding on to the Sumatra treaty, yes or no?

The agreements of the Sumatra treaty were, on the one hand, useful because it gave the Dutch preferential import tariffs within the British colonies. On the other hand, however, it resulted in an extreme weak trading position for the Dutch. The problem was a combination of two issues. The first issue was the London treaty of 1824 with its import tariffs not being higher than twice the import tariffs of the country the harbour was appointed to. And second issue was the interpretation of the second article of the Sumatra treaty of 1871, according to which the British had the same rights and privileges as the Dutch on the island of Sumatra, including every region that would become under the Dutch Crown. So differentiation was limited to areas conquered before 1824. According to the Minister of Trade, Labour and Commerce the most important goal thus was to separate Sumatra from the rest of the Dutch East Indies so that there could be no national treatment of the Sumatra treaty. If Sumatra was seen as part of the Dutch Indies than the lower import tariffs for Britain would have been applicable to all the Dutch colonies in that region. And in addition, according to the most favoured nation clause then this lower import tariff could be claimed by all other nations. Furthermore, the Dutch used a fixed tariff system, in contrast to other continental countries. Most of these used minimum and maximum tariffs and thus left room for bilateral negotiations. The Netherlands therefore had much less room to negotiate.<sup>166</sup> The Dutch were aware of this danger, and were therefore anxious how to make use of the Sumatra treaty, avoiding any discussion on the status of Sumatra.

In a letter to the British Minister of Trade, the Dutch Minister Beelaerts van Blokland opposed the idea that the Netherlands was a “paramount power” on Sumatra and that there was no evidence that the whole island was under direct control of the Dutch government.<sup>167</sup> In a classified letter the Governor-General of the Dutch East Indies, Jonkheer De Jonge acknowledged to the Minister of Colonies, however, that the Dutch had full control over all

<sup>165</sup> NA, 2.05.37 doos 4016, 129<sup>e</sup> Commissievergadering voor herziening van Handelsverdragen, 22 dec. 1932.

<sup>166</sup> Klemann, *Tussen Reich en Empire*, 110.

<sup>167</sup> NA, 2.05.37, 4016, Brief aan de Britse Minister van Handel, 18 nov 1932.

of Sumatra.<sup>168</sup> This meant that the lower import tariff should indeed be applied to the whole of Sumatra (and even all other parts of the Dutch East Indies as the colony was one custom territory). The governor-general also argued that although the British tariffs in Sumatra were equal in practice, they were not the direct consequence of the commitments of the treaty, but rather a consequence of common practice. The fact that the British were suddenly referring to their rights was directly correlated with the earlier Dutch request to hold on to the agreements of the Sumatra treaty. Since 30 of April 1932, the British no longer applied the lower tariffs on the Dutch commerce in Sierra Leone and Gambia. A letter to the British government was sent that the agreements were ignored. The governors advice was to wait for Britain to respond.

However, there were also sounds in favour of action. The Dutch export was facing difficulties as a consequence of British violations of the treaty. For example, according to the Sumatra agreements the tariff of 100lbs of milk should have been 2.5 times the price of British milk. Instead they had to pay £1, which was more than five times the British tariff.<sup>169</sup> A strong advocate for reclaiming the Dutch rights of the Sumatra treaty was the Dutch trading commissioner and Chief of the Economic and Consular Direction, 's Jacob. He advised to bring the matter to the International Court of Justice and force a verdict. His assumption was that the British would appreciate more their policy freedom in their own colonies than holding on to the acquired rights in the Dutch East Indies, which implied that the Dutch could then sell their rights.<sup>170</sup> This was, however, much too confrontational according to the Minister of Foreign Affairs. He sent a letter to Nederbragt advising him to ignore "this idiotic idea... The British were on the contrary very much focused on their interests in the Dutch Indies."<sup>171</sup> In a personal letter from the Minister of Foreign Affairs to his colleague of Colonies he recommended to let the matter rest until more was known about the pro's and con's as well as what the Netherlands should do when these treaties were to be revised. In addition, he argued that until that time the British were at least partly still acting in accordance with the treaty.<sup>172</sup>

<sup>168</sup> NA, 2.05.37, 4016, Brief van de Nederlands-Indische gouverneur-generaal De Jonge aan de Minister van Koloniën, 23 feb 1933.

<sup>169</sup> NA, 2.05.37, 4016, Brief aan de Marees van Swinderen door A.M. Snouck Hurgonje, 17 mei 1933.

<sup>170</sup> NA, 2.05.37 doos 4016, Brief aan de Minister van Koloniën, 13 feb. 1933.

<sup>171</sup> NA, 2.05.37 doos 4016, Brief aan DG Nederbragt, 14 feb. 1933.

<sup>172</sup> NA, 2.05.37 doos 4016, Brief aan Minister van Buitenlandse Zaken aan de Minister van Koloniën, 3 maart 1933.

On 12 July 1933, the Commission discussed this issue again. Their advice this time was to end the agreements of the Sumatra treaty of 1871. Their conclusion was based on three grounds. The first was that as long as the treaty existed, the government didn't have total freedom in their trade policy. Secondly, the treaty made it more difficult to negotiate with foreign countries. Thirdly the treaty was not in line with the current constitutional and economic organisation of the Dutch East Indies.<sup>173</sup> This conclusion was based on the ideas that a new era had started in which a new cabinet was chosen and that the London Conference turned out to be a complete failure, so a new path had to be taken.

#### 5.4.1 A British response

On 13 April of 1934 the Foreign Office finally responded to the Dutch request to comply to the agreements made in the London treaty and the Sumatra treaty. The British representative Sd P. Leigh-Smith wrote to R. Marees van Swinderen that they 'were unable to agree on the point of view expressed in the Dutch letters.'<sup>174</sup> The British set out that it was understandable that there had been a misunderstanding concerning the interpretation of the treaty, but that this had already been settled out in 1836. Furthermore, they pointed out that the Malay States were 'protectorate states' and no formal parts of the British Empire and this treaty, therefore, was not applicable to the Malay States. The Dutch representative 's Jacob advised the Dutch government (again) to put pressure on Britain to comply to the agreements of the treaty. His exact words to put this were: "I find it regrettable if the unfavourable interpretation is being accepted which will affect our prestige and will not improve our trade interests."<sup>175</sup> The Minister of Colonies Colijn advised in contrast that it would be unwise to undertake action because Britain could always implement contingency measures. Even when tariff differentiation was not applicable, the British always had other protective measures. Also, it would take quite some time to start an interpretative discussion about the contents of the treaty and it might be a threat for the Dutch-British political relations. And last, not recalling Britain to its commitments would create the possibility for the Netherlands to apply preferential tariffs in the East Indies in

<sup>173</sup> NA, 2.05.37, 4016, Brief van de 138<sup>ste</sup> Commissievergadering aan de Minister van Koloniën tot opheffing van 1871 Sumatratractaat, 12 juli 1933.

<sup>174</sup> NA. 2.05.37 doos 4016, Brief van Foreign Office Sd. P. Leigh-Smith aan R. Marees van Swinderen inzake schending van tractaat van 1824, 13 april 1934.

<sup>175</sup> NA, 205.37 doos 4016, Brief van 'S Jacob aan Nederbragt, 13 juni 1934.

favour of the mother country.<sup>176</sup> This conclusion was repeated in 1935 with the addition that bringing this case to the International Court of Justice would not necessarily mean that the Dutch would win.<sup>177</sup> After several internal and classified letters between the Ministers of Colonies and State, Foreign Affairs and Labour, Trade and Commerce the conclusion in 1937 was that the Dutch would respond to the British Foreign Office that they “reserved themselves the right to refer to this matter again in the future and that any payments of customs duties on Netherlands goods in British Eastern ports which are in excess what they should be to our interpretation of the treaty must be considered as being without prejudice to future reference.”<sup>178</sup> This meant that the Dutch would not accept the British reaction that the treaties were not violated and that they could recall this matter when necessary, but that for the moment no further action was taken by the Netherlands.

## 5.5. Reflection

The former paragraphs have shown that the British violation of the Sumatra treaty led to a fierce internal debate between government officials during the early 1930s. All agreed that the behaviour of the British had a negative effect on Dutch imports and exports, but they disagreed about the most effective response. Those in favour of claiming Britain to comply believed that the pressure of the international order would be sufficient for Britain to give in. The Dutch international trade needed favourable tariff differentiation provided by the agreements of the Sumatra treaty and the Dutch government should show its teeth to them who would not comply with agreements made. Others argued that the Netherlands should not risk a political dispute with a powerful nation as Britain, because they would never win. Firstly, Britain had much more protectionist measures than the Dutch government, so it always had an alternative. Secondly, the current developments in Europe were far from comforting to create a political dispute. Lastly, if the Dutch government should rest the matter, it meant that tariff differentiation could also be a possibility for Dutch trade policy. It would be interesting to further investigate the influence of specific individuals who were involved during this period in the Dutch trading relations with Britain. Foreign trading

<sup>176</sup> NA, 2.05.37 doos 4016, Minister van Koloniën aan Minister van Buitenlandse Zaken over protesten tegen Britse invoerrechten en schending van Londensch Tractaat 1824, 4 juli 1934.

<sup>177</sup><sup>177</sup> NA, 2.05.37 doos 4016, Vertrouwelijke brief van de Minister van Buitenlandse Zaken aan de Minister van Koloniën, 2 mei 1935.

<sup>178</sup> NA, 2.05.37, doos 4016, Formele brief aan de Britse Foreign Office, 24 sept 1937.



commissioner 's Jacob repeatedly urged the Dutch government to claim their rights, but the ministers of Colonies and Foreign Affairs were much more afraid that the Dutch would harm their political relations with the much more powerful British Empire.

## Chapter 6. Dutch active trade policy; breaking with the past, or not?

The Dutch tradition of free trade seemed to come to an end when the Dutch government decided to protect the Dutch economy during the interwar period actively. In the previous chapters the process towards a more active trade policy was described. It is interesting to notice how the internal discussion between Dutch government officials has developed with regard to how the Netherlands should position itself in relation to their trading partners. Furthermore, a specific example of such an internal debate in the form of the Sumatra treaty has been highlighted. The next question is why this process towards a more active trade policy was set in motion and which factors influenced the change in Dutch international trade policy.

### 6.1 Realism

In the introduction of this thesis the theoretical approach has been explained. In this thesis, the Dutch policy response towards British protectionism has been reviewed from a realist perspective. Firstly, it is important to explain the dominant views about international relations during the interwar period, because these dominant views could also have been influential on the policy making process of Dutch politicians during that time. On the one hand, there were strong liberal influences from important individuals during the first half of the interwar period. Woodrow Wilson's visions about international relations were based on liberty, equality, peace and free trade and a free-market world. These ideas were the foundation of the League of Nations.<sup>179</sup> His goal towards free trade affected several international attempts towards a more global market. Dutch presence and contribution to the Oslo Convention and the London Conference can be seen as the outcomes of such liberal thoughts. Immediately, however, also counter reactions emerged based on conservative ideas and *Realpolitik*. British conservative politician and statesmen W.S. Churchill strongly believed that all states seek to maximize their own security and that each state will do this according to its own situation and sentiment. Churchill stated that each state analyses international events in the light of its own distinctive interests and acts according to its own national predisposition and its own assessment of its strength.<sup>180</sup> These conservative ideas of

---

<sup>179</sup> Knutsen, *A history of International Relations Theory*, 208.

<sup>180</sup> *Ibidem*, 218.

statesmen like Churchill also became present within new classes of agricultural and industrial workers.<sup>181</sup> This is especially true for the influence of the strong agricultural lobby groups in Dutch society. When the crisis hit the developed countries early 1930s, these anti-liberal sentiments became even stronger. A closer look at the Dutch trade policy also reveals a shift from the liberal thoughts about neutrality and free trade, towards an active policy in which the Dutch economy is being protected against foreign threats as expected by the realist approach. The implementation of the Crisis Import Law and the Agricultural Law are acts based on realist views, namely to protect national assets from foreign threats.

Next the decisive factors will be discussed which can be divided in international factors and national factors of influence. These factors will be compared with factors of influence according to the realist theories. Finally, the central question of the thesis will be answered.

## 6.2 Important factors of influence

Although the focus of realist theories is on the nation state level, several levels of influence can be appointed which together form the specific characteristics of a nation. These can roughly be divided in international levels of influence and national levels of influence. On an international level the position of a country in the international world economy is of great influence as well as the position in the international power structure. On a national level, the long-term social-economic and cultural relations are of importance as well as the structure of the state, the political parties and personal influences of statesmen.<sup>182</sup>

Realists like H.J. Morgenthau and B. Huldt argue that the behaviour of small countries is based on certain characteristics, like the presence or absence of natural resources, demography, economic developments and the quality of diplomacy. According to Morgenthau there is only chaos between nation states and the behaviour of a country is solely the response on the behaviour of the other country's behaviour. Because of this point of view he can be considered as a realist theorist. The possibilities how a country can respond, depends on the size of a country. Small countries are more dependent on the behaviour of powerful countries than the other way around.<sup>183</sup> Klemann also emphasizes that it is in the interest for smaller powers to strengthen the position of the power in the

<sup>181</sup> Knutsen, *A history of International Relations Theory*, 208.

<sup>182</sup> Hellema, *Neutraliteit en Vrijhandel, De geschiedenis van de Nederlandse buitenlandse betrekkingen* (Utrecht 2001) 50.

<sup>183</sup> Morgenthau, H.J., *Politics among Nations: The Struggle for Power and Peace* (New York 1948).

position to lead the world economy. That is why they became loyal allies of the US after the war.<sup>184</sup> In addition to the model of Morgenthau, Huldt distincts some specific characteristics in the behaviour of small countries. They have several options in their search for protection and security. Firstly, they can join one of the greater powers and thereby disturbing or creating a balance of power. Secondly, they can implement a strict policy of neutrality and non-intervention or thirdly, they can try to create international cooperation.<sup>185</sup> Katzenstein argues that the behaviour of the Netherlands can be viewed in line with other smaller countries such as Sweden, Norway, Denmark, Belgium, Austria and Switzerland. This is because they have several overlapping characteristics which lead to similar responses.<sup>186</sup> In the next paragraph the specific factors of influence for the Netherlands will be discussed.

### 6.2.1 The Dutch international position during the interwar period

The Netherlands are known to be one of the smaller countries, but with an enormous trade. Its international influence was small to medium during the interwar period. Realist theories focus on the power structures on an international level. From this point of view, the Netherlands can be regarded as one of the smaller countries with considerable economic interests. The Netherlands once were a medium power within Europe but it was already in decline when speaking of international influence. However, The Hague could still be considered as a small power but with considerable assets like colonial regions. The neutrality during the Great War did not contribute to the popularity of the Netherlands, but at the same time it did not have great enemies. Due to their large export market, the Netherlands were strongly focused on their trading partners, most importantly Germany and Britain. The realist theories explain the Dutch policy of free trade and neutrality by focusing on the size and position of the Netherlands in the Western power structure. Keeping distance to political conflicts and focusing on maximum profits of trade were the main objectives. At first, the Netherlands were reluctant to change their tradition of a policy of free trade and neutrality, because it had worked well for them in the past. Moreover, this was in line with the traditional policy of free trade of Britain, the greatest nation power of that period. The economic historian P.A. Blaisse even goes further by stating that the Dutch strive for free

---

<sup>184</sup> Klemann, *The international economic relations of Small Countries in the 1930s*, 166.

<sup>185</sup> B. Huldt, *The West-European option; From yesterday till Tomorrow* (Swedish Institute for Internal Affairs, 1990.)

<sup>186</sup> P.J. Katzenstein, *Small States in World Markets; Industrial policy in Europe* (London, 1985) 21.

trade from the second half of the nineteenth century was mainly a reflection of the British' trade policy. The Netherlands followed Britain on the path to free trade.<sup>187</sup> Joining the policy of the most influential nation state creates protection and stability. However, when Britain changed its policy towards more protection, the expectation might have been that the Netherlands would have followed that policy change. This did not happen immediately, partly due to being trapped between two powerful nation states which the Dutch economy was heavily depending on. Britain was already declining as a hegemonial power for a long time and the economic relations with Germany had always been important. But both countries implemented protectionist measures which affected the Dutch economy. Focusing on one of the trading partners was politically dangerous. Instead, to secure their position on the international level, the Dutch government tried to create alliances with other smaller countries. These were exactly the countries which are mentioned by Peter Katzenstein, being countries which most resembled the Dutch international position. According to B. Huldt this was to be expected, because it resembles one of the strategies smaller countries could implement, when dealing with international instability or foreign threats. Creating international cooperation funded in a legalistic system can protect the interests of smaller countries.<sup>188</sup> Only when these alliances didn't seem very successful, the Dutch government realised that they had to change their policy by following the protectionist path of the other Western countries. During the 1930s, it became apparent that Germany faced internal difficulties and the volume of Dutch-German trade became fixed. Maintaining strong political relations with the other great power Britain was, according to realist theories, a logical choice. But there became a trade-off between creating a more active and protective trade policy on the one hand and maintaining good political relations with Britain on the other hand. This might explain the internal struggle about how to deal with the British violations of the agreements made in the Sumatra Treaty. It was an internal trade-off between on the one hand fighting for the promised rights which were made in the official treaties of London (1824) and Sumatra (1871) with Britain and on the other hand maintaining good relations with the most important Western power. At first sight the process towards a more active policy does seem at odds with this theory because

---

<sup>187</sup> Blaisse, *De Nederlandse Handelspolitiek*, 44.

<sup>188</sup> B. Huldt, *The West-European option; From yesterday till Tomorrow* (Swedish Institute for Internal Affairs, 1990.)

protectionism as an active policy could be seen as a way of distancing oneself with the most important trading relations. It should be kept in mind, however, that the shift towards protectionism was already set in motion on an international level. Most trading partners had already implemented several protectionist measures. As long as the Dutch government implemented protectionist measures which were only defensive in nature and not aggressive, this was in line with the international 'Zeitgeist'. Therefore, the change to a more active policy was not so dangerous for international relations as long as the Dutch used the same common policy measures used by other countries. However, this theory does not explain why the Netherlands were ready to risk the important relations with Britain by using a very aggressive form of protectionism, namely dumping large quantities of butter on the British market. This form of protectionism was not defensive in nature but much more aggressive and was also interpreted as such by the surrounding countries. The specific example of Dutch dumping on the British market is therefore an interesting subject for further research in relation to realist theories. Besides international factors of influence, there were also important national factors of influence which also paved the way towards a shift in economic policy during the interwar period. These will now be discussed.

### **6.2.2 National factors of influence**

The first national characteristic which can be seen as an important factor of influence, is the Dutch political system. Dutch economic politics were greatly influenced by two important parties, namely the Confessional party and the Liberals. The Liberals were initially strongly in favour of free trade, while the Confessional parties focused on the protection of the agricultural sector. This contrast of preferences can be found in the internal debates during the interwar period about how to respond to the changing economic climate. Surprisingly, the appointment of H. Colijn as Prime Minister in 1933 eventually led to a more Dutch active policy. Although Colijn was a member of the Confessional Anti-Revolutionary Party he was also a former Shell-man and had strong liberal ideas about how a country's economy should work. In first instance it doesn't seem very logical that Colijn would become an important motor towards more protectionism. The pressure of his more protectionist political followers should not be underestimated in this perspective. However, Colijn could not have had that much influence if the Ministers of Finance Verschuur and later on Steenberghe did not make the necessary changes in the structure of the Ministry of Labour, Trade and Commerce as well as the preparatory works for the protectionist laws which were

implemented during that period. So these individual government officials can also be seen as a crucial factor of influence. Another important factor only briefly mentioned is the influence of the pressure of the Dutch agricultural lobby groups. Although these groups only focused on the protection of the Dutch agricultural sector, the pressure for more government action in economic matters did pave the way for a more general active policy. In first instance, all these national factors of influence seem less relevant from a realist theoretical perspective, but when we take a closer look, they are all related to international issues and thus also to the Dutch position in relation to the other trading countries. To my opinion these national factors of influence are indeed in line with realist theories and should be considered as equal important as international factors of influence.

### 6.3 Conclusion

The central question of this thesis was how the Dutch policy responded to the protectionist behaviour of Britain and the British Empire and how this can be explained. On the first British protectionist measures, the Dutch government initially did not react at all. Free trade and non-intervention had been the tradition and had created prosperity. Only when many other countries also began to implement protectionist measures and the Dutch economy faced growing difficulties with their exports, slowly a certain awareness became apparent that the current strategy was not beneficial any longer. The first policy response was to find international cooperation with other Western countries which faced the same difficulties. Only when this didn't seem successful Dutch officials began to realize that the current policy of free trade and non-intervention should be replaced by a more active policy. The Dutch minister of Labour, Trade and Commerce and the Prime Minister implemented several major changes in the organisational structure and the task setting between the departments, creating more power for the Minister of Trade and Commerce to influence Dutch trade policy. Next they implemented several new laws which made it possible for the Dutch government to intervene in the economy. The government thus changed its trade policy from free trade and non-intervention towards a more active policy. This active trade policy consisted of contingency measures and attempts to implement tariff differentiation on national grounds as well as trying to influence foreign protectionism in favour of the Dutch

trade. The case of the Dutch response in relation to the British violations of the agreements in the Sumatra Treaty is a clear example of the Dutch internal struggle how to deal with foreign threats during the interwar period. Demanding Britain to comply to the agreements made in the Sumatra Treaty was important for the Dutch trading position, but keeping good and strong political ties with Britain during this international turbulent period was also the most important goal for the Dutch government, as it considered Britain its main informal ally, in Europe as well as in Asia. The final conclusion after years of internal debate between government officials was to let the matter rest and thus, implicitly, accepting the British violation of the treaty. This indicates that the Dutch trade policy was not supposed to intervene with the *high politics* of national security. This conclusion is in line with Blaisse's hypothesis in his work on the Dutch trade policy *De Nederlandse Handelspolitiek*. Blaisse states that the Netherlands have always balanced the pros and cons of a policy in relation to its trading position. Blaisse emphasizes that the Dutch never had a moral believe in free trade, but were always in search for the most beneficial policy. He refers to the *Deductie van Johan de Witt* in which the request of Zeeland for higher import tariffs on domestic grain lost from the more important interests of international grain trade.<sup>189</sup> It was an opportunistic policy when at times the international free trade was considered as the most important value to pursue, but at other times the greatest measures were taken to protect troubled commercial sectors.

The Dutch international policy has always been a policy of trade-offs and responding to external threats. The shift towards a more active policy should therefore not so much be seen as a real shift but rather as an adaptation which gives the most security to our vulnerable position. Considering the Dutch position in the international setting from a Realist perspective adaptation to external threats is the most logical and rational choice the Netherlands could make. It only took some time to figure this out.

---

<sup>189</sup> Blaisse, *De Nederlandse Handelspolitiek*, 44.



## 6.4 Final remarks

The Dutch economy is an open economy and is heavily depending on its export and import volumes. International turbulence has a great impact on the Dutch international position. The current global financial crisis clearly demonstrates this. Almost every policy advice refers to the vulnerability of the Dutch economy in relation to global economic shocks. And in addition, almost every struggle deals with the issue how to defend oneself in relation to this weakness. One of the conclusions of the recent published *14<sup>th</sup> rapport Studiegroep Begrotingsruimte* made by the Ministry of Finance states that ‘the Dutch economy is very vulnerable for external shocks because it is placed in an integrated Eurozone, with its large financial sector and mostly because of its very open economy.’<sup>190</sup> This is a much true for the current crisis as it was during the Great Depression in the interwar period. The Netherlands are a small country, with an open economy and have no serious military powers. Our strategies thus are limited. In the end, we will always try to find a big brother to protect ourselves. And in search for this big brother we always have to make compromises and a trade-off between economic interests and political stability.

---

<sup>190</sup> *Stabiliteit en Vertrouwen*, 14e Rapport Studiegroep Begrotingsruimte, 4.

## Bibliography

- Blaisse, P.A., *De Nederlandse Handelspolitiek; De Nederlandse volkshuishouding tussen twee wereldoorlogen* (Utrecht 1948).
- Botjes, J.O. , 'Bescherming en actieve handelspolitiek,' *De Economist*, (Haarlem 1931).
- Botjes, J.O., 'Vrijhandel en economisch herstel,' *De Economist*, (Haarlem 1932).
- Capie, Forrest, *Depression and Protectionism; Britain between the Wars* (1983).
- Chase, Kerry A., 'Imperial Protection and Strategic Trade Policy in the Interwar Period', *Review of International Political Economy*, Vol 11, (No.1 Feb. 2004), pp. 177-203.
- Eichengreen, Barry & Irwin, Douglas A., 'The Slide to Protectionism in the Great Depression: Who succumbed and why?' *NBER working paper series, National Bureau of Economic Research* (Cambridge July 2009).
- Fischer, W. 'Swings toward protectionism and free trade in history' In: Herbert Giersch: *Free trade in the World Economy: Toward An opening of Markets*, (Tubingen: Mohr 1987).
- Hen, P.E. de., *Actieve en re-actieve industriepolitiek in Nederland; De overheid en de ontwikkeling van de Nederlandse industrie in de jaren dertig tussen 1945 en 1950* (Amsterdam 1980).
- Howson, Susan, 'Depression and Protectionism: Britain Between the Wars by Forrest Capie', review, *The Economic Journal*, Vol. 95, No. 378 (Jun. 1985), p.p. 520-521.
- Hellema, D., *Neutraliteit en Vrijhandel, De geschiedenis van de Nederlandse buitenlandse betrekkingen* (Utrecht 2001).
- Heuvel, J.H.J., van den & Maarseveen, J.G.S.J., van, Handelspolitiek in de jaren dertig review: A. van Schaik, Crisis en protectie onder Colijn; over economische doelmatigheid en maatschappelijke aanvaardbaarheid van de Nederlandse handelspolitiek in de jaren dertig (*ESB* Feb. 10th 1988) 166-169.
- Hirschfeld, H.M., *Actieve economische politiek*, Elsevier 1946.
- Huldt, B., *The West-European option; From yesterday till Tomorrow* (Swedish Institute for Internal Affairs 1990).

- Kahler, Miles, 'European Protectionism in theory and practice,' *World Politics*, Vol.37, No. 4 (Jul. 1985), pp 475-502.
- Katzenstein, P.J., *Small States in World Markets; Industrial policy in Europe* (London 1985).
- Klemann, H.A.M., *Tussen Reich en Empire. De economische betrekkingen van Nederland met zijn belangrijkste handelspartners: Duitsland, Groot-Brittannië en België en de Nederlandse handelspolitiek, 1929-1936* (Amsterdam 1990).
- Klemann, H.A.M., *Waarom bestaat Nederland eigenlijk nog? Nederland-Duitsland; Europese integratie en politieke consequenties 1860-2000* (Rotterdam 2006).
- Klemann, H.A.M., The international economic relations of Small Countries in the 1930s. Belgium and the Netherlands. In: Timo Myllyntaus, *Economic Crisis and reconstructing in History. Experiences of Small Countries* (St. Katharinen 1998) 145-168.
- Knutsen, L. Torbjørn, *A history of International Relations Theory*, (Manchester University Press 1997 second edition).
- Krasner, Stephen, D., State power and the Structure of International Trade, *World Politics*, vol.28, No.3 (April 1976) 317-347.
- Morgenthau, H.J., *Politics among Nations; the Struggle for Power and Peace* (New York, 1948).
- Posthuma, S., 'Bescherming en actieve handelspolitiek,' *De Economist*, (Haarlem 1930).
- Reuveny, Rafael and Thompson, William R., 'The timing of Protectionism,' *Review of International Political Economy*, Vol.4, No.1 (Spring 1997), 179-213.
- Shaw, E.S., review: Kindleberger, Charles, P., *The World in Depression:1929-1939*, *Journal of Money, Credit and Banking*. Vol.7, No.3 (Aug. 1975) 398-401.
- B.A. Simmons, *Who adjusts? Domestic sources of Foreign Economic Policy during the Interwar Years*, 1997.
- Strange, Susan, 'Protectionism and World Politics', *International Organization*, Vol.39, No.2 (Spring 1985), pp, 233-259.

- Verdier, Daniel, Democratization and Trade Liberalization in Industrial Capitalist Countries, 1830s to 1930s, *Comparative Studies in Society and History*, Vol. 40, No. 4 (Oct. 1998) 587-608.

Archival Lists of Documents:

- Bescheiden betreffen de buitenlandse politiek van Nederland 1848-1945 deel II

Declarations:

- League of Nations. 1932. World Economic Survey 1931/32. Geneva: League of Nations.

Reports:

- *Stabiliteit en Vertrouwen*; 14e Studiegroep Begrotingsruimte

Websites:

<http://www.historici.nl/Onderzoek/Projecten/BWN/lemmata/bwn1/hirschfeld>

<http://www.historici.nl/Onderzoek/Projecten/BWN/lemmata/bwn2/verschuur>

<http://www.historici.nl/Onderzoek/Projecten/BWN/lemmata/bwn1/steenbergh>

[http://www.fitchratings.com/creditdesk/press\\_releases/detail.cfm?pr\\_id=753577](http://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=753577) (26 juni 2012).

Nationaal Archief

- Inventarisnummer 2.05.03
  - Doos 1608
- Inventarisnummer 2.05.37
  - Doos 4016
  - Doos 4046