CANADIAN TRADE POLICY, 1945-1953

by

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ABSTRACT

In investigating the integration of the Canadian and American economies after World War II, most writers have focussed on the influence of the American multinational corporations and on the activities of the American government. Little attention has been paid to the important role of the Canadian government in furthering this process and to the significance of trade and trade policy.

This thesis examines the evolution of Canadian trade policy between 1945 and 1953. The main sources for this study are the private papers of government ministers and the files of Canadian government departments. Since there have been no major studies of the development of trade policy in this period, a chronological structure has been employed for the analysis.

Post-war Canadian trade policy can be divided into two periods. During the first period, 1945 to 1947, the government attempted to re-establish the pre-war pattern of multilateral trade. The means employed to attain this goal --the introduction of a free market system in international trade--represented a significant departure from traditional Canadian trade policy. The traditional policy is outlined in chapter one, and in chapter two the economic, political, and ideological factors underlying the new policy are examined.
However, the foreign exchange crisis of 1947, examined in chapter three, produced a rapid retreat from the policy of multilateralism based on free-market trading. The government, seeking a solid base for Canadian trade to promote economic development, turned to a system of bilateral, regulated trade with the United States. Continental economic integration became a key element of trade policy. The development of this policy and the crucial ties between trade policy and defence are explored in the final chapter.
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The economic dependence of Canada on the United States has generated considerable interest and controversy within Canada in recent years. To a certain extent, this is a result of the growing awareness that the economic relations between the two countries have strongly influenced the evolution of institutions and ideas in all other areas of Canadian life—political, social, and cultural. It is impossible to understand the development of Canadian society in the period after World War II without some consideration of the context established by continental economic relations.

A great deal of the scholarly work on Canadian-American economic relations in the post-war period has focussed on the process of economic integration. From this perspective, Canadian dependence is considered to be a result of the small size of the Canadian economy relative to the American, so that integration becomes synonymous with absorption. Economic integration is commonly defined as the process of forming within more than one region a single market in factors of production (such as labour, capital, entrepreneurship, technology) and in commodities.  

However, in examining the cause of integration, recent studies have focussed mainly on one part of the process—the development of common factor markets. This is a result of current preoccupation with the nature and role of
multi-national corporations. American corporations are presented as the main agent of continental integration: by means of direct investment in Canadian branch plants, the mobility within North America of capital, technology, entrepreneurship, and even skilled labour is increased. In the words of Hugh Aitken, "the relatively unrestricted mobility of capital between Canada and the United States has done more to integrate the economies of the two countries than any other single factor except geography."\(^2\) The implication of such studies is that Canadian economic dependence is the result either of an unplanned spillover of capital from the U.S. or of a co-ordinated imperialistic programme of American business and government. In either case, integration is seen as the consequence of forces and initiatives originating largely outside of Canadian society. The role of the Canadian government is to provide encouragement, but otherwise is seen as passive and peripheral.\(^3\)

While there can be no doubt concerning the very significant role of American investment in melding the two economies, this picture must be complemented by studies of trade and trade policy. By the end of the 1960's, almost three-quarters of Canada's trade was with the United States. However, there have been no major historical studies of the development of Canadian trade policy in the period after World War II.
Works on Canadian foreign policy have touched briefly on the subject of trade. The traditional interpretations of foreign policy in this period were based largely on the public statements of the government. Thus, the basic elements of the interpretation are contained in Louis St. Laurent's 1947 speech "The Foundations of Canadian Policy in World Affairs," delivered while he was Secretary of State for External Affairs. St. Laurent portrayed Canadian policy as founded on a mature acceptance of responsibility in international affairs, and on co-operation with the United States and Britain in the building of a peaceful world through the establishment of strong international organizations. This view formed the basis for subsequent historical writing.

Similarly, the interpretations of trade policy contained in these studies rested on the statements of St. Laurent and other officials in External Affairs. According to this view, the Canadian government worked actively towards the reconstruction of a more stable and prosperous world trading system that would benefit all nations. To achieve this, Canada contributed massive funds to assist in European recovery and participated in the creation of co-operative, international agencies designed to foster free, multilateral world trade. Despite the setbacks due to financial crises and the recalcitrancy of Russia, Canadian policy remained consistent throughout the period.
The work of revisionist historians in the United States has cast doubt not only on the traditional interpretations in American historiography, but also on the traditional interpretations of Canadian foreign and trade policies. The American revisionists have built up a strong case arguing that the role of the U.S. after World War II in the development of international political organizations and in the re-establishment of a multilateral trading system must be understood as a type of free-trade imperialism—the imperialism of the "open door." They place primary responsibility for the Cold War on the United States, claiming that the Cold War is in turn part of a policy of establishing an economic empire.7

A number of Canadian writers have re-interpreted post-war Canadian policy in the context of American pressure to draw Canada into the American empire. In a study of Canadian-American defence relations, J. W. Warnock concludes that the defence ties greatly accelerated the economic integration of North America. Stephen Scheinberg concludes that Canadian-American trade relations must be understood as part of a conscious design on the part of American government and business to create a continental economy in North America under the domination of the U.S. However, because of the emphasis of revisionist historiography on the aggressive character of American imperialism, these and other Canadian
scholars applying the revisionist thesis have been primarily concerned with establishing the facts of American pressure on Canada. They have been less concerned with investigating in any depth the reasons which prompted the Canadian government to accept this domination, and the actual links between trade and defence or foreign policy have not been adequately investigated.

The Canadian government did play a very significant role in the process of continental integration, and the development of Canadian trade policy is crucial to an understanding of the growth of ties between the economies. Therefore, in this essay I have examined the evolution of Canadian trade policy in the decade between 1945 and 1954. The main source for this study is the personal papers of members of the federal government during this period and the files of government departments, particularly the Department of Trade and Commerce. These years represent a turning point in Canadian-American economic relations: by the early 1950's, the vast majority of Canadian trade was directed to the U.S. and continental integration had become a major goal of government policy.

The basic contention of this essay is that post-war trade policy must be divided into two distinct periods. Between 1945 and 1947 the primary aim of the government was to re-establish Canada's traditional multilateral trading
pattern through the revival of Europe. However, the Canadian foreign exchange crisis of 1947 marked the end of this policy period and induced a fundamental re-orientation in trade policy. Thereafter, the government's primary objective was the establishment of a solid base for Canadian trade through dependence on bilateral trade with the U.S. and the greater integration of the Canadian and American economies. In explaining this shift, I have pursued two closely inter-related themes. First, there is the change from a trading system based on free market principles to one based on bilateral regulation and planning. The second theme is the growing relationship between economic and defence policies.

The lack of scholarly work in a number of areas of recent Canadian history meant that some of the influences on government policy could not be explored as fully as was desirable. This is particularly true in the case of the influence of the ideology of Canadian liberalism and of business-government relations. However, I have indicated as much as possible the direction which future studies in these areas would take.
Chapter I

CANADIAN TRADE AND COMMERCIAL POLICY: THE TRADITIONAL PATTERN AND THE IMPACT OF WORLD WAR II

The classical economic theory of international trade explains the benefits nations derive from trade in terms of international specialization. According to this theory, in producing goods for trade, nations specialize in those goods which utilize the factors of production they have in relative abundance. The efficiency of production resulting from this international division of labour increases total world output, and the extra output can be distributed to and can benefit all the trading countries.

Many economists and historians have considered Canadian economic development to be a prime example of the benefits of such specialization. Canada has traditionally enjoyed a considerable comparative advantage in the natural-resource-based industries which, because of their crucial role in Canadian economic development, have been called "staple" industries. These staple products were agricultural or resource products which required little processing and for which there was strong international demand. According to the staple thesis, large foreign markets for these staples provided the basis for mass production and the economies of scale to reduce costs per unit to competitive world levels.
As a result of its external trade, Canada experienced a greater economic growth than the size of its population might otherwise have allowed. By selling a limited range of staple goods produced cheaply and in large volume, Canada financed the import of capital for development and of a wide range of producer and consumer goods which helped to build the domestic economy. The development of the export industries stimulated the development of other sectors of the economy, both indirectly through the effect of export booms on income and on capital formation, and directly through linkages to other sectors of the economy serving the staple industries or using the staple products.

While considerable controversy has been generated over particular aspects of the staple thesis, its fundamental contention that Canada's export industries have played a crucial role in the economic development of the country cannot be disputed. The contribution of the export industries --fish, fur, and timber in the early years, as well as wheat, newsprint, and minerals in the twentieth century--to the growth of aggregate national income, capital formation, the development of national transportation systems, and the growth of associated domestic industries, has been well documented.

This process of economic development was to a large extent the result of the conscious policy of successive
Canadian governments. The governments were well aware that Canadian prosperity and economic growth depended on the export industries, and their economic policies were based on this premise. According to one economic historian,

The role of the state in Canadian development has been that of facilitating the production and export of these staple products. This has involved two major functions: planning and to some extent financing the improvement of the internal transport system; and maintaining pressure on other governments to secure more favourable terms for the marketing of Canadian exports.10

Canadian commercial policy, until the end of World War II, continually focussed on obtaining a secure and privileged position in either or both of the two major markets for Canadian export products—Britain and the United States. Two goals, preferential access to the British market and reciprocity with the United States, provide, along with protection of domestic manufacturing, the basic themes of Canadian tariff history.

Under the British mercantilist system, the products of the British North American colonies enjoyed a protected position in British markets. This system provided the basis for the prosperity of such trades as timber and grain, and Canadian merchants had a strong vested interest in the maintenance of this tariff structure. However, by the 1840's, the free trade movement, advocating the abolition of protection and the introduction of free market principles in international trade, had triumphed in Britain. The repeal of the
Corn Laws in 1846 signalled the end of the privileged colonial trading bloc.11

Britain's unilateral declaration of free trade was a direct threat to colonial prosperity. Unable to withstand the competition of European producers in the open market, Canadian producers and merchants looked to the United States. In 1854, a Reciprocity Treaty was concluded which, by means of reciprocal reductions in customs duties, admitted many primary products duty-free into the American market. American duties on the exports of other nations, including the United Kingdom, again guaranteed Canadian products a privileged position.12

The abrogation of this Treaty by the United States in 1866 provided part of the impetus for Confederation of the British North American colonies and for the attempt to develop a broader national economy. Yet the means for developing a transcontinental economy was still specialization in export industries. The National Policy, introduced by the Macdonald government in 1879 and pursued by subsequent administrations, was a co-ordinated programme of economic development based on Prairie wheat as a staple export. Federal policies encouraged the settlement of the Prairies and the production of wheat for sale in international markets, the building of railways, and the development of eastern manufacturing to serve the western market. High tariffs on
secondary industry were erected to protect domestic manufacturers from foreign competition. The tariffs also encouraged American manufacturing firms to set up branch plants in Canada to avoid the tariff, a result that was welcomed by supporters of the National Policy as hastening the process of economic growth within Canada.13

The complement to these policies of internal development was the attempt to secure more favourable terms in British and American markets, which, in the period before World War I, still absorbed 90 per cent of Canadian exports.14 In 1897, Laurier introduced unilateral tariff concessions on British goods, hoping to win reciprocal concessions. Despite the lack of response from Britain, a number of other parts of the Empire gradually followed suit. Such Imperial preferences received strong support from Canadian manufacturers who obtained greater sales for their products in Empire markets.15

The United States continued its policy of high tariff protection throughout most of the period after Confederation. Repeated attempts by Canadian governments to secure renewal of a reciprocity treaty with the U.S. finally resulted in an agreement with the American government in 1911. Despite support from farmers and from producers in the new resource industries such as pulp and paper and minerals, the agreement died with the defeat of Laurier in the election of 1911.
Much of the opposition came from manufacturers who feared further tariff reductions and competition from U.S. industries. During the 1920's, American tariffs were raised, until by 1930 the Hawley-Smoot Tariff had raised duties to the highest level since the Civil War, effectively shutting many Canadian primary products out of the American market.  

However, the decline of world trade during the Depression of the 1930's provided the opportunity for the realization of both major goals of Canadian commercial policy. At the Imperial Economic Conference in 1932, the system of Imperial preferences was fully institutionalized. Britain agreed to a comprehensive preferential treaty with Canada which gave significant benefits to a large number of Canadian exports, particularly timber and minerals. The margins between the preferential tariffs and the rates applied to non-Empire countries were permanently fixed to guarantee maintenance of preferential treatment despite future changes in tariff rates. Then, in 1935 the newly-elected Liberal government of Mackenzie King took advantage of the United States Reciprocal Trade Agreements Act of 1934 to conclude tariff reductions on a number of specific products. Although under this Act, trade relations were placed on a most-favoured-nation basis, Canada obtained official exemption in the case of British Empire preferences. In 1938, triangular negotiations were held between Canada, the United States, and
Great Britain, and a large number of tariff reductions were secured to the mutual satisfaction of the three participants. Thus, by the late 1930's, Canada had an advantageous balance in its trade relations with the two chief markets for Canadian exports. Canadian products now had significant tariff preferences in both markets: the system of Imperial preferences remained intact, and Canadian primary products had freer access to the United States. At the same time, Canada's domestic secondary manufacturing industries still enjoyed a large degree of protection.

The actual pattern of commodity trade underlying this commercial policy remained basically triangular. Before World War I, Britain was the larger of the two markets, absorbing over 50 per cent of Canadian exports, while the U.S. consumed approximately 40 per cent. Until the 1880's, Britain also supplied the majority of Canadian commodity imports, mainly manufactured consumer goods. However, the proportion of imports from Britain declined steadily, until by 1901 only 24 per cent came from Britain and 60 per cent from the United States, reflecting an increased demand in Canada for American producer goods such as iron and iron products. The United States retained its position as the dominant source for Canadian imports throughout the rest of the pre-World War II period.

The development of new resource industries, primarily
minerals and newsprint, which found a large market in the United States made the United States the principal export market in the 1920's, despite an upward revision of American tariffs. However, the exclusion of Canadian products under the Hawley-Smoot Tariff at the start of the Depression and the Ottawa agreements on British Empire preferences restored the primary position to Britain from 1932 until the outbreak of World War II. During the 1930's, Britain's consumption of Canadian base metals increased considerably.20

Despite the continued dominance of the two major markets during the 1920's and 1930's, exports to other areas, primarily continental Europe and the rest of the British Empire outside of the United Kingdom, increased from the pre-World War I level of 10 per cent to between 20 and 30 per cent of the total. The major product exported to this group was foodstuffs, but metals were also included and some manufactured goods were sold to the other Dominions as a result of the preference system.21

Therefore, from the turn of the century to the start of the Second World War, Canada's exports to the U.S. averaged between 35 and 40 per cent of total exports, and an average of 60 to 65 per cent of exports went overseas to Britain and the other non-dollar markets. However, in the same period, Canadian imports from the United States averaged over 60 per cent of total imports. As a result, in every
year after 1900, Canada had a substantial deficit in its commodity trade with the U.S.\textsuperscript{22}

These deficits were covered in two ways. The first method was through trade surpluses, primarily with Britain, but also with the other European countries.\textsuperscript{23} The balancing of debts between countries with different national currencies depended on an elaborate system of multilateral payments in which the various national currencies were freely convertible. This international monetary system was the result of the spread in the nineteenth century of the international gold standard. The gold standard, based on interconvertibility between gold and each national currency, and on the freedom to export gold, was believed to operate as a self-adjusting mechanism in maintaining a balance in international trade.

Britain had played a leading role in the introduction of the gold standard, as well as in the nineteenth-century movement for free trade. These two movements were aimed at imposing a self-regulating market system on international trade. Under such a system, trade would be free from the control and interference of national governments. As the major industrial and commercial power of the period, Britain stood to gain from the expansion of trade through the lowering of tariffs and the introduction of an international monetary system.\textsuperscript{24} While free trade met with little success
outside of Britain, the gold standard was adopted by all the major trading nations.

The period from 1914 to the Second World War witnessed the gradual disintegration of this international monetary system as a result of World War I and the European economic problems of the 1920's. By 1933, the Depression had brought about the final collapse of the gold standard as a nearly universal system. The abandonment of the gold standard gave rise to a number of regional currency systems. Canada, because of her triangular pattern of trade and the requirement of covering her dollar deficit from her surplus with Britain, had to maintain an unstable intermediate position between the dollar area centred on the U.S. and the sterling bloc centred on Britain. Thus, although by 1938 Canada had achieved a balance in her tariff relations with her two principal trading partners, without a stable multilateral exchange system the position was insecure.

The second mechanism for offsetting Canada's continuing trade deficit was the import of foreign capital. By 1900, over one billion dollars of foreign capital had been invested in Canada, and by the 1930's, this had increased six-fold. Although the primary source of foreign investment before World War I was the United Kingdom, by the 1920's, the United States had become the most important source of funds. By the 1930's, U.S. residents controlled approximately
60 per cent of the foreign capital invested in Canada. The major form of American investment was direct investment, that is, subsidiary companies operating in Canada but controlled by an American parent corporation. Some American firms established branches to secure access to the Canadian raw materials as lower-cost sources in the U.S. were exhausted. Others set up manufacturing plants in Canada either to avoid the high tariffs established under the National Policy or to take advantage of the Imperial preference system by exporting goods manufactured in Canada to other parts of the Empire. The result was the growth of a significant American branch-plant sector in Canadian manufacturing whose existence depended on the maintenance of the high tariff wall.

The Second World War altered significantly the nature of the Canadian economy and the pattern of Canadian trade. During the War, Canada was a major supplier of food, raw materials, and military equipment to the Allied countries. After the substantial unemployment and relative economic stagnation of the 1930's, the Canadian economy experienced full employment and the largest Gross National Products in the history of the country.

There was little actual expansion in total output in the resource industries and in the agricultural sector as a
result of Allied demand; rather, there was displacement of production into those industries required for the war effort. For example, in the metals industries there was a major decline in the production of precious metals and a correspondingly large increase in the production of minerals of strategic importance such as zinc, lead, copper, nickel, and aluminum. A very considerable expansion did occur, however, in the industrial services sector (such as transportation services) and in the primary manufacturing industries. The greatest increase by far in total output was in the secondary manufacturing industries.

A 1945 study for the Department of Reconstruction described the changed composition of the Canadian economy in the following manner. While in 1939 manufacturing had represented 39 per cent of the total net value of Canadian commodity production, by 1943 the manufacturing industries represented a full 54 per cent of the total. This resulted from a 167 per cent increase in the value of manufacturing production, which in turn had produced a 92 per cent growth in the number of employees in the manufacturing sector.

The tremendous expansion of industrial production was reflected in changes in the complexion of Canadian trade during World War II—in its size, geographic pattern, and constituent commodities.

Between 1939 and 1944, the real value of Canadian
exports increased almost two and one-half times. Exports to both the United States and the United Kingdom increased proportionally, both of them receiving approximately 37 per cent at the beginning and end of the period. However, the composition of exports changed significantly. While in 1939 the proportion of the total value of commodity exports represented by manufactured goods was 12½ per cent, by 1944 manufactured products had grown to over 40 per cent of the commodity exports.33

In the same period, the real value of Canadian imports increased 50 per cent. To a large extent this was a result of larger imports of capital goods (machinery and construction materials) and of components required for the increased industrial production. Since the United States remained the primary source for Canada of these products, there was a major shift in the geographic pattern of imports.34 While in 1939 the U.S. had supplied 66 per cent of Canada's imports, by 1944 83 per cent of imports came from this source. On the other hand, Britain's share of Canadian imports had dropped in this period from 15 per cent to only 5½ per cent.35

Thus, by the end of the War, three significant changes had occurred in Canada's foreign trade. First of all, there was the vast expansion in the total value of Canadian goods sold abroad. Secondly, although primary products still made up the majority of Canada's commodity exports, manufactured
goods constituted for the first time a very large part of the exports. Thirdly, Canada's trade with the U.S., including both exports and imports, had increased enormously, and represented a much higher proportion of Canada's total trade --approximately 60 per cent--than it had in the pre-war period.

Two specific policies underlay and made possible the changes in Canada's export and import patterns during the War--the Hyde Park Agreement and Mutual Aid. Each was significant not only for the immediate benefits it provided, but also in establishing precedents and patterns for dealing with trade problems which arose after the War.

The Hyde Park Agreement of April, 1941 between Canada and the United States was an economic extension of the Ogdensburg Agreement of 1940 on joint defence. In the spring and summer of 1940, when the defeat of Britain appeared possible, the Canadian and American governments engaged in discussions on the defence of the western hemisphere. As a result of these talks, on 18 August at Ogdensburg, New York, Prime Minister Mackenzie King and President Roosevelt issued a joint declaration establishing a Permanent Joint Board on Defence which was to "commence immediate studies relating to sea, land, and air problems" and to "consider in the broad sense the defence of the north half of the Western Hemisphere." By means of this press release, a military
alliance between Canada and the United States was inaugurated, although no formal treaty was ever signed.

While the immediate benefit for Canada was guaranteed military protection, the agreement also had economic significance. Graham Towers of the Bank of Canada had suggested to King before the agreement that, if Canada's overseas trade was completely cut by the War, plans for joint defence would give Canada an advantage in seeking the economic assistance from the United States necessary to avoid a disastrous blow to the Canadian economy. Although Canadian trade with Europe was never completely cut off, plans for joint defence did facilitate American assistance in solving Canadian economic problems.

At the beginning of the Ogdensburg Agreement, Canada was already facing significant financial problems as a result of the changes in her trade brought on by the War, and by 1941, these had become critical. Although both import and export trade with the United States had increased, the growth in exports to the U.S. was only about one-half that of imports. This imbalance increased the normal Canadian deficit on American trade. The resulting drain on Canada's reserves of U.S. dollars was further augmented by trade problems with Europe. Firstly, exports to continental Europe declined dramatically, largely due to German conquests. Between 1938 and 1941, the sales of Canadian commodities to
this region were cut by over four-fifths, reducing the magnitude of Canada's surplus on current account with this area by the same proportion.\(^{39}\) Secondly, despite the increase in exports to Britain during the War, this had little effect on Canada's balance of payments deficit because of Britain's own balance of payments difficulties.

The declaration of war in 1939 had resulted in the complete suspension by Britain of the convertibility of sterling.\(^{40}\) The lack of dollar reserves in Britain meant she could not finance her wartime purchases in North America and quickly put in jeopardy the flow of munitions. To provide funds for British purchases, the Canadian government repatriated Canadian securities held by British citizens. However, such measures could only provide a very short-term solution, since Canada could not long finance Britain's dollar deficit while her own deficit with the United States was increasing rapidly.\(^{41}\)

The Canadian government had attempted to offset this adverse trade balance with a number of measures in 1939 and 1940. The export of capital from Canada was restricted in 1939 under the Foreign Exchange Control Order, and in 1940 the exchange rate of the Canadian dollar was stabilized at 10 per cent below the U.S. dollar. The War Exchange Conservation Act, passed at the end of 1940, forbade the import of a great variety of consumer items which came primarily from
the United States. However, none of these actions had a significant effect in arresting the increasing trade deficit.  

Early in 1941, the United States Congress passed the Lend-Lease bill which solved Britain's immediate dollar problem by providing war supplies on credit. Officials in Canada's Department of Finance argued strongly against any attempt to obtain such aid for Canada to offset the Canadian deficit. There were two principal reasons. First, this would in all probability require the kind of sacrifices demanded by the U.S. of the British, who were forced to liquidate much of their direct investment in America as a pre-condition of aid. Secondly, as a debtor Canada would be placed in a poor bargaining position with the United States on matters of trade at the end of the War.  

In April, 1941, Prime Minister Mackenzie King travelled to see President Roosevelt in an attempt to secure approval for proposals which would allow Canada to benefit from the British Lend-Lease aid without having to obtain aid herself, and which would also encourage more purchasing in Canada by American defence industries to balance the increase in Canadian imports from the United States. This mission was a complete success, and resulted in the Hyde Park Declaration issued by the two governments.  

There were two significant aspects to the Hyde Park Agreement. First, Canada was allowed to charge some of her
purchases of components in the U.S. to the British Lend-Lease account. Because the benefits were indirect, Canada was not required to make the sacrifices which had been demanded of the British:

In so far as Canada's defence purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for Great Britain, it was also agreed that Great Britain will obtain these parts under the Lend-Lease Act and forward them to Canada for inclusion in the finished articles.45

Second, and most significantly, greater integration and rationalization of the relations between the U.S. and Canadian economies were promoted to assist Canada in selling more to the U.S.:

It was agreed as a general principle that in mobilizing the resources of this continent each country should provide the other with the defence articles which it is best able to produce. . . . While exact estimates cannot be made, it is hoped that during the next twelve months Canada can supply the United States with between $200,000,000 and $300,000,000 worth of such defence articles. . . . [The] payment by the United States for these supplies will materially assist Canadian defence purchases in the United States.46

The economic benefits for Canada which resulted from this agreement were considerable. When U.S. defence expenditures were increased on a vast scale following Pearl Harbor, Canadian manufacturers benefitted on an equal footing with U.S. manufacturers as a result of the division of production under the second Hyde Park provision. By 1943, reserves of U.S. dollars in Canada had grown large enough that some controls on this growth were introduced.47
However, the significance of Hyde Park went far beyond its immediate effects on the exchange problem. The vehicle chosen to solve the crisis and instituted under the agreement was the integration on a continental basis of wartime production in the two countries. This involved not only the removal of barriers to trade for military goods, but more importantly the division of production on the basis of efficiency and the right of equal access by industries in both countries to necessary components and resources in whichever country they were located. Thus, the policy worked toward a single continental market in industrial inputs and products.

The work of implementing this Hyde Park principle was given to a number of joint committees set up by the two governments. In July, 1941, Joint Economic Committees were set up to advise the governments on the efficient and coordinated utilization of the combined resources of the two countries. Gradually, however, the work of the Joint Economic Committees was taken over by two other committees. The Joint War Production Committee was given responsibility for integrating and rationalizing production in the defence industries, while the Materials Co-ordinating Committee pooled and allocated the scarce raw material resources of the two countries and encouraged the establishment of new resource industries. The joint committees vigorously
planned and controlled the trade in military materials, and supervised reciprocal defence procurement programmes.

Through the operation of these committees, direct links were established between officials in the two governments outside of the regular diplomatic channels. The Materials Co-ordinating Committee became the most effective agency of economic co-operation, linking the Department of Munitions and Supply under C. D. Howe with its American counterpart. Howe and his Department were responsible for the planning and supervision of wartime production in Canada. Howe gathered around himself many of the most prominent of Canada's businessmen to head the boards and agencies supervising procurement, production and supply in Canada. A few of these, such as G. C. Bateman, president of the Canadian Institute of Mining and Metallurgy and wartime Metals Controller, continued to work with Howe after the War.

The implementation of Hyde Park also involved the circumvention by the American Administration of two trade barriers established by Congress to protect domestic American industries. The "Buy American Act" of 1933 specified that, unless it were "inconsistent with the public interest," all resource or manufactured goods acquired for public use must be produced in the United States. After Pearl Harbor, however, the Administration suspended the application of this restriction on purchases in Canada. The second restriction
was the high customs duties placed by Congress on the importation of munitions and raw materials. The American Executive evaded this limitation by utilizing powers granted to the Secretary of the Navy in 1914 to authorize the duty-free import of war material purchased abroad in cases of emergency. The Navy Department made extensive purchases for other government agencies until similar powers were granted to the Secretary of War, the Secretary of Agriculture and the Reconstruction Finance Corporation in 1942.53 By the summer of 1942, Canadian industries were receiving complete parity of treatment with U.S. industries in the granting of U.S. government defence contracts and in the allocation of resources.54

The entire structure which gave substance to this wartime policy of integration—the two original agreements, the joint committees, and the import exemptions—were based completely on co-operation between the executive branches of the Canadian and American governments. None of the important mutual arrangements were embodied in treaties or in legislation submitted to the Canadian Parliament or American Congress. By means of these bilateral deals, Canada received important trade concessions and privileges which not only resolved the exchange problem, but also put Canadian-American wartime trade on a secure footing.

From the Canadian point of view, Hyde Park
represented a significant extension of the traditional trade policy of obtaining a secure market for Canadian exports. Canadian producers were encouraged to specialize in the production of specific products for sale in the larger continental market. Because of the bilateral arrangements, the continental market was not a competitive market but an assured outlet for Canadian exports. Canadian producers received privileged treatment in tariff exemptions over other foreign producers. Neither did they have to compete freely with American producers, since trade and production were regulated and planned, wherever possible, to be complementary. Canadian exports were granted what amounted to a guaranteed market.

In spite of the Lend-Lease arrangements in Hyde Park, Britain's lack of foreign exchange created difficulties which continued to threaten her munitions purchases in Canada. These were solved by the second important Canadian wartime trade programme, Mutual Aid.55

As part of its contribution to the Allied war effort, and in order to help solve the exchange problems of countries purchasing war supplies from Canada, the government passed the United Nations Mutual Aid Act in May, 1943. Under this Act, the government was empowered to grant credits to any United Nation "...essential to the defence and security of Canada and the cause of world freedom."56 Although
agreements were negotiated with several allies, the programme functioned mainly to support Canadian exports to Britain: out of a total wartime budget of two-and-a-half billion dollars for Mutual Aid, 85 per cent of the aid was granted to Britain alone.57 These credits were made possible by the increased Canadian reserves of U.S. dollars which resulted from Hyde Park.

To avoid a repetition of the troubled period following World War I when war debts had severely burdened international commerce, the government required no repayment for Mutual Aid. A Joint War Aid Committee was set up by Canada and the United States in Washington to prevent requests for Mutual Aid and Lend-Lease from overlapping. Mutual Aid was to be terminated with the end of hostilities, and in fact was ended on 2 September 1945 with the surrender of Japan.58

The Mutual Aid programme was also associated with a broader policy concerned with the reconstruction of post-war trade on a multilateral, non-discriminatory basis. In the Mutual Aid Act itself, a clause had been inserted by which the recipients of aid agreed to co-operate in promoting expansion of trade through international agreements on commercial policy.59 Moreover, Mutual Aid was the forerunner of post-war Canadian relief programmes to assist in the recovery of Europe, the necessary prerequisite for the reconstruction of a post-war multilateral trading system.
This post-war policy was strongly advocated by the American government. The American administration was, first of all, attempting to re-establish a stable system of international trade after the disruptions of the Depression and the War. Beyond this, however, they had picked up the free-trade standard carried by Britain in the nineteenth and early twentieth centuries, and were attempting to establish world trade on the principles of a free market. This involved doing away as much as possible with tariffs and other discriminatory interferences with trade.

The principle of free multilateral trading was in direct opposition not only to the strict planning and controls placed on trade during the War, but also to the traditional Canadian policy of basing trade on preferential access to export markets. Yet the Canadian government was willing to follow the American lead in the reconstruction of post-war trade. In the early post-war years, the Hyde Park model, based on bilateral, preferential trading arrangements, and on the planning and control of trade, was relegated to the background. Wartime controls were abolished as quickly as possible and the work of the wartime joint economic planning committees was terminated. The Canadian government committed itself to reconstruction of trade through the extension of free market principles. It is the development of this policy to which we now turn our attention.
Canadian post-war trade policy was formulated within the context of the wartime negotiations between the United States and Britain. During World War II, the American government attempted to gain British acceptance and support for its post-war, multilateral trade programme.

The dominant figure behind the American programme was Cordell Hull, Secretary of State under Roosevelt. Hull's ideas for a new international order were, like those of Woodrow Wilson before him, derived from the theories of nineteenth-century European liberalism. The prosperity of nations depended, he believed, on breaking down those barriers which restricted international trade by interfering with the free operation of the international market. All closed currency blocs, and all closed or preferential trading systems had to be disbanded. To achieve this, Hull advocated first the re-establishment of a world-wide financial system based on free convertibility of currencies and on the unrestricted movement of capital. Secondly, all barriers to commodity trade, such as tariffs and quotas, were to be reduced and made non-discriminatory in their application. Hull envisioned that this whole multilateral system would be protected and supervised by appropriate international economic organizations,
established through the co-operation of all countries. However, the security and successful operation of the system would ultimately depend on a new universal and co-operative peace organization, the United Nations. The United Nations would ensure that peace, the necessary condition for a worldwide financial and trading system, would be maintained.\(^1\)

Hull believed that such a trade programme would not only avoid a return to the conditions of the 1930's when world trade had severely contracted due to increased trade restrictions, but would itself promote world peace through the increased prosperity of all nations.\(^2\) He received strong support during the War both within his government and from American exporters looking for new post-war markets. As had been the case with Britain in the nineteenth century, the United States, emerging in World War II as the strongest industrial power in the world, was in a particularly advantageous position to exploit the benefits of freer trade. Trade restrictions, particularly in the markets within the old European colonial empires, seriously hindered the expansion of American exports.\(^3\)

However, the goal of freer trade, pursued vigorously by the Administration, was not shared by the majority of the American Congress. Within Congress, the influence of American firms who produced for the domestic market was very strong. These firms were protected by high tariff barriers
and fearful of any reduction in their protective margin. While the American economy as a whole might benefit from higher levels of trade, the welfare of specific domestic producers would be sacrificed in the process as a result of increased competition from foreign imports. Such protectionist sentiment in Congress, although at a moderately low level during most of the War, remained a constant check on Administration activities.\(^4\)

One of the prime targets of the American government's attack on closed trading systems was Britain, and Hull attempted to secure British agreement to abandon both the Imperial preference system and the exclusive sterling bloc. Both of these, Hull believed, were merely relics of the abnormal Depression years.\(^5\)

The response in Britain to the American programme was mixed. Within the governing coalition, many of the Labour Party members were sympathetic to ideals of freer and non-discriminatory trade. On the practical level, the desperate need for American support during the War meant that the government was generally willing to go along with the American programme as far as possible. However, an important section of the Labour Party believed that the recovery of the British economy could only be ensured by isolating it from international market forces. This would reduce the effects of the post-war depression many believed would inevitably occur.
The Conservative Party, on the other hand, tended to represent British industry, a large element of which was unable to compete successfully with American industry, and therefore had a vested interest in the maintenance of preferential trade. Thus, the British government adamantly refused to commit itself to the dismantling of the preference system. They did co-operate however with the American government in the elaboration of the general lines of the trade programme, and insisted that British involvement would depend on commitments by the American government to maintain full employment and to lower American tariffs so that British exports would be ensured of a strong market in the post-war years.

The earliest joint statement of post-war goals was the Atlantic Charter of September, 1941, a list of principles drafted by the United States and Britain, and subsequently signed by twenty-six countries including Canada. The final draft of the Charter contained a compromise statement on non-discriminatory trade which did not, however, give the explicit commitment on Imperial preferences desired by the Americans:

Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

The American government also attempted to obtain a British commitment for the dismantling of the preference system by making it a condition for receiving Lend-Lease assistance.
However, the British succeeded in having the definite commitment to non-discrimination included only as a long-term goal, the speed of its introduction to be linked to the specific economic conditions prevailing after the War. This British pledge to work for the reconstruction of multilateral trade was included as Article 7 of the Lend-Lease agreement.\(^8\)

Subsequent negotiations between Britain and the United States during the War concentrated on developing actual mechanisms for reconstructing a multilateral system of finance. Proposals by the two countries for institutions to promote international monetary co-operation were published in 1943, and a compromise was worked out with other Allied countries. At the Bretton Woods Conference in July, 1944, an international agreement was signed setting up an International Monetary Fund to supervise the international monetary system and to promote the stability and world-wide convertibility of currencies. An International Bank for Reconstruction and Development was also established to fund projects for reconstruction that would aid the re-establishment of multilateral trading.\(^9\) On the other hand, negotiations for commercial co-operation and tariff reductions did not progress as far during the War. Hull had recommended the drafting of a multilateral convention on commercial policy, but, due to the conflict over preferences, more definite discussion on this question was left until the end of the War.\(^10\)
Canada remained for the most part on the fringes of these discussions, although her stake in any agreement on Imperial preference and lower U.S. tariffs would be very great. Canadian officials at first adopted a cautious wait-and-see attitude while the post-war economic situation remained unclear. However, because a return to the exact trade relations prevailing before the War appeared unlikely, the government did give its approval to the general lines of the American programme. In memoranda to the Prime Minister in December, 1941 and February, 1942, on Article 7 of Lend-Lease, Norman Robertson, Under-Secretary of State for External Affairs and King's principal adviser, recommended that although Canada had "a certain interest in perpetuating whatever preferred marketing positions we can hope to maintain after the war," there was possibly greater benefit in supporting the American proposals which looked to increased economic activity in employment and the exchange of goods, and "would be of so broad a character as to make the continuance of Imperial preference unnecessary." At a meeting of the Foreign Exchange Control Board, reported Robertson, the Deputy Ministers of Finance and Trade and Commerce, and the Governor of the Bank of Canada had all agreed that

Nobody can foresee what the pattern of our economic relations after the war will be with the United States and the other countries of the British Empire. All we do know is that none of us can return to the precise arrangements prevailing before the war.
There was already considerable apprehension among Canadian officials that the impoverishment of continental Europe and the United Kingdom due to the War might make it impossible to maintain even the pre-war level of Canadian exports, and that some solution had to be found.\textsuperscript{13}

On 30 November 1942, the Canadian government agreed to an exchange of diplomatic notes with the American government declaring their willingness to co-operate in implementing the principles of the Atlantic Charter.\textsuperscript{14} In 1943, J. L. Ilsley included in his budget speech the following summary of government policy:

\ldots having in mind particularly the vital concern of this country in access to the selling and buying markets of the world, the government is prepared to discuss with the government of the United States, the government of the United Kingdom, or the governments of other countries with which we trade, reciprocal trade arrangements wider in scope and longer in duration than have hitherto been made.\ldots

We believe that questions of post-war commercial policy must be tackled broadly and boldly; we believe that world trade must have a more liberal and dependable charter than it has had in the past two decades; and that Canada, for which world trade is the very life blood stream, should be prepared, not merely to accept desirable arrangements but to take the initiative in working out a plan mutually of benefit to ourselves and to other countries.\textsuperscript{15}

Throughout the rest of World War II, informal trade talks continued between officials of Canada and those of the United States and the United Kingdom, and by the end of the War the Canadian government was firmly committed to the American programme for the reconstruction of international trade.
Canadian officials were working actively in pursuit of this goal, and accepted willingly the leadership of the United States. In March of 1945, Prime Minister Mackenzie King and President Roosevelt issued a joint press release from Washington reiterating the common interest of their countries in the "removal of discriminations and the reduction of barriers to the exchange of goods between all countries." On December 11, King tabled in the House of Commons the "Proposals for Expansion of World Trade and Employment" drawn up by the U.S. and U.K. together with the text of a financial agreement between the two countries. He stressed Canada's commitment to the general programme endorsed by these two countries, and announced that any changes in the Canadian tariff structure could only be downward.

American revisionist historians have emphasized how the United States, as an expanding imperialist power, imposed its post-war economic programme on the other nations of the West. Certainly, as was indicated by its use of Lend-Lease, the U.S. government did not hesitate to use overt pressure to influence other countries. However, this does not provide an adequate explanation for the active participation of the Canadian government. At the end of the War, King's government willingly based its trade policy on the establishment of a free, multilateral trading system, although this represented a radical departure from traditional Canadian trade policy.
The major influences which led the government to adopt and to co-operate in the American programme will be examined in this section.

In order to examine the development of post-war trade policy in this and in subsequent chapters, it is necessary first to understand something of the power relations which existed between the various departments of government which had responsibility for trade or for general economic policy. Prime Minister Mackenzie King remained the key figure throughout this period until his resignation in November, 1948. Besides his authority as head of government, in his position as Secretary of State for External Affairs, which he retained until September 1946, King held direct and ultimate control of foreign policy matters. Even after the separation of the foreign affairs portfolio from the office of the Prime Minister and the appointment of Louis St. Laurent as the new Secretary, King continued to deal personally with the larger questions of international policy. The Prime Minister also served as the ultimate authority on domestic economic affairs.18

The Department of Trade and Commerce, despite its jurisdiction over foreign trade, played a secondary role in the development of the broader outlines of trade policy in the period immediately after the War. During the War, the Department had relinquished its dominant position in the area of trade to C. D. Howe's Department of Munitions and Supply
as a result of the latter's control over the largest and most important category of exports and imports—war supplies.\textsuperscript{19} Although the organization of the Trade and Commerce Department and the technical services provided by it were greatly expanded in the last years of the War and in the early post-war years,\textsuperscript{29} the Department continued to occupy a subordinate position. A separate Ministry, the Department of Reconstruction also under C. D. Howe, was specially created in 1944 to deal with the problems of reconversion of the Canadian economy to peacetime production. In 1945, Howe's two departments were amalgamated to form the Department of Reconstruction and Supply. The importance of exports to the Canadian economy meant that in dealing with reconversion, Howe's Reconstruction Department would have a significant voice in trade policy.

Moreover, Howe's personality made him one of the dominant members of the Cabinet, although he remained clearly subordinate to King. The senior personnel in Trade and Commerce, on the other hand, were less influential and did not contribute significantly to the main lines of policy. Not until Howe took over as Minister of Trade and Commerce in 1948 did this department regain its dominance over trade policy.\textsuperscript{21}

The nature of the problems facing Canadian trade at the end of the War gave to the Department of External Affairs
a role at least equal to that of C. D. Howe's department. Canadian trade policy between 1945 and 1947, following the American lead, centred on the revival of trade by means of treaties for establishing new international economic institutions. By its nature, this fell directly into External's domain, and formed part of the larger programme of establishing mechanisms for international co-operation in both the political and economic spheres. The influence of the department was accentuated by the close connections of External Affairs with the Prime Minister.

At the top of External Affairs were three very influential career diplomats. Norman Robertson, as Under Secretary for External Affairs, was King's closest adviser between 1944 and 1946. In September of 1946, Robertson moved to London to accept the key post of High Commissioner to the United Kingdom. Serving under Robertson in Ottawa was Hume Wrong, who is considered by James Eayrs to have been the principal architect of Canada's policies on the international organizations. In September, 1946, Wrong moved to the second key foreign post as Ambassador to Washington. The third official, Lester Pearson, served in London and as Ambassador to the United States before taking over from Robertson in 1946 as Under Secretary of the Department. Pearson became perhaps the strongest Canadian advocate and publicist of international co-operation.
Finally, the Department of Finance had significant input on specific trade policies, particularly tariffs and foreign exchange, due both to its powerful Deputy Minister, W. Clifford Clark, and to its control of such bodies as the Foreign Exchange Control Board and the Canadian Tariff Board.

If the political context for post-war Canadian trade policy was set by the American-British negotiations, the central concern of the policy was the effect of the termination of the War on the Canadian economy. During the War, approximately one-quarter of the Canadian labour force had been directly engaged in some type of war work (including agricultural production for the war effort and all service personnel). The problem facing the Canadian government was how to provide employment in peacetime industries for this large wartime labour force and for the demobilized service personnel.23

Canada's staple industries had always relied on export markets to absorb the major part of their production, and therefore the maintenance of employment in these primary industries would require a continued strong demand from foreign buyers. Along with the traditional staple products such as wheat, flour, and lumber, the War had greatly increased the production of newer resources such as aluminum, nickel, and zinc for use in military products, and these would also require markets.24 The War also created the problem of a
vastly expanded manufacturing sector. The growth of Canadian manufacturing had been accelerated to an artificially high level through the production of military goods, such as aircraft, military vehicles, chemicals and explosives, and electronics and communications equipment. A solid base was now required for these manufacturing industries. Yet a study prepared for the Department of Reconstruction and Supply in 1945, *Location and Effects of Wartime Industrial Expansion in Canada, 1939-1944*, indicated clearly that domestic markets alone would not be sufficient:

Some of this new industrial capacity will find outlets in the home market. Industrial expansion, however, has been on a scale that far exceeds the possibilities of domestic consumption, and markets abroad are necessary to keep Canadian industrial facilities operating at levels approaching their new capacity.

There was widespread apprehension among government officials that the end of wartime demand might in fact herald the reappearance of the massive unemployment which had prevailed in the 1930's. To a great extent this belief was a result of the influence of Keynes' General Theory on the government's economic advisers. Keynes had demonstrated, in opposition to the tenets of classical economic theory, that an economy could remain in a condition of under-employment and that automatic adjustments would not necessarily come into play to restore the economy to full employment. John Deutsch, economic adviser to the Department of Finance in this period, has described the effect of Keynesian theory on economic
thinking at that time:

It was believed that the future would be dominated by a slower growth in population, by a declining influence from new technology, and by a stubborn tendency for savings to run ahead of the demand for capital. As a consequence, it was feared that a substantial level of unemployment would become the normal state of an advanced capitalistic society.\(^28\)

The Department of Reconstruction, with responsibility for overseeing the reconversion to a peacetime economy, was the department most concerned with the possibility of a serious unemployment problem. During the War, a number of specific measures had been enacted by the government to counteract this problem, ranging from special depreciation allowances for corporations to encourage industrial investment to programmes of social insurance and welfare designed to raise and stabilize the level of consumption.\(^29\) In 1945, a major statement of the government's post-war economic policy was drawn up in the Department of Reconstruction to summarize the goals and policies of the government, and to reassure reluctant businessmen concerning the necessity for and the intentions of the government in adopting social assistance programmes.\(^30\) This was the *White Paper on Employment and Income*, authored by W. A. Mackintosh, the Director General of Economic Research in the Department.

There is no question that the *White Paper*, tabled in Parliament by Howe on 12 April 1945, did reflect government policy. Mackenzie King described it as a "splendid document,"\(^31\)
and C. D. Howe called it "the most important document that has been presented to this parliament in recent months." It had previously been approved by a Cabinet committee including Howe, J. L. Ilsley, and Louis St. Laurent.

The White Paper declared that the "primary object of policy" for the federal government would be the "maintenance of a high and stable level of employment and income." It committed the government to use Keynesian techniques of counter-cyclical budgeting, monetary policy, and welfare measures to maintain an adequate level of demand, and to ensure high levels of employment and of business prosperity.

The White Paper also emphasized, however, that for a country like Canada, a high level of employment and national income would be impossible without a high and expanding level of exports, fostered by a freer world trading system:

> The Government of Canada is looking to an expansion of total world trade, within which other countries as well as Canada can increase their exports. ... In pressing for international arrangements which would permit and encourage the expansion of world trade, the Government is impressed not only with the importance of trade from the point of view of the Canadian economy, but is also convinced that a high degree of freedom of trade is thoroughly compatible with, and necessary to, a balanced program for promoting a high level of employment and income.

In emphasizing the direct link between exports and Canadian prosperity, the White Paper was merely restating the accepted truism of traditional Canadian economic policy.
Douglas Abbott, who became Minister of Finance in December 1946, explained this link as follows:

We can all agree, I think, that the major task facing us as Canadians is the orderly transition from the economic conditions of war to those of peace and maintaining during this period a high and stable level of employment and income.

Nothing is more true than that a high standard of living is dependent on efficient production. To produce efficiently in Canada we must have access to foreign markets in those lines in which we specialize. The income from Canadian products sold abroad... is the most important single factor in determining Canada's employment and prosperity in peace time.

[If] export markets were lost to any serious extent, we would be driven to measures of self-sufficiency. We would be forced at high cost to try to produce for our own use many things which our economy is not adapted. This decrease in productive efficiency would inevitably force down our standard of living. Many of our people would be unemployed.37

However, if the importance placed by the White Paper on the level of exports was in keeping with traditional policy, its emphasis on freer world trade as the vehicle for expanding exports represented a significant departure. This resulted partly from the support which the free trade doctrines of liberal economic theory had received as a result of the experience in the 1930's. Canada's use of protectionist trade policies before the Second World War had not been out of tune with the policies of most nations, and was justified by a separate body of theory which advocated self-sufficiency and the protection of infant industries.38 The sharp decline in the growth of world trade during the 1930's which accompanied the increased tariff protection by all
countries had served to discredit these protectionist policies among many of the government's economic advisers. In all the background studies prepared for the federal government in this period, the idea was repeatedly emphasized that Canada's full employment policy depended on the promotion of higher levels of employment throughout the world by means of the general adoption of freer trading practices.  

Therefore, economic theory performed an important role in promoting the acceptance of free trade principles. At the same time, the serious practical problems facing post-war Canadian trade were most significant in propelling the government in this direction. At the end of the War, it appeared doubtful whether Britain and continental Europe could fulfil the key role in absorbing Canadian exports which they had played before the War, and, in Britain's case, during the War. As a result of her wartime purchases, Britain was suffering from a severe exchange crisis. The 1945 Reconstruction and Supply study, *Location and Effects of Wartime Industrial Expansion*, noted that although the level of export trade with the United Kingdom would have a "vital bearing on the maintenance of Canadian production and employment in manufacturing," the exchange difficulties facing Britain seriously imperiled the continued purchase of Canadian imports. This threat to Canadian trade was emphasized when in December, 1945, the British government
restricted the import of manufactured goods in an effort to deal with its financial problems. The economies of the other European countries had been largely destroyed by the War, and therefore they could not produce enough to sell abroad and establish a secure exchange position. As a result, it appeared likely that they would have to sharply curtail imports from the dollar countries in an attempt to maintain an acceptable balance of payments position.

It was not clear at the end of the War whether Britain would in fact live up to its commitments to the U.S. on multilateral trade, or would attempt to withdraw into an exclusive trade bloc based on the Commonwealth and Sterling Bloc. Despite earlier commitments, Winston Churchill, the Prime Minister of England, publicly advocated in the last years of the War much greater reliance on British Empire trade.

The reaction of exporters in Canada to the uncertainty of the European situation and the threat to Canadian trade was varied. The Canadian Manufacturers Association spoke for the manufacturers whose export sales had been largely based on the British Empire preferences. The C.M.A. campaigned vigorously not only for the retention of the preference system but for a large increase in the preferential margins. If any conflict developed between Britain and the U.S., the Association advocated taking the British
side and withdrawing into an exclusive Commonwealth bloc. The results of a survey conducted among its membership indicated that "87 per cent favour the retention of the Empire Preferential Tariff System and indicate that the abolition of Empire preference would seriously affect their proposed export business." The Financial Post, the voice of central Canadian business, published an editorial in 1945 defending the preference system as the basis of Canadian prosperity and of the U.S. branch plant sector which provided substantial employment for Canadians. Manufacturers of military products such as aircraft who saw little hope of retaining markets in the U.S. after the War in competition with U.S. producers, also pressed the government to retain the preference system.

While Canadian manufacturers clung to the preference system in the hope of retaining their traditional market despite British economic problems, resource producers turned their hopes more to the U.S. The Canadian base metal industry illustrates very well the attitudes in this sector. Before the War, U.S. tariffs on metals had constituted a de facto embargo on foreign imports. By the Second World War however, many of the lower-cost American metal deposits had been depleted, and the tariffs were circumvented by executive decree to obtain adequate and cheaper war supplies. Canadian exports to the U.S. of minerals such as lead, zinc, copper,
nickel, and aluminium expanded considerably although Europe remained the major market. At the end of the War, the U.S. tariffs were reinstated. 48

Canadian resource exporters were clearly aware of the profound threat to their sales posed by European financial problems. In a letter to the Minister of Trade and Commerce in September, 1945, concerning copper and zinc exports, F. D. Shepherd, Secretary-Treasurer of the Mid-West Metal Mining Association of Winnipeg, emphasized that

At the present time, Canadian producers of copper and zinc are confronting the unfavourable prospect of greatly diminished markets for their products. Canada has never been able to retain or consume much more than ten to fifteen percent of her base metal output. Formerly however, Canadian base metal was able to move more or less freely into European markets which are no longer economically attractive.

Unfavourable exchange rates for Canada, a country outside of the "sterling bloc," will result in greatly reduced returns from base metal sales. South African copper and Australian zinc producers will enjoy a favoured position by reason of their close association with British monetary plans. . . .

It would thus appear that the Canadian base metal producer must look to the United States for a market for the majority of his metal output. It is considered, therefore, to be highly desirable that favourable consideration be given by American authorities to the reduction of tariffs on copper and zinc entering the United States from Canada. 49

Expanding sales to the large U.S. market presented an enticing solution to the trade problem. Canada's traditional deficit with the U.S. could perhaps be balanced bilaterally by increased exports to the U.S. instead of by means of triangular trade. A precedent for this lay in the
balancing of wartime trade under the Hyde Park Agreement. In reality, however, there appeared to be little chance for a bilateral reduction of duties. George Bateman, Canadian representative in Washington for the Department of Reconstruction and Supply, continually pointed out to Howe that although U.S. resources had been greatly depleted, there was very strong pressure in Congress from domestic American producers against any tariff reductions. The only hope for such reductions seemed to lie in their inclusion within the framework of a more general, multilateral trade programme which the U.S. government was pressuring Congress to accept.  

Moreover, a strictly bilateral solution was politically unacceptable to the Canadian government. By 1945, over 85 per cent of Canada's imports were coming from the United States, and if this were to be matched by increasing Canadian exports to a similar level, the Canadian economy would be so dependent on the U.S. that there would be a direct threat to Canada's political sovereignty. By the end of the War, Mackenzie King had become extremely concerned over such a political threat. Repeatedly he noted in his diary his fear that a decline in European markets and concentration of Canadian exports on the U.S. might "lead to a movement for annexation with the States." 

The option of relying on an isolated Commonwealth bloc was no more palatable to the government. In 1943, the
government had rejected a proposal for a "common raw materials development and exploitation policy" in the Commonwealth, and in 1944 it had refused to co-operate in developing more exclusive Commonwealth trade arrangements. Such a policy, it was feared, would place Canada completely at odds with the American government over trade matters, a possibility which the Canadian government was not prepared to accept. Moreover, such exclusive Commonwealth arrangements suggested too much of the old colonialism from which Canada, in the view of King and of his advisers in External Affairs, had so recently emerged, and were therefore unacceptable. Because of this, the government refused to heed the demands of the C.M.A., and held firmly to the policy that, although preferences would certainly not be abolished, they could not be increased and any revision of tariffs could only be downward.

Thus, for the Canadian government, the revival of the Atlantic Trade triangle represented the only viable and acceptable basis for maintaining Canadian trade in the post-war period. Yet, the government could accomplish little in this direction on its own. The reconstruction of the European economy required a return to international currency stability and convertibility, a vast programme of financial aid for Europe, and a broad agreement on tariff cuts. The American programme of multilateralism advocated all these
policies and offered the Canadian government a framework and a concrete plan in which to work co-operatively towards these goals. A strong multilateral programme might also convince both the British to abandon thoughts of establishing a more exclusive trading bloc and the U.S. Congress to accept major tariff cuts. 56

These economic and political considerations underlying Canadian support for multilateral trade were further reinforced by the influence of liberal-internationalist ideology on key members of the Canadian government. Due to the lack of scholarly material on the subject of Canadian liberalism, however, a proper analysis of the role of liberal ideology is impossible here and would require a separate study. Therefore, only a few basic points will be made.

John Porter has concluded from a study of the Canadian federal public service that, unlike the American case, the Canadian bureaucratic elite is not drawn predominantly from business circles, but rather the higher members tend to come from an academic background. Porter noted that in some respects "the conference rooms at Ottawa, where senior officials act like the seminar leaders a good many of them formerly were, are more like universities than the universities themselves." 57 The result, he maintains, is a strong orientation in the bureaucracy to intellectual values. 58 Perhaps the prime example of this in the war and early
post-war period was the Department of External Affairs: before entering the Department, the two Under-Secretaries, Norman Robertson and Lester Pearson were respectively a lecturer at Harvard and a professor of history at the University of Toronto.

These top officials of External Affairs were strongly influenced by the ideas of American and British liberal-internationalists. They shared with Cordell Hull the belief that a peaceful world order depended on economic prosperity, and that in turn greater world-wide prosperity would be fostered by freer, multilateral trade. As a result, they exerted continuous pressure for Canadian participation in the American programme of international co-operation in the development of multilateral trade.\textsuperscript{59}

Thus, in the early post-war years, the aim of Canadian trade policy was to develop "a high level of multilateral trade on the broadest possible basis."\textsuperscript{60} To achieve this, the government participated in two complementary programmes worked out with the United States—the economic recovery of Europe and the development of more liberal trade relations.

The Canadian government set up or participated in a number of programmes of financial assistance for the European countries. While the long-range goal was to rebuild the economies of these countries, it was also clear to the
Canadian government that to maintain exports at the end of the War, Canada had to provide them with immediate credits. Nearly one-quarter of the record export figure of $3.4 billion in 1944 had been financed by Mutual Aid Funds. In his statement to the House of Commons on 7 September 1945 concerning the cessation of Mutual Aid, the Minister of Finance, J. L. Ilsley, announced that the government was already developing other programmes to replace this aid.

Post-war credits were provided through an amendment to the Export Credits Insurance Act, which raised the amount which the government could lend to foreign governments from $100 million to $750 million. The Act stated that credits were to be supplied "for the purpose of facilitating and developing trade between Canada and any other country," and Ilsley assured the House that the credits would furnish the necessary support for Canada's export trade. Because of the huge deficit in her balance of payments, Britain was treated as a special case requiring massive assistance to allow her to continue to import from North America and to participate in the projects for multilateral trade. The Canadian government granted Britain a loan of $1,250 million, paralleling an American loan in duration, interest, and terms of repayment. D. G. Abbott justified the loan as a measure... designed to help our largest export customer tide over a period until she can build up her own export industries again. . . . Without credit she would not be...
able to purchase from us the foodstuffs, metals, lumber and manufactured goods which she wants to buy, and for which we want to preserve a large continuing market. Without assistance she would be forced to adopt trade practices which would destroy the world trading system on which Canada's prosperity and standard of living depend.

I am convinced that in the economic field this loan will be Canada's biggest single contribution towards the restoration of world trade and the maintenance of a stable peace.66

Canadian officials also worked actively toward the liberalization of trade, strongly advocating general, across-the-board tariff reductions of a uniform percentage by each country to ensure significant cuts. The Canadians, like the British, were particularly worried about the extent of American concessions in return for any reductions in Empire preferences. The American officials, however, argued that the only system acceptable to the American Congress would be one of bilateral reductions on individual items negotiated with the principal supplier and generalized by most-favoured-nation clauses. Eventually, after considerable negotiation, the American mechanism was accepted.67

Under American initiative, the Economic and Social Council of the United Nations established a preparatory committee on commercial policy to draft a charter for an International Trade Organization, as well as to supervise the conduct of multilateral tariff negotiations. At the second meeting of this committee held in Geneva in 1947, twenty-three countries negotiated mutual tariff reductions that were
registered in a General Agreement on Tariffs and Trade. All
tariff cuts were selective and bilateral following the Amer­
ican plan, and broader benefits were generated by general
adherence to the most-favoured-nation principle. The U.S.
government had been authorized by Congress under a 1945
amendment to the Reciprocal Trade Agreements Act to reduce
specific duties up to a maximum of 50 per cent. A code of
trade ethics was also embodied in G.A.T.T. that condemned
all quantitative restrictions on trade, and required the
signatories to refrain from the applications of such quotas.

During the G.A.T.T. negotiations, the Canadian dele­
gation, headed by Hector McKinnon and John Deutsch of the
Department of Finance, faced a serious challenge over Empire
preferences. Since the end of the War, in keeping with
traditional Canadian policy, the Department of Trade and Com­
merce had been encouraging American manufacturing industries
to set up branch plants in Canada to take advantage of the
preferential tariffs. At the Geneva negotiations, the
United States delegation again put strong pressure on the
British to eliminate all preferential duties. Under pressure
from the United States, the British negotiators agreed to
reduce preference margins by raising the duty charged to
Empire countries, rather than by reducing non-Empire rates
as had been agreed between the Commonwealth countries. The
Canadian delegation, recognizing that higher tariffs would
be a direct threat both to Canadian exporters as well as
to the branch-plant manufacturing sector, managed to get the
United Kingdom to withdraw the suggested increases. Most of the Empire rates were maintained at their pre-war level and only in a number of specific cases were the margins of preference reduced or abolished.

Mackenzie King was delighted with the results of the Geneva conference. Canada had agreed to reduce rates or make concessions on approximately 1,000 tariff items comprising 75 per cent of Canada's export trade. The British preferences had been retained, although Canada did formally agree not to increase any of the preferential margins. As Mackenzie King stated to the House of Commons,

... While the basis of the British preference has been altered by agreement, which restricts the preference to items set forth in the schedules, these have been drafted so broadly that neither Canada nor any other commonwealth country has given up any preferential position which it regarded as important.

The signing of G.A.T.T. in October, 1947 represented the culmination of the period of multilateralism. Despite the success of G.A.T.T., the broader attempt to establish a trade charter governing commercial relations and supervised by an International Trade Organization ended in failure. By the time the completed charter was submitted to the American Congress in 1950, Congressional sentiment had moved clearly against free trade. Many of the Geneva tariff cuts were already hurting domestic American producers and protectionist
pressure was very strong. With the rejection of the trade charter by the U.S. Congress, this broader scheme was abandoned. Moreover, by 1947 a new economic crisis had developed which put an end to the optimistic forecasts of a rapid return to multilateral trade, and which eventually forced the re-orientation of Canadian post-war trade policy.
Chapter III

THE EXCHANGE CRISIS AND THE SEARCH FOR SOLUTIONS

On 17 November 1947 in a special broadcast from London, Prime Minister King announced the results of the Geneva trade negotiations. G.A.T.T. represented, it appeared at the time, a triumph for the policy of multilateralism. Yet later the same day Douglas Abbott, the Minister of Finance, announced an emergency programme of quantitative controls on imports to combat a critical shortage of American dollar reserves in Canada. To justify the contradiction between the latter programme and the trade principles established in the Geneva agreements, Abbott stressed that the controls were only temporary and that

The fact that the rapid depletion of our exchange reserves now compels us to take some special actions to strengthen our trading position implies no lessening in our determination to work toward the objective of world recovery and expanding trade.¹

Subsequent developments were to disprove Abbott's prediction concerning the government's continued adherence to the goal of multilateral trade. The exchange crisis of 1947 revealed clearly the deeper structural problems underlying Canada's trade, and was symptomatic of the failure of the post-war trade policy of fostering the recovery of the European economies in order to reconstruct the Atlantic trading triangle. As a result of the crisis, Canadian trade
policy underwent a basic reorientation towards dependence on bilateral trade with the United States based on the greater integration of the two economies.

On the surface, the Canadian policy appeared to have worked reasonably well. Although the volume of exports had fallen from the wartime level, the real value of domestic exports in 1946 was still 62 per cent over the pre-war 1938 level. The United Kingdom was able to absorb 27 per cent of total Canadian exports by 1947, and the rest of Europe another 13 per cent. Moreover, the combined Canadian trade surplus with Britain and continental Europe almost entirely offset the very large Canadian deficit on current account with the United States.

However, the large volume of purchases of Canadian goods by the European countries was still financed mainly by Canadian credits under the Export Credits Act and through the British loan. The recovery of Europe had received severe setbacks, partly due to large-scale crop failures, and the reconstruction of stable European economies was becoming a much more distant goal than it had appeared at the end of the War. The European countries were importing a high volume of goods from North America for reconstruction but did not have the productive capacity to balance this and pay for the imports by an appropriate level of dollar-earning exports. By 1947, the consolidated trade deficit of
all the European countries had reached $7.5 billion. They were therefore forced to draw heavily on the credits to support their trade.5

The British case was particularly dramatic due to the re-establishment of convertibility. In return for the American and Canadian loans, the British government had promised to re-establish the convertibility of the pound on 15 July 1947. The result was disastrous. The desperate demand for American dollars by the other European countries produced a run on the pound, and the American and Canadian loans, which the British government had already drawn on heavily, virtually disappeared in a few weeks. On 20 August, convertibility was suspended to avoid complete bankruptcy.6

At the same time, Canada's trade with the United States was registering a very large deficit. The modest Canadian surplus on current account with the United States in 1945 had turned into a $500 million deficit in 1946, and had virtually doubled again by 1947.7 In one way, this was a tribute to the success of the government's reconversion policy. The Department of Reconstruction's incentives for the reconversion and expansion of industry had produced a strong demand for the import of American capital goods. Coupled to this was the consumer demand which had been pent-up during the War, and which was further encouraged by the government's stimulatory fiscal and monetary policy, resulting
in a tremendous increase in the import of consumer items such as automobiles and refrigerators from the United States. 8

In reality, given the lack of European recovery, the government had placed too many demands on the Canadian economy. Canadian finances could not sustain both the provision of aid to Europe for the purchase of Canadian exports and the encouragement of capital and consumer imports from the United States. Canadian exports to Europe would have normally been paid for in U.S. dollars, which would build up the Canadian exchange reserves. Instead, exports were sold on credit which meant that "every dollar of credit we extend ... involves a direct loss to us of U.S. dollars." 9 The large deficit with the U.S. due to increased imports had to be financed out of the Canadian reserves, but these reserves were not replenished by the trade with Europe. As the Minister of Finance put it, "... In other words, we have been financing a very high level of consumption and investment at home by drawing on our exchange reserves." 10 Finding a solution to this problem was difficult because of adherence to the policy of a high level of employment and income. The government could not attempt to reduce American imports since that would curtail domestic investment and employment; nor could it refuse credits to European customers since that would seriously reduce exports. Thus, although
the government had expected a sharp reduction in the reserves during the transition period, the decline went far beyond their expectations and to the point of a crisis. While Canadian reserves of gold and U.S. dollars had been approximately $1\frac{1}{2} billion at the end of the War, by November, 1947 they had hit a low of only $500 million. Without some change in the circumstances of trade, the decline could only continue.\(^\text{11}\)

Various government departments—particularly Finance, External Affairs, and Reconstruction—had been studying the situation for several months. The initial response was similar to that taken during the 1939-41 exchange troubles. Under the Emergency Exchange Conservation Bill of 18 November, import restrictions involving outright prohibition or quotas were applied to a large number of consumer and luxury goods imported principally from the United States. A licensing system, administered by the Department of Reconstruction and Supply, was applied to the import of specific classes of American capital goods. The Foreign exchange allowances of tourists travelling in the U.S. were also sharply reduced. To provide short-term relief, arrangements were made with the Export-Import Bank in Washington for a loan of $300 million to replenish the Canadian reserves.\(^\text{12}\)

In announcing the emergency programme to the House of Commons, both Abbott and Howe repeatedly stressed that all
of the restrictive measures outlined above were only temporary. They were designed to curtail the expenditure of U.S. dollars in order to bridge the gap between the crisis and the time when the effects of positive, long-range solutions would be felt. These broader long-range measures would be "constructive and expansive," and "designed to increase and to re-direct our trade and production." They would strike a balance, Abbott emphasized, between the need to develop stronger trade relations with the United States, and the desire to continue fostering the recovery of western Europe which was necessary to Canadian independence and "freedom of action as a trading nation."

Aside from measures to increase gold production in Canada in order to increase foreign exchange reserves, Abbott listed three main elements in the long-range programme to put Canadian trade on a more solid base. The first was the attempt to obtain "offshore purchases" for Canadian goods under the American Marshall Plan, similar to the operation of the Lend-Lease provision in Hyde Park during the War. Secondly, there were the reductions in United States tariffs already obtained at Geneva, as well as future steps to reduce further the tariff barriers between the United States and Canada. Thirdly, there was a programme under the supervision of the Minister of Reconstruction and modelled on the Hyde Park Agreement to solve the dollar problem by directly
increasing production for export to the American market.\textsuperscript{15} The differing nature and development of each of these programmes determined the final shape of Canadian trade policy after 1947. Therefore, the evolution of each one of these elements will be examined in turn.

In June, 1947, U.S. Secretary of State George Marshall announced plans for a massive new programme of financial aid to assist the recovery of Europe. This European Recovery Program, or as it was more commonly known, the Marshall Plan, was to a large extent the result of the increasing tensions between the U.S. and the U.S.S.R. in the Cold War.\textsuperscript{16} Marshall and his State Department advisers feared that the severe economic problems in Europe might lead to a complete collapse and provide the opportunity for a Russian take-over. The Marshall Plan would serve, they hoped, as an economic defence for western Europe against Communism.\textsuperscript{17}

When the Marshall Plan was announced, Canadian officials were already looking for solutions to the dollar problem. Douglas Abbott and his Deputy Minister, Clifford Clark, recommended to King that Canada attempt to secure authorization from the U.S. government for the use of E.R.P. funds by European countries for purchases outside the U.S. These "offshore purchases," similar to the Lend-Lease provision in the original Hyde Park Agreement, which had "proved to be so effective and constructive during the war,"
could be granted, they suggested, as part of a "peacetime Hyde Park Plan." Various Canadian government officials, including Clifford Clark and the Prime Minister himself, subsequently lobbied the American Executive for the granting of such benefits. The Canadians emphasized that, if Canada were not included as a beneficiary in the Marshall Plan, there was a possibility that the exchange difficulties would force them to abandon the multilateral trade programme and instead to "apply very drastic and long-term remedies." The American Congress was not very sympathetic to Canada's plight. Given that most American Congressmen were unhappy even with the subsidization by the U.S. of the European economies, they resisted all the more the idea that the benefits accruing to U.S. producers from any assistance plan might be partly sacrificed for the sake of Canada, whose economy appeared to be extremely healthy in spite of the exchange problem.

On the other hand, the American State Department, after considerable lobbying from the Canadian departments of Finance and External Affairs, took up the Canadian's cause, and pressured Congress to allow the "offshore purchases." The State Department wished to maintain Canadian partnership in the long-term programme for multilateral trade. Moreover the increasing polarization of the Cold War also played its part. The State Department had begun to view its economic
programmes as a means of building a strong and unified "free world" bloc and of excluding and punishing economically the Communist bloc. Canada benefitted from this Cold War attitude as a key member of the "free world" bloc who had to be assisted and protected. The State Department used the argument of the Communist menace to secure passage of the Marshall Plan appropriations through Congress, and pressured Congress to accept Canadian participation. However, Congressional opposition on the latter point was not overcome until mid-1948 when authorization for "offshore purchases" in Canada was finally given.

The Marshall Plan funds played a major role in the improvement in Canada's financial position. In the first six months of the plan, 21 per cent of the funds were used for the purchase of Canadian exports, and the drain on the foreign exchange reserves was arrested and reversed. By the end of 1948, the reserves had already risen to $998 million. Thus, on the surface, the Marshall Plan appeared to offer the Canadian government the opportunity to continue its policy of reviving Canada's triangular pattern of trade.

It was clear from the start, however, that the Marshall Plan itself would only provide a temporary solution to the Canadian trade problem. Not only did the Plan operate for a limited number of years, but already by the end of 1948 the proportion of purchases going to Canada had started to decline.
In the first three months of 1949, Canada's share fell to only 15 per cent. A memo drawn up by the staff of the Canadian Embassy in Washington in December, 1948 had forecast this decline and attributed it to the increased supply of domestic American products, and to the desire of Congress to cater to the interests of domestic producers. The memo pointed out that in 1948, "as far as the E.R.P. countries are concerned, 60 per cent of their deficit with Canada is being 'converted' directly by the United States through the [Marshall Plan]," and that, combined with the Canadian exports sold to the United States directly, the United States was in fact paying for $2 billion of Canada's total exports of approximately $3 billion. The conclusion drawn in the memo was that when the percentage of Marshall Plan purchases going to Canada declined, it would be necessary to seek a new bilateral trade agreement with the United States to bolster Canadian exports. To maintain Canadian prosperity, U.S. customers would have to purchase directly what had previously been financed through the E.R.P.

Moreover, any hopes that the Marshall Plan might promote a speedy recovery in Europe were not borne out as financial crises continued to occur in the late 1940's and early 1950's, and import restrictions seemed destined to become a permanent fixture. In 1948 the British government drafted a long-term programme of recovery for submission to
the Organization for European Economic Co-operation and made it available to the Canadian government. In this draft it was forecast that, under the best plan for recovery, by 1952 the British financial position would allow a level of imports only 85 per cent of the volume of imports in 1938, and that this would require continued reductions in the volume of imports from dollar countries. In 1949 the deterioration of Britain's dollar position produced another serious sterling crisis, a further cut in dollar imports and a very large devaluation of the pound. Several other European countries followed suit. A series of tripartite conferences throughout 1949 between Canada, Britain and the United States attempted to introduce measures to counteract the problems and, according to Lester Pearson, narrowly averted "a real danger that Commonwealth countries other than Canada might end up by virtually cutting off their trade with North America."28

In 1951, there occurred yet another sterling-dollar crisis. The sterling area countries applied increasing quantitative restrictions on Canadian exports in an effort to balance their transactions with Canada. By 1950, exports to Britain had declined to a level less than two-thirds of the pre-war average. The combined volume of exports going to Western Europe and the Sterling Area was, in 1950, reduced to half the level in 1947.29 To a large extent it was at
the expense of Canadian exports that the European countries were bringing their trade into balance.

Thus, after 1947 the Canadian government was gradually forced to accept the fact that the trade policy based on European recovery had failed and that this recovery was still a long way off, at least far enough that it could no longer serve as the primary foundation of Canadian trade policy. Certainly, the government and particularly the Department of External Affairs continued to advocate a long-term policy of multilateralism and convertibility, even after the strength of U.S. support had waned due to problems of the Cold War and Congressional opposition. Yet the results were very few. For example, Canada participated in both the second and third rounds of tariff negotiations under the General Agreement on Tariffs and Trade held at Annecy in 1949 and Torquay in 1951. While the Annecy agreement did add ten new countries to G.A.T.T., most benefits for Canada from G.A.T.T. affected only the Canadian-American trade because the European and Sterling Area quota restrictions on imports prevented any increase in trade. At Torquay, as C. D. Howe pointed out to the House of Commons, Canada undertook the negotiations primarily to secure concessions from the United States.

During the negotiations for the North Atlantic Treaty Organization, a military alliance formed in 1949 between
Canada, the U.S., and the countries of Western Europe, the Department of External Affairs succeeded in having a broad economic pledge inserted as Article II in the Treaty, calling on the signatories to "seek to eliminate conflict in their international economic policies" and to "encourage economic collaboration between any or all of them." However, as Pearson was later to admit, "Article 2 remained virtually a dead letter," and N.A.T.O. did not serve as a vehicle for multilateral trade.

The original goal of multilateralism faded more into the background, and the primary thrust and emphasis of Canadian trade policy after 1947 shifted to the principle underlying the other two elements of the programme outlined by Abbott—that is, the bilateral balancing of trade with the United States.

Such bilateral balancing could only mean in reality an increase in Canadian exports. Any other option was impossible, given the commitment to high levels of income and employment, and the theory of economic development associated with it. To reject the path of greater dependence on the United States would mean that a balance could only be achieved by a great reduction in products imported from the U.S., which would have to be produced domestically in Canada at much higher cost. The cost in efficiency of and economic policy based on developing a more isolated economy with
industry oriented to the domestic market was considered to be far too great by the government. In promoting the British loan of 1946, Abbott had explained that

Because of our geographical location, our resources are relatively specialized, and our home market is not large enough ... to build up an efficient industrial structure designed to serve that market alone. A high standard of living is dependent on efficient production, and to produce efficiently we in Canada must have access to foreign markets in those lines in which we specialize. ... If Britain and other European countries were forced to adopt policies of self-sufficiency now ... there would be a tremendous shrinkage in our wheat industry, in our lumber industry, in our base metal mining, in our production of butter, cheese, bacon and beef, to mention only a few. The economic, social and political difficulties involved in such a fundamental change in our economy can hardly be imagined.

When Britain and the other European countries did adopt policies of self-sufficiency, it was essential that the United States take up the slack.

The second element in the long-term programme outlined by Abbott promised to encourage this bilateral balancing of Canadian-American trade through tariff revision. The authority of the President to reduce U.S. tariffs was based on the 1945 amendment to the Reciprocal Trade Agreements Act by which Congress had granted the Executive the power to reduce tariffs up to 50 per cent of the 1945 level. The negotiations at Geneva were carried out under this authority, and Canada had been granted reductions of 35 to 50 per cent on a very large number of raw and semi-processed products. In fact, Canada had obtained the larger part of the possible
concessions under the Act, and most of the remaining concessions were eventually obtained at Torquay.36

However, American tariffs still posed a considerable problem after 1947. Firstly, the U.S. tariff levels remained, despite the Geneva cuts of up to 50 per cent, quite high and were much more protective than the Canadian. Part of the problem arose from the necessity to negotiate reciprocal cuts. For example, the Canadian pulp and paper industry strongly opposed reciprocal cuts on fine papers by both countries since an equal reduction would leave the American tariff at a prohibitive level while allowing substantial imports of American products into Canada.37 Thus, the very nature of the tariff-cutting process originally demanded by the U.S. mitigated against truly substantial cuts in the American tariff.

Secondly, the 1945 amendment represented in reality the high point of support in Congress for freer trade, which quickly diminished as wartime shortages disappeared and foreign competition again began to affect domestic American producers. The products which Canada exports were generally also produced in the U.S., and the American producers fought strenuously against any concessions to Canada.38 By 1947 a coalition of conservative Democrats and Republicans, representing farmers and resource producers in the Middle and Far West and in the South, maintained a Congressional majority
which opposed the main lines of the Administration's trade policy.\textsuperscript{39} In 1948 the President's authority under the Act was renewed for one year only and a number of restrictions were placed on his power.\textsuperscript{40} This protectionist pressure not only meant that individual concessions for Canada were often hard to obtain under G.A.T.T., but more importantly that there was little hope for any tariff concessions beyond the level defined by the 1945 amendment and gradually embodied in G.A.T.T.

The desire of the Canadian government to obtain substantial tariff cuts beyond what was possible under G.A.T.T. spawned an attempt, initiated and carried forward by the Department of Finance, to introduce complete free trade between Canada and the United States. Such a proposal had not been made since Laurier's defeat over this issue in 1911.

In October, 1947 John Deutsch, Director of Economic Relations in the Department of Finance, and Hector McKinnon, Chairman of the Canadian Tariff Board, held talks on the Canadian dollar problem with a number of economic officials in the U.S. State Department. The Canadians were exploring the possibility of a comprehensive trade agreement involving the complete elimination of duties wherever possible.

Mr. McKinnon indicated that the Canadian Government would be willing to enter into an agreement even if it necessitated a major readjustment and reorientation of Canada's international economic relations. They feel that Canada must either integrate her economy more closely with that
of the United States or be forced into discriminatory restrictive policies involving greater self-sufficiency, bilateral trade bargaining and an orientation toward Europe. 41

The Americans responded by explaining that Congressional opposition would make any such agreement difficult, but that their Department would explore the matter further. 42

In January, 1948 Finance Minister Abbott informed Mackenzie King for the first time of these negotiations. He reported that senior members of the U.S. State Department had suggested to him there was a strong possibility of obtaining a complete reciprocity treaty or a commercial union between the two countries. They had emphasized the urgency of the matter since Congressional elections were coming up and the trend was towards a hardening of opposition to freer trade. Thus the present might offer the last opportunity to implement such a plan. Abbott emphasized to King the strong feeling in favour of such a treaty among the top people in Finance such as Clifford Clark, McKinnon and Deutsch, and Graham Towers of the Bank of Canada. As King noted in his diary,

... Abbott himself pointed out that this would be the answer to all our present restrictions. If we could get complete reciprocity, he felt we would no longer be dependent on uncertain markets of Europe, which are bound to be uncertain for some time and that this would give what was needed to maintain, as far as could be maintained, the prosperity of our country. 43

While both King and Abbott agreed that the broader idea of commercial union would be politically unacceptable to the Canadian public, King expressed strong support for reciprocity
which he felt would be entirely acceptable in Canada and
would be of such advantage that negotiations should be con-
tinued in an attempt to reach a speedy agreement. 44

The actual proposal, worked out by the economic
officials of the two countries in a series of joint meetings,
called for the immediate removal of all duties by both coun-
tries and the gradual withdrawal of all quantitative restric-
tions over a five-year transitional period. Canada was free
to extend the same offer to Great Britain, but given the
economic circumstances, the possibility of acceptance seemed
remote, and the motivation behind such an offer was mainly
to "lessen likelihood of British opposition to the proposal." 45

The question of whether to proceed with the recipro-
city proposal was considered by King and his advisers in a
series of meetings through March and April of 1948. The
question was never taken to a full cabinet meeting: King
only consulted Abbott, St. Laurent, and Howe from among his
Ministers, and presentations were given to these Ministers
by the Finance officials and by Pearson as Undersecretary of
State for External Affairs. The three Ministers were all
strongly in favour of the plan, as were Pearson, Clark,
McKinnon, and Deutsch. They all encouraged King to proceed
immediately with the proposal. Clark was particularly adamant
in stressing that it would be the only opportunity for Canada
to balance her trade accounts. 46
However, King himself began to have second thoughts on the question. At a meeting on March 22 with St. Laurent, Howe, Clark, McKinnon and Deutsch, King registered his fear that the attempt to quickly push the proposal through the Canadian Parliament in order to meet the American deadline might create grave political problems. He warned the others that

The point to be considered still was the element of timing. [My] experience in politics had taught me that no matter how good a thing might be, if the people were taken by surprise in its presentation, there was bound to be opposition to it. . . . The cry would be raised at once that it was commercial union we were after.47

In his diary, King recorded that he told the meeting he could not be counted on to lead the movement to overcome opposition to reciprocity in Canada. "Much as I believe in the wisdom of what was proposed," King noted,

. . . I said I thought I ought to say that I believed the Americans in their attitude were carrying out what I felt was really their policy and had been so over many years, of seeking to make this Continent one. That I thought they had long seen that a conflict likely to come would be between Russia and themselves, and that they felt that their position would be strengthened if they controlled all of North America. . . . If I were an American, I might easily share that point of view. I said that, while I had recognized it, I had never allowed it to gain any headway in my own dealings with public affairs. That personally I would rather have Canada kept within the orbit of the British Commonwealth of Nations than to come within that of the United States. That all my efforts had been in that direction. . . . I thought we could keep all of this in mind in anything that was done at this time to see that all British considerations were taken into account.48

It is difficult to be sure of King's attitude in this
matter, since he bore much of the responsibility for pro-
moting the strong economic and military links between Canada 
and the United States during the War. However, King had 
begun to feel considerable anxiety about the growing influ-
ence of the United States after the War, as numerous entries 
in his diary indicate. King clearly felt that reciprocity 
might be politically fatal in Canada at this time, and his 
concern over Canada's independence must have reinforced his 
doubts. King had always prided himself in being able to 
find a balance in his policies that was politically accep-
table in Canada, and in the matter of reciprocity he obviously 
believed that the government would be stepping too far out 
on a limb. No doubt the lesson of Laurier's defeat over the 
same issue was not lost on King.49

These political concerns continued to grow in King's 
mind, until by the latter part of April he had decided to 
veto the proposal. At a meeting with Abbott, Howe, St. 
Laurent, Pearson, and McKinnon, King elaborated on his 
objections and explained why the offer must be rejected. He 
argued that although "from the economic point of view, there 
was everything to be said for the proposal and little against 
it," a bitter political battle would ensue in Canada with 
grave consequences for the Liberal Party and for the country. 
While the Americans might be right in stressing the urgency 
of the negotiations, since the likelihood of Congress passing
such a treaty immediately was greater than in the uncertain future after the American elections, from the Canadian point of view, "the timing could hardly be worse." At a time when King was retiring from office, and a leadership convention and general election were impending, the issue could not be explained properly and would prove politically fatal:

Mr. King seemed quite emphatic that the Conservatives would seize on this issue, if it were placed before them, in order to force an early election. They would distort and misrepresent the proposal as an effort on the part of the Liberals to sell Canada to the United States for a mess of potage. All the old British flag waving would be resurrected by the Conservatives. . . .50

King recommended that, given these political considerations, no immediate action be taken on the economic proposal, even if it meant the demise of the whole idea. He suggested, however, that there was a possibility the trade negotiations could be linked to the discussions for the North Atlantic Security Pact which were going on at that time. In this way, other countries, particularly the United Kingdom, could be added to the economic discussions, and this would remove the political obstacle created by the bilateral nature of the proposal.51

The three Cabinet Ministers did not share King's fears over the political results of an election campaign fought on the issue. According to Pearson's account, all of them, and Howe particularly, felt that "an election issue of this kind would be a magnificent one for the Liberals, and would sweep
the country." However, King was able to convince them that the timetable suggested by the Americans could not be met, and that the negotiations should be terminated for the present. Even so, the three "felt particular regret at the necessity of coming to this conclusion." Pearson also recorded his own disappointment that the opportunity had been missed.

King, on the other hand, later castigated in his diary those involved in the negotiations for their naivety:

I confess I get alarmed beyond measure at the casual way in which a few officials take it into their hands to try and settle the great national policies; force the hands of the Government, etc. without having the least knowledge of the political side of matters of the kind. . . . It is only too clear that Clark with McKinnon and Deutsch and Towers of the Bank of Canada have all got it into their heads that this is the only way to balance trade with the United States.

Howe has got the absurd idea that what complete freedom of trade would mean is that Canada would be piling her manufactured goods into the United States. . . .

Indeed the whole episode does seem to indicate a very great naivety on the part of all the members of the government who were involved. In the records of the discussion between the Cabinet members and the officials, there is never any mention of the possibility of very serious drawbacks: for example, the fact that many industries in Canada and the United States are mutually competitive, not mutually complementary, and thus free trade would not necessarily result in increased sales for Canada. Nor was there any mention of the serious problem of Canada's numerous branch plants which
might be repatriated to the U.S. once tariffs were removed resulting in a great loss of Canadian jobs. The only probable conclusion that can be drawn is that the pressure of the dollar crisis gave a great appeal to what appeared to be a simple and complete solution and was not conducive to careful consideration of the results. The only one who seemed to feel that further consideration was in order was King himself.

The American State Department was informed via the Canadian Ambassador that the talks would be suspended, but that "there was no disposition in Ottawa, however, to forget for a moment the importance of the trade relationships between Canada and the United States and the necessity for continuing to work towards the freest possible trade between the two countries." The message recommended that the trade discussions might possibly be revived in connection with N.A.T.O. The State Department, however, while disappointed by the cancellation of the talks, was not favourable to the suggestion of a direct connection between the N.A.T.O. treaty and the economic proposals. They felt that this would "create opposition to the Defence Agreement by some of the interests affected by the economic proposals and that it would be represented by them that the State Department was using the Defence Agreement as camouflage for furthering economic measures . . . ." In any case, the N.A.T.O.
discussions continued on much longer than originally expected, and the reciprocity proposal was not revived.\(^{57}\)

Moreover, the authorization of "offshore purchases" under the Marshall Plan removed the pressure for immediate action. It was obvious, however, that neither of the first two elements of Abbott's dollar programme—the Marshall Plan and tariff reductions—could provide a long-term solution to the exchange problem.

The third element in the emergency programme outlined by Abbott originated within the Department of Reconstruction and Supply. During the latter part of 1947, officials in the Department had been working out plans to counteract the increasing shortage of American dollars. Alex Skelton, the Director-General of Economic Research, presented his recommendations to Howe in two memoranda, dated August and October, 1947. Skelton suggested that a long-term solution to the problem should be based on two principles. First, pressure should be applied to the American branch plants operating in Canada to develop the production of specialized parts on a large scale for export to the United States and integration with American production. Such a programme would be similar to the wartime programme, and was "the only means by which a substantial correction in the exchange balance could be made in respect to these industries."\(^{58}\) Skelton pointed to the automobile industry, electrical machinery, and the
chemical industry, among others, as obvious examples of areas where such a policy could be applied to earn more U.S. dollars. The second recommendation suggested that Canadian resources be developed as substitutes for American raw material which were imported as inputs into Canadian industry. Such substitution would save U.S. dollars and would therefore complement the first proposal. 59

Skelton suggested that the implementation of these policies should be the responsibility of a department which would formulate an industrial development policy in direct relation to Canada's trade position and policies. This role could be filled either by reorganizing one of the existing government departments or by creating a new Department of Industry. 60

In his reply to Skelton's memos, Howe expressed his agreement with the general lines of the analysis. 61 Howe also consulted some of his former colleagues from Munitions and Supply, including E. P. Taylor, and asked them for their suggestions on dealing with the dollar problem. Taylor replied in a letter which came out strongly against import controls. Instead he recommended that "the Prime Minister and you could sell Mr. Truman and his colleagues on a peacetime Hyde Park deal." Taylor concluded by offering his services for six months or a year to implement the operation in Washington. 62
In replying to Taylor, C. D. Howe noted that Taylor's suggestion had been "very much on our mind." Such a policy, he said, would involve increased production and the redirecting of raw material and manufactured exports to the U.S. markets. At the end of the letter, Howe suggested that "Our ideas on the subject do not differ greatly, perhaps for the reason that we were educated on these matters in the same wartime school."63

An account of these developments was given by the American Ambassador in Canada, Ray Atherton in a report to the U.S. Secretary of State at the end of October:

Sentiment favoring economic integration is a logical outgrowth of the growing realization that Canada's pre-war international trade position founded on the triangular exchange of commodities with the United States and the United Kingdom is no longer valid. . . .

It is well known that for some time Canadian Government departments have been studying the expansion of the Dominion's economy along lines complementary to that of the United States. Such expansion is said to involve, first, the intensified development of natural resources, both for export to the United States and for supplanting raw material imports from the United States . . . and, second, a greater interchange of finished products between North American companies with emphasis on increased exports to the United States . . .

In brief, it may be said that Canada today more than ever before appears ready to accept virtual economic union with the United States as a necessary substitute for the multilateralism of the Atlantic triangle now believed to have disappeared for an indefinite time to come, if not permanently, and as a desirable corollary to American-Canadian co-operation in other fields.64

This plan for solving the dollar crisis by means of increased Canadian production and further integration into the continental market became a key element in the government's
long-term programme. Control over the implementation of the policy was placed completely in Howe's hands. Following Skelton's advice, the Department of Reconstruction and Supply was merged into the Department of Trade and Commerce, thus combining into one department the two functions of developing industrial production and stimulating exports. On 19 January 1948, Howe became Minister of Trade and Commerce.65

Howe and the officials in his Department believed that industrial expansion and development were impossible without greater and relatively stable markets in the U.S. It was clear to them that the Canadian market was too small to develop low-cost industries to compete with U.S. firms. To develop industries even as import substitutes within Canada required large export markets to reduce the per unit costs to a competitive level. In outlining the Liberal trade programme at the 1948 Liberal Party Convention, Howe pointed out this lesson to his audience:

. . . we have established that in the manufacturing field there is scarcely any product that cannot be made at least as well, and at least as cheaply, in Canada as in the United States--provided we can have an adequate volume of production. By further integrating our present industrial integration with the U.S.A., we can get this volume production . . . .66

However, the acquisition of the required export markets in the U.S. by means of tariff reductions proved to be impossible after 1947. The only alternative was to attempt
to fall back on the wartime Hyde Park model which had circumvented U.S. tariffs by means of special bilateral deals and joint procurement committees. Under Hyde Park, specialization and the division of the continental market between Canadian and American producers had been encouraged. Such a programme was essential to the goal of re-orienting branch-plant exports to the U.S. Without a division of production between the two countries there was little to prevent the repatriation of the plants and the servicing of the U.S. market from domestic American plants. The application of the Hyde Park principle would maintain a place for the branch-plant sector in Canada within a rationalized, integrated, continental economy. Obtaining American acceptance of a new agreement, therefore, became an essential element in Howe's programme.

Although Howe's dollar-earning programme was originally introduced in 1947 as one of a complementary set of solutions, it quickly became the dominant focus of Canadian trade policy as the possibility of European recovery grew fainter and as significant reductions in the American tariff beyond those of 1947 were blocked by Congress. Canadian trade policy underwent a re-orientation to greater dependence on the United States as a result of the failure of the original post-war policy of reviving Canada's traditional pattern of triangular trade on the basis of multilateral, free trade
Canadian trade policy returned to its traditional emphasis on the link between economic development and assured foreign markets, with these two aspects now explicitly combined in Howe's Department of Trade and Commerce. The development of this policy will be examined in the final chapter.
Chapter IV

BILATERALISM AND DEFENCE 1948-53

Total reciprocity had proved to be politically unacceptable in early 1948 as a means for the bilateral balancing of trade with the United States. However, the same goal was achieved after 1948 by means of special, bilateral agreements based on the Hyde Park principle. One of the principal reasons that the latter policy proved to be politically acceptable was its relation to the developing Cold War.

After the death of Roosevelt in 1945 and under the new President, Harry Truman, American foreign policy retained for a time its universalist character. The primary focus continued to be on achieving, through the United Nations Organization and its several agencies, the co-operation of all nations including the Soviet Union. The Canadian government shared this commitment to a universalist approach to "collective security." External Affairs officials, desirous of asserting Canada's position as a "Middle Power"--that is, as a leader of the smaller nations and a conciliator between the "great powers"--assumed an extremely active role in all deliberations and programmes of the world organization.1

Despite the continued adherence to the principles of international co-operation throughout 1945 and 1946, tension between the Soviet Union and western capitalist countries
was increasing dramatically. This resulted from an opposition of ideologies and imperialisms and focussed on the conflict between American attempts to impose its multilateral, free-trade programme on Russia and Eastern Europe and Russian initiatives to retain a sphere of influence that would give them secure borders and access to essential raw materials. Under Truman, American policy was much more intransigent than it had been during the Roosevelt period.²

A number of events were both symptomatic and causative of the developing split. The Potsdam Conference of July, 1945 and the Conference of Foreign Ministers which met later that same year in London were unable to reconcile the differences between Russia and the U.S. over the organization of post-war Europe. A year later the Paris Peace Conference failed to find a solution or an alternative to the division of Germany. In February and March of 1946, a major crisis broke out when the Russians refused to withdraw their occupation troops from Iran. Faced with strong American opposition and British troops, the Russians eventually withdrew, only, however, after obtaining large oil concessions from the Shah.³

During this period, American military planners were concerned with the potential military threat posed by the Soviet Union to the United States. Much of their concern rested on the role which Canada would have to play in any
adequate system of defence. The development of new weapons technology had made the Canadian Arctic a vital strategic area. Within a few years, they reasoned, atomic bombers and missiles would be capable of travelling to the U.S. from Russia, and these would follow the shortest possible route—across the North Pole and the Canadian Arctic. Thus, defence co-operation between Canada and the United States was deemed essential to American security.  

In July, 1945, the Canadian Cabinet followed the recommendation of its Advisory Committee on Post-Hostilities Problems, accepting the general principle that "the defences of Canada should be closely co-ordinated with those of the United States after the War," and agreeing to the continuation of the Permanent Joint Board on Defence. Nonetheless, this was far from the very specific commitments on joint defence desired by the American government. In November, U.S. members of the P.J.B.D. were instructed by their government to initiate conversations on direct co-operation between the military forces of both countries. A detailed plan for such joint defence was worked out by a Joint Military Co-operation Committee, established in February, 1946. The final plan, the Joint Canadian-United States Basic Security Plan, was based on the assumption that within a few years the Soviet Union would be capable of inflicting an all-out attack across the North to destroy the centres of government and industry.
in Canada and the U.S. The recommended solution was construction of networks of radar warning systems, American air bases and anti-aircraft defences in northern Canada.6

As a result of the increasing international tensions, the Canadian government was also concerned about the potential military threat of the Soviet Union. The American Ambassador in Canada, Ray Atherton, reported to the Secretary of State in August, 1946 that

... Canada recognizes that she is confronted with the necessity for a major re-orientation of her defense policy ...

As seen from Canada, soviet Russia is the only conceivable aggressor in the foreseeable future. If aggression takes place, it is anticipated that the first blow will be struck at the heartland and arsenal of democracy, the United States, and that Canada lying between the U.S.S.R. and the United States will inevitably be struck simultaneously. Inevitably, therefore, Canada must look first and primarily to the United States for assistance in defending herself ...

His conclusion was that, despite the caution with which King and some members of his Cabinet approached the problem,

... we may expect slow but steady progress toward that integration of our defense systems which seems so essential to the defense of the North American continent.7

Yet, despite the apprehension of the Canadian government, the 1946 Basic Security Plan was unacceptable to them for three main reasons. King was adamant that the level of Canadian defence expenditures in the post-war period be reduced to the absolute minimum that was required. There was a strong feeling, particularly in External Affairs, that the Americans were exaggerating the immediacy of the Russian
threat, and that the enormous expenditures required to implement the Plan were therefore premature. There was also a great deal of anxiety in the Cabinet that Canadian sovereignty might be endangered by an American presence in Canada's North. Finally, King considered the Plan to be far too bilateral, since it omitted any recommendation for consultation with the British. Pearson recommended to King that such bilateral arrangements could be linked to the United Nations to be consistent with the main lines of Canadian foreign policy.  

As a result of Canadian reluctance over the Plan, the U.S. government scaled down its immediate demands and dropped its insistence on the establishment of U.S. fighter bases in the Arctic. By February, 1947 a revised plan had been accepted, and a joint statement drawn up by the U.S. Department of State and the Department of External Affairs was released on 12 February outlining general principles for defence co-operation. The statement was carefully designed to assuage all of the Canadian doubts. The statement recognized that Canadian-U.S. collaboration would "necessarily be limited." In deference to Canadian concern over sovereignty, an article was included stipulating that "all co-operative arrangements will be without impairment of the control of either country over all the activities in its territory." Assurance was also given that these principles would not
threaten, but would "strengthen the co-operation of each country within the broader framework of the United Nations."

On the positive side, the principle of co-operation included the encouragement of interchange of defence officials, standardization of military equipment between the two countries, and the reciprocal availability of military facilities in each country.\(^\text{10}\)

As in the case of the Ogdensburg Agreement, these principles were not embodied in any formal treaty. Moreover, like the earlier Agreement, the Joint statement would provide the basis for a military alliance, despite the emphasis on the limited extent of co-operation. Its informality gave it the flexibility to adapt to changing circumstances as the Cold War developed. The Canadian government committed itself with the U.S. to precisely the exclusive kind of peace-time military co-operation which King had rejected between Canada and the British Commonwealth in 1944 as a vestige of colonialism.\(^\text{11}\)

By 1947, the U.S. State Department was clearly drawing back from its universalist programme and was concentrating more and more on excluding the Soviet Union from international programmes, on the containment of communism, and on the building of a strong "free world" bloc. Economic programmes became subordinate to political and military goals. The key statement marking this change was the Truman Doctrine
of March, 1947. The President used this doctrine to justify to Congress a grant of financial aid to the Turkish govern­ment and to the Greek government which was fighting a civil war against communist guerillas.

To convince the Congressmen, both Truman and Assistant Secretary of State Dean Acheson, who had become the most important American foreign policy advisor, argued that communism was a monolithic, world-wide conspiracy dominated by the Soviet Union, and bent on aggression. The war in Greece was merely one extension of the attempt by communism at world domination. The role of the U.S., in the words of Truman, was to "help free peoples to maintain their free institutions and their national integrity against aggressive movements that seek to impose on them totalitarian regimes."

The Truman Doctrine evolved naturally into the Marshall Plan, a vast programme of aid designed as an economic defence for all Western Europe against communism.

The Canadian government was well aware of this evolution in the States Department attitude. In a teletype from Washington, Wrong reported that as a result of the Truman Doctrine, "The one-world conception is laid aside" and that instead, "the President's policy divides the world between the Soviet sphere and the rest." Wrong was also informed by State Department officials that the new policy would also be carried over into the United Nations:
They are likely deliberately to make use of United Nations meetings as a forum for putting the Russians on the spot by methods of psychological warfare. They will be more unready to continue to take part in protracted and unproductive discussions such as those in the Atomic Energy Commission. The effect would be to employ the United Nations as a means for building up an anti-Soviet bloc; senior members of the State Department have said as much to me in private conversation.15

As the Cold War intensified, the United Nations did grow increasingly polarized. In February of 1948, the communists in Czechoslovakia effected a coup d'etat, an event which St. Laurent compared to the Nazi takeover of Czechoslovakia, labelling it "a frightening case history of communist totalitarianism in action."16 Four months later, the complete breakdown of the German peace negotiations resulted in the blockade of Berlin by the Russians.17 By the opening of the Third General Assembly of the United Nations in September, 1948, the Security Council had become totally paralyzed as the Russians vetoed American motions for U.N. intervention in both Czechoslovakia and Germany.18

The view of communism held by most of the key members of the Canadian government in this period did not differ a great deal from that of Truman and Acheson. For the Canadians also, communism represented a unified world conspiracy aiming for world domination. The basic conflict in the world was, according to St. Laurent, between the "theory-crazed, aggressive Communists" and the "democratic, Christian civilization of the West."19 This struggle was seen as a continuation of
the fight which the Allies had waged during the recent war against the Nazis. For Lester Pearson,

The chief menace now is subversive aggressive Communism, the servant of power politics . . . [There are] no fireproof houses in the atomic age, or little countries far away, like Czechoslovakia in 1938, whose fate means nothing to us. Our frontier is now not even on the Rhine or rivers further east. It is wherever free men are struggling against totalitarian tyranny, of right or left . . . .20

The Canadians never doubted that the Russians were clearly responsible for the Cold War. For example, Brooke Claxton, Minister of National Defence, claimed that

. . . At that time on V-E day the Russians were our allies, and they were respected for the part they had played and the sacrifices they had made for the common cause. Since then the Soviet union [sic] has flouted these war-won friendships, obstinately obstructed every move to arrive at understanding, and promoted chaos and disorder and the darkness of the iron curtain as the only conditions in which communism can exist and spread . . . .21

However, the conflict was not viewed only as a "political" and a "spiritual" one between freedom and totalitarianism.22 The Canadian government shared American opposition to a closed Soviet economic bloc that would control or exclude Canadian trade. In reference to U.S. aid to Greece, Hume Wrong had noted:

. . . There can be no doubt, I think, that it is in the interests of Canada not only that the Administration should secure its immediate aims of strengthening Greece and Turkey, but also that this should be followed by further aid in Western Europe, looking first towards more rapid economic recovery and secondly towards pushing back or lifting the iron curtain in Central and Eastern Europe.23

Thus, there was a basic congruence in the attitudes of
Canadian foreign policy officials with those of American policy-makers: both shared a similar cold-war anti-communism and agreed that a firm policy of containment was essential. Although members of External Affairs sometimes felt that the Americans exaggerated the threat posed by communism in particular instances, this underlying unity of attitude coupled with the aim of External Affairs to exert Canada's influence on the world stage, compelled them to work closely with the American State Department. Only by active participation with the Americans, according to Lester Pearson, could Canadian officials have the opportunity to offer "restrained, responsible, and constructive" criticism and advice at the centre of power and decision-making, a policy Pearson called the "first principle of Canadian diplomacy." King attempted to restrain the ambitions of External Affairs, complaining that "Canada's role was not that of Sir Galahad to save the whole world" and that Pearson and others in External Affairs had been "overly influenced by American opinion." King feared the domestic political consequence of Canada's being dragged into situations where, in King's mind, she did not belong. St. Laurent, however, gave strong support to External Affairs' policy of involvement, both as Secretary of State for External Affairs, and, after 1948, as Prime Minister.

As a result, the deepening conflicts of the Cold War
produced further growth of North American defence ties. In June, 1948, the major policy statement on defence given by the Minister of National Defence, Brooke Claxton, gave a very prominent position to Canadian-American co-operation. Pressure from the U.S. for expanding and speeding up the standardization of military equipment between the forces of the two countries mounted steadily.\textsuperscript{29}

The key event in dispelling the final vestiges of Canadian caution towards co-operation was the detonation of an atomic bomb by the Soviet Union in September, 1949. The Joint Canadian-United States Security Plan of 1946 had recommended the immediate construction of a northern radar warning system, based on the estimate that the Russians would have the capability to mount an atomic attack sometime around 1950. At the time, the Canadian government had dismissed this forecast as highly exaggerated and the plan for a warning system had fallen into abeyance. The Russian explosion resulted in a re-evaluation of the immediacy of the threat, and the Canadian government began negotiations to implement the plan they had rejected three years earlier. By 1951, the two countries had reached an agreement, formalized by an exchange of notes, for the construction of the Pinetree Line. This radar system was completed in 1954 at a cost of $450 million, two-thirds of which was paid for by the United States under the cost-sharing plan incorporated into the agreement.\textsuperscript{30}
The most profound effect of increasing co-operation in continental defence was in the economic sphere. It was not only that from 1948 both Canada and the United States began to rearm. Much more significant was the lesson which both governments drew from the experience of the Second World War; that is, that the tremendous productive capacity of industry in the U.S. and Canada had played a crucial role in determining the victory of the Allies over Germany. This industrial strength had been based not only on the defence industries themselves which produced the military equipment, but also on all the defence-supporting industries, such as steel and aluminium, which provided the raw materials for the industrial system and which were no less important to war production. Most of the primary and secondary industries in Canada are, in this sense, defence-supporting.  

As a result of this wartime experience, both the Canadian and American governments considered a broad programme of "industrial mobilization" of the economies to be, from 1948, an integral part of defence preparation. Industrial strength, it was believed, might possibly deter the Communists from initial acts of aggression and avoid a major war. If war did prove inevitable, a strong industrial economy would be even more important, given the advance in military technology, than it had been in World War II.

During World War II, C. D. Howe had been responsible
for industrial mobilization and in 1948 he was again entrusted with the direction of the programme. Howe described its purpose in a speech on "Preparedness and the Canadian Economy":

... The purpose of preparedness for Canada and for other countries of the free world is not war. It is an effort to prevent all-out war with its infinite sacrifices and miseries. Of course war may come. But if the free nations bring their united strength to bear quickly enough, war can, I believe, be avoided ... That is why I suggest that we should look upon the preparedness effort not in a negative sense but as a positive measure to preserve our way of life and to protect our standard of living.

For Canada, preparedness is a many-sided effort. It means increasing our military establishment and our civil defences. ... Equally important, but often overlooked, it means building up productive facilities and increasing the supplies of many of the vital raw materials upon which depend our defence effort and the defence effort of the democratic world ... In other words, economic preparedness is much more than defence production in the usual sense. It involves a strengthening and an expansion of the whole range of activities that support the defence effort. That, as I see it, is my main responsibility as a member of the Canadian Government at the present time.32

Canadian businessmen were again called upon to assist in the planning of industrial mobilization. In 1948 the government established the Industrial Defence Board of Canada by Order-in-Council. The chairman and vice-chairman of the Board were both prominent Canadian industrialists--H. J. Carmichel of Conroy Manufacturing and J. E. Simard of Marine Industries--and five more seats were given to representatives of Canadian industry. The other seats on the Board were occupied by the Deputy Ministers of Trade and Commerce and National Defence, the Chairman of the Defence Research Board,
and the three principal Supply Officers of the Canadian Armed Forces. The major duty of the Board was "to advise the Government of Canada and the Minister of National Defence on all matters relating to the industrial war potential of Canada." 33

During World War II, Canadian and American defence production had been organized on a continental basis under the Hyde Park Agreement. Similarly, plans for industrial mobilization after 1948 would emphasize the greater efficiency in production which could be achieved through economic co-operation between the two governments. Thus, the joint Canada-United States programme for continental defence legitimized and justified closer economic relations between the two countries.

At the same time, however, economic co-operation for defence provided the opportunity for Howe to ensure the success of his programme of increasing exports to the U.S. to cure Canada's dollar deficit. Howe's dollar-earning programme was premised on the ability of the Canadian government to obtain a revival of Hyde Park. It is not likely that this would have been possible without the increased tensions engendered by the Cold War. The need for export markets was an incentive for entering the co-operative defence agreements with the U.S., and it was also as a result of this pressure that Canadian trade policy became intimately linked
with defence policy and industrial mobilization. Officials in the Department of Trade and Commerce, which had responsibility both for the dollar-earning programme and industrial mobilization, used the joint defence and economic committee to push for trade benefits and guaranteed markets for Canadian exports.

The acceptance by the government of the increased economic ties with the U.S. was also a result of the position of C. D. Howe within the Cabinet. After the retirement of Mackenzie King, Howe became the dominant figure in the St. Laurent government. Under Howe, the Department of Trade and Commerce, which was now responsible for the combined areas of domestic industrial development and international trade, played a key role in all economic policy, and virtually determined economic relations with the United States.  

Howe's attitude was that of a businessman and a manager who approached the job at hand in a purely practical manner, and he was little concerned with larger political issues. The experience of the previous War, during which he and his department had so successfully managed the economy by means of strict regulation, provided the model for dealing with the post-war economy. Thus, when the problem to be faced after 1947 was the dollar shortage, Howe approached it with the same readiness to control and direct trade, giving little thought to the question of maintaining the principles
of G.A.T.T. or a diversified trade for Canada.  

Although most of the joint agencies that had administered economic co-operation during World War II were dismantled at the end of the War, the American government had suggested that the Hyde Park principle be extended to cover the period of reconversion to avoid any unnecessary disruption of production. This was carried out by an exchange of notes in May, 1945 although the U.S. States Department had requested at the time that the notes themselves be kept secret. However, little direct use was made of the principle, since the actual exercise of co-operation and co-ordination depended on the wartime joint agencies. When these were terminated, no ready vehicle remained for the regular co-ordination of economic policy. Moreover, in the period between 1945 and 1947 Canadian trade officials were primarily concerned with the removal of controls and the re-establishment of multilateral trade.

For the reasons discussed in the previous chapter, Canadian interest in Hyde Park revived with the 1947 exchange problem. Further impetus in this direction was provided by the threat of American export controls at the end of 1947. Because of domestic shortages in steel and oil, the U.S. Department of Commerce placed controls on the export of both these commodities. These controls threatened to disrupt Howe's programme of increasing the production of dollar-earning
exports, since the expansion of these export industries required the import of American steel and oil. Therefore, the Canadian government appealed to the U.S. Department of Commerce and received exemption for the controls as part of American assistance in solving the exchange problem.

Canada's exemption brought complaints from American producers and from Congress over the anomaly of the application of the emergency Canadian import quotas to American goods while Canada was exempted from the American export controls. A furor was created in January, 1948 when the Senate Committee on Small Business released the text of the secret 1945 notes which they had obtained from the State Department. 38

Although the Canadian exemptions were successfully defended by the State Department and the Department of Commerce, a great deal of confusion concerning the status of Hyde Park was generated by the episode. The Assistant Secretary of Commerce informed the Senate that the Hyde Park Agreement was "out the window" and that exemptions had only been granted in this particular instance to assist the Canadians with their exchange problem. In a subsequent private meeting with the Canadian Ambassador, however, senior State Department and Commerce officials gave assurances that Hyde Park was indeed still operative. 39

On 15 April 1948, Ambassador Wrong wrote a long
memorandum on the subject to Lester Pearson. Wrong noted the potential threat which American shortages posed for the expansion of Canadian production. In his view, temporary exemptions from export controls for specific commodities, as had been granted in the case of oil and steel, were too uncertain to serve as a permanent solution to this threat; what was required was a new agreement governing Canadian-American relations in the allocation of scarce resources. On the question of the original Hyde Park, he explained that

... The Hyde Park Agreement ... had been of some use in these past months in helping to stave off any damaging United States action. It has, however, become a somewhat weather-beaten instrument and, by itself, one of limited usefulness. In fact, it has been described here as a one-way street in which Canada is by far and away the chief benefactor. The fact that the Agreement was signed seven years ago (although renewed by a series of rather complicated notes at the end of the war) makes it, by United States standards, rather ancient history. The name "Hyde Park" is far from being a useful one in Washington these days. The applications of its provisions in the postwar period has been surrounded by such uncertainty that it has been hard to know how and when to apply it. Only a few months ago, at the time when we were imposing our import restrictions, there was in certain quarters of the administration a good deal of support for the idea of denouncing the Agreement entirely.40

However, Wrong suggested to Pearson that there was good reason to hope for a change in this situation. While up to that time, export controls had been established in the U.S. for essentially domestic reasons, he felt that now the control programme was "moving into a new phase in which
 purely political considerations will be emphasized." These "political considerations" were the Cold War with Russia: in the Marshall Plan bill which was then before Congress, a clause had been inserted requiring the use of export controls to prevent any of the goods financed by the Plan from reaching countries in the Soviet sphere. This in turn held out the promise of greater security for Canada in her economic relations with the U.S.:

... now [that] the international political aspects seem to be of principal concern ... we may now expect the United States officials to seek the co-operation of Canada in carrying out whatever new export policy is advised. Stopping the sale of any Canadian aircraft to Czechoslovakia is a recent example of the type of action which may well be asked of us in the future. I think that the Americans cannot reasonably expect us to co-operate wholeheartedly and intelligently with them in the new export policies which present political conditions may dictate, if at the same time they badger us at one time on oil, at another on steel, and so forth.42

The result which Wrong foresaw was that Canada could use its political co-operation as a trade-off for special consideration in economic matters:

We now seem to be moving rapidly into a new period of close economic and political co-operation which, it seems to us, calls for the United States Government to take a broad, statesmanlike view of its economic relations with Canada, and to do so in a concrete way in the common interests of the two countries (chiefly the political interests of the United States and the economic interest of Canada). It may be a most opportune time to reach an agreement which would diminish the possibility of the recurrence of the badgering and harassing tactics of certain control-minded administration officials and certain small but powerful congressional elements.43

Within two years, Wrong's prediction would be proved correct
and a new agreement based on the Hyde Park principle would be signed.

Howe’s dollar-earning programme had, in any case, quickly become involved with defence procurement. Many of the most important defence industries—minerals, electronics, military equipment—were precisely those industries which had been greatly expanded in Canada during the War and were now suffering from severely reduced overseas demand.

Mobilization of the U.S. economy for defence meant assuring that the American industrial system had access to secure and adequate supplies of industrial raw materials. In 1946, the American Congress had passed the Strategic and Critical Materials Stockpiling Act, authorizing the Administration to establish stockpiles of key industrial materials to ensure adequate supplies in case of war. During the later 1940’s, the U.S. government set up stockpiles for most of the key resources. Because of the depletion of many of the domestic American sources, a strong demand was created for many primary products that Canada was producing.

Howe and the officials in Trade and Commerce encouraged Canadian producers to re-orient their marketing organization to the U.S. and to bid on U.S. defence contracts. George Bateman acted on behalf of the Department in the area of minerals, encouraging Canadian producers to seek the U.S. stockpile contracts.
When British government purchases of Canadian copper fell off in 1948, Bateman helped to negotiate two long-term copper contracts with the U.S. stockpile, which guaranteed a minimum yearly purchase but left the total amount open. In this case the contracts were facilitated by the suspension by Congress of the U.S. import duty on copper due to a domestic shortage. In a letter to Bateman, Howe noted that these transactions would "have a stabilizing effect on the industry for a long period," and that they "follow the trade policies of the Government designed to correct our U.S. dollar position and are very helpful in that regard."  

However, in 1949, as the U.S. demand for copper tapered off, a bill was introduced into Congress to cancel the duty suspension and give priority once again to U.S. producers. Bateman asked Howe to protest strongly to the State Department that the action would harm Canadian producers who, "acting on what they considered to be an assured commitment by the U.S. and encouraged by the Canadian government, had changed their marketing arrangements and diverted copper to the U.S."  

Such instability and insecurity in trade relations was a major threat to the success of the Canadian policy. To counter this problem, the Canadian government exploited, as Wrong had suggested, the political and military demands of the U.S. Administration to gain special economic benefits
that would circumvent the protective measures of the U.S. Congress and assist long-term Canadian economic development.

Throughout 1948 and 1949, Canadian officials exerted increased pressure in the Permanent Joint Board on Defence for a firm restatement of the Hyde Park principle that would guarantee Canadian producers equal priority on defence contracts with American producers, and would commit the American government to take account of Canadian exchange problems in assigning defence contracts. For example, in this period the P.J.B.D. was working on increased standardization of American and Canadian military equipment. Canadian representatives made clear that Canada would only participate if measures to benefit and safeguard the Canadian exchange position were incorporated or an integral part of the programme. At the March, 1949 meeting of the Board,

The Canadian Chairman then drew the Board's attention to the fact that, if Canada was to standardize its equipment with the United States to the desired extent, and to build up its armaments, it would be necessary to face up to the realities of its exchange position. Canada . . . would need to sell to the United States defence equipment and supplies that it can produce, if it is to be in a position to purchase military equipment in the United States. A jet engine now in the advanced stage of development in Canada was an example of what Canada would be prepared to sell. A reciprocal purchasing arrangement of the type referred to had worked very well during World War II within the framework of the Hyde Park Agreement of 1941, and it would seem highly desirable to examine the procedures developed under that Agreement with a view to their possible application to the present situation.

The Board expressed its general agreement with this concept and decided to discuss the subject further at a future meeting after there had been an opportunity to explore the matter more fully.
The formation of the Joint Industrial Mobilization Committee provided a further step towards renewal of Hyde Park. In April, 1948, the United States Munitions Board had recommended to the Canadian government that a joint committee be set up for collaboration between officials in the two countries on industrial mobilization. This proposal received strong support from the Permanent Joint Board on Defence. At the end of 1948, after some negotiation, the Defence Committee of the Canadian Cabinet accepted the proposal for the formation of a four-person joint committee composed of the chairmen of the U.S. Munition Board, the U.S. National Security Resources Board, and the Canadian Industrial Defence Board, plus a ranking official of the Department of Trade and Commerce, since the Chairman of the I.D.B. was an industrialist. 50

On 12 April 1949, diplomatic notes were exchanged, endorsing the formation of this Joint Industrial Mobilization Committee. In language reminiscent of the Hyde Park Declaration, the notes declared that

... the common interests of Canada and the United States in defence, their proximity and the complementary characteristics of their resources clearly indicate the advantages of co-ordinating their plans for industrial mobilization, in order that the most effective use may be made of the productive facilities of the two countries. 51

The duties of the joint committee were to exchange information and to make recommendations on the co-ordination and planning of industrial mobilization, to organize sub-committees, and to co-operate with the P.J.B.D. on all matters concerning
industrial mobilization. Sydney Pierce, Associate Deputy Minister of Trade and Commerce, acted as the first Canadian Chairman, although Howe soon took over himself as chairman.

It was the outbreak of the Korean War in June, 1950 that provided the Canadian government with the opportunity for the final success of its policy. The United States asked for and received military assistance from Canada, and Canadian troops were sent to support the American forces fighting in Korea. Although nominally the Canadian troops were part of a U.N. contingent, complete military control was in reality exercised by the United States.

The Korean War boosted defence budgets in both Canada and the United States enormously. The great demand for military supplies in the U.S. produced in turn a tremendous increase in the demand by U.S. industry for raw materials and manufactured components. The desire of the American government during the Korean War to obtain adequate war supplies, to establish secure sources of industrial materials and to ensure Canadian military participation converged with pressure from the Canadian government for secure markets, resulting in a formal restatement of the Hyde Park principle.

Shortly after the outbreak of the War in 1950, the Joint Industrial Mobilization Committee drew up a "Statement of Principles for Economic Co-operation" for submission to the two governments. This statement was given formal effect
by means of an exchange of notes on 26 August 1950 between
Ambassador Wrong and Secretary of State Dean Acheson. Refer­
ence was made in the Statement to the operation of the Hyde
Park principle during World War II, and it was agreed that
once again

. . . our two governments shall co-operate in all respects
practicable, and to the extent of their respective execu­
tive powers, to the end that the economic efforts of the
two countries be co-ordinated for the common defense and
that the production and resources of both countries be
used for the best combined results.54

The six specific operating principles included in the
Statement constituted a programme of joint production poten­
tially as broad as that of the recent War. The most important
of these principles were the development of a "co-ordinated
programme of requirements, production and procurement"; the
institution of "co-ordinated controls over the distribution
of scarce raw materials and supplies"; the removal as far as
possible of "barriers which impede the flow between Canada and
the United States of goods essential for the common defense
effort"; and--duplicating the financial role which the orig­
inal Hyde Park had played--the stipulation that "The two
governments, through their appropriate agencies, will consult
concerning any financial or foreign exchange problems which
may arise as a result of the implementation of this agree­
ment."55

The Statement of Principles, however, was only a de­
claration of goals and had no legal status as a treaty. Thus,
any concrete benefits for Canadian trade depended on the extent to which the Canadians could have the principles implemented. In 1951, the two governments restructured the Joint Industrial Mobilization Committee and assigned it the task of implementing the principles. The Canadian delegation now consisted of Howe as Chairman and two other officials from his department.56 Howe pressured Stuart Symington, chairman of the U.S. section of the Committee, to include Canadian defence orders in the American priority system which was being drawn up by the U.S. National Production Authority to control the allocation of scarce production materials. Symington assured Howe that, in accordance with the Statement of Principles, Canadian producers would be given equal consideration with American producers in the allocation of these resources.57

The J.I.M.C. also adopted as its policy the division of defence production between the U.S. and Canadian producers so that the latter would be given access to an assured, continent-wide market. Accepting the premise that Canadian domestic requirements were too small to support economical production in many industries, the Committee established a programme of reciprocal defence procurement to encourage the development of "mutually supported production in the two countries" and the dispersal of facilities "to make the best use of continental sources of supply."58 This programme had
a major impact on Canadian resource exports. For example, in return for larger imports by the Canadian government of U.S. metals, such as steel, sulphur and molybdenum, Canadian producers were given large U.S. government contracts for minerals such as aluminium, copper, nickel, lead, zinc, titanium, cobalt and asbestos. Not only were long-term procurement contracts negotiated with Canadian firms for output from existing plant facilities, but the Committee also encouraged the American government to assist the expansion of the Canadian industries:

Certain agencies of the U.S. Government have entered into a number of arrangements for the expansion of production and procurement in Canada. They have issued certificates of accelerated tax amortization to some U.S. firms for expansion in Canada. They have entered into long-term contracts with Canadian firms under which the production of nickel, and, to a lesser extent, copper and cobalt will be expanded.

Agreement on reciprocal procurement affected not only Canadian resource industries, but the manufacturing industries as well. In discussions in the J.I.M.C., the Canadian representatives agreed to standardize completely Canadian military equipment with that of the U.S. in the interests of continental defence. Gradually the British-type equipment in Canada's possession was transferred to other N.A.T.O. allies. Production of new military equipment was divided between the two countries so that Canada could specialize in particular lines of goods and components. The Permanent Joint Board on Defence was given the task of watching over the division of
military contracts to ensure that Canada's exchange position was protected, and when necessary U.S. purchases in Canada were increased to achieve a better balance of trade. Canadian manufacturers received contracts for military supplies such as jet aircraft, guns, and ammunition. One of the most significant areas was the support given to the Canadian electronics industry. When the agreement on construction of the Pinetree Line was reached in the P.J.B.D., a stipulation was included in the final document that, "so far as practicable," electronic parts and other equipment were to be manufactured in Canada, and construction was to be carried out by Canadian contractors.

Reciprocal defence purchasing also provided the means for circumventing the protective measures set up by the American Congress, specifically the Buy American Act and the import duties. The Statement of Principles itself did not nullify the operation of the Buy American Act. However, the American Secretary of Commerce, when interviewed after the signing of the Statement of Principles, emphasized that the Act would not get in the way of any purchases the government intended to make in Canada. While the Act normally put severe limitations on the placing of contracts by the U.S. government in foreign countries, the Secretaries of the Army, Navy, and Air Force could claim emergency exemption from the operation of the Act. This provision was used extensively
by the U.S. Administration to purchase defence supplies in Canada. Under this exemption, approximately $100 million of military equipment manufactured in Canada was purchased every year from 1950 to 1953 by the U.S. government (not including the natural resource purchases for U.S. stockpiling).  

A similar strategy was used to circumvent the protectionist tariffs. The U.S. Secretaries of the Army, Navy and Air Force also could supply certificates for imported goods certifying that the procurement constituted an emergency purchase abroad, which allowed the goods to enter the U.S. duty-free. The War Secretaries provided these certificates for defence purchases in Canada by their own and other government departments, as well as for purchases in Canada by American defence contractors. Thus, many Canadian exports completely avoided the U.S. tariff.

Howe and his officials in both Trade and Commerce kept in close contact with Canadian export producers, encouraging them to bid for American contracts, to expand their facilities, and to orient their marketing organization towards the U.S. market. Whenever possible, they shepherded the individual applications through the Washington bureaucracy, applying pressure, and constantly emphasizing to the Americans their obligations under the joint agreements.

In April, 1951 a separate Department of Defence Production was created to assume some of the duties of Trade and
Commerce, and was placed under the authority of Howe. The new department was given direct control over industrial mobilization, which involved mobilizing and encouraging the expansion of Canada's industrial base and supplying the armed forces with defence equipment.68

The Department of Defence Production used its own defence procurement budget to complement American purchases and to assist further in the development of export industries. The division of production under the Hyde Park principle and the reciprocal procurement agreements meant that Canadian defence purchasing could be directed to the same industries which were being encouraged to export to the U.S.

In 1951, the government announced a three year $5 billion programme of defence expenditure. Approximately $3.5 billion of this was allocated for expenditure directly on military goods and materials by the Department of Defence Production. In the case of manufactured products, the development of the aircraft and electronics industries were given high priority by Defence Production since products of these industries could remain as significant Canadian exports long after demand for products more directly related to war, such as naval guns or torpedo components, had fallen off.69 In the first year orders for aircraft and aircraft engines comprised almost one-third of the procurement while electronics orders reached $560 million.70 The bilateral agreements were
used to obtain markets to assist in this long-term industrial development. Both aircraft engines and electronics parts were key items for which Canadian representatives in the joint committees had gained promises of American purchases under reciprocal procurement agreements. 71

A similar policy was followed in the resource field. Government expenditures were channelled into those industries which were finding increased markets in the U.S. The Department of Defence Production implemented a co-ordinated programme of "strategic resource development." To encourage investment, resources companies were granted direct financial assistance, liberal depletion allowances, exemption from corporation profits tax, and assistance in the building of transportation facilities. 72 The significance of this programme for Canada's trade was explained by an official in the Economics division of the Department of Defence Production:

Our second main job, as I mentioned before, concerns strategic resource development . . . It will be a dynamic force in the Canadian economy for many years to come. Not only that, but it will also serve to open up many remote parts of Canada which have, until recently, been a virtual wilderness . . .

Our first conclusion is that investment in strategic resource development industries will be more important in relation to total public and private investment than it has been in the years since World War II . . . In 1952 alone, about $1\frac{1}{2} billion will be invested in this way . . .

Our second general conclusion is that strategic resource development will make it possible for Canada to have increased her annual exports by over $\frac{3}{4}$ billion in 1955. Taking our sales of $3\frac{1}{2}$ billion worth of goods in 1950 as a base, this represents an increase of more than 15 per cent in volume terms. Of these foreign sales, it is probable that more than 80 per cent will go directly into the United States. 73
This large volume of investment directed into industrial development created, as had always been the case, a much greater demand for construction materials and machinery from the United States. The import of these capital goods should have created a new drain on the Canadian exchange reserves, and in this way the solution to the dollar problem threatened to aggravate the original problem. While the American government was committed to link defence purchases to the Canadian exchange situation, the joint defence committees concentrated mostly on achieving a balance in defence goods only, neglecting the effects of increased trade in investment goods. The crucial factor in preventing a new Canadian deficit was that much of the new investment was carried out by American corporations:

...During the "construction" period it will be necessary to pay out foreign exchange for large shipments of fabricated steel and machinery and equipment. Indeed, as many as one out of every four of our investment dollars will find its way into the pockets of metal and machinery manufacturers in the United States. It is fortunate, in a way, that the financing of much of this program is being carried out with the help of foreign capital. In 1952 and for several years thereafter, it is expected that direct investment in these industries from abroad will bring Canada almost as many dollars as are being paid out for imports of capital goods.74

Thus, American direct investment was recognized as an integral element of the Canadian policy of economic development based on reliable export markets.

The policy of re-orienting Canadian exports to the United States brought rapid and significant results. Already
by 1948, almost 50 per cent of Canadian exports were going to the U.S., an increase from only 37 per cent in 1947.\textsuperscript{75} By 1950, the proportion of total exports which were sent to the U.S. had risen to 65 per cent. Thus, Canada's traditional pattern of selling some 65 per cent of her exports overseas and the rest to the U.S. had been exactly reversed. During the Korean War Canadian exports to the U.S. continued to average approximately 60 per cent of the total.\textsuperscript{76} While the proportional shift of exports from European to American markets can partly be accounted for by European import controls, there was a major increase in the value of Canadian exports to the U.S. Between 1947 and 1952, the latter increased by approximately 17 per cent calculated in constant dollars.\textsuperscript{77} Much of the increase occurred in defence-related industries: between 1952 and 1955 Canada exported to the U.S. an annual average of $120 million of nickel, $72 million of aluminium, $63 million of copper, $45 million of zinc, and $25 million of lead.\textsuperscript{78}

The obvious success of Howe's programme of re-orienting Canada's trade did, nevertheless, raise some anxieties in External Affairs. Some of the officials in External Affairs maintained a strong belief in the original multi-lateral programme despite the necessity for any temporary deviation due to the exchange crisis. Moreover, they were concerned over the political implications of the increasingly
bilateral nature of Canadian trade. In 1948 one of these officials, Wynne Plumptre, had registered early and strong opposition. At a time when there was considerable talk in public about special, bilateral trade deals with the United States as a cure for the dollar problem, Plumptre had written an article for *Saturday Night* in which he had argued strongly against special relations:

... We should certainly try to reach a new trade agreement with the U.S. ... But whatever, shape such a new trade agreement takes, and whenever it comes, it should be in the form now traditional for both the U.S. and ourselves. It should be open-ended not exclusive; it should be on a most-favoured-nation basis and not a special barter arrangement; it should lower tariffs for all countries concerned and not set up some new sort of "Empire Preference." For if it did, we should very quickly be absorbed into the American empire.79

In April, 1950, a memorandum was drawn up in External Affairs, entitled "A Review of Measures to Promote Canadian Exports to Soft-Currency Countries" and forwarded by Lester Pearson to C. D. Howe.80 Plumptre certainly had a hand in its drafting.81

The memorandum attempted to survey the general direction in which Canadian trade was moving. In particular, it noted that "In the turbulent post-war years, the current seems to be carrying our boat rather far from its accustomed course, rather too close, perhaps, to rocks on one side of the Channel."82 While recognizing the severity of import restrictions being applied in the non-dollar countries, and the likelihood that these would be increased in future years,
the memorandum suggested that efforts be made to keep up trade with these countries. It also noted the drift away from the policy of multilateralism, and examined the political implications of relying too heavily on bilateral trade with the United States. Asking "why should we fear too great dependence on the United States market?" the memorandum answered:

... The mere mention of how the United States tariff has hurt us in the past supplies a reason against too heavy dependence on exports to U.S.A. in the future. Further, there may well be a political risk involved, a small country that gets too heavily dependent on a much larger one always runs the risk of political pressure—a vague risk, a rock below the surface, but none the less real. Finally, much of our post-war external policy, political as well as economic, has been aimed at restoring the economies of the United Kingdom and Europe and tying together, with closer bonds, all the countries surrounding the North Atlantic ocean. We shall be hindered not helped, in these aims if our trade overseas shrinks too far.

All this does not mean that we should try to prevent our exports flowing southward—far from it! Nor does it involve an attempt to steer upstream, to restore the trade relationships of half a century ago. It only suggests that we might do a bit more to help our exports overseas—that we might try to steer a bit closer to the centre of the stream.83

This protest, despite the mild language in which it was couched, brought a strong rebuke from Howe. In "Comments by C. D. Howe on Mr. Pearson's memorandum," Howe noted that

... I am disturbed by what seems to be a bias against trade with hard currency countries and an implied willingness to sacrifice that trade in favour of soft currency countries ... [If] it is intended as a broad statement of the objectives and methods of Canada's economic strategy, it would seem to me that the document has serious deficiencies.
Our export policy should be to sell as much as possible wherever possible. The United States has become the healthiest and most receptive market in the world at a time when intense difficulties are being encountered elsewhere...84

Howe dismissed the suggestion that there could be any political repercussions from the trade:

It is often said that a small manufacturer should not sell his whole output to one large store. If he does he will not for long remain independent. This may have some relevance to Canada's relations with the United States, but the two cases are not really similar. When the story is properly told it does not involve one seller, Canada and one buyer, the United States, it involves hundreds of companies in scores of industries independently and privately organized, and making their own deals at their own prices. It is not at all obvious that Canada's sovereignty would be impaired, even by a large increase in the percentage of our exports going to the United States.

The surest way to lose our sovereignty would be to get into financial insolvency, as the European countries have done with unbalanced budgets, deficits abroad, and rising costs at home...

... My criticism would be that Mr. Pearson's memorandum is a little too frightened of the American bogey and, therefore, just a little too anxious to do everything to help the British.85

Given the absolute dominance of Howe in trade policy, these memoranda illustrate the clear subordination of political considerations to those of trade. In the long run, this policy established by Howe continued to prevail. Canadian trade policy did not shift back to the "centre of the stream." The Canadian government continued to develop Canadian export industries by means of greater economic integration with the United States. Perhaps the major threat to the Canadian policy occurred at the end of 1952 when a Republican, General
Eisenhower, was elected to the U.S. presidency. Not only were the Republicans the traditional protectionist party, but the Canadian-American bilateral deals were merely informal arrangements not embodied in any treaty. Thus they could be easily allowed to lapse by a new Administration. Such a possibility did not appear remote as increased pressure for protection was put on the new President by domestic American producers, particularly the mineral producers.  

Canada's position had been given extra support, however, by the release in 1952 of the Report of the Materials Policy Commission headed by William Paley. This commission had been established by Truman to enquire into the problem of assuring an adequate supply of industrial materials for U.S. industry. The Paley Report, entitled "Resources for Freedom" emphasized the need for the United States to rely increasingly on imported supplies from other countries of the "Free World," and thus to ensure adequate foreign supplies which would be strategically secure. Canada, with large deposits of minerals and joint defence policies with the U.S. was considered to be an important source of supply.  

C. D. Howe was particularly concerned over the potential threat to Canada's assured markets in the U.S. from the lobbying of American producers. On 8 October 1953, Howe attended a meeting of the Joint Industrial Mobilization Committee called to discuss the supply situation in metals,
intending "to point out in no uncertain terms that Canada cannot accept the position of a marginal supplier in any metal." At Howe's request, the J.I.M.C. reiterated its adherence to the continental approach inherent in the Hyde Park principle, and drew up the following recommendations for presentation to the new Administration:

a) The United States and Canada can better defend themselves and do justice to their world-wide commitments by viewing defence problems as continental rather than national and
b) The effective utilization of joint resources is fundamental to the joint defence and economic strength of both countries.

Howe also held talks with a number of other Administration officials, and received assurance that Canada's special position would remain undisturbed. In a letter to George Bateman he reported:

... I have now returned from Washington, where I received an enthusiastic reception from Messrs. Brownell, Humphrey, Wilson and Weeks, and had the opportunity of meeting a number of their officers. I came away with the opinion that Canada can expect preferred treatment from the present United States Government.

As a result of my visit, I felt reasonably confident that Canadian aluminium capacity will be pooled with that of the U.S. when any further plans for expansion are being considered . . .

The position of lead and zinc was discussed, and the feeling was expressed that uneconomic operations must close down in both countries. While nothing definite was said, I got the impression that the administration would be opposed to any attempt to protect uneconomic operations at the expense of Canada . . .

On 26 October 1953, the new President established a Cabinet Committee on Raw Materials to determine how the U.S. should ensure adequate supplies of raw materials in the
"uncertain years ahead." On 5 November, Howe wrote to Dr. A. S. Fleming, Chairman of the United States section of the J.I.M.C. and the representative of the Office of Defence Mobilization on the Cabinet Committee. Howe reminded him of the recommendations of the J.I.M.C. and asked him to draw these to the attention of the Committee.

Howe also took up the question of Canada's special position at the first meeting of the Joint Canada-United States Committee on Trade and Economic Affairs, held in Washington on 16 March 1954. This joint committee had been established by an exchange of notes on 12 November 1953, and was charged with encouraging, as well as reporting on matters adversely affecting the "harmonious economic relations" and the "high level of mutually profitable trade" between the two countries.

At the first meeting of the Committee, the fundamental trade-off involved in the bilateral trade was spelled out very explicitly by the representatives of the two countries:

Mr. Howe suggested that this subject [Metals and Minerals] might be given particular attention in connection with the first agenda item. It was one to which great importance was attached in Canada. Canadian producers had been dissatisfied on many occasions at finding themselves in the position of "marginal suppliers" to the United States. He would hope that sources in Canada could be treated on the same basis (except, of course, for customs duties) as sources in the United States. 

Mr. Weeks [Secretary of Commerce] said that there was every disposition in the U.S. Administration to look on Canada and the United States as more or less one package in any discussion of metals and minerals.
He assumed that the United States would find a reciproc- cal attitude in Canada. If the United States were to depend on Canada, he assumed that Canada would be a dependable source of supply . . . Mr. Howe felt that the United States could be assured that Canadian supplies would be available when needed, and he referred to the experience of the Second World War and of the Korean conflict which had shown the kind of co-operation of which Canada was capable.

In commenting on the observations by Mr. Weeks, Mr. Abbott thought that if the United States wished to count on Canadian supplies she would have to do more than look to them only on those occasions when she found it necessary to go abroad for supplies. He thought that Canadian suppliers should have a fair crack at the United States market at all times. Mr. Pearson remarked that what the United States apparently wanted was an assurance of the availability of Canadian supplies in times of emergency. What Canada wanted was an assurance of availability of the United States market in times of non-emergency. 94

Thus, despite the changeover to a new government in the United States, the Canadian trade policy that had gradually evolved between 1947 and 1952 received a new lease on life. There was no alteration in the special trade position accorded by the U.S. government to Canada. Canadian exporters retained their assured markets, and continentalism remained the primary basis of Canadian trade policy.
CONCLUSION

After the exchange crisis of 1947, the Canadian government retreated rapidly from its commitment to multilateral, free-market principles in international trade. Under the direction of C. D. Howe, the policy of increasing Canada's earnings of U.S. dollars became a co-ordinated programme of expanding Canadian export production based on government assistance, American investment, and assured markets in the United States.

The major vehicle for encouraging bilateral, regulated trade with the United States was the joint procurement agreements modelled on the wartime Hyde Park principle. These agreements provided the opportunity for Canadian exports to bypass American protectionist barriers and to escape the vagaries of the free market. They were in clear contradiction to the non-discriminatory trade principles embodied in G.A.T.T. that were the cornerstone of multilateralism. Canadian-American trade now formed part of a system in which politics and economics were closely intertwined, and for which the doctrines of the Cold War provided the justification.

This trade policy was associated after 1947 with North American continental integration: before World War II, however, the traditional policy of economic development
which was similarly based on specialization for export to protected markets had been tied to a triangular pattern of trade between Canada, the U.S. and Britain. Three major factors were responsible for the change. First, there was the economic decline of Europe. Neither Britain nor continental Europe was in a position after the War to absorb a large enough volume of Canadian exports. When the economic problems of Europe showed no signs of alleviation at the end of the 1940's, the pressure of Canadian manufacturers on the government to concentrate on the British market subsided. Second, the commitment of the government to a domestic economic policy of full employment meant that no other measures for correcting the balance of payments deficit were acceptable as an alternative to increasing bilateral trade. The government was not prepared to accept the social consequences of a long-term reduction in imports, accompanied by domestic unemployment and deflation. The recent experience of the Depression made the choice of such a course of action impossible. The third factor was the dominant position of C. D. Howe within the government. Under Mackenzie King, the government had attempted to maintain a balance in Canada's trade relations. During the Second World War, King had rejected as a danger to Canadian sovereignty both an exclusive common raw material development policy with Britain and the Commonwealth as well as more exclusive trade ties with the U.S. After
1948, however, such ties with the U.S. were not considered by Howe to be a danger or a new form of colonialism. The bilateral trade agreements, according to Howe, represented co-operation between Canada and the U.S. on the basis of "joint resources and common purposes" as "partners in building up a strong North American economy . . . [to] overcome the destructive influence of communism and lay the foundations for a happier and more prosperous world."²

Canadian dependence on trade with the U.S. continued and increased throughout the 1950's and 1960's. Further bilateral agreements aimed at rationalizing the continental economy were negotiated. In 1958, Canadian-American defence co-operation was extended by two agreements for the establishment of a Canada-United States Committee on Joint Defence and a North American Air Defence Command.³ Then between 1958 and 1963 a series of Defence Production Sharing Agreements were signed to promote the "greater integration of the United States and Canadian military development and production."⁴ In these agreements, the economic concessions were strictly one-way. The U.S. government granted exemptions from tariffs and from the Buy American Act to a broad range of Canadian manufactured products; in return, the Canadian government granted no specific economic concessions, but continued to make a significant contribution to continental defence. In the years after the signing of these Production
Sharing Agreements, approximately 38 per cent of all non-food, end-product exports (besides automobiles) from Canada to the U.S. were affected.\(^5\)

In 1965, the Hyde Park principle was extended to the non-military sphere. As a result of Canadian initiatives, the Canada-United States Automotive Agreement was signed, providing for tariff-free trade in automobiles and auto parts. Also included were specific guarantees concerning the type and volume of Canadian production, and commitments to ensure the growth of the Canadian automotive industry.\(^6\) The Agreement was designed to rationalize the industry by encouraging Canadian branch plants to specialize in the production of specific car models. The results were very significant. Not only was integration carried further by the development of complementary product lines in the two countries, but Canadian exports of these products, most of which were sent to the U.S., rose from 0.2 per cent of total exports in 1965 to 20 per cent of total exports in 1970.\(^7\)

The term "integration" appears continuously in government documents and public statements. This term implied increased specialization by firms and the planned and regulated division of production between the two countries. The Canadian policy did increase the integration of the economies by promoting single continental markets for specific commodities.
On the other hand, this process differs from the type of economic integration usually advocated by economists. Most economists favour integration through the abolition of tariffs to form a free-trade area or a customs union since they believe that the extension of a free market will improve the allocation of productive resources between countries and the economic efficiency of the economies.8

This criterion of allocative efficiency is inapplicable to the Canadian programme of integration. In 1948 King rejected the proposal for a free-trade area between Canada and the U.S., and Canadian policy moved away from a free market to regulated trade. Thus, a number of factors differentiate the Canadian policy of continental integration from the establishment of a free-trade area. Specialization occurred not as a result of market forces, but from the desire of the government to develop specific industries. The Canadian government received guarantees of minimum sales for many of the products. Moreover, although Canadian exports were exempted from American tariffs, tariff concessions were generally non-reciprocal: the benefits to the U.S. were largely military and political. The primary goal of Canadian trade policy after 1947 was not economic efficiency, but rather the maintenance of secure and stable markets for Canadian exports to foster economic development and prosperity within Canada.
Notes for Introduction


Notes for Chapter I

1 The classical theory of international trade was originally formulated by Adam Smith, and supplemented by David Ricardo and John Stuart Mill.


5 English, Canada in a Wider Economic Community, p. 1.


8 For Criticism of specific aspects of the traditional staple thesis, see Paterson, Themes in Canadian Economic History, Ch. II.

9 See Easterbrook and Watkins, Approaches, part I; V. C. Fowke, The National Policy and the Wheat Economy (Toronto: University of Toronto Press, 1957); Aitken, American Capital.


15 Wilgress, Canada's Approach to Trade Negotiations, pp. 3-8; Annett, British Preference, p. 12.


18 McDiarmid, Commercial Policy, pp. 272, 304-5.


26 Kenwood and Lougheed, The Growth of the International Economy, p. 207; Livingstone, Britain and the World Economy, pp. 33-36. Although Canadian exporters to Britain received their claims on the sterling exchange, the British government made conversion to dollars possible by providing sufficient dollars in New York.

27 Firestone, Canada's Economic Development, pp. 144-46; Reuber, The Growth and Changing Composition of Trade, p. 16.


29 Goodman, Industrial Materials, pp. 9-12, 71-78.


31 Canada. Dept. of Reconstruction and Supply, Location and Effects of Wartime Industrial Expansion in Canada,


33 Gibson, Canada's Economy in a Changing World, pp. 312-351.

34 Approximately 30 per cent of the components required by Canadian factories for the production of munitions exported to Britain were procured from U.S. manufacturers.


38 Ibid., p. 135.

39 Canada's exports, imports, and trade surplus with continental Europe were all reduced by 83 per cent between 1939 and 1941 (D.B.S., Review of Foreign Trade, pp. 63-64).

40 Livingstone, Britain and the World Economy, p. 93.

41 Pickersgill, The Mackenzie King Record, I, 180; Granatstein, Canada's War, pp. 134-35.


44 Pickersgill, The Mackenzie King Record, I, 189-204.

"The Hyde Park Declaration," in Mackay, Canadian Foreign Policy, pp. 58-59.


James, Wartime Economic Co-operation, p. 30; Granatstein, Canada's War, pp. 146-47.


James, Wartime Economic Co-operation, pp. 193-94.

Ibid., p. 197.

Ibid., p. 67.


Ibid., p. 77.

Ibid., pp. 74-77.

Quoted in Soward, p. 75.

Memorandum from M. W. Mackenzie, Deputy Minister of Trade and Commerce to G. R. Heasman, Chief, Export Permit Branch, Dept. of Trade and Commerce, 23 April 1945; and memorandum from G. R. Heasman to M. W. Mackenzie, 14 April 1945, in Department of Trade and Commerce Files (Department), Vol. 269, File 35 155.
Notes for Chapter II


2 Calleo and Rowland, America and the World Political Economy, p. 35.


4 Gardner, Sterling-Dollar Diplomacy, p. 3.


7 Canada. Treaty Series (Ottawa: King's Printer, 1942), No. 1.

8 Gardner, Sterling-Dollar Diplomacy, pp. 56-68.


10 Gardner, Sterling-Dollar Diplomacy, pp. 102-3, 145.

11 Memorandum for Prime Minister from N. A. Robertson, 14 February 1942, and Memorandum for Prime Minister from N. A. Robertson, 30 December 1941, King Papers, Vol. 335, File 3613.

12 Ibid.

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