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**DEPENDENCES AND WAYS TO ELIMINATE THEM:  
A PAST THAT RESONATES WITH THE PRESENT**

*The invasion of Russian troops into Ukraine has showed, on the one hand, the high cohesion and patriotism of Ukrainian society and their perception of independence as a higher value; on the other hand - the inability to preserve it with the resources of the national economy alone, and therefore - a high external dependence on the decisions of global leaders on the provision of aid and the use of the industrial base of the West to ensure the defense and security of Ukraine. Updated by S. Mariotti, the issue of "global protectionism" needs to be considered via the prism of the contextual economic conditions for the implementation of such a policy (wars, post-war recovery, crises). The purpose of the article is to investigate, based on the experience of the pioneer of industrial revolution and the adept of free market - Great Britain, the historical facts regarding the elites' reaction to new challenges and threats of the beginning of the 20th century, and policy measures to encourage and protect national producers and their consequences, as well as to visualize various recent examples of protectionism, and draw conclusions for Ukraine.*

*Historical parallels between the situation at the beginning of the 20th century and the events of recent years give grounds for assuming that the answer to the question "How to speed up the recovery of Ukraine's economy during the period of severe war test?" should not be sought in modern policy measures of developed countries (where a powerful industrial potential has been created by the joint efforts of government and business over many years and the governments' activities are focused on managing the crises to preserve and strengthen this potential), but rather in retrospective mechanisms that ensured the expansion of the existing and creation of new industries to strengthen the economic efficiency and national security.*

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*The author shows that the state financial incentives and protectionist tariffs, introduced in Great Britain in the national interest in response to new challenges and threats, were effective for more than 40 years, which helped this country develop key industries, reduce dependence on imported strategic goods, and prepare for new challenges.*

*It is substantiated that the stimulating and protective mechanisms of India's policy, which have been launched recently to reduce dependence on the supply of strategic goods from China, are a reflection of the measures implemented by Great Britain at the beginning of the 20th century to reduce dependence on supplies of important goods from Germany. Similar mechanisms are being introduced by the United States in accordance with the interests of national security.*

*The author demonstrates that Ukraine has lower protective tariffs not only compared to Asian countries that are developing and protecting their own industry, but also to the EU. It is substantiated that when forming a strategy for economic independence and post-war recovery, Ukraine should take into account both the historical experience of Great Britain and the modern practices of introducing policy mechanisms to encourage and protect own industries for defense and security purposes.*

**Keywords:** *war, external dependence, industry, economic policy, free trade, protectionism, subsidies, licensing, tariffs*

*"There is nothing new under the sun".*

**Ecclesiastes 1:9**

**Statement of the problem.** The full-scale invasion of Ukraine by Russian troops, which resulted in numerous casualties and destruction, on the one hand, caused high cohesion and patriotism of Ukrainian society and their perception of independence as the highest value; on the other hand, it showed the inability to preserve it with the resources of the national economy, and therefore **high external dependence on the decisions of world political leaders to provide assistance and use the industrial base of the West to ensure Ukraine's defense and security.** Russia's aggression became a challenge to the civilized world, testing not only resolve and unity, but also production capabilities. At the same time, external dependence is a problem not only for modern Ukraine, but also for the West. In the context of

globalization, industrial leaders are forced to import vital goods produced in other countries to meet their domestic needs<sup>2</sup>.

In 2008-2009, faced with the financial crisis, European countries and the United States recognized the vulnerability of their economies as a result of deindustrialization caused by outsourcing and offshoring. But the final realization of critical foreign trade dependence occurred during the lockdown due to the COVID-19 pandemic<sup>3</sup>, when: value chains were blocked on all continents; some countries began to use the supply of important goods such as medicines and active pharmaceutical ingredients (APIs) as a new type of diplomacy; and public health was turned into a geostrategic weapon to solve national issues<sup>4</sup> [3, p. 5].

It is noteworthy that, despite their different economic structures, the EU and the US have two similarities in their external dependence:

1) the nomenclature of imported goods important for the economy, defense and security, including: semiconductors; batteries, including those for electric vehicles; medicines and APIs; useful minerals, primarily rare earth metals and materials;

2) the concentration of production (extraction/processing) of the above mentioned goods in one country - China (one exception is microcircuits, 92% of whose global output is concentrated in Taiwan).

During the pandemic, not only world leaders, whose economies are now dominated by the service sector, but also newly industrialized countries felt their vulnerability due to the lack of production capacity. An example is India, which imports 68% of APIs and more than 90% of antibiotics from China (including critical medicines mentioned in the national list of essential medicines) [4].

The problem was exacerbated by threats to stability in Europe and America due to Russia's military aggression against Ukraine in 2022. This raised the issue of

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<sup>2</sup> Salikhova O.B. and Goncharenko D.O. provide data on the supply of active pharmaceutical ingredients to Europe: 2/3 of the current Certificates of Conformity to the requirements of the European Pharmacopoeia monograph for APIs belong to Asian manufacturers, among which Indian and Chinese companies dominate; at the same time, for 1/6 of APIs there are no analogues of European production at all, for more than half of APIs there are from 1 to 5 certificates of conformity, that is, there is a very limited range of their manufacturers in the world [1, p. 97].

<sup>3</sup> The EU, assessing the consequences of the pandemic for its economy, pointed to the existence of "external trade dependence" on a number of goods and technologies that affects industrial ecosystems and the competitiveness of industries [1]. The United States reported "critical dependence" and "vulnerability in the supply chains of critical products" [2].

<sup>4</sup> Even before the pandemic began, POLITICO quoted Li Daokui, a professor of economics at Tsinghua University, as saying: "We depend on others for computer chips, but we are the world's largest exporter of raw materials for vitamins and antibiotics... If we cut exports, the medical systems of some Western countries will not work properly" [3, p. 5].

securitization of the national economy and government intervention in the processes of building innovation and industrial capacity to eliminate dependencies and vulnerabilities in the supply chains of critical products among politicians, and among scientists - discussion of appropriate measures and their effectiveness to ensure the stability of the national and global economic order.

Similar challenges led to similar responses from the EU and the United States. In particular, the EU leadership presented a revised New Industrial Strategy for Europe, taking into account the circumstances of the COVID-19 pandemic, identifying among its objectives the reduction of dependence of industrial ecosystems and strengthening economic sovereignty [1]. The Biden-Harris administration announced the introduction of immediate measures to address vulnerabilities by launching new initiatives, which will be formalized in a strategy for the development of six industrial bases, to support America's economic and national security [2].

The Indian leadership took even more radical measures. "India will fire on all cylinders to achieve self-sufficiency," said Prime Minister Narendra Modi [5], noting that the COVID-19 crisis taught India to value the importance of local production, local markets, and local supply chains, and therefore the government will introduce tax breaks, preferences for domestically produced goods in public procurement, and strict barriers to prevent imports.

In view of the above, one cannot but agree with Sergio Mariotti, Professor Emeritus of Milan Polytechnic, who initiated a scientific discussion on "global protectionism", noting that "radical changes are on the agenda of the future, which may follow the dangerous paths of the past" [6, p. 28]. S. Mariotti concludes that "protectionist policies, which have their origins in past rationality, and perhaps in the decline of mercantilism in the modern version of patriotism, should be consigned to the history books. It legitimizes the spread of behavior when countries act on the principle of "an eye for an eye", the escalation of protectionism, which ends up in a negative score game" [6, p. 24]. These statements raise questions that require special attention in the context of the following problems of modern Ukraine:

- 1) Are all the paths of the past of economic history dangerous and leading to undesirable consequences for the public?
- 2) Is protectionism harmful to social and economic stability, or is it *diabolus non est tam ater, ac pingitur?*
- 3) In the context of global challenges and intensified international competition, is it advisable to "consign all protectionist mechanisms (in the broad sense given by Enderwick [6, p. 12]) to the history books"?
- 4) Who should be the "leading actor" in determining the ways to ensure stability and restore the national economy: "the state as a strategist" or an armchair scientist as a strategist?
- 5) What effective mechanisms should Ukraine choose in the post-war economic

recovery in the context of its total dependence on foreign advanced technologies and high-tech goods?

**The analysis of research and publications.** A recent study by E. Hubert, who takes into account the work of S. Mariotti, states: "Although there are profound differences between today's globalized economy and its historical equivalents, lessons from the past should not be ruled out, as they can help avoid going down dangerous paths that could lead to undesirable future outcomes. Even if history does not repeat itself, it remains a good way to learn the lessons of history, including the history of international political economy" [7, p. 5].

In the context of the subject matter of the discussion, the position of Claire Melamed is worthy of attention, as she noted that there are good and bad protectionist policies, just as there are good and bad liberalization policies. The fact is that, when you look at the historical evidence, well-organized and well-managed protectionism has better results than total liberalization in terms of local industry development. Where we saw rapid industrial development in developing countries<sup>5</sup>, and the emergence of industries that can compete internationally, it was the result of active government policies that included protectionism in certain periods. Liberalization was not associated with the same result. No matter what the theory says, these are facts [8, p. 24].

Unprecedented events in the global economy due to the COVID-19 pandemic prompted scholars to retrospectively analyze and deepen their understanding of ways to restore stability in order to formulate adequate crisis management strategies and prevent future threats. Some works focus on the experience of the United Kingdom, in particular, on the actions of the state apparatus in overcoming past shocks and the reaction of the economy to the measures taken [9]. D. Ritchell draws attention to the political activity of the new liberals, which was based on the recognition of the problems of poverty and unemployment after the Great Depression of the 1870s as systemic shortcomings that can be eliminated and corrected only by conscious market intervention. The ideology of cross-party 'national efficiency' that emerged from the humiliating military defeats of the Anglo-Boer War brought together an unlikely set of Tories, liberal imperialists, and Fabian socialists in a common critique of the prevailing *laissez-faire* provisions<sup>6</sup>... The conservative tariff reform movement went even further and openly rejected the central pillar of Victorian *laissez-faire* as an obstacle to socio-economic improvement. By combining tariff protection with imperial consolidation and domestic social reform, many reformers openly recognized the need for positive state intervention in the interests of national survival and social harmony, - Ritchell notes [10, p. 21].

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<sup>5</sup> It was about East Asia - South Korea, Japan, etc.

<sup>6</sup> Laissez-faire - is an economic doctrine according to which government intervention in the economy should be minimal.

Scholars argue [9] that in the midst of the First World War, the British political economy underwent a radical restructuring: both the role of the state (a lesson that, in their opinion, proved important for the nation during the Second World War) and the *laissez-faire* policy were rethought. As a result, protectionist policy mechanisms were introduced that contributed to the improvement of British industry and the resumption of economic growth, yet another important factor in the success was the contextual economic conditions for the introduction of tariff protection. This conclusion, as the authors note, contradicts many views among economic theorists that protectionism is harmful to growth [9, p. 380]. The identified contradiction between successful practice and theoretical dogmas determined the direction of our research, which focuses on the economic policy of Foggy Albion in the early twentieth century.

In Ukraine, the dilemma between the free market and the protection of Ukraine's producers in the context of the principles of economic recovery was considered by scholars since independence. As noted by V. Sidenko, "Ukraine may even raise the question of some increase in tariffs for certain types of goods produced in industries that are a priority in terms of national production development" [11, p. 48]. However, such measures imply "a qualitatively new ideology of state support for the national producer - the ideology of not passive protectionism, but active building up of competitive positions of Ukrainian producers" [11, p. 52]. Unfortunately, neither the global financial crisis of 2008-2009, nor the loss of a number of assets due to the illegal annexation of Crimea and aggression in eastern Ukraine in 2014, nor the exponential growth of imports and deterioration of the balance of payments turned this ideology into a dominant one in Ukraine, which is one of the reasons for the current weak industrial potential and dependence of the country's economy on external resources.

After the full-scale invasion of Russian troops on February 24, 2022, the target of many studies was the search for ways to restructure and post-war revival of Ukraine, and the development of scenario forecasts and recommendations to accelerate economic recovery. However, the issue of "global protectionism" [6], which is quite controversial in the scientific community and was actualized by S. Mariotti, as a way to solve these problems, remains unaddressed. In view of the above, the *purpose of the article is to study*, based on the experience of the free market adherent - Great Britain, the historical facts about the elites' response to new challenges and threats of the early twentieth century, and policy measures (including protectionism) and their consequences; to demonstrate modern examples of protectionism, as well as to draw conclusions for Ukraine.

**Research methodology.** To achieve this goal, the author used the methods of analysis, synthesis and comparison to study the mechanisms of the British leadership's policy; the logical-dialectical method and the method of comparative analysis, functional and system-structural methods to reveal the functions of the state, to identify

the organizational and institutional features of the implementation of management decisions on the development of key industries and the transformation of industry into an engine of post-war economic recovery in the historical and economic aspect.

***On the eve of a great upheaval***

The UK was a pioneer not only in manufacturing, but also in economic globalization, which dates back to the industrial age. The loss of thirteen colonies after the American Revolution reoriented the British economy from trading exclusively within the empire to continental Europe. After 1815, duties were reduced or abolished, and in 1846, England introduced a *laissez-faire* policy, which J.E. Barker characterized as a policy of "unilateral free imports, falsely called Free Trade" [12, p. 350]. On January 15, 1846, Richard Cobden, a statesman and supporter of the New Deal, solemnly declared: "I see in the Free-trade principle that which shall act on the moral world as the principle of gravitation in the universe, - drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace" [13, p. 80]. But the dogma of free trade was not shared by all - the British Conservative Party initially resisted the abandonment of the traditions of protectionism. As E. Gamble wrote, "in matters of economic policy, the Conservative Party was traditionally the party of the national economy and the party of protection, opposing the doctrines of free trade and economic liberalism" [14, p. 29]; however, at the end of the nineteenth century, the Conservatives officially leaned toward the majority opinion, but, according to E. Gamble, without much enthusiasm.

The economic crisis that began in 1873, poor harvests in England for several years, and a rinderpest epidemic in the late 1870s, along with the global depression, the rise of militarism, and Germany and the United States' increased protection of domestic markets in their quest for world supremacy, laid the groundwork for protectionist sentiment in Britain's industrial areas. At that time, critics of *laissez-faire* policy spoke of their beliefs no louder than a whisper, lest they cause political suicide. However, by the end of the 1880s, "whispers turned into noise" [15, p. 398].

Sampson Samuel Lloyd, a British banker and politician from the Conservative Party, translated into English List's work "The National System of Political Economy", which was published in London in 1885 [16]. In the Translator's Preface to the First Edition, Lloyd noted that his attention was drawn to the evidence of the practical impact of List's economic theories, which prompted their translation "to enable English readers to judge for themselves the truth of his statements and the validity of his arguments." In 1885, Lloyd noted: "At first sight, therefore, it would seem an anachronism to place before the reader of to-day a work having special relation to a state of things which existed forty years ago. The principles, however, enunciated by List are in their main features as applicable at one time as at another, and it will be found that they possess two especially powerful claims to consideration at the present

moment" [16]. One of Liszt's key theses that was drawn attention to is the connection between the development of local industries and the protection of their achievements with the prosperity of the national economy: **those nations that feel able, due to their moral, intellectual, social and political circumstances, to develop their own productive power should adopt protectionism as the most effective means of achieving this goal.**

The *Gainsborough Commission of British Workmen*, which visited various regions of Germany in 1906, prepared a report confirming this thesis: "We have been forced to face the fact that it has been during the period following upon the introduction of protection duties by Prince Bismarck in 1879, that Germany has ceased to be poor and has become well - to - do" [17, p. 44]. "Wherever we have been in Prussia we have seen no lack of employment amongst industrial workpeople; on the contrary there has been everywhere a demand for skilled workmen which could not be supplied. No German municipality is being harassed by an 'unemployed' problem; whilst in Great Britain, which boasts of the advantage of Free Trade and of untaxed wheat, the streets are thronged with strong men who have no work to do" [17, p. 118].

Angell R.N. in his book "The Great Illusion: A Study of the Relation of the Military Power of Nations to Their Economic and Social Advantages" (1910) pointed out that it was not free trade that caused the British Empire to gain world leadership [18]. Curtiss J.B. in his chapter "The Policy of Protectionism in Great Britain from 1558 to 1800: What Can It Teach Us?" noted: "It mattered not what party in power, whether Puritans or Royalists, Whigs or Tories the development of England by a system of protective tariffs, navigation and governmental regulations was recognized as the best means of securing commercial and industrial greatness" [19, p. 59].

Cobden's ideas about equality and fraternity through free trade and his thesis that a new course of state is the best prevention against wars, along with his prophecy "that 'there will not be a tariff in Europe that will not be changed in less than five years to follow your example'", may be dismissed as the talk of an irresponsible agitator," wrote Barker J.E. in 1910 [13, p. 80]. "Thus the intoxication of great industrial success led, at the bidding of a handful of agitators and of economic theorists, to the complete reversal of that creative and imperial economic policy, which had become England's traditional policy, and with which the greatest statesmen of England, from Lord Bacon and Cromwell to Lord Chatham, had identified themselves. ... In the days of Adam Smith, and still more since the days of Cobden, statesmanship and political economy have drifted far apart". [13, p. 81]. And, "When Free Trade had been established; it had to be defended at all costs against the Protectionist reaction. Free Trade chairs of political economy were created; and Protection was pronounced a heresy, and Free Trade an infallible doctrine, from every chair of political economy. ... Our national and imperial needs, and the doctrines of



our cosmopolitan political economists who ignore the existence of nation and empire, have become incompatible, and the question has to be put : Shall we any longer subordinate national policy to the abstract dicta of political economy?" [13, p. 81-82]. Critics of the official course used the following metaphor because of its immutability under the influence of new circumstances: "The British Empire has grown out of its old clothes" [13, p. 59], arguing for the need for change: "We must re-create the British industries which our blind faith in the wisdom of certain economic theories and our consequent policy of deliberate neglect have caused to decay [of industries]" [13, p. 40].

The attempts to avoid extremes in the choice of new policy tools are evidenced by the following statements by prominent scholars in the British monthly literary magazine *The Nineteenth Century and After*. "Protection and free trade are for me not principles, but remedies for the political and economic organism which are prescribed according to the state of the nation. A doctor who would say that he prescribed on principle to every patient *restringentia* or *laxantia* would be considered insane. However, that is the idea both of the extreme free trader and of the extreme protectionist," said Professor Gustav von Schmoller [20, p. 189]. Professor Birmer, using a similar metaphor, noted: "Protection and free trade, rightly considered, are not questions of principle but only remedies of political and economic therapeutics which, according to the state of the patient, have to be prescribed sometimes in big and sometimes in small doses" [20, p. 189].

To justify the need for changes in the management of the British economy, positive examples were cited from the history of the rise of other countries, including the United States and Germany, which, over the course of two to three decades, changed the structure of the economy through protectionist policies and turned from Britain's best customers into its most active and dangerous competitors [21]. "The United States and Germany not only supply their home markets with the productions of their flourishing industries, virtually excluding our manufactures, but not our raw products, from them, but they also export huge quantities of manufactured goods to all countries" [13, p. 28].

Warren F. Hathaway, comparing the effects of Cobden's free trade policy and Bismarck's protectionism in his 1909 work, wrote: "The shades of List and of the Iron Chancellor clasp hands as they look out upon the accomplishment of their work" [22, p. 428]. German commercial influence is felt in the banks and warehouses of both Antwerp and Rotterdam, where trade is mainly based on the millions of tons of goods floating down the German Rhine. In 1890, England produced 8 million tons of iron, Germany 4.5 million tons. In 1905, England produced 9.7 million tons and Germany 10.8 million tons. "Since 1879 Great Britain has by her free import policy steadily contributed to the commercial greatness of her Teutonic rival", Hathaway concluded [22, p. 428].

Numerous arguments by scientists and public figures who understood that wars are fought with the help of iron and steel were a warning that war with Germany, which was increasing its production of these goods, was almost inevitable [12]. Attention was also drawn to the "stalling" of the British chemical industry and Germany's aggressive policy of gaining a global monopoly on the chemicals and drugs market; evidence was provided that Germany considered trade as war, and all means of conquering markets were acceptable [23]. But "the British advocates of the policy of laissez faire, of drift and neglect, that they were seeing ghosts, that there would be no war between England and Germany, that the relative decline of the British iron industry did not matter, that other British industries, such as cotton manufacturing and ship building, were exceedingly prosperous and were more profitable than iron making ..." [12, p. 2].

In July 1908, The Quarterly Review London published a large, powerful scholarly article entitled "The German Danger". The British wrote: "To the paralysing influences of an infatuated optimism we are exposed, while Germany is exempt from them. ... Nothing can be more certain than that the German Government and the whole German people, constituting at once the most formidable, the most compressed, and the least satisfied of all the great Powers, regard the strength of England and the existence of her maritime supremacy as the first and the chief obstacle to the realisation of their ambitions by land and sea" [24, p. 265-266].

However, despite arguments, warnings, and recommendations, Britain's economic policy remained unchanged until 1914...

#### ***Understanding the dependence and scale of threats***

Within 10 days of the outbreak of the First World War, Sir William A. Tilden, a prominent British chemist and member of the Royal Society, wrote an open letter that The Times published on August 18, 1914: "It came to my attention that the Secretary of the Pharmaceutical Society sent a communication to the secretaries of pharmaceutical committees throughout the Kingdom, pointing out the need to save medicines in their use. The government also seems to be considering controlling some medicines for the benefit of society. The British public is probably unaware that almost all of the so-called synthetic drugs<sup>7</sup>, such as antipyrine, phenacetin, aspirin, chloral and sulfonal, are made in Germany. The story of how Germany came to have a near monopoly on the production of dyes and what are sometimes called "fine chemicals" was told over and over again for the past forty years" [25, p. 34]. But despite the warnings, as Tilden notes, only a few British manufacturers made belated

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<sup>7</sup> It was about medicines based on coal tar. The German chemical companies Bayer, Höchst, AGFA, and Kalle synthesized many organic chemicals and began to produce new medicines called "coal-tar medicines" through fractional distillation of coal tar (later replaced by oil).

attempts to revive this sector of the chemical industry in the country. British industrialists explained the neglect of investments in the development of the fine chemicals industry as follows: "What does it matter if we are making money?" Such a position, according to Tilden, "shows neither patriotism nor common sense" [23, p. 320].

In the first months of 1915, the article "The War and the Shortage of Certain Drugs" published in The British Medical Journal noted: "Since the outbreak of the war there was a shortage of a number of products and prices were very abnormal because of the increased demand and limited supplies of some drugs. The root cause of the shortage of carbolic acid [phenol] is, of course, demand, which increased greatly because of the war. In addition to being needed, like other antiseptics, for use in army hospitals, etc., carbolic acid is also an important component in the production of the explosive *lyddite*, a special form of trinitrophenol, or picric acid<sup>8</sup>" [26, p. 559].

The dye industry felt this problem no less acutely<sup>9</sup>. At a meeting of the British Parliament on February 8, 1915, a total shortage was noted due to the lack of imports of German dyes: "This is a matter of vital importance not only to our textile industry, but to a whole group of industries dependent on the use of dyes, for the success not only of meeting domestic needs, but of maintaining the foreign markets on which our English capital and our English employment depend" [27]. It turned out that Britain was almost completely dependent on Germany for the supply of the necessary dyes used in the country<sup>10</sup>.

Due to the cessation of supplies at the outbreak of war in 1914, the problem of dependence on German chemical products arose not only in Great Britain but also in the United States. Despite its different structure, the American economy, like the British, faced shortages of medicines and dyes, which led to a collapse. Congressional materials noted that local industries producing goods worth about \$3 billion a year were absolutely dependent on coal tar dyes and related materials. In addition, industries of similar size depend on them indirectly. Before the war, the country had virtually no dye industry of its own, only "assembly plants". "All the huge industries that needed dyes were completely at the mercy of Germany, and they could receive a

<sup>8</sup> Lyddite, first tested in 1888, was considered a relatively "insensitive" explosive, which meant that it was well suited for armor-piercing shells and was widely used by the British first during the Boer War and then in World War I.

<sup>9</sup> By that time, scientists (primarily British) already isolated at least 125 different chemicals from coal tar, many of which had industrial applications. On their basis, synthetic dyes called "coal-tar dyes" were developed.

<sup>10</sup> In 1914, Germany accounted for 3/4 of the world's synthetic dye production. In the UK and other countries, dye factories were mostly owned and operated by Germans [28].

crushing blow from it at any time the German cartel deemed it necessary" [29, p. 3]<sup>11</sup>.

Germany's understanding of market power and its aggressive intentions is evidenced by a dispatch sent by German Count von Bernstorff to his government on March 13, 1915, the text of which is cited in the materials of the US Congress: "The dye stocks in this country are so small that the German embargo could put about 4,000,000 American workers out of work" [29, p. 3]. The motives behind Germany's efforts to dominate the global chemical market were not only economic but also political [30]. In 1922, the German cartel IG Farben made a secret offer to the British government to provide the secret of the Bayer 205<sup>12</sup> formula in exchange for the redemption of the colonies that Germany gave up under the Treaty of Versailles. "Although this attempt to strike a deal between political power and medical discovery was undoubtedly an extreme case, it is a demonstration of the culmination of the German cartel's power over the health and well-being of mankind" [28, p. 56].

The shortage and security threats accelerated the British learning of the "lessons of the past" and led to the conclusion that it was unwise to rely exclusively on foreign and possibly hostile producers of goods, even if financial and other advantages allowed foreigners to sell cheaper than local producers [28, p. 47].

#### *New circumstances - new rhetoric - new policy*

In his work "Economic State Wisdom; Great Industrial and Financial Problems Arising from War" he states: "The war showed even the blind that military power and economic power are extremely closely intertwined, that wars can be lost or won not only on the battlefield, but also in the school, laboratory, mine, mill, and factory. It follows that the policy of *laissez-faire*, the policy of drift in economic matters, when the security of the state is subordinated to the freedom of action of individuals seeking only their own benefit, discredited itself. ... If the United Kingdom in 1914 had the same advantages in ferrous metallurgy as it had in 1880, Germany would never dare to challenge it" [12, p. 1-12].

The American economist Alvin S. Johnson, who was involved in the US National Defense Council<sup>13</sup>, in 1915 drew attention to the importance of protectionism

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<sup>11</sup> In the United States, many industries virtually came to a standstill, and even the government itself was in danger of shutting down. Difficulties with the supply of printing ink, which was completely dependent on German dyes, led to a situation where the closure of the government printing press seemed inevitable, and the Bureau of Printing and Engraving was in an extremely difficult position. The dyes needed even for cheap and essential clothing jumped in price in some cases by 5000%, and in other cases they were not available on the market at all.

<sup>12</sup> A complex synthetic drug developed by German chemical laboratories for sleeping sickness, also called Germanin.

<sup>13</sup> The National Defense Council was an organization created during World War I in the United States to coordinate resources and industry in support of the war effort, including coordination of transportation, industrial and agricultural production, financial support for the war, and public morale.



### **Dependences and ways to eliminate them...**

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for national security: "A few months ago it was generally accepted that free trade, even partially achieved in the Western world, would make war no longer necessary. The argument seemed rational and convincing because, for some unknown reason, it was assumed that human actions are rational. The argument went something like this: the actions of nations, like the actions of individuals, are based on the desire to achieve the highest degree of material well-being. Thus, states tend to do things that lead to an increase in welfare and will not implement things that seriously threaten it. Today, trade binds industrialized countries together with common financial interests. They are so close, and the scheme of monetary interests they create is so complex, that anything that disrupts this commercial connection seriously threatens the profits and material well-being of both capitalists and workers in many industries in many countries. Because these relationships are not based on dependence but rather on interdependence, nations cannot afford to fight. The antipathy to warfare is reinforced by the fact that commercial considerations drive national policy, while the benefits of war are illusory. ...Unfortunately, the events of the past few months proved that the wisdom of nations does not lie in rational accounting calculations. The monetary aspect did not completely subdue either the statesman or the average citizen to the extent necessary to turn the economy into the basis of national action. Instinct and impulse are still linked to the rationality of political judgment. Race, religion, and politics are still concerns; the purse did not conquer hatred, and accounting did not triumph over jealousy. Accordingly, the European conflict ... teaches quite clearly that there is a possibility that a nation may suddenly find itself at war. Thus, the highest national duty is to be prepared for war. In this preparation, tariff policy is a matter of the utmost importance. It is clear that whatever our unfavorable conditions, we should not depend on a foreign source of supply. ...**War comes unexpectedly. Industry, on the other hand, cannot be launched quickly.** It takes time and experimentation to fit into a complex industrial scheme. Therefore, the industry that supplies everything needed for war must be built with high efficiency in peacetime. At best, we can expect that only a few industries will be built properly in response to the capricious demand of financial profit. Hence, **protectionism must be used and used very widely to prepare the nation for acute stress that can mean life or death**" [31, p. 307-309].

Following scholars unbiased by the free market doctrine, some members of the British Parliament began to publicly express the need for changes in economic and tariff policy based on the changes in global trade conditions that occurred over the past few decades. They appealed to their opponents with the following postulate: "There are certain Gentlemen on the Liberal Benches who, all their lives, have cried for Free Trade. I have watched them carefully in the past few months and have wondered how much they knew about trade at all. One thing is perfectly certain that if they went to sleep for 50 years and woke up they would still have the same cry. ... Those who

advocate this Free Trade are Rip Van Winkles"<sup>14</sup> [32, p. 929].

As for members of the British government, Edward M. G. Lloyd, who was a civil servant in the War Office and the Ministry of Food during the war, recalled that the need for state intervention only gradually began to be recognized by ministers who devoted most of their political careers to debunking the errors of protectionism, on the one hand, and socialism, on the other [33]. In particular, at the beginning of the war, the government believed that interfering in the private affairs of producers, on whose goodwill and loyal cooperation the country's security depended, and taking on the heavy responsibility of direct government administration was too great a risk to take and too openly contradicted the economic doctrines generally accepted in science and society at the time. But later, British officials realized that in the face of **growing dependence on imports, it was futile to try to strictly adhere to standard economic schemes developed for peacetime conditions**. As Edward M.G. Lloyd notes, the argument was summarized in the following words, whose truth was fully realized by officials within months of the outbreak of war: **to provide the essentials of life, one must rely on industry, and industry alone; the speed and efficiency with which industry can be organized in response to an emergency cannot but have a tremendous impact on the outcome of the struggle**.

Summarizing the assessment of the scale of the problem and the proposals of all stakeholders for action in the crisis, W. Runciman, President of the Board of Trade, said: "The inquiries of the Government have led them to the conclusion that the excessive dependence of this country on a single foreign country for materials of such vital importance to industries in which millions of our workpeople are employed, constitutes a permanent danger, which can only be remedied by a combined national effort on a scale which requires and justifies an exceptional measure of State encouragement" [34, p. 20]. J.E. Barker, assessing such dramatic changes in the country's economic policy, stated that the nation finally "heard the voice of the British-German prophet of seventy years ago", referring to List's recommendations in his work "The National System of Political Economy" [35, p. 651].

The realization by the political and business elites of Britain and its allies that they relied too much on Germany for the production of essential goods prompted them, in the midst of the war (in the face of uncertainty about the winner and its consequences), to begin developing a common policy for postwar economic independence. At the Paris Economic Conference, held on June 14-17, 1916, with the

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<sup>14</sup> The phrase comes from an 1819 short story by the American writer W. Irving, where the main character is Rip Van Winkle, a resident of a village near New York City who slept for 20 years in the American mountains and came down when all his friends had died. This image became a symbol of a man who is completely behind the times and wasted his life.

participation of representatives of the Allied powers<sup>15</sup>, the Resolution was adopted, which contained recommendations specified in a separate provision: "The Allies will take such measures as they deem most suitable for the realization of this resolution in accordance with the nature of the commodities and the principles governing their economic policy. They may, for example, have recourse either to enterprises subsidized, managed or controlled by the government itself; to financial assistance to encourage scientific and technological research and the development of national industry and resources; to duties or prohibitions, whether temporary or permanent; or to a combination of these various methods. Whatever measures are taken, the aim of the Allies is to generally increase production in their territory to the extent that they can maintain and develop their economic position and independence from hostile countries" [36, p. 63]. Thus, the Resolution granted the United Kingdom and the Allied countries the priority right to introduce incentive measures to accelerate the development of important industries.

British Prime Minister Herbert G. Asquith, speaking on the results of the Paris Economic Conference in the British Parliament on August 2, 1916, noted: "The War has opened our eyes to the full meaning and the manifold implications of the German system of economic penetration, and commercial and financial control of vitally important industries, and to the use to which vantage ground gained by this system can be put in war. ... **Necessary to make thorough preparation for the coming of peace**". [37, p. 333]. Although the provisions of the Resolution were not binding on the British Parliament, they were concretely implemented in the actions of the government. In particular, by the decision of G.G. Asquith, an advisory body of the government, the Committee on Trade and Industrial Policy (hereinafter - the Committee), was established to develop recommendations for the post-war economic recovery. As noted in [38, p. 26-27], the war experience challenged the British beliefs about the benefits of *laissez-faire*, and at the first meeting of the Committee on July 25, 1916, its chairman, Lord Alfred J. Balfour<sup>16</sup>, instructed the members of the Committee to "reject any abstract fiscal dogma" and be guided by national interests.

After a thorough analysis and consultations, the Final Report of the Committee on Trade and Industrial Policy after the War (hereinafter - the Report) was presented and submitted to Parliament in 1918[39]. The main purpose of the document was to set out a policy vision, whose implementation would require the introduction of permanent measures to protect and strengthen British industry and trade. In particular, Chapter IX "Fiscal Policy" states, among other things [39, p. 53]:

1) the country's producers have the right to demand protection from dumping in their domestic market from the government;

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<sup>15</sup> The UK, France, Italy, Japan, and Russia.

<sup>16</sup> He headed the Committee from its inception until 1918.

2) those industries identified as "key" ones should be protected and kept out of danger at all costs: supported by loans, subsidies, tariffs, government contracts, or, as a last resort, by launching state-owned production;

3) other industries should be supported by duties or state aid for reasons of national security, as it is undesirable to allow any industry that is really important for economic strength and welfare to be weakened by foreign competition or to be largely under foreign domination or control in one way or another.

The recommendations were endorsed by the government, became a guideline for the UK's new economic course for many decades, and gave rise to a number of reforms.

### ***Introduction of protectionist policy mechanisms***

As noted by members of the British Parliament, when it was discovered at the beginning of the war that a number of industries were unable to provide the necessary supplies to fulfill the main tasks of the war and sustain the life of the country, the state introduced assistance provided in various ways - through grants or loans, public investment, relative priority for materials and transportation, and other means [40]. In November 1918, the government presented a White Paper to the Parliament containing a Memorandum of the Chamber of Commerce on a scheme of state aid to one of the most important and vulnerable industries, the dye industry [41] (hereinafter - the Memorandum). Its purpose was to define the principles of state policy to promote the development of chemical production on a scale sufficient to meet British needs and to carry out significant export trade. The industry was to become strong and stable, and the cost of its products was to be reduced to a level that would make it commercially competitive with the powerful German industry. The Memorandum set out clear principles on which two types of financial assistance were to be provided: loans and targeted *grants-in-aid* (the latter were to cover business expenses for construction and equipment purchases, as well as research); and set a compensation limit of no more than 40% of the value of the plant and buildings.

One of the largest projects was the creation of British Dyes, Ltd. by a decision of Parliament. The British government became its largest shareholder [34, p. 22]. As stated in the materials of the parliamentary debate, "The House of Representatives was authorized to invest in this particular company £1,700,000 as loans against debt, and this was in accordance with the policy which the House adopted in relation to the dye industry generally; and therefore, in addition to this money, ... The House of Representatives authorized another loan of £2,000,000 for the whole dye industry, any firm in the country engaged in that industry could come and ask for a subsidy from that appropriation" [42]. Projects were selected and funded through the established Committee for Scientific and Industrial Research.

British industrialists, who set up new production facilities with government



assistance, insisted: "Some form of protection is vital for our chemical industry, because without it, everything will be quickly and completely destroyed by competition from abroad. Providing grants is only the beginning of the work" [34, p. 33]<sup>17</sup>.

Taking this position into account, Prime Minister David Lloyd George spoke in Parliament on August 18, 1919, pointing out the role of unstable key industries, one of the best illustrations of which was synthetic dyes, which made up a small percentage of the country's total industry, but whose importance was absolutely incomparable to their quantity. D. Lloyd George proposed, that the Board of Trade should have power to prohibit the importation of these goods except under license, and to prevent excessive importation under license, to levy an additional duty. It may even be necessary for some time to continue the aid given to these industries, but care should be taken that no undue profits are made at the expense of the public [43, p. 2013].

Similar postwar priorities and ways to realize them were defined in the economic policy of the United States: Through protectionist tariffs, bonuses, tax exemptions, or otherwise, every effort should be made to develop the production of such strategic metals as manganese, chromium, and tungsten; dyes and coal tar chemicals; nitrogen and its substitutes; and other critical industrial raw materials that are usually imported but that can be produced in large quantities in the United States [44, p. 301]. As noted by American experts, assessing the policy of competitors aimed at reducing external dependence, the British realized the need to create a strong organic synthetic chemical industry as well as the United States [44, p. 302].

*Dyes (Import Regulation) Act, 1920*

The British government's position was supported by politicians [45]. On December 23, 1920, the Parliament passed the Dyes (**Import Regulation**) Act, 1920 in the national interest [46, p. 132] (hereinafter - the 1920 Act). The 1920 Act established that for the purpose of protecting the dye industry<sup>18</sup>, the importation into the United Kingdom of all synthetic organic dyes and paints, and all organic intermediates used in the manufacture of such dyes and paints, is prohibited except under a license issued by the Board of Trade on the recommendation of the Dyes Licensing Advisory

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<sup>17</sup> It was noted that a certain form of protection should be provided for at least ten years until the country organizes full-cycle production (production of a wide range of chemical intermediates), corrects shortcomings in the field of human resources (creates conditions for training personnel for industry), and develops and launches mass production of new chemicals. British industrialists warned policy makers that competitors would use various maneuvers to combat new developments in the UK, including setting high prices for intermediate products, offering low prices for finished products under long-term contracts, systematic dumping, etc. Therefore, it is necessary to ban the import of German chemical products for a certain period (after the declaration of peace) [28, p. 57].

<sup>18</sup> These were synthetic organic dyes derived from coal tar or carbon compounds, created in a factory or laboratory, rather than produced by extraction like natural dyes.

Committee. Section 5 provided that the law would remain in force for 10 years and no longer. According to the drafters of the document, this period should be enough for the industry to become stronger and then withstand international competition without any assistance. Regarding this decision, the US Department of Commerce's Trade Information Bulletin stated: "**With respect to the dye industry, England radically departed from its traditional free trade policy.** Awareness of the importance of this industry to the national welfare and defense, as well as the realization of the impossibility of competing with foreigners, especially Germany, led to the adoption of the Dye Import Regulation Act in 1920" [47, p. 3].

Despite the limiting period of "10 years and not more" established by the 1920 Act, on March 28, 1934, the licensing of dye imports was extended for another 10 years by the **Dyes (Regulation of Imports) Act, 1934**, which aimed to "amend and give permanent effect to the Dyes (Regulation of Imports) Act, 1920" [48]. The parliamentarians argued: "In 1920, import restriction or prohibition was an exception in a world of free trade. Since then, conditions changed greatly and there is no longer any reason to hesitate to impose a restriction if the case for its imposition is proven. It is no longer an exception, and if the benefits of a particular industry can be judged, it should not be denied benefits that other industries can benefit from" [49, p. 997].

*Law on the Protection of Industries, 1921*

Since the licensing was limited to the production of dyes, companies that mastered the production of other chemical products drew the attention of the government to threats to their further development: "Since 1914, for several years, we expanded our research and production facilities at the urging of the state to solve those crucial problems without which victory in the war could not be achieved. ... The work was carried out in wartime, and the main goal was speed, not economy. When peace came, the producers of fine chemicals were not ready to compete with continental companies" [28, p. 59].

As scholars noted, "the war led to the realization of Britain's dependence on foreign countries for the supply of various essential goods", which prompted the government to "develop domestic production of 'key' industries with the protection of a protectionist tariff" [46, p. 2]. In February 1921, a draft called the *Key Industries Bill* was presented to the British Parliament (the first draft of this bill, marked "Confidential," is available on the website of the National Archives of Great Britain) [50], but after the debate, the name was changed to the **Safeguarding of Industries Act, 1921**, which was passed in August 1921 [46, p. 15] (hereinafter - the 1921 Act). As stated in the law, its purpose is "to impose duties on certain goods to protect certain industries and to preserve employment in the industries of the United Kingdom from the effects of depreciation of foreign currencies and the sale of imported goods at prices below the cost of production". In particular, Part I, "Protection of Key

Industries," regulated the import of goods whose production in the country is vital for both the defense industries and industry in general. The 1921 Law defined 13 categories of key industries<sup>19</sup> and stated that "duties equal to one-third of the value of the goods shall be levied and paid upon their importation".

Part II, the Prevention of Dumping, prohibited the sale of foreign manufactured goods in the UK at a price lower than the wholesale price in the country of origin.

The 1921 law stipulated that Part I was to be valid for five years. According to the drafters, this would be enough time for the industry to strengthen its position, survive and thrive in free competition at the end of this period.

British experts, assessing the changes in import regulation after the war, noted that the **country's return to protectionism began with the 1921 Industrial Protection Act, which "was undoubtedly and openly protectionist in nature" because the established duties were intended to "protect and develop certain so-called key industries"** [51, p. 513]. By introducing the tariff, the British economy taxed foreigners in its favor [52].

Before the expiration of the five-year term, the Parliament considered an extension of the 1921 Law. W. Runciman proposed to replace the words "Safeguarding of Industries" in the title with "Protective Tariff" in order to "give the bill its true name", since its essence was "nothing more than a protective tariff" [53]. However, Parliament passed it as the **Protection of Industries (Customs Duties) Act, 1925** (hereinafter referred to as the 1925 Act). According to the 1925 Act, all goods of key industries defined under the 1921 Act were extended for another 10 years at the current rate of 33.3%; and it was established that from May 1, 1926 to August 19, 1936 33.3% *ad valorem* duties would be applied to the following: components of scientific instruments; amorphous carbon electrodes; molybdenum, ferromolybdenum and molybdenum compounds; and vanadium, ferrovanadium and vanadium compounds (not including ores or minerals of molybdenum or vanadium). The duty on components of optical instruments, including optical glass, was increased to 50% *ad valorem*. The Law on Finance of 1926 enacted this provision of the law [46, p. 15].

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<sup>19</sup> Optical glass and optical elements; chemical beakers, flasks, measuring cylinders, thermometers, tubes and other scientific glassware; evaporation cups, crucibles, etc.; microscopes, binoculars, theodolites, sextants, spectroscopes and other optical instruments; galvanometers, pyrometers, electrosopes, barometers, analytical and other precision balances; cordless valves and similar rectifiers, and vacuum lamps; gauges and precision measuring instruments used in machine shops; ignition magnets and permanent magnets; carbon arc lamps; metal tungsten, ferro-tungsten and products of metal tungsten; needles for hosiery; compounds (not including ores and minerals) of thorium, cerium and other rare earth metals; all synthetic organic chemicals (except for synthetic organic dyes, paints, coloring substances imported for production), analytical reagents, all other fine chemicals and chemicals produced in the process of fermentation.

The 1925 Act was due to expire in August 1936, but in March of that year, a committee authorized by the Board of Trade, having considered the advisability of extending the duties and expanding Part I of the basic 1921 Act, submitted a report stating the importance of duties for the development of key industries from the standpoint of defense and security of the empire; and that these industries expanded their research and production capacity due to protection. The committee recommended that the government extend the duties on key industries for another 10 years at rates not lower than those in effect at the time (in other words, 33.3%). These recommendations were accepted, and the basic 1921 law was extended for another 10 years by the Finance Act of 1936 [46, p. 28].

*The Law on Import Duties of 1932*

The global economic crisis, which was triggered by the stock market crash in the United States in October 1929, led to an economic depression in the United Kingdom. **"Thus during the period between the General Election of 1931 and the end of 1932 a complete transformation had taken place, as a result of which the United Kingdom had become a fully protectionist country"** [46, p. 6], with the adoption of the Import Duties Act in February 1932. The **Import Duties Act, 1932** (hereinafter - the 1932 Act) "for the purpose of restricting in the national interest the importation of goods into the United Kingdom to provide a remedy in cases where a foreign country discriminates in the matter of importation against goods produced or manufactured in the United Kingdom". The 1932 Act established a 10% tariff on all goods except those specifically exempted (products of the empire countries and most other food and raw materials). F. Benham notes that the duty was increased as early as "April 26 to 38% on pig iron, semi-finished products, beams, sheets, and similar articles, and to 20% on the entire range of finished iron and steel products, from rails and pipes to cutlery and screws" [21, p. 181]. Although it was claimed that these duties were temporary and were introduced for only three months, in fact, the duties were extended for at least two years<sup>20</sup>.

*Law on Import Duties, 1958*

In the context of changes in the system of global economic regulation after the conclusion of the General Agreement on Tariffs and Trade (GATT 1947), members of Parliament, discussing the prospects for restoring the UK's leading position in the world market, drew attention to the role that import duty legislation played in the past in ensuring stabilization and improving the balance of payments. Mr. Boothby noted: "There is now a growing realization in the United States, and certainly in Washington,

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<sup>20</sup> One important but short-lived change occurred in 1935, when tariffs on iron and steel were raised to 50% to force the European cartel to agree on a quota for imports to the UK. The success of the negotiations allowed them to return to their original level within a few months.

that this whole non-discrimination thing doesn't work anymore; and that the GATT, which, by the way, they themselves showed no real enthusiasm for, is now creating rules for a game that is no longer being played I say that the era of *laissez-faire* and multilateralism is over" [54]. G. Williams expressed the following position: "The General Agreement on Tariffs and Trade is in the worst way possible for us rightnow, and I am convinced that this view is shared by both sides of the House of Representatives" [54]. At the same time, the inevitability of the abolition of protective tariffs in connection with the country's future accession to the free trade area prompted British industrialists to prepare a review of prospects in 1957, with special attention to industries that had significant protective duties at that time, such as the chemical industry: The overall level of ad valorem duties in force in the UK on chemical products ranged from 17.4% to 33.3%, with the ad valorem duties for key industries under the 1921 Act varying from 10% to 50%, but averaging 33.3% [55].

In a parliamentary debate in February 1958 on a bill that would have extended import duties, Lord Mancroft said: "It is over twenty-five years since our general protective tariff was established. ... Though some of the present duties go back to the First World War, the general framework of our protective tariff was laid down in 1932. This country, as your Lordships will remember, was then in the throes of an acute economic depression with a tragically high rate of unemployment. The Government of the day decided that a general protective tariff was necessary, primarily to assist the transfer to this country of work which was being carried out abroad. ... We no longer need to express our tariff legislation in the restrictive terms which were appropriate when the creation of jobs at home had to be a major object of tariff policy" [56]. Lord Mancroft expressed the opinion that in such circumstances it would be wrong and anachronistic to retain in the 1932 Act such words as would in practice require the creation of jobs in certain industries or industry as a whole as an end in itself. But, in his view, "this, of course, does not mean that employment considerations will be ignored, or even discounted, in the process of framing tariffs. On the contrary, Clause 1 of the Bill empowers protective duties to be imposed "in the national interest", and **it is clearly in the national interest to maintain full employment in the economy as a whole**" [56]. The enacted **Import Duties Act, 1958** (hereinafter referred to as the 1958 Act) contained a section on "New Powers to Impose Safeguard Duties" that read as follows: "(1) The Import Duties Act 1932 shall cease to have effect, but for the purpose of providing for the protection of goods manufactured in the United Kingdom, the Treasury may, on the recommendation of the Board of Trade, if it thinks fit in the national interest, by order prescribe that such duty shall be levied on goods of any kind under this section as may be specified in the order" [57].

As a result of the UK's signing of the European Free Trade Association Treaty, in 1960, Parliament passed the European Free Trade Association Act, which repealed the

1920 Act and its prolongation, the 1934 Act, resulting in the termination of the regulation of dye imports through the licensing mechanism [58, p. 303]. According to the Import Duties Abolition (Consolidation) Order 1962 [59], the 1921 Act and its prolongation, the 1936 Act, which established import duties on goods of key industries, ceased to be effective on January 1, 1964. Certain provisions of the 1958 Act, which essentially prolonged the import duties established by the 1932 Act, ceased to be effective only on January 1, 1974 [60].

### ***Results of protectionist policies***

Following the results of the first 10 years of implementation of protectionist policy mechanisms for key industries, including chemicals, the Parliamentary Secretary to the Board of Trade, Dr. Burgin, stated in 1933: "I am not going to pretend that the whole of the improvement is due to the passage of the Dyestuffs Regulation Act, 1920, but I am going to show the facts and the figures, and leave the House to draw their own deduction as to whether the improvement flows from the policy, or whether it flows from the importance of the events concerned. In 1913, the output of synthetic dyestuffs in this country was a little over 9,000,000 lbs.; in 1922, it had risen to over 23,000,000 lbs.; in 1929, due perhaps to the protection afforded by the Act, it was about 58,000,000 lbs. ... Not only has that expansion of the weight of synthetic dyestuffs been so surprising, but in 1913 only 22 per cent. of our consumption of synthetics was made in this country; in 1922, the percentage had risen to 79, and from 1928 onwards the percentage had increased until it is now in the neighborhood of 91 per cent. ... We find, exactly as we should expect, that the imports of synthetic dyestuffs have fallen from 41,000,000 lbs. in 1913 to a little over 4,000,000 lbs. in 1932. ... In 1913, practically no intermediaries were made in this country at all. In 1932, we imported only 1 per cent. of our total output of dyestuffs" [49, p. 993]. The increase in production led to a decrease in dye prices; strengthening the scientific and technical base contributed to the development of research and development of a number of new dyes, including for dyeing the innovative artificial silk of the time; and expanding the range of enterprises in the industry prompted the development of chemical engineering, which was practically non-existent in Britain before the war.

In the early months of World War II, the results of the British Parliament and government's efforts to promote and protect British manufacturers became apparent. The article "Key Industries Policy Vindicated" published in September 1939 summarized: "At the time this first experiment in protecting home industries was made there were some who doubted whether it would be successful. The first few years did not bring much in the way of tangible result, but gradually the home industry began to develop and the range and quality of the products was continually on the increase. Many of the chemical products, formerly either entirely or largely imported, were now being manufactured here. The home manufacturers became strong enough

not only to command the home market but to compete successfully in overseas markets on quality as well as price with German manufacturers. ... To-day, the industry is in a position to provide a constant output of a splendid range of fine chemicals of unsurpassed quality which falls short in no respects from making the country nationally and industrially self-reliant. **The policy of safeguarding "key" industries has been wholly justified**" [45, p. 286].

J. Mills specified the benefits of the country's new economic policy, in particular, the introduction of protective duties in 1932 in the interests of preserving and developing industries. He noted that the standard of living in Great Britain did not fall, as almost all commentators had confidently predicted, but began to progress rapidly. In 1937, manufacturing output grew by almost 48% compared to 1929. Between 1931 and 1937, the number of workers increased to 21.4 million people, thanks to the creation of 2.7 million new jobs, half of which were in manufacturing. "The British economy grew during the five years between 1932 and 1937 - a cumulative 4.6% per year - faster than any other five-year period in its history, clearly showing how effective radical expansionist policies can be against a hopeless background" [52, p. 87].

N. Kaldor concluded that for 25 years, when Britain defended its industry, the gap with the newly industrialized countries (primarily the United States and Germany) was narrowing [61, p. 113]. In the House of Lords, during a debate on the country's economic policy on February 13, 1980, N. Kaldor said that the Conservative government of that time was not a monetarist; it was not a supporter of "sound money men". It was an expansionist. The five years from 1932 to 1937, marked first by devaluation and then by high levels of protectionism, saw the fastest economic growth in British history, unsurpassed at any time before or since, based entirely on domestic prosperity. Steel production, which fell from 9 million tons to 5 million tons during the depression of 1929, then showed a phenomenal growth to 13.5 million tons in 1937 [62]. N. Kaldor noted that if the government had not taken measures against the steel industry, which in 1931 had almost 50% overcapacity and large losses, the industry would have been neutered from the very beginning; and we would never have been able to rearm and meet Hitler face to face in 1939 [62].

The facts of Great Britain's economic policy studied in this paper show that on the eve of the First World War, the country found itself at a crossroads: on the one hand, the continuation of *laissez-faire* and free trade, which formed the basis of the ruling elite's political course; on the other hand, the introduction of protectionist mechanisms, following the example of Germany, to address growing internal problems, exacerbated by external threats: 1) the industry lagging behind new competitors who were mastering advanced technologies at the time, 2) rising unemployment and social tensions, and 3) a weakening economy. A number of

scholars and politicians pointed out that the country was no longer the most economically powerful in the world; warned of the negative consequences of short-sighted business strategies of British entrepreneurs, investors, and merchants who preferred profits over national interests; and appealed to the need to revise economic policy, pointing to the need to build up its own industrial potential. Ignoring the arguments, the UK continued on the path of *laissez-faire* and free trade and, in a time of great challenge, found itself dependent on supplies of strategic goods whose production was concentrated in an enemy country.

But the horrors of war, the shortage of ammunition, chemicals, medicines, dyes, optical glass, and other important goods, as well as the financial, economic, and social crisis, made the British political elites realize these facts:

- The lack of production capacity for goods important for the economy and security (even if financial resources are available to purchase them) creates preconditions for increasing foreign trade dependence on other countries and leads to the loss of economic sovereignty;

- *Laissez-faire* economic policy and the free market in times of war and economic crises are unable to organize business entities, accumulate limited resources and direct them to implement innovative investment projects to build priority industries based on security rather than commercial considerations; and to promote their establishment and development in the post-war highly competitive environment and aggressive dumping policies of foreign companies receiving assistance from their governments.

Explaining the reasons why Britain finally abandoned free trade, the British stated: "The accentuation of nationalistic sentiment by the war had apparently been insufficient to carry this country the whole of the way towards Protection. But what the Great War failed to do, the economic, financial and political crisis of 1931 brought about" [51, p. 514]. F. Benham, quoting Shakespeare - "*Diseases desperate grown By desperate appliance are relieved, Or not at all*" [21, p. 193], shows that a radical change in economic policy towards protectionism and the introduction of a tariff was a desperate measure of politicians to overcome desperate problems in the economy. The facts presented in this study demonstrate that the **state financial incentives and protectionist tariffs that took place in British economic policy for more than 40 years from the beginning of the twentieth century, allowed the United Kingdom and its allies, without exaggeration, not only to win the First World War, but also, through the development of key industries and reduced dependence on imports of strategic goods, to prepare for a new challenge - the Second World War, and to lay the groundwork for responding to the challenges of the twenty-first century.**



*The past that rhymes the present*

Today, the state of the global economy, in particular the existence of external dependence on a number of important goods produced in one country, intensified competition and militarism, resembles the events of the early twentieth century. Yet, despite the obvious threats and the need for decisive steps to eliminate them, now, as on the eve of the First World War, an "infallible" dogma dominates: "Economists disagree on many things, but the superiority of free trade over defense is not in dispute" [4, p. 11].

F. Benham cited the socio-economic indicators of Britain before the introduction of import duties in 1932: the number of unemployed was growing rapidly and reached 2.9 million people in September 1931 (more than 20%); exports were falling and for three quarters of 1931 was 30% lower than in 1929; the trade balance was becoming increasingly unfavorable; the budget was significantly unbalanced; many important industries, including agriculture, iron and steel production, were of significant concern [21, p. 11].

In 2022, Ukraine faces major (and even greater) socio-economic problems: dependence on imports of a wide range of important goods; limited resource capacity for the production of shells and weapons; rapid growth of the unemployed, who reach 2.9 million people (excluding those who left Ukraine), or 25-26%; falling exports (in January-October 2022, the figure was only two-thirds of pre-war volumes) [63]. Likewise, agriculture, iron and steel production are of significant concern.

But, unlike the **UK, Ukraine never introduced a policy of protecting producers and preserving jobs in the national interest, but rather gradually reduces its already low import duties**. According to the analysis of statistical data presented in World Tariff Profiles<sup>21</sup> [64, 65], Ukraine has lower protective tariffs not only compared to Asian countries that are developing and protecting their own industries, but also compared to the EU (Table 1). In particular, the simple average MFN applied in Ukraine was 4.5% in 2019 and 4.4% in 2021, while, for example, in the EU it was 5.1 and 5.2%, respectively. Ukraine also has the lowest maximum duty on imported goods under the most favored nation (MFN) regime (Maximum duty MFN applied): 73% in 2019 and 50% in 2021, while in the EU it is 261% and 160%, respectively.

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<sup>21</sup> Joint publication of the WTO, the United Nations Conference on Trade and Development and the International Trade Centre.

Table 1

## Data on duties in selected countries

Country	Simple average tariffs for goods under MFN regime		Country	Maximum duties under the MFN regime	
	2019	2021		2019	2021
India	17.6	18.3	Republic of Korea	887	887
Republic of Korea	13.6	13.6	Japan	716	628
Brazil	13.4	13.3	Canada	511	559
Turkey	10.0	10.7	USA	350	350
Indonesia	8.1	8.1	India	150	328
China	7.6	7.5	Turkey	225	225
Mexico	7.1	7.1	EU	261	160
Russia	6.7	6.6	Indonesia	150	150
EU	5.1	5.2	United Kingdom	261	143
<b>Ukraine</b>	<b>4.5</b>	<b>4.4</b>	Russia	115	121
Japan	4.3	4.2	Mexico	75	75
Canada	3.9	4.0	China	65	65
United Kingdom	5.1	3.9	<b>Ukraine</b>	<b>73</b>	<b>50</b>
USA	3.3	3.4	Brazil	35	35

Source: compiled by the author based on [64, 65].

India, which has been a WTO member since 1995, has significantly higher import duties than Ukraine, and in 2021, as part of its new economic policy based on domestic industry, it increased them even more. Indian Prime Minister Narendra Modi announced an acceleration of the plan to develop local production and create jobs after the economic impact of the pandemic led to a surge in unemployment. A decision was made to turn India into a factory for the whole world, taking advantage of the policies of leading countries to move supply chains away from China [5]. On February 1, 2020, Finance Minister Nirmala Sitharaman presented the projected budget for 2020-2021, which provides for a significant increase in tariffs on imports of important goods for India (Table 2) as part of the government's MAKE IN INDIA program, in particular, to create a "level playing field for domestic producers" [66].

*Table 2*
**Certain categories of goods for which the duty in India increases**

№	Product category	Specific positions	The amount of duty	
			from	to
1.	Household goods and appliances	Dinnerware and kitchen utensils made of porcelain or earthenware, ceramic, clay, iron, steel, copper and aluminum, glassware, padlocks, brooms, hand sieves, combs, thermoses, etc.	10%	20%
2.	Electrical appliances	Fans, food choppers/mixers, razors and hair removal devices, water heaters, hair dryers/hand dryers, ovens, stoves, toasters, coffee/tea makers, insect repellents, heaters, irons, etc.	10%	20%
3.	Shoes	a. Footwear b. Parts of the shoe	25% 15%	35% 20%
4.	Furniture products	Seating, bedding, including mattresses, lamps, lighting, light signs and other Furniture	20%	25%
5.	Stationery	Filing cabinets, paper trays, staplers, paper clips, staples, signage, name plates, numbers and symbols, etc. made of non-precious metals	10%	20%
6.	Toys	Tricycles, scooters, scale models, dolls, etc.	20%	60%
7.	Machines	a. Certain goods used in the transmission of high voltage electricity	5%	7.5%
		b. Wagon fans	7.5%	10%
		c. Refrigerator and air conditioner compressors	10%	12.5%
		d. Commercial freezers	7.5%	15%
		e. Welding and plasma cutting machines	7.5%	10%
		f. Rotary cultivators / weeding equipment	2.5%	7.5%
8.	Other miscellaneous items	a. Glass beads b. Artificial flowers c. Bells, gongs, statuettes, etc.; products made of non-precious metals: figurines, jewelry, photographs, frames, mirrors, etc.	10%	20%

Source: compiled by the author based on [66].

At the same time, in order to promote MAKE IN INDIA, the duty under the Phased Manufacturing Program (PMP) for electric vehicles and cellular mobile phones was increased (the maximum tariff for certain items is 40%); and in the electronics sector (the maximum tariff for certain items is 20%).

**In terms of stimulating and protecting its own chemical and chemical-pharmaceutical industry, India, unlike Ukraine, has benefited from the historical experience of the United Kingdom.**

Just like the British government, which through the Committee for Scientific and Industrial Research, encouraged the coordination of technological innovations from different industries to quickly address addiction problems, the Indian government, through the Council for Scientific and Industrial Research, has initiated cooperation between the pharmaceutical industry and the coal and oil industries to develop chemicals that would become the basis for therapeutic components of various drugs [67].

Like the UK government, which identified key industries and launched financial incentives for them, the Indian government launched two mechanisms for pharmaceuticals under the Production Linked Incentive (PLI) scheme: PLI for Key Starting Materials, Drug Intermediates and APIs; and PLI for the development of finished pharmaceuticals. Rs 100 million was allocated to encourage Indian companies to set up facilities for 41 products, including APIs, on which India is currently heavily dependent. These measures were part of a Rs 100 billion manufacturing incentive scheme approved by the Indian Cabinet of Ministers in March 2020 to speed up the production of critical medicines and APIs in India to reduce dependence on China [4].

Just like British chemical producers, who mastered the production of new products with government assistance, appealed to the government for protection against German dumping, so Indian chemical companies asked the government to extend duties on Chinese imports, arguing that despite the established anti-dumping duty<sup>22</sup>, China continues to supply in significant volumes, and therefore the duty should be extended, and the abolition of duties would jeopardize the viability of amoxicillin production and will waste all efforts [67].

Just like 100 years ago, the British government listened to the British industrialists, so now the Indian government, at the request of local manufacturers, imposed anti-dumping duties on certain pharmaceutical substances and key starting materials coming from China. In particular, the anti-dumping duty on certain semi-synthetic antibiotics (including amoxicillin trihydrate with a tariff of USD 1.96 per kg) was extended for five years [67]; a duty was introduced on ofloxacin for a period of five years; and so was a duty on ursodeoxycholic acid (UDCA) imported from China and South Korea [68]<sup>23</sup>.

<sup>22</sup> On May 16, 2017, India imposed an anti-dumping duty on amoxicillin trihydrate for a period of five years.

<sup>23</sup> Prior to the launch of ursodeoxycholic acid production in India in 2018, import prices from both countries were in the range of USD 330-340 per kg, but after the start of production, import prices began to decline and are now at USD 210-220 per kg. Due to cheap imports, the Indian industry was forced to reduce its selling prices and suffered a loss.

No less indicative are the actions of the United States. In response to the financial crisis of 2009, the country's leadership set a new course [69, p. 7-8]: "We need strong support and focus on making our manufacturing sector more competitive and attracting more investment here in the U.S. That's why the President is building on our successful record of trade enforcement by taking new steps to improve our ability to combat unfair trade practices, particularly with China". In response to the increase in tire shipments from China, President Obama ordered protective measures<sup>24</sup> on September 11, 2009, resulting in the loss of more than 1,000 jobs. At the same time, the President for the first time used a legal provision for protection - "Section 421"<sup>25</sup>. The Obama administration also initiated a case against China over trade in rare earth materials, which are key ingredients for the production of many high-tech products.

It is noteworthy that 50 years before these protectionist measures, US President J. Kennedy stated: "Today I am signing H.R. 11970, the Trade Expansion Act of 1962. ... I think, affecting economics since the passage of the Marshall plan. ... This act recognizes, fully and completely, that we cannot protect our economy by stagnating behind tariff walls, but that the best protection possible is a mutual lowering of tariff barriers among friendly nations so that all may benefit from a free flow of goods. Increased economic activity resulting from increased trade will provide more job opportunities for our workers" [70]. At the same time, Section 232 of this law, which is still in force, in accordance with Title 19 of the US Code §1862, gives the President the opportunity to impose restrictions on certain types of imports based on a positive decision of the Department of Commerce that the goods in question are "imported into the United States in such quantities or under such circumstances as to endanger the national security"<sup>26</sup>. At the same time, the concept of "national security" is not formalized in either the 1962 Act or the US Code. Relying on this provision of the

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<sup>24</sup> President Obama announced an increase in tariffs on Chinese tires for three years starting from September 26, 2009. The tariff increase was 35% of ad valorem value in the first year, 30% in the second year and 25% in the third year.

<sup>25</sup> Section 421 of the Trade Act of 1974 (under Title 19 of the U.S. Code §2451), which implements China-specific measures to protect the national economy, was adopted as part of the package of provisions adopted in October 2000. The law regulates various issues arising from China's accession to the WTO and authorizes the President of the United States to impose protective measures, such as import duties or quotas, on Chinese goods if it is found that these imports caused market disruption in the United States. Market disruption occurs under Section 421 if a sharp increase in imports of Chinese products is a serious cause of material injury or threat of material injury to a U.S. industry producing a similar or directly competitive product.

<sup>26</sup> In particular, §1862 of Title 19 of the US Code states:

"d) Domestic production for national defense; effect of foreign competition on the economic welfare of domestic industries.

... In administering this section, the Secretary and the President shall also recognize the close relationship of the economic welfare of the Nation to our national security and take into account the effect of foreign competition on the economic welfare of individual domestic industries; and any substantial unemployment, reduction in government revenues, loss of skills or investment, or other serious consequences resulting from the displacement of any domestic products by excessive imports shall be considered, without prejudice to other factors, in determining whether such a weakening of our domestic economy is likely to be detrimental to the national security" [71].

law, President Trump imposed a 25% duty on imports of steel products and a 10% duty on imports of aluminum products in the interests of national security. Analyzing this decision, the WTO experts stated in their reports that such tariffs and quotas on steel and aluminum imports, established by the United States under Section 232 of the Trade Expansion Act of 1962, do not fall within the security exceptions set forth in Article XXI of the General Agreement on Tariffs and Trade 1994. However, in a statement dated January 27, 2023, before the WTO Dispute Settlement Body meeting, the United States noted that it "will not cede decision-making over its essential security to WTO panels" [72]. ...The United States also stated its intention to address this fundamental issue outside of dispute settlement procedures, in particular to raise it in the framework of "discussions on reform of the WTO dispute settlement system" and "seek an authoritative interpretation of Article XXI of the GATT 1994". "We believe Members need to clarify and adopt a shared understanding of the essential security exception," the US said.

### **Conclusions**

Taking into account the above and relying on the historical experience of the UK government and Parliament in the face of severe challenges and its current reflection in the economic policies of countries that intend to maintain and build industrial capacity to reduce threats to their nations, the author formulates the following answers to the five questions posed at the beginning of the article.

1. Such "ways of the past" as stimulating and protecting key industries have reduced external threats and created an industrial foundation capable of withstanding new challenges.

2. The introduction of protectionist tariffs can contribute to the development of national production, employment growth, investment, and innovation.

3. It is too early to "send protectionism to the history books"; it is advisable to consider them in political economy departments as measures that can balance the economy and reduce social tensions in the face of severe challenges (wars, epidemics, crises).

4. In determining ways to ensure economic stability, the social consensus between business, academics, and politicians should be the "guiding actor", pursuing the national interests rather than following the dogma.

5. The tools for overcoming the socio-economic crisis in the post-war recovery of Ukraine in the context of total dependence on foreign advanced technologies and high-tech goods should include incentives, preferences and protection of key industries, which will be implemented within the framework of the state's targeted policy of accelerated industrial modernization<sup>27</sup>.

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<sup>27</sup> The author describes in detail the role and functions of the state in restoring economic stability in the face of severe challenges in [34].

Sun Tzu's famous statement from The Art of War - "rely not on the likelihood of the enemy's not coming, but on our own readiness to receive him; not on the chance of his not attacking, but rather on the fact that we have made our position unassailable" - takes on a new meaning in the context of global economic and military threats. Today, according to the **author, the EU, the US, India and other countries are developing the "art of peace" by promoting the development of key industries based on national innovative achievements in order to reduce dependence and vulnerability of the economy.**

In connection with the ongoing full-scale armed aggression of the Russian Federation against Ukraine, martial law was declared in the country based on a proposal by the National Security and Defense Council of Ukraine. Article 472 "Measures Related to Essential Security Interests" of the EU-Ukraine Association Agreement and Article XXI GATT "Security Exceptions" provide for the possibility of taking measures necessary to ensure own security. **When formulating a strategy of economic independence, Ukraine should take into account both the historical experience of Britain and modern practices of implementing policy mechanisms to stimulate and protect industries for defense and security purposes**<sup>28</sup>.

P.S. "Whoever is not yet convinced that by means of diligence, skill, and economy, every branch of industry must become profitable in time—that in any nation already advanced in agriculture and civilisation, by means of moderate protection, its infant manufactures, however defective and dear their productions at first may be, can by practice, experience, and internal competition readily attain ability to equal in every respect the older productions of their foreign competitors; ... let him first study the history of English industry before he ventures to frame theoretical systems, or to give counsel to practical statesmen to whose hands is given the power of promoting the weal or the woe of nations." [16, p. 39].

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### **Dependences and ways to eliminate them...**

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### **ЗАЛЕЖНОСТІ ТА ШЛЯХИ ЇХ УСУНЕННЯ: МИНУЛЕ, ЯКЕ ПЕРЕГУКУЄТЬСЯ ІЗ СУЧАСНІСТЮ**

*Повномасштабне вторгнення російських військ в Україну, з одного боку, викликало високу згуртованість і патріотизм українського суспільства та сприйняття ним незалежності як вищої цінності; з іншого – показало неспроможність зберегти її з допомогою ресурсів національного господарства, а відтак – високу зовнішню залежність від рішень світових лідерів про надання допомоги та використання промислового базису Заходу для забезпечення оборони та безпеки України. Актуалізоване С. Маріотті питання "глобального протекціонізму" потребує розгляду крізь призму контекстуальних економічних умов реалізації такої політики (війни, повоєнне відновлення, кризи). Мета статті – дослідити, спираючись на досвід піонера промислової революції та адепта вільного ринку – Великої Британії, історичні факти щодо реакції еліт на нові виклики та загрози початку ХХ ст., заходів політики стимулювання та захисту національних виробників та їх наслідків, унаочнити сучасні приклади протекціонізму, а також зробити висновки для України.*

*Історичні паралелі між ситуацією початку ХХ ст. та подіями останніх років дають підґрунтя для припущення, що відповідь на запитання "Як прискорити відновлення економіки України у період суворого випробування війною?" слід шукати не в сучасних заходах політики розвинених країн (де багаторічними спільними зусиллями влади та бізнесу сформовано потужний промисловий потенціал і діяльність урядів спрямована на управління кризами для збереження та зміцнення цього потенціалу), а, переважно, у ретроспективних механізмах, що забезпечили нарощування наявних та створення нових індустрій для посилення ефективності економіки та національної безпеки.*

*Показано, що державні фінансові стимули та протекціоністські тарифи, запроваджені у Великій Британії в*

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національних інтересах у відповідь на нові виклики та загрози, діяли понад 40 років, що допомогло країні розбудувати ключові індустрії, зменшити залежність від імпорту стратегічних товарів, підготуватися до нових випробувань.

Обґрунтовано, що стимулюючі та захисні механізми політики Індії, запуснені нині для зменшення залежності від поставок стратегічних товарів з Китаю, є віддзеркаленням заходів, що реалізовувала Британія на початку XX ст. для зменшення залежності від поставок важливих товарів з Німеччини. Аналогічні механізми запроваджують і Сполучені Штати, керуючись інтересами національної безпеки.

Продемонстровано, що захисні тарифи в Україні нижчі не лише порівняно з азійськими країнами, що розбудовують та захищають власну індустрію, а й порівняно з ЄС. Обґрунтовано, що, формуючи стратегію економічної незалежності та повоєнного відновлення, України корисно звернути увагу як на історичний досвід Британії, так і на сучасні практики запровадження механізмів політики стимулювання та захисту індустрій у цілях оборони та безпеки.

**Ключові слова:** війна, зовнішня залежність, індустрія, економічна політика, вільна торгівля, протекціонізм, субсидії, ліцензування, мита