AMERICA AND CANADA'S 1947 DOLLAR CRISIS

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ABSTRACT

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This paper is concerned with the role of senior government officials from both the United States and Canada in their efforts to find a solution to the Canadian dollar or foreign exchange crisis of 1947. As such, it is a study in the techniques of negotiation, but it also includes an examination of larger questions involving the future of Canadian-American relations. The questions of multilateralism and a free trade treaty with the United States were uppermost in the minds of Canadian planners. Multilateralism and foreign aid and the roles of the Soviet Union and the United Kingdom had top priority in the minds of American planners. That United States foreign economic policies and alteration of Canadian priorities would determine the outcome of the crisis was recognized by both countries. Canada welcomed American leadership in the postwar world and believed that United States investment was essential to the continued growth of her economy. That Canada was part of America's economic orbit was viewed by most planners as an opportunity for development rather than a threat to national independence. Such an attitude was to foreshadow developments in Canadian-American relations to the present day.

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The dollar or foreign exchange crisis of 1947 is a study not only of the techniques of negotiations between the United States and Canada, but also an examination of larger questions affecting the two nations. To some degree, the crisis revealed how each of these North American neighbours perceived their place in the postwar world; how each evaluated the other's goals and aspirations; and, to a certain extent, the resolution foreshadowed future developments. As well, the crisis revealed the true nature of continental partnership and the extent to which Canada's status was apparent rather than real.

During the Second World War both American and Canadian officials had designed a postwar world based upon multilateralism; comparative free trade through interchangeable currencies. Their war economies had relieved them from the Great Depression of the 1930's but the European economies, the linchpin of global trade between the Eastern and Western Hemispheres, remained in a condition unfavourable to world trade revival. Only the United States had the wealth to provide the necessary materials for the recovery of both Canada and Europe. That it planned to use its economic power in 1947 was made evident by the fact that domestic wartime controls were removed in June, 1946, which raised the prices of U.S. exports from thirty to sixty percent. In June of the following year, the United Nations Relief and Rehabilitation Administration, dependent on American funds, was officially ended.

The resolution to the crisis revolved around a series of basic questions. What were Canada's long range postwar foreign economic goals, to what extent were they similar or different from those of the United States, and to what extent were they carried through? How did Canadian planners view 1947, to what extent did they anticipate a crisis, and what steps did they believe were necessary? How did American planners anticipate developments in 1947, in particular, the growing shortage of U.S. dollars and the world wide demand for American goods? To what extent did the United States believe that it could help Canada and what steps did they believe that Canada would have to take within America's global economic strategy?

The United States was the economic and military giant of the postwar world. Like Canada, it saw the recovery of the United Kingdom, Western Europe and their colonial dependencies as the key to both domestic and world prosperity. Realizing the implications of the global shortage of U.S. dollars, American planners reached certain conclusions as outlined in the Truman Doctrine and the European Recovery Plan or Marshall Plan. The foreign exchange crisis of 1947 was a dilemma that revealed the illusions of Canada's policy makers and was symptomatic of an unequal partnership that was to foreshadow future Canadian-American relations.

CHAPTER I

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Canadian postwar foreign economic policy had several objectives. The primary long range goal was to establish a multilateral trading world based upon comparative free trade and interchangeable currencies. To this end Canada, the United States, the United Kingdom and other leading leading nations met in 1944 at the Bretton Woods Conference. There, two agencies were created: the International Monetary Fund (IMF) to facilitate exchange stability and the International Bank for Reconstruction and Development (IBRD) to encourage investment opportunities. These two institutions were designed to shape the recovery of world trade patterns and eventually re-establish a multilateral pattern of world exchange. They were not intended to serve any protracted period of emergency. The United Nations Relief and Rehabilitation Administration (UNRRA), which received about 70 percent of its funds from the United States, was created for this purpose. It was widely believed by Allied officials that postwar relief and bilateral trade and payment treaties would quickly restore many countries to a position where they would be able to restore many prewar trading activities.

Another object of Canadian long range postwar foreign economic policy was the establishment of the International Trade Organization (ITO) to create a series of guidelines for co-operation in world trade. The first step in this direction were meetings of the Preparatory Committee of the United Nations Conference on Trade and Employment held in London from October 15 to November 26, 1946 and in New York in January, 1947. A draft Charter for the ITO was drawn up and the projected multilateral negotiations on the lowerings of tariffs and removal of trade restrictions were discussed. Along with the United States and the United Kingdom, Canada was an active member of the committee. Fifteen other leading trading nations were invited to participate in a conference at Geneva, Switzerland which opened on April 10, 1947. Simultaneously, negotiations were held for both the draft Charter of the ITO and tariff reductions resulting in the General Agreement of Tariffs and Trade (GATT).

Canada's third object was to expand her export trade to the United States by a new free trade treaty to be negotiated after the discussions at Geneva.

Until the IMF, IBRD, ITO and GATT could take effect, however, Canada created a series of short range foreign economic measures to bridge the interim period. The most immediate of these was the stabilization of her foreign markets and avoidance of a postwar depression. In the eyes of both Canada and the United States the key to a revitalized world economy was the recovery of the United Kingdom. In 1945, both countries made available five billion dollars worth of export credits. Britain was Canada's second largest prewar customer and largest consumer of Canadian food exports. By the Anglo-Canadian Financial Agreement, the British began to draw upon the one and a quarter billion dollar credit in May, 1946. As well, the Anglo-American Financial Agreement allowed in July, 1946 a three and three-quarter billion dollar credit. The Canadian contract was signed at prices well below world levels, that guaranteed U.K. consumers a steady supply of wheat, wheat flour, cheese, butter, bacon and eggs. It also provided Canadian farmers with an assured market for their surplus production. Canadian dollar credits, totalling 607.3 millions, were also made to Belgium, China, Czechoslovakia, France, Holland, Norway and the Soviet Union. In addition, other funds were made available for relief and rehabilitation. These included military relief to northwest Europe, Italy and the Balkans totalling 95.6 millions; contributions to UNRRA amounting to 154 millions; post-UNRRA relief totalling 20 millions, as well as a 5.4 million grant to the International Refugee Organization. By comparison, United States postwar credits by mid 1947 amounted to about 8 billions, or about four times as much as Canada's. The Americans, however, had a national income eighteen times that of Canada. The breakdown of multilateralism during the war and the continuation and expansion of postwar bilateralism was a far greater threat to Canada than to the United States.

During the war, when multilateralism had broken down completely, Canada's prewar foreign exchange reserves of about 400 millions declined to less than 175 millions by January, 1941. By the Hyde Park Agreement of April 20, 1941, President Roosevelt and Prime Minister King agreed to a U.S.-Canada cost-sharing arrangement for war production. America paid Canada for war supplies in U.S. dollars which the Canadians used to support the United Kingdom and other allied countries during the war. This arrangement allowed Canada to avoid Lend-Lease assistance; however by an exchange of notes in 1942, Canada was committed to reduce trade barriers as were those who were committed by Article 7 of the Lend-Lease Agreement. Also, the United States invested about $250 million in direct investment and purchased about $500 millions worth of Canadian securities. Canadian production expanded to unprecedented levels. She provided almost $5.7 billions worth of aid to the Allied war effort and had almost $1.5 billion in foreign exchange reserves at the end of 1945.[1]

To lessen dependence on foreign trade, Canada embarked upon a postwar industrial expansion program. It was designed to produce more capital and consumer goods from domestic material, using domestic labour. A government publication proudly stated, " ... over 200 new products formerly imported are now being produced in Canada".[2] Such a policy of greater economic self-reliance had wide support from industrialists who believed that their war production revealed that they had developed the technological skills, experience and efficiency to be able to compete not only in trans-Atlantic markets, but in the American market as well. As well, Canadian consumers indulged themselves in an unprecedented spending spree. The United States was the only supplier who could meet both Canadian industrial and consumer demands. The countries to whom Canada had extended nearly $2 billions worth of export credits had also embarked upon policies of domestic self reliance based on industrial recovery and expansion. They had enjoyed considerable success in 1946 through protective tariffs and government-sponsored bilateral trade and payment treaties. These devices, however, had hindered the growth of export industries geared to North American markets and had thus considerably reduced their supply of U.S. dollars. U.S. dollar reserves were necessary to pay for badly needed supplies from Canada and the United States. As a consequence, Canada was not receiving enough U.S. dollars from her traditional trading partners in the United Kingdom and Western Europe to finance the heavy volume of purchases from America. Her own foreign exchange reserves of gold and U.S. dollars were being quickly depleted.

In 1946, Canada had an overall favourable balance of trade of $460 million. However, there were exports credits of $750 million for which there was no payment and another $110 million donated for UNRRA and post-UNRRA relief. While Canada exported goods worth $950 million to the United States, imports were about $1.4 billion, leaving a deficit of $450 million. The reason why foreign exchange reserves only declined by $250 million to a year end total of $1.25 billion was largely because of further purchases of Canadian securities by Americans and a lump sum payment from the United Kingdom for war debts.

The February 26 foreign exchange forecast for 1947 probably written by Towers or Rasminsky was alarming. It was estimated that foreign exchange holdings would decline by $625 million leaving Canada with less than $700 million. Given the difficulties in attempting to predict world trade, it was suggested that Canada could not allow her exchange reserves to decline beyond $400 million. Action would have to be taken no later than December, 1947 and in all probability plans might have to be implemented at an earlier date. Depending upon the monthly drain on reserves, the possibilities of expanded trade, a decline in consumer demands or successful trade agreements at Geneva, exchange conservation measures would have to be implemented when reserves reached $850 million. Measures would have to be designed not to cut the U.S. dollar deficit too drastically as that could completely disrupt the economy. Rather, measures to reduce the deficit over a period of one or two years were considered more realistic. Timing would be crucial. If world developments appeared to point to a favourable future, action could be deferred. The role of the IMF and the IBRD, an increase in exports to the United States and the reaction of the United Kingdom would have a direct bearing on this vital question.

This unsigned memorandum written to the Deputy Minister of Finance, W.C. Clark, contained several proposals, many of which became policy options for the Canadian government. To increase U.S. funds, export credits could be diverted to cash markets and the rate of drawing could be altered. As an alternative to a drastic cut or prohibition of U.S. imports, Canadian planners could concentrate on certain key industries such as those producing automobiles and farm machinery. Canadian branch plants importing such large quantities of U.S. produced components might be persuaded to export an equal value of parts to the United States. Encouragement could be given to primary industries to increase greater processing elements into the export of their materials. Arrangements could also be made with the United States for defence purchases such as war supplies and for stockpiling of strategic materials. Measures might also be adopted to attract more U.S. tourists and to provide special assistance to the gold mining industry which had suffered from higher overhead costs since Canada had increased the value of its dollar, making it par with the U.S. in July, 1946. It could also be possible to increase exports by developing an austerity program. Certain measures could be adopted against U.S. imports, such as prohibitions, quotas and taxes and the Canadian tariff could be lowered for imports from non-dollar areas. Restrictions could also be placed upon Canadian tourist spending in the United States. Borrowing in the United States was another measure to be considered, but only as a last resort. A loan could only be justified as a temporary measure. It would not really solve the already large trade deficit with America that would continue for the indefinite future. Other possibilities included indirect borrowing by limiting the convertibility of the dollar and adopting measures to persuade Canadians to sell their U.S. securities. These proposals suggested that Canada's position on multilateralism, by virtue of the Geneva trade discussions, might have to be altered to allow for maximum freedom of action. The timetable at Geneva anticipated tariff negotiations to be completed by August 15 and Charter negotiations to be completed by July 31.[3]

On February 26, 1947, the same day that the above bleak memorandum was being written, the U.S. Department of State was assessing the situation. Joseph Jones, an official who would play a major role in drafting both the Truman Doctrine and the Marshall Plan, expressed his concerns to a fellow official:

> There are many signs that the world is approaching this year the greatest crisis since the turn in the tide of the war ... It is primarily an economic crisis centred in Britain and Empire, France, Greece and China ... If these areas are allowed to spiral downwards into economic anarchy, then at best they will drop out of the United States orbit and try an independent nationalistic policy; at most they will swing into the Russian orbit. We will then face the world alone.[4]

The theme of economic crisis was emphasized in President Truman's speech at Baylor University on March 6. The main purpose was to pledge support for the forthcoming trade talks at Geneva, urge the establishment of ITO and emphasize American commitment to worldwide free enterprise. Equally important, the President warned about the expansion of state trading:

> ... Everywhere on earth, nations are under economic pressure. Countries that were devastated by the war are seeking to reconstruct their industries. Their need to import ... will exceed their capacity to export. And so they feel that imports must be rigidly controlled. Countries that have lagged in their development are seeking to industrialize. In order that new industries may be established, they, too, feel that competing imports must be rigidly controlled ... If this trend is

> not reversed, the Government of the United States will be under pressure ... to use these same devices to fight for markets and for raw materials.[5]

Since American prosperity and foreign free enterprise were inseparable, the future pattern of world economic relations depended ultimately on the United States, the world's richest creditor nation. This speech, which attracted little comment, became the preface for the famous Truman Doctrine speech which followed six days later.

The United States was also worried about the United Kingdom and Canada. American officials considered these two countries to be her major partners in the reconstruction of postwar free enterprise. However, both partners were experiencing foreign exchange problems. U.S. officials feared that the United Kingdom would fail to live up to its obligations under the Anglo-American Financial Agreement and attempt to delay sterling convertibility, or impose import restrictions against American exports.[6] Officials were also concerned about the Canadian outlook upon world affairs since secret talks held on January 22 and 26 in Washington. At these talks between officials of the Departments of Finance and Treasury, the Canadians, using the pretext of their depressed gold mining industry, were considering gold exports to take advantage of premium prices being offered by foreign branches of U.S. banks. The Canadians were reminded of the importance of their role in international stability and their obligations as a leading member of the IMF to uphold the price of gold at $35 per ounce. Officials were well aware that the United States was the ultimate purchaser of all gold exports. U.S. officials would not allow gold exports by U.S. producers. If the Canadians adopted such a policy, they would be forcing a loan from America. The Canadians decided to defer action when they were told that, should the Canadian government implement such a policy, the U.S. government would probably enter the market and sell gold at $35 per ounce without any monetary restrictions as to its use.[7]

State Department officials believed that Canada's growing shortage of U.S. dollars was due primarily to their own policies. Canada sought to protect its consumers and industrialists from spiralling inflation in the United States, especially when America removed wartime price controls in June, 1946. In the following month, Canada appreciated her dollar to par with the U.S. dollar. However, based on an evaluation from the U.S. Embassy in Ottawa, the return to parity was premature, as the anticipated rise in inflation never materialized. What Canada really needed was to devalue her dollar to stimulate exports and the U.S. tourist trade. Canada's second error was to underestimate the drain on her U.S. dollar supply by issuing export credits to Europe and the U.K. in amounts that seriously miscalculated the ability of these countries to recover and eventually repay. One report emphasized that, based on a conversation with a senior Canadian government official, the Canadians would probably devalue their dollar in the near future.[8] It was these reports from the American Embassy in Ottawa that were used by Andrew Foster, the Assistant Chief of the State Department, Division of British Commonwealth Affairs, to prepare a memo for President Truman for his forthcoming meeting with the Canadian Prime Minister, Mackenzie King on April 23, 1947.

The Prime Minister's briefing was prepared by Lester Pearson, the Under Secretary of State for External Affairs, and Hume Wrong, the Canadian Ambassador in Washington. Both agreed that the item of first priority was Canada's deteriorating exchange position and that this point should be emphasized to the President. It was pointed out that the depletion of U.S. dollars was running at a rate well over $50 million per month. It was most likely that Canada would have to impose restrictions against U.S. imports unless a new foreign aid program was adopted by America which would allow Canada to receive U.S. dollars for her exports that were being sold mainly on credit. Pearson and Wrong suggested that King emphasize the importance that Canada attached to the Geneva trade discussions for the expansion of world trade. Both insisted that the abolition of imperial preferences would depend upon substantial reductions in the U.S. tariff. So important was the exchange situation to Canadian officials that a special report, based on the suggestions outlined in the February 26 memo to W.C. Clark, was prepared for the Prime Minister. It was urged that purchases of Canadian materials for strategic stockpiling would help to delay any Canadian program aimed at conserving U.S. dollars. A long term contract for the purchase of aluminum in Canada would be a concrete gesture that could be made by the United States govenment to indicate its concern.[9]

Thus, when the President and the Prime Minister met on April 23, both leaders had very different conceptions of the Canadian foreign exchange situation. When King mentioned the growing shortage of U.S. dollars might force Canada to adopt import restrictions, he also suggested that a sizable foreign aid program to Western Europe would be the best solution to the problem. In the meantime, he thought that the United States might like to increase its supply of strategic materials by purchasing aluminum. Truman stated that his country had ample supplies of aluminum, but shortages of lead, zinc and copper. In any event, he was sure that financiers of both countries could work out a solution to the problem.[10]

The memorandum prepared by Foster for Truman may have been influenced by a memo sent to the Joint Chiefs of Staff. As the State Department was planning a massive foreign aid program for Western Europe, it requested that military planners reconsider their survey of strategic planning to include an estimate to determine the countries of the world in the order of their urgency for foreign aid and their relation to U.S. national security. An initial study prepared in connection with the State-War-Navy Co-ordinating Committee survey, JCS 1769, indicated that, based solely on urgency of need for U.S. foreign aid, Canada ranked eighteenth. The Joint Chiefs agreed with the State Department that the United States lacked the resources to give aid to all countries strictly on the basis of need. Not only should the Soviet Union be excluded from foreign aid, but all areas under their control should also be denied assistance. The whole purpose of foreign assistance should be to allow each nation to retain or achieve an economy strong enough to maintain armed forces to protect its own security and to be of assistance to the United States in the event of war. Based solely on considerations of national security, Canada ranked eighth. But including the factor of urgency of foreign assistance with that of strategic importance, Canada dropped to sixteenth. The area of primary strategic importance to the United States, according to the Joint Chiefs, was Western Europe, including the United Kingdom.[11] Just as important to American planners was the ability of foreign countries to absorb U.S. exports. By May, 1947, American exports had reached an annual rate of \$16 billion and imports only \$8 billion. However, America's export drive was being supported by \$5 billion in public funds and the

President's Council of Economic Advisers was predicting a recession within a year. World economic stability still had not been achieved. Western Europe, with its retarded recovery, absorbed about one third of America's exports and was the key to U.S. economic expansion and the recovery of world trade between the Eastern and Western Hemispheres. Willard Thorp, Assistant Secretary of State for Economic Affairs, put the repercussions of a decline in foreign trade in simple terms:

> Any serious failure to maintain this flow of exports and imports would put millions of American businessmen, farmers and workers out of business.[12]

In 1938, American exports accounted for one seventh of total world exports; in 1947 the figure had risen to one third.[13] Not only was American prosperity inseparable from world prosperity, but the United States was becoming increasingly dependent on foreign imports of strategic and critical raw materials.. Seventy-three percent of America's imports consisted of raw materials, and more than half of these were supplied from areas within the British Empire.[14] Either for reasons of strategic importance or urgency of need, the United Kingdom rated first priority by planners from the Departments of State, War and Navy. At the end of April, Dean Acheson, Under-Secretary of State, took upon himself the responsibility of writing a draft of a speech outlining America's position of world responsibility and the reasons for another massive foreign aid program. The draft was examined and approved by the President and senior government officials. It was decided that Acheson would give the speech on his own responsibility and the primary purpose would be to test Congressional and public opinion.[15]

On May 6, two days before Acheson delivered his speech, the Deputy Governor of the Bank of Canada reported to the Deputy Minister of Finance, W.C. Clark, about the Canadian foreign exchange position in preparation for the forthcoming financial discussions with the United Kingdom. On May 1, 1947, reserves of gold and U.S. dollars had declined to $720 million. Canada's exchange had fallen at a rate in excess of $100 million per month since the beginning of the year. While describing the exchange situation as critical, Louis Rasminsky suggested rather than adopting hasty measures, such as levying severe import restrictions against the United States, that Canada should defer action. Timing was considered to be the crux of the problem. Rasminsky believed, partly on the basis of reports from the Embassy in Washington, that the United States might well engage in a foreign aid program, bring the IMF and the IBRD into full operation, and possibly make significant tariff reductions at the Geneva trade conference. A sizable wheat crop that could be sold for U.S. dollars could also ease exchange depletion considerably. As a dollar conservation program would probably involve parliamentary approval, early action was necessary before the current session recessed at the end of June. Without detailed plans, and without the time to build up public opinion, early action might well lead to a bitter debate about the magnitude of postwar credits, especially those granted to the United Kingdom. Such debate could result in curtailment of further aid either to the British or to Europe.

The forthcoming talks with the British would provide the mechanism that would allow the Canadians to postpone any ad hoc program: urge the United Kingdom not to use their Canadian loan for the rest of the year, but to finance their purchases in U.S. dollars. This action would deplete the Anglo-American loan seven or eight weeks earlier than planned and leave Canadian reserves at about $600 million by the end of 1947. If the British found such a plan too harsh, an early Canadian dollar conservation program that could be very harmful to the United Kingdom would have to be explained. Rasminsky clearly realized that further Canadian aid to both the U.K. and Europe would depend upon American foreign economic policies.[16]

On May 8, two days after the Rasminsky memo, Dean Acheson gave a speech at Cleveland, Mississippi, which outlined future United States foreign economic goals. The main theme placed U.S. foreign aid within the containment and intervention thesis of the ~~Truman Doctrine~~ speech of March 12. American foreign aid would reconstruct Germany and Japan and integrate them into a Western bloc led by the United States. Ambassador Wrong drew particular attention to that part of the speech which dealt with foreign balance of payments deficits. Acheson recommended that the United States would have to take larger volumes of imports, and this he attached to the trade and tariff discussions at Geneva. Further emergency financing would be required throughout 1948 and 1949. Acheson also believed that the IBRD and the Export-Import Bank would have to play a larger role. Wrong also pointed out that such influential journalists as Joseph Alsop, James Reston and Walter Lippman supported the Acheson speech. He also drew attention to Secretary of State Marshall's remark that "enduring political harmony rests heavily upon economic stability". Wrong believed that the anti-Soviet theme used so successfully by Truman to enlist support for the Greek-Turkish aid program might be used again with Congress to enable further foreign aid financing.[17]

By virtue of Anglo-Canadian talks in May, the British agreed to pay half the purchase price of Canadian goods with U.S. dollars. It was decided that senior officials would have to visit Washington to explain the rapid depletion of dollar reserves, exchange information about the continuing crisis in British balance of payments and to explore further developments in any proposed U.S. foreign aid program.[18]

In the meantime, Ambassador Wrong and his staff suggested ways that Canada could increase her supply of U.S. dollars. He pointed to three major possibilities: U.S. purchase of Canadian supplies for relief and rehabilitation programs; U.S. purchases of strategic and critical materials for stockpiling and Canadian supplies for U.S. armed forces abroad. Wrong believed that even if all his suggestions were implemented, they would only be a stopgap measure. Wrong's greatest hopes lay with his stockpiling proposals. Based upon his contacts in the State Department, he believed that U.S. officials would strongly support his measures. He also believed that the various U.S.-Canada defence arrangements could be used as a cover for a policy to supply the U.S. armed forces. Officials in the Departments of External Affairs and Finance welcomed Wrong's proposals, but agreed that, until a detailed plan was developed and discussions with the Americans were held at the end of the month, his suggestions would have to be held in abeyance.

On May 29, Graham Towers, Governor of the Bank of Canada, his deputy, Louis Rasminsky, and Ambassador Wrong met in Washington with Dean Acheson; William Clayton, Under-Secretary of State for Economic Affairs; and Jack Hickerson, Deputy Director, Office of European Affairs. Towers opened the discussion by pointing out that Canadian exchange reserves were depleting by about $100 million per month, due to an adverse balance of trade with the United States. With other dollar areas, Canada had a small trade surplus. Proposals had been put to the British to increase payments in U.S. dollars, but they were also suffering from a shortage of American funds. If a solution was not found within two months, Canada would be forced to impose restrictions against U.S, imports. Canada hoped to avoid this path and work out the problem with the United States. If the Americans made purchases in Canada for relief and rehabilitation programs, for supplies for the U.S. armed forces, for stockpiling and possibly for the Greek-Turkish aid program, Canada would be able to defer any action. Officials in Ottawa were also considering increasing exports to dollar markets at the expense of the domestic market and also examining arrangements to make possible increased exports from Canadian branches of United States corporations. These would also be temporary measures, as the only satisfactory solution would be the reconstruction of the United Kingdom and Western Europe.

Towers was convinced that the United States would have to take action in the very near future, or Canada would have to impose trade restrictions that could start a chain reaction amongst other countries also committed to the principle of multilateralism. He was sure that the British would follow Canada's lead, because they had already revealed in their recent meeting in Ottawa that exchange saving measures were being discussed at the Cabinet level. This point came as a shock to Clayton, as he was under the impression that the United Kingdom would welcome further credits from the Americans. Towers stated that the British were undergoing considerable difficulty just to repay their current debts. They, too, saw their solution in the restoration of the European economy without further borrowing. If Canada took immediate action, the Geneva trade discussions and the ITO would probably collapse, thus defeating the whole purpose of both Canadian and American postwar foreign economic policies.

Acheson and Clayton confirmed that the United States was planning a massive foreign aid program, but emphasized that the first priority would be Western Europe. An approach to Congress during the current session, which ended July 30, was not feasible until overall policy planning was completed. Acheson noted, along with Clayton, that both had testified before Congressional committees that funds for the British loan, UNRRA, the IMF and the IBRD would restore economic stability and all had failed. Both Congressmen and American public opinion would have to be convinced that the process of European foreign aid was not endless. An integrated plan of economic co-operation for Europe as a whole would have to be worked out. Both Acheson and Clayton realized that Soviet bloc countries would probably not be allowed to participate in any plan of integration, but the offer of foreign assistance would be open to all European countries who wished to participate. Acheson believed that one aspect of the plan would include provision on a non-repayment basis for U.S. export surpluses of cotton, coal, tobacco, wheat and shipping services. Both felt that postwar protective tariffs would not stall the program and that the Europeans would have to plan more intelligent allocations of production to gain the full benefits of U.S. foreign aid. Acheson felt that the British would have to play a leading role to convince other European countries to join the plan.

Acheson and Clayton were vague when it came to answering Towers repeated questions regarding details about U.S. planning. When Towers suggested to Acheson that the Canadians might approach the Secretary of State, Hickerson joined the Under-Secretary in pointing out that such a step would not be welcomed. Clayton, Acheson and Hickerson agreed, however, with Towers' earlier suggestion that informal groups from both countries could explore ways for Canada to increase her receipts of U.S. dollars. The Americans also agreed that the talks would be held in secret to avoid publicity over the weakening Canadian exchange position. In a note to the Prime Minister regarding these talks, Lester Pearson emphasized that a bold initiative from Washington with regard to European recovery was essential to Canadian economic security. Pearson welcomed American leadership, pointing out that the United States "must accept the responsibilities that go with power".[20]

While both countries began selecting their negotiating teams, informal discussions continued in Washington. Hickerson told Wrong that Clayton would take up the concept of U.S. foreign aid and European economic integration with the British, French and probably the Italians in the very near future. Canada's role within the context of a U.S.-financed recovery program had been discussed within the State Department, but no concrete suggestions had emerged. Wrong believed that State planners were giving serious thought to the Canadian exchange problem. As evidence of U.S. concern, certain suggestions were proposed by Hickerson. The first included the possibility of an arrangement between the Bank of Canada and the Federal Reserve Board, whereby Canadian dollars would be made convertible with U.S. dollars throughout the United States. Rasminsky, who also attended this meeting with

Wrong, believed this idea would be politically unacceptable. Another suggestion included the possibility of a loan of a large amount of gold from Fort Knox for a period of years without interest; Canada as a major gold producer would experience little difficulty repaying the gold from her own production in future years. Wrong believed that this idea would be unacceptable to senior U.S. government officials. Hickerson also suggested that the Americans would be prepared to purchase a strip of territory along the Haines Cut-off Road near Alaska. Both Wrong and Rasminsky believed that Canada would probably demand a price well beyond what the United States would be prepared to pay. Hickerson also believed that planning for U.S. foreign aid for Europe would be completed in time for a presentation to a special session of Congress in the fall.[21] The same day, June 5, that these officials were meeting, Secretary of State Marshall, in a Harvard University address, proposed to European nations that they meet and prepare requests for United States foreign assistance. The following day Rasminsky met with Harold Spiegel, the chief of the American expert group. Spiegel was somewhat skeptical about how much could be achieved by these talks, but Rasminsky assured him that the Canadians were prepared to discuss concrete measures to increase their supply of U.S. dollars. Spiegel suggested that Rasminsky should contact Norman Ness, the State Department Director of the Office of Financial and Development Policy. Ness informed Rasminsky that the U.S. expert group were officials just below the policy-making level and he hoped that the Canadians would include at least one high ranking official in their group. Rasminsky assured him that, while the Canadians were still assembling their team, he was sure that such an official would be included. Ness was just as skeptical about the forthcoming talks as Spiegel, but Rasminsky assured him about the seriousness of the exchange problem by providing a detailed description of the Canadian balance of payments problem. Whatever amounts of U.S. dollars could be gained by the Canadians would allow them to delay the implementation of restrictive policies aimed primarily at the Americans. Ness was told that the Canadians believed that U.S. foreign aid would be the only really effective way to deal with the worldwide shortage of dollars. Rasminsky also made it clear that depreciation of the Canadian dollar would be an inappropriate measure, as the demand for Canadian exports already exceeded their capacity to produce. Ness told Rasminsky that he believed that the problem had arisen because the Canadians had overestimated their capacity to aid in European reconstruction. Tom Stone of the Canadian Embassy, who accompanied Rasminsky to these talks with Spiegel and Ness, noted that the Canadian problem probably had low priority amongst State Department officials. For example, Spiegel had appeared to have been informed about the coming Canadian-American discussions from Ness, who got his information from Thorp, who appeared to have been briefed by Clayton. Both Spiegel and Ness had asked Rasminsky what officials he had seen in Washington. When Rasminsky had dinner with a lawyer who was considered a good friend with senior government officials, he was told that he should meet directly with the Secretary of State about the Canadian exchange problem. This advice was directly contrary to the position taken by Acheson and Hickerson.[22] Stone's observations were confirmed on the last day of President Truman's visit to Ottawa on June 12. In a telephone conversation with Hickerson, the State Department official confirmed that the Canadian foreign exchange problem had been discussed within the

Department, but the President had not been briefed. What was so disconcerting to Stone was that Hickerson and Acheson were viewed by External Affairs officials as State Department officials who were considered sympathetic to Canadian problems.[23] The President had, however, been well briefed about U.S.-Canada defence-sharing arrangements and had been encouraged to discuss further possibilities as outlined in the proposed Inter-American Military Co-operation Act. Truman was advised, depending upon Prime Minister King's reaction to further joint defence measures, that Ambassador Atherton would follow up later about the details of U.S. planning.[24] Thus, while State Department officials regarded Canada as a major partner in defence planning, these same officials saw Canada as an unlikely partner in their plans for European reconstruction.

At the end of the first week of talks between the expert groups in June, Stone was pessimistic as to their real importance. His view, like that of Pearson, was that Canada should concentrate her efforts to encourage massive U.S. foreign assistance to Europe.[25] The leader of the Canadian expert group, R.B. Bryce of the Department of Finance, also anticipated that U.S. purchases in Canada would never surpass $60 million and would not become operable before December, 1947. He believed that even with United Kingdom payments including larger amounts of U.S. dollars, Canada would be left with reserves less than $500 million by the end of the year.[26] Like Bryce, Spiegel, leader of the U.S. group, believed that the prospects for any significant contribution to the Canadian exchange problem through various procurement schemes was discouraging. Spiegel told Wrong that $25 million would probably be an accurate figure. Acheson, Clayton and the U.S. delegation at

Geneva were also informed and Spiegel suggested that the Canadians would seriously have to examine the prospects of import restrictions aimed at the United States.[27]

When Acheson had a meeting with Ambassador Wrong on June 20 in Washington, most of the discussion dealt with the proposed European Recovery Program. Acheson pointed out that such a scheme would be inoperable before early 1948, but he was convinced that the Americans would take action on a massive scale simply to maintain their own prosperity. Otherwise, he could give no further concrete information. If Wrong was somewhat frustrated about insufficient evidence about the U.S. aid program to Europe, Towers and especially Clark were also concerned about the lack of participation of the Treasury Department in the secret talks to date. Acheson advised that both the Secretary and the Under-Secretary of the Treasury should be the individuals to contact. As he was leaving the State Department at the end of the month, he stated that his successor, Robert Lovett, and Willard Thorp, Assistant Secretary of State for Economic Affairs, would provide continuity and sympathy towards the Canadian problem.[28] By the end of June, Canada had an adverse trade balance with the United States of $488 million. According to the American Ambassador in Ottawa, by the end of the year Canada's trade deficit with the U.S. would exceed $1 billion.[29]

When Wrong reported to Ottawa, he spoke of the prospects of a U.S. aid program to Europe. First, based upon his meeting with Acheson, he advised that the Americans would definitely act on a massive scale. Congress would probably choose extensive foreign aid as an alternative to a serious depression and substantial unemployment. Second, the discussions in Europe would be lengthy and difficult and the role of

British Foreign Secretary, Bevin, would be crucial with the left wing of his own Labour Party. It was expected by the State Department that Bevin would have to be successful in adopting a tough stance towards the Soviet Union. The Soviets, according to much State Department thinking, would have to be excluded, as they would disrupt U.S. plans for Western Europe by using their communist parties to employ wrecking tactics. To exploit the strong anti-Soviet feelings in Congress, no foreign aid plan would gain support if it in any way strengthened the Soviets.[30]

So pessimistic was Wrong about an American solution to the Canadian exchange problem in the near future that he suggested to Pearson that the United States be invited to develop the large deposits of iron ore on the Quebec-Labrador border. He was sure that with the rapid depletion of their Wesabi range, the Americans would find such a scheme very attractive. Wrong admitted that he had not discussed his suggestion with any other Canadian officials, so he had no idea whether or not it was feasible.[31] The Departments of Mines and Resources, Reconstruction and Supply, as well as Finance and External Affairs, discussed Wrong's suggestion, but agreed that while such a scheme might attract large sums of U.S. capital, it might also leave the Americans in control.[32]

W.C. Clark, Deputy Minister of Finance, instructed Wrong to ascertain to what extent the Department of the Treasury had been kept informed about the Canadian exchange problem. Hickerson told Wrong that State had not informed Treasury about the problem and had no plans to do so in the future.[33] Rasminsky told Wrong that he had asked a similar question to Overby, a former senior Treasury official who had become the new Executive Director of the International Monetary Fund. Overby confirmed Hickerson's remarks and suggested that the Canadians would gain nothing if they approached either Snyder or his Under-Secretary, Wiggins.[34]

During the first week of July, R.B. Bryce, leader of the Canadian expert group returned to Washington to meet with his U.S. counterpart, H. Spiegel. Bryce admitted that officials in Ottawa agreed that little could be done by increasing exports to dollar markets within the existing framework of government controls. Exports could be expanded by curtailing domestic consumption, but there were already shortages of consumer goods. It would also lead to price increases which the Canadian government would find politically difficult. Bryce added, however, that the possibility of reducing domestic consumption of beef and exporting live cattle to the United States was being investigated. The Canadians did think it possible to increase exports in three areas: supply of railway equipment for the Greek-Turkey reconstruction program, as production of locomotives could start in November; 10,000 tons of coal per month would be available immediately; and Canada could provide a supply of small arms and ammunition for the Greek-Turkey military program. Not more than $25 million could be expected from these devices. Bryce emphasized that Canada believed that at least $100 million would be necessary to delay the imposition of import restrictions against the United States.[35]

On July 17, in the course of a debate in the House of Commons, the Minister of Finance, D.C. Abbott, stated emphatically that the Canadian government had no intention of devaluing the dollar to reduce Canada's adverse balance of payments with the United States.

Devaluation would neither decrease Canadian imports from America nor stimulate exports. Abbott also stated that Canada would not allow the export of gold at premium prices to increase her supply of U.S. dollars. This strong stand by Abbott was interpreted by State officials to mean that Canada would definitely not devalue their dollar in the near future.[36] Canadian officials still rejected a domestic austerity program aimed primarily at consumers. This was the last step contemplated in Ottawa and there was still hope that an approach to Treasury officials would postpone such a measure.[37]

On July 30, before returning briefly to Canada, Wrong met with the new Under-Secretary of State, Robert Lovett. Wrong found Acheson's successor somewhat frank. Lovett gave Wrong no reason to believe that Canada would play any important role as a supplier for the proposed U.S. aid program to Europe. Lovett was convinced that any funds made available by Congress would be tied to purchases in the United States and, unlike Acheson, was unconvinced that a special session of Congress would be convened in the fall. Lovett made it clear to Wrong that he was tired of the term "U.S. dollar shortage". The real trouble was the shortage of production. Whatever arguments Wrong put forth to defend the Canadian position, Lovett politely but firmly cast them aside. Even Wrong's point about Canadian import restrictions against U.S. imports left Lovett unruffled.[38]

Lovett's views were a reflection of views held by Paul Nitze and Knapp of the Federal Reserve Board. The secret talks held during June and July indicated that Canada would have to modify government controls on the economy or adopt an austerity program aimed at consumers in order to produce an export surplus. As long as Canadian planners refused to act along these lines, senior American officials believed that Canada was expecting U.S. foreign aid dollars to finance Canadian exports to Europe.[39]

CHAPTER II

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Although the United States was playing a leading role at the Geneva Conference, the Americans had no intention of letting this meeting determine future world trade patterns. The key to a world recovery program lay in a concentrated aid program to Europe. With increases in European production made possible by U.S. foreign aid, European exports would increase. Supplying countries would not have to accumulate non-convertible currencies, nor would they have to extend credit in such large amounts. Just as the progress of each European country would affect the progress of others, the recovery of Europe would spark a chain reaction stimulating global economic and trade activity. American planners believed that the long range goal of multilateralism was jeopardized unless the U.S. took the initiative during the interim period. The thrust of American foreign economic policy would be based on bilateral agreements with the recipients of U.S. foreign aid. These agreements would be based on reciprocity and meet varied, though stringent, requirements. Included were measures in monetary and fiscal policies to maintain stability in cost and price structures; measures to increase production of coal and basic foods and agreements to co-operate in reducing trade barriers. In short, American assistance would be closely monitored to insure that global recovery was not hampered by economic nationalism. Bilateralism was considered essential only inasmuch as it would generate policies leading to multilateralism. Canada's role in the European recovery program would be determined by measures taken to modify her domestic industrial and consumer priorities. As long as the Canadians delayed implementation of an exchange savings program, the Americans would deny Canada a positive role in European reconstruction.

By August of 1947, the Canadians were forced to accept postwar economic realities. Based on the August forecast of balance of payments, the remainder of 1947 dictated that Canada would have to seek a United States loan to protect her foreign exchange reserves. American imports were expected to rise by $130 million, while Canadian exports to the United States were expected to decline by $55 million. Dividend payments to U.S. investors would increase by $40 million. Exports to other countries were expected to decline by an additional $15 million. Compared to the April forecast, $10 million more than planned was being drawn on Canadian export credits. In addition, Canada was being called upon to provide $15 million more than planned for post-UNRRA relief. The forecast included certain assumptions that made Canada's economic future uncertain: the wheat crop would be sufficient only to fulfill the wheat contract with the United Kingdom; the brief postwar export expansion to Latin America had reached its peak; the most gloomy assumption was that reduced demand by all foreign customers would reduce exports during the rest of the year. Special attention was drawn to the fact that the total value of exports to the United Kingdom was expected to decline throughout the remainder of 1947.[1]

Earlier in the year, Canada and the United Kingdom had agreed that the U.K. would pay half the purchase price of Canadian imports with U.S. dollars. This had provided the Canadians with a total of

$220 million for the first six months of the year.[2] It appeared certain that this arrangement would be modified as a result of the United Kingdom's foreign exchange difficulties, and Canada would lose a key source of United States' dollars.[3] State Department officials realized that the record level of Canadian production was due largely to the heavy imports from the United States and that the Canadians were reaching a critical point and would have to seek an American loan, or restrict American imports. The latter could involve decreased production, lower incomes and some rationing, which would make the Canadian government very unpopular. Considering Canada's excellent postwar financial position and her creditor position with many countries, a loan would also be difficult to explain to Canadian voters. However, as the lesser of evils, it was expected that Canada would seek a loan rather than restrict imports. An initial list of drastic import restrictions would be presented in hope that the United States would view favourably a loan application.

On August 13, Graham Towers, Governor of the Bank of Canada, met with Robert Lovett, Under-Secretary of State. Towers was seeking a loan of $750 million in American funds, $500 million in the form of a United States Government loan, with the remainder to be raised by means of private loans in New York. Lovett responded by offering not more than $250 million. Towers realized immediately that, if State Department officials would not push for a larger loan, Canada would have to impose restrictions against American imports.

On the following day, Andrew Foster, State Department Assistant Chief of the Division of British Commonwealth Affairs, learned more about the Canadian exchange problem. Ottawa had just recently learned that the British, who had promised to pay more U.S. dollars for Canadian imports, were forced to modify their promise because of their own foreign exchange problems.. The Canadian government felt that, if the State Department could not help any further, then it was probably best to concentrate on the Treasury Department. While the junior official reporting to Foster thought the Canadians were naive to believe in this approach, he also pointed out that Ottawa felt that not just the State Department, but the U.S. government in general, did not fully realize the gravity of the Canadian position. The junior official took such talk seriously because his source of information was an official close to Towers, Rasminsky and Bryce, all of whom had negotiated with the State Department.[4]

On August 22, the U.S. Ambassador to Canada, Ray Atherton, reported to the State Department that, although Ottawa would prefer a U.S. loan of $500 million, it was definitely considering the imposition of restrictions on United States imports. But he added that import restrictions and loans were considered purely as temporary expedients. What the Canadians really hoped for were increased exports to the United States to offset her sizable volume of export credits, and partnership as a supplier for U.S. foreign aid. The Ambassador urged that the Canadian exchange problem be given serious consideration.[5] Foster reminded Atherton that Hickerson had confirmed his own feelings about the Canadian problem. The situation in Western Europe and the United Kingdom had first priority and the State Department position was to await a detailed proposal from the Canadians to solve their problem.[6] The Department of State had no desire to alienate the Canadians, and therefore agreed that the Treasury would be represented in the next round of talks to begin in Washington on September 18.

Not only were the Canadians losing faith in the ability of the State Department to press the gravity of their exchange problem upon high ranking U.S. government officials, but they feared that the United Kingdom foreign exchange position would take precedence over their problem. The Canadians had already been warned in early August by the United Kingdom that the British were planning to take definite measures to preserve their foreign exchange position, to modify their role in European reconstruction, and to alter the timetable at Geneva for a multilateral trading world.[7] However, two important officials in the American delegation at Geneva, Brown and Fox, upon learning of Ambassador Atherton's warning about Canada's intention to impose import restrictions, sympathized with the Canadian position.[8] Brown and Fox urged that any concessions made to the British to ease their exchange problem should also be made to the Canadians. If the Canadians thought that a loan and temporary import restrictions were necessary, such measures should be given serious consideration. The Canadian delegation at Geneva continuously referred to their balance of payments crisis. Brown and Fox were convinced that the Canadian attitude towards satisfactory Geneva trade agreements was dominated by this factor. Success at Geneva for the United States with the Canadians would depend upon how Washington handled the Canadian exchange problem.[9]

It was the Deputy Minister of Finance who was convinced that the Treasury would have to be involved in any future discussion. Clark knew personally Frank Southard, who had been recently appointed the Director of the Office of International Finance at the Treasury Department. Clark had had prewar discussions of Canadian-American tariff and economic relations with Southard and had been impressed with his understanding and competence.[10] Before his forthcoming visit to Washington, Clark had a conversation with the American Ambassador. He emphasized that the trade deficit with the United States had gone from bad to worse. By the end of 1947, it was expected to reach $1,250 billion and Canadian exchange reserves had declined by nearly fifty percent since April. These figures were considered so secret that even many members of the government were not informed for fear of leaks. Clark also pointed out that in discussions with the United Kingdom in London, the Minister of Finance, D.C. Abbott, had been told that the dollar shortage should be solved by a common front position of all the Commonwealth countries under the leadership of the British. The United Kingdom had already suggested that a meeting of Prime Ministers in London in November, at the time of the royal wedding, would be a suitable time. What also bothered Clark was that Canadian public opinion was just becoming aware of the magnitude of the exchange problem. A crisis could develop that would push the government into a position that it was trying to delay - drastic measures to preserve its economy. Such measures would not only affect economic relations between Canada and the United States, but joint defence matters as well. What Canada was hoping for was closer economic ties with America, whereas drastic measures could well move Canada into expanded economic relations with the sterling bloc. Canada was turning to Washington for immediate assistance, and the amount involved would depend upon the results of Finance Minister Abbott's discussions in London, the lowering of American tariffs, other related aspects of the trade discussions at Geneva, and the possibility of the Marshall Plan for aid to Europe coming into force in the very near future. Atherton warned Clark that his presentation in Washington would have to convince Department of

State officials on two major points. First, he would have to have evidence to support how important Canada was to the North American economy. Second, he would have to show that United States foreign aid would not be used primarily to finance Canadian exports to Europe. When Atherton wrote to Andrew Foster on September 11, he warned that, if the details of the Canadian exchange problem became public, Canadian opinion would probably blame United States policies and the State Department should be prepared to release a public statement, keeping in mind the future of Canadian-American relations.[11] In a covering letter to Foster, Atherton asked that copies of his special dispatch be given to Jack Hickerson and Willard Thorp. A copy was being sent directly to the Under-Secretary of State, Robert Lovett, just in case the exchange problem suddenly became public.[12]

On September 18, Clark met first with Southard. He opened the conversation by stating the Canadian balance of payments position for the most part in general terms, but he included the figures that he had already stated earlier to Ambassador Atherton. Canada had accepted a risk in permitting the continuation of exchange losses, because restrictive measures might threaten the success of the Geneva trade conference. Southard noted that Treasury estimates of the Canadian exchange position were very similar.

Clark pointed out that his government viewed the situation as grave and that Canada was exploring several remedial possibilities. These included import restrictions aimed at U.S. imports, accompanied by a direct loan from American sources without mention of any specific source; increased exports to the United States, and Canadian inclusion as a supply area for the operation of the Marshall Plan. Southard pointed out the problems of timing and content related to their foreign assistance for Europe. The Truman Administration was planning to call Congress to an early session, but only to consider interim aid strictly on the basis of need for France and Italy. Neither Canada nor the United Kingdom was included, as it was believed that Marshall Plan goods would not reach Europe before April, 1948. In addition, the two key committees, the Marshall Plan Interdepartmental Committee, directed by the State Department, and the National Advisory Council, which were responsible for planning, had only held their first meetings within the last three days. Without a full scale plan to show what would happen after the interim aid program had been approved, the Marshall Plan itself could be in difficulty with Congress. It would be the middle of November by the time that Congressional committees would be approached to consider administration planning for massive aid to Europe.

Southard believed that wheat and other grains might be procured outside the United States, but he added that no policy decision had been reached by the planning committees on purchasing operations. Clark was pleased when it was mentioned that Paul Nitze, a personal acquaintance, was the key State Department official concerned.

Southard did not question the Canadian remedial measures, but did promise that he would take the concept of Canada as a supply area for Marshall Plan goods to the National Advisory Council.

Southard confirmed Clark's fears that the British exchange problem was uppermost in the minds of American planners. The United Kingdom was planning import restrictions against the United States, much to the displeasure of concerned officials. Southard believed that the charter for world trade being discussed at Geneva could not be brought into force for at least a year. Both men realized that the Marshall Plan would have to work to insure a multilateral world of trade.[13]

In the afternoon of the same day, Clark went to the State Department for further discussions accompanied by Ambassador Wrong. The State team was led by C. Tyler Wood, Deputy Assistant Secretary of State for Economic Affairs; Paul Nitze, Deputy Director of the Office of International Trade Policy; Wayne Jackson, Special Assistant to the Director of the Office of European Affairs, who was sitting in for Jack Hickerson, who was out of town; Alex Rosenson, Assistant Chief of the Division of Financial Affairs, who kept in close contact with the U.S. delegation at Geneva, and Andrew Foster, Assistant Chief of the Division of British Commonwealth Affairs. Clark and Wrong were particularly interested in the views of Wood, Nitze and Foster.

Clark covered essentially the same ground that he had discussed with Southard, but left the meeting in a pessimistic frame of mind. Wood repeated on several occasions that Canada should not count on receiving any aid under the Marshall Plan. Wrong was convinced that Wood was simply following instructions from Lovett. Wood believed that Congress would not agree to any scheme whereby U.S. dollars would be spent in Canada for the purchase of goods to go to Europe as U.S. aid. When Clark discussed import restrictions, Nitze pointed out that scarce materials for Canadian consumers would probably have to be reviewed and probably restricted. Clark made it clear that import restrictions would have to be extensive to be effective, while Wood urged consultation before they were applied. Clark responded by pointing out that, in order to avoid any leaks that could lead to a run on the imports concerned, detailed consultation would be impossible. Clark pointed out that the U.S. had the Canadian import figures and it would not be difficult to predict what Canada would restrict to save several hundred million dollars. Wood hoped that restrictions would not have a detrimental effect on the North American economy. Clark reminded him that Canada was the second most important major supplier for European recovery. As such, he hoped that U.S. officials would seriously consider the Canadian exchange problem and discover a joint method of finding a solution. Nitze added that the Hyde Park Agreement was an expression of American policy to maintain some integration of both economies, which was beneficial to both countries. While Clark agreed generally, he pointed out that American branch plants, for the most part, were not allowed to export to dollar areas because this would mean competition with their U.S. parents. His government was considering measures such as tax incentives to encourage these branch plants to export to the U.S. The chances of increasing exports of wheat to America could only be done at the expense of the British. Any increase in newsprint exports to the U.S., Clark thought unlikely because production was already at record levels. Clark saw little chance for immediate increased exports to America as any solution to the exchange problem. When queried by Wood about the necessity of Parliamentary approval for import restrictions, Clark emphasized that restrictions would be applied without Parliamentary consent, although he did not explain how this would be done.

With regard to borrowing in the U.S., Wood believed that Canada would have little difficulty raising $300 or $400 million by private borrowing. Clark did not press for any Congressional or Export-Import Bank loan. With final reference to any plan involving direct aid to

Canada, especially involving an approach to Congress, Foster pointed out that Americans saw Canada as a land with booming production, no serious unemployment and low prices. In spite of the exchange problem, Americans saw Canada as a wealthy country.

After the meeting, Foster was left with two definite impressions. First, he believed that the meeting indicated that the Canadians had been drifting from bad to worse, thinking that the Americans would come to the rescue by means of a loan or procurement devices. Second, he believed that other officials besides himself were left with the impression that, if the United States did not help, Canada would solve its problem by other means. If Clark was trying to convey a threat by referring to other means, it had not worked.

Ambassador Wrong was just as convinced that Canada would have to do two things. First, a full exposure about the situation would have to be released to the Americans and repeated through several channels. Second, import restrictions adopted would have to be severe to impress Canadian consumers, American producers and Congressmen with the seriousness of the situation.[14]

Although Wood had agreed to investigate the Canadian problem in greater depth, and both countries agreed to further consultation, neither side had set a timetable for further meetings. Clark left the meeting impressed with the frank exchange of views, but he was still convinced that State officials did not fully comprehend the gravity of the problem. Exclusion from participation in the Marshall Plan would mean that Canada would have to adopt tough import controls and deflationary policies that could undermine their industrial expansion program. This would also mean higher prices for Canadian consumers. He suggested that, when Hickerson returned, Wrong should make an effort to explore further with him the concept of a North American gold stabilization fund.

Clark travelled to New York on September 19 to see the Minister of External Affairs, Louis St. Laurent, convinced that another attempt to reach high ranking U.S. officials was necessary. He explained his disillusionment about the meeting with the State Department and suggested that the next move would be for St. Laurent to see Secretary of State, George Marshall, while he was in New York. St. Laurent agreed, providing that the Under-Secretary of State for External Affairs, Lester Pearson, be in attendance because of his experience in Washington and his knowledge of Canadian-American economic questions.[15]

One week after Clark's visit, Wrong met with Andrew Foster. The purpose of the meeting was to clarify an apparent misunderstanding about which country was to initiate further consultation. After it was clarified, both decided to review the major points of the September 18th meeting, to avoid any further misunderstanding. Foster explained the State Department understanding: there would be import restrictions with no consultation on content; a loan had been mentioned but not discussed; there would not be any devaluation of the Canadian dollar; the procurement programs discussed in June and July offered too little; and finally Canada should not count on immediate assistance through either the Marshall Plan or the Geneva trade discussions. Wrong agreed with this interpretation, but reminded Foster that Canada wanted to know if it would be included as a partner in the framing of the Marshall Plan. If the Canadians knew they were being included, the least drastic import restrictions would be imposed and they would be declared temporary. Exclusion from the Marshall Plan would mean more drastic and fundamental measures that might have permanent repercussions upon the North American economy. Foster told Wrong that State officials who had met on the 18th would be meeting early the following week and Wrong would be contacted right after the meeting. Foster believed that, since Truman had summoned Congressional leaders to Washington and the Paris Report related to the needs of Europe had arrived, the Canadians might receive an early response. Wrong replied that he hoped that this was the case, because the Canadians were seriously considering approaching either the President or the Secretary of State about a loan prior to imposing import restrictions. The final decision, however, would await the return from London of the Minister of Finance. Wrong decided to pass along more details about Canadian planning. The restrictions would be applied under the Foreign Exchange Control Board, which would avoid re-establishment of the wartime control system. The government would carefully control the supply of U.S. dollars available to Canadian importers. Wrong referred again to Canada's hopes for the Marshall Plan, believing there were two important arguments that could be utilized. Procurement outside the United States would relieve inflationary tendencies that could result if all U.S. aid was tied only to American sources. Exclusion of Canada would seriously weaken the Canadian economy and deter further joint defence plans. Foster did not respond to these ideas, but he was puzzled when Wrong suggested that the United States could lend Canada a billion dollars in gold which could be repaid over a ten or twelve year period in annual installments of $100 million out of future Canadian gold production. Wrong said that he thought that this was a better idea than Foreign Secretary Bevin's plan for the Commonwealth nations to form their own dollar pool to overcome the worldwide shortage of U.S.

dollars. Foster did not take Wrong's suggestion seriously, but what pleased him most was that Wrong had provided more details about Canadian planning and any previous misunderstanding had been clarified.[16]

Before the next meeting of State Department officials, the Office of International Trade of the Department of Commerce examined two aspects of the Canadian problem. The first included a study of the possibility of increased imports from U.S. branch plants in Canada. The study concentrated primarily upon automobiles, industrial and farm machinery - the three areas where the Canadians placed their greatest hopes. It found that the costs of production, compared to the American parent, were much higher largely because of the smaller volume of output. It was believed that North American market demands could not be met because essential components were dependent entirely upon U.S. sources, and this tended to limit the combined output of both countries. Canadian branch plants also did not usually make all the varied types, models and sizes demanded by American users. Even if all items were traded without any duties, it was expected that the branch plants could not increase their exports to the United States. It was pointed out that in spite of the very high demand for automobiles in the U.S., the 10% tariff would not deter the import of Canadian produced cars. However, a very small number of cars was actually coming from these branch plants. Even without a duty on farm machinery, U.S. producers only bought branch plant made machinery to meet unforeseen demands. In 1935, when such a problem arose, Canadian imports of farm machinery were valued at less than $3 million. In spite of the fact that the Department of Commerce found it difficult to obtain authentic cost figures from U.S. corporations, it was believed that it was very unlikely that branch plants could increase their exports to the United States.[17]

The second study examined the possibilities of Canadian restrictions on American imports. Its statistics were based on Canadian imports from the United States during the first six months of 1947. The study indicated that the dollar value of raw materials and production goods was greater than the value of consumer goods. Contrary to popular belief, it was not consumer demands that led to abnormally large U.S. imports. The largest amounts were spent on iron and steel; coal, industrial machinery, crude petroleum and textiles. It was believed that, if Canada applied restrictions to these items, Canada's export trade would suffer definite repercussions. If Canada applied import taxes, it would contravene U.S.-Canada trade agreements and damage Canadian exports. Taxes could also be used to accomplish greater integration of United States-Canada industries by encouraging branch plants to export to the American market. Tax rebates could be given in proportion to their exports to the U.S. to help compensate them for higher production costs. However, such a policy could affect dividends in proportion to the benefits passed on to the branch plants. Such a tax policy would not necessarily offer attractive advantages to U.S. corporations. Generally, it was concluded that import restrictions on American goods would be damaging to the Canadian economy, especially on Canada's export trade.[18]

On September 30, the monthly economic summary issued by the U.S. Embassy in Ottawa suggested that the adverse trade balance with the United States and the rapid depletion of reserves was generating an atmosphere of tense anxiety. It mentioned that public opinion considered a complex program of import controls to be inevitable and speculated that such measures would be implemented in October. It was suggested that Canada's inclusion in the Marshall Plan, either as a supplier of needed manufactured products or as a source of food products, might be the best solution. The summary predicted that Canada was headed towards a recession during the coming winter.[19]

On the same day, the State-Treasury Committee met to review the Canadian dollar problem. It was agreed that any import restriction measures would conflict with the existing U.S.-Canada trade agreement. Ways would have to be found to overcome this problem. Ambassador Atherton, who had been invited to attend, urged that the government should prepare a statement indicating its sympathy towards the Canadian situation. It was felt that there was little chance that increased exports to the United States would in any way help solve the problem. Some committee members were still convinced that Canada should devalue her dollar, but it was agreed that the subject was no longer open to consultation. It was believed that, although procurement in Canada for U.S. relief programs and the U.S. armed forces would offer little help, such efforts should continue. Any efforts to obtain a loan from Congress or from the Export-Import Bank would not be encouraged, as it interfered with current planning on the Marshall Plan. Neither would Canadian hopes as a supply area be encouraged. No one could see how the Geneva trade discussions could be helpful to the Canadian problem. Clair Wilcox, the State Department Director of the Office of International Trade Policy, who had returned from Geneva, pointed out that Canada had been a major partner in the discussions to date. Like Atherton, he urged that all possible measures to help the Canadians should be taken.[20] Wilcox knew how concerned the Canadians were because Canada's chief negotiator at Geneva, D. Wilgress, had already told U.S. negotiators that Prime Minister King had telegraphed Attlee, the British Prime Minister. King urged that any breakdown in U.K.-U.S. negotiations over the issue of the elimination of imperial preferences could lead to the failure of multilateralism. Wilcox reported that there was a strong group in Ottawa who were advocating tough import controls aimed at the U.S. because of the balance of payments problem. Another group who were depending upon the success of the Geneva trade discussions were fighting for less restrictive import measures. To help insure the success of the Geneva discussions, Wilgress agreed that he would investigate the possibility of Canada giving up key agricultural preferences.[21] All members of the State-Treasury interdepartmental committee agreed that the Canadians would be asked to consult about their proposed restrictions and that the Canadian Ambassador would be asked to meet with them no later than the next day, October 1.

Ambassador Wrong was discouraged about the results of this meeting. He was informed that U.S. officials would be co-operative about import controls, would seek ways to find an amendment to the U.S.-Canada Trade Treaty of 1938, and would prepare drafts of a joint statement sympathetic to Canada's exchange problem. Wrong was disturbed by the fact that he was given no assurance that Canada would be included in the Marshall Plan. He noticed, in particular, that State Department officials seemed to be sure that Canada would proceed rapidly to impose import controls. The Ambassador did not grasp the connection between Canada's deflationary measures and Marshall Plan participation in State Department thinking. Both Nitze and Woodbury Willoughby, Acting Chief of the State Department Commercial Policy Division, tried to persuade

Wrong that restrictions against U.S. imports should be minimized because of public reaction in the United States. Wrong was worried about possible retaliation by the Americans placing export restrictions on critical supplies, such as steel. Nitze added that Marshall Plan aid would probably be extended as relief grants rather than loans, and Wrong suggested that the remainder of Canada's export credits to Europe should be considered as part of Marshall Plan requirements. Besides import and travel restrictions, Wrong mentioned that Canada would probably also require an American loan, but this point was not discussed any further.[22]

The next day, October 2, Wrong met with Jack Hickerson. Unlike Tyler Wood, Hickerson believed that Canada still had a chance of being included as a supply area for the Marshall Plan. He warned, however, that both France and Italy desperately required funds. Congressional funds for Italy had already been secured but, if difficulties developed over aid to France, the State Department would approach the Export-Import Bank. To remain solvent, France would need funds by the end of October and their needs would take precedence over a loan to Canada.[23] Wrong raised the question of a possible loan of gold. Hickerson said that he had not dropped the idea. Lovett had dismissed it, but various economists thought such a concept to be feasible only because Canada could produce the gold to repay. Hickerson noted, however, that to grant what would amount to a loan without interest, special additional reasons besides the exchange problem would have to be found. Wrong suggested that, in return for a gold loan and inclusion as a supply area for the Marshall Plan, the Canadians might be able to join the Americans in their attempts to meet the huge European deficit. The gold loan would protect the exchange reserves and Canadian grants in aid and export credits would bring Canada into partnership with the United States in their shared goal of European reconstruction. Wrong told Hickerson that the Canadian government would respond favourably to such a concept rather than an American request to assume new financial aid for Europe. Wrong also mentioned that Canada would have to impose import controls soon, even if his suggested scheme was adopted.

While Lester Pearson was attending the United Nations session in New York, H.O. Moran, the Chief of the Economic Division of the Department of External Affairs reported to Wrong that various decisions had been made in Ottawa. The idea of approaching Secretary of State, George Marshall, with Canada's exchange problem had been dropped. Instead, Pearson was instructed to meet with William Clayton, who was more knowledgeable about the negotiations with the British and their position in the Geneva trade discussions. It had been decided that, if the negotiations between the United Kingdom and the United States broke down which would lead to the collapse of the trade discussions at Geneva, Canada would break the Anglo-Canada Trade Agreement of 1937 and seek a bilateral agreement with the United States. The Geneva tariff negotiations would not be completed before October 12, and there would be little time for the tariff schedules to be reviewed by the Cabinet before the November 15 final date for the signature of the Protocol of Provisional Application. Clark had suggested the United Kingdom should be told immediately about the Canadian decision, but the Minister of External Affairs, Mr. St. Laurent, had suggested that such a step was premature. St. Laurent was convinced, however, that, if the Geneva trade conference failed, the Marshall Plan would also collapse.[25]

On October 6, Pearson and Wrong met with William Clayton to discuss the U.K.-U.S. negotiations deadlock at Geneva and the Marshall Plan. Clayton pointed out that the British had rejected outright the American proposals for the gradual abolition of preferences over thirteen years. The State Department Under-Secretary for Economic Affairs felt very strongly that this British position was a departure from their pledge during the Anglo-American Loan Negotiations and would make Congress less sympathetic to the funds necessary for the Marshall Plan. Wrong believed that Clayton was adamant in his position about the eventual elimination of the British preference system and that both his and the British position constituted a genuine obstacle to the success of the Geneva trade discussions. Both Wrong and Pearson expressed their anxiety about possible concessions being made at the expense of Canada. The Canadians felt that they could find themselves in a position either of having to accept a poor bargain at Geneva or rejecting outright the proposals on tariff schedules.

Clayton did agree that the success of the Geneva trade conference would have direct bearing on Congressional attitudes towards the Marshall Plan. He had already indicated to the Harriman Committee the extent of Canada's postwar assistance to Europe and that their exchange problem would force them to seek a $500 million loan in the United States in the near future. Wrong believed that Clayton fully understood that Canada's proposed scheme to impose import controls was necessary and that Canada was tailoring them as much as possible on the forecast of world trade patterns linked to the trade discussions at Geneva and the Marshall Plan. Both Pearson and Wrong felt that Clayton understood that Canada's role in European recovery would be determined by the solution to her exchange problem.[26]

Before Ambassador Wrong returned to Ottawa on October 8, he telephoned Andrew Foster to assure him that it would still be weeks before Canada imposed import restrictions and that at least one more high level approach by senior officials would be made in Washington. Foster reported that the Departments of Commerce and Agriculture would have to be included in their discussions and Wrong requested that the State Department stress the top secret nature of the information and the talks that had already been held. Foster requested that, if the timing of import controls was sooner than expected, State officials would appreciate this information in relation to their own plans.[27]

By October 15, both the United States and the United Kingdom broke the deadlock in the Geneva negotiations. The U.K. agreed to reduce her preferences in the Commonwealth by 25 percent if the United States would confine her synthetic rubber production below 250,000 tons.[28] But equally important to the Americans was the agreement reached by Canada and the United Kingdom. On October 31, at the time of the signature of the Protocol of Provisional Application of GATT, each would agree to bind the preferential rates which it gave to each other on products included in the General Agreement. In addition, each would agree to release each other from maintaining existing margins of preference. For the Americans it meant that in all future tariff negotiations with either Canada or the United Kingdom, the United States could negotiate with each other on a one to one basis. This in itself was considered a major breach in the whole British system of preferences. In the words of Winthrop Brown, State Department Chief of the Division of Commercial Policy and Chairman of the Committee on Trade Agreements, it amounted to "the abrogation of the most important part of the Ottawa Agreements ...".[29]

At an interdepartmental meeting on October 21 including State, Treasury, Commerce and Agriculture officials, Andrew Foster announced that he had been informed by Ambassador Wrong that Canada would impose restrictions on United States imports by no later than November 15. Mr. Moline of the State Department Commercial Policy Division noted that the U.S. negotiating team at Geneva and the Trade Agreements Committee had agreed with the content of the proposed exchange of notes between Canada and the United States. It was also suggested that the Canadians would be asked to defer action until January 1, 1948, to take advantage of the escape clause in the General Agreement on Tariffs and Trade which allowed import controls for balance of payments reasons. Agriculture officials wanted to discuss in advance with the Canadians any restrictions against items such as oranges and lemons. Foster stated that the Canadians would be sending a small group of senior officials to Washington to discuss certain features of their import control program. Moline added that financial as well as commercial matters would be discussed.[30]

At a State-Treasury meeting on October 24, it was decided that, to please the Canadian desire to maintain discussions at a top secret level, the Departments of Commerce and Agriculture would be invited to attend only later meetings. On the weekend, top State offials, including Mr. Lovett, would meet to discuss the relationship of the Marshall Plan to Canada. No assurances of Canada's inclusion in the Marshall Plan would be offered, but Mr. Southard of the Treasury would raise the question of the purchase of strategic raw materials, in particular, nickel, copper and asbestos. It was noted that the United

States had been unable to obtain sufficient amounts of these from the Canadians. American purchases of such materials could provide Canada with substantial sums of U.S. dollars to ease their exchange problem.[31] Foster learned from Ray Atherton that the exchange situation had become worse than expected and that the coming visit from the Canadians would be their last before import controls would be announced. Atherton had learned from Clark that, besides the controls, the Canadians would definitely be seeking a loan.[32] By October 22, Canada's exchange reserves had declined to $550 million.[33]

CHAPTER III

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Assured that the Canadians would impose controls and pleased with the breach in the British preference system, the Americans were prepared for serious negotiations. At the first meeting held on October 28 at the State Department, the Canadians were represented by Clark, Towers, Wrong; John J. Deutsch, Director of Economic Relations, Department of Finance; Hector MacKinnon, Chairman of the Tariff Board, as well as other officials from the Canadian Embassy. Wood led the State Department team which consisted of Nitze, Willoughby, Spiegel, Jackson and Foster, while Southard led the Treasury Department group, which included Fields and Hebbard.

Clark opened the discussion by pointing out that reserves had declined by more than $100 million since his last visit on September 18. United States imports were expected to reach $2 billion by the end of the year, while Canadian exports to America were anticipated at $800 million. The United Kingdom was expected to provide $300 million and the problem was to bridge the gap of $900 million. The Cabinet in Ottawa was considering two plans. Plan A included the following points:

(i) A loan from the Export-Import Bank of $350 million;

(ii) Travel restrictions that would save $30 to $40 million;

(iii) Import restrictions that would save about $300 million and would be directly aimed at the United States. Almost every consumer item imported from America would be banned outright, while goods such as citrus fruits, prunes, cabbages, carrots and textiles would be placed under quotas and reduced by one third to one half of their prewar levels. Capital goods, such as machinery, would also be strictly restricted except for those required to produce consumer goods in Canada:

(iv) Diversion of exports such as newsprint, lumber and cattle to the United States from other traditional customers would save about $50 million.

Plan A would be considered as a long term solution to Canada's massive trade deficit with America, but it was primarily a bargaining ploy.

The second approach, Plan B, contained the following:

(i) A loan of $500 million from the Export-Import Bank;

(ii) Travel restrictions on Canadians visiting the United States, designed to save the same amount as in Plan A;

(iii) Import restrictions that would save about $175 million and would apply to all countries, but would most adversely affect American imports. Most items would be placed under quotas of 200% to 300% of their prewar volume and these would include both capital and consumer goods;

(iv) A trade treaty with the United States that would include diversion of Canadian exports to America. This special trade treaty would go well beyond both the Geneva Agreement on Tariffs and Trade (GATT) and the authority granted to the President under the Reciprocal Trade Agreements Act;

(v) Canadian participation in the Marshall Plan as a supply area, or assurances that U.S. foreign aid dollars would be available for the purchase of Canadian exports to the United Kingdom and Western Europe.

Based on these two plans, a table of Canadian balance of payments prospects for 1948 was given to Nitze, which included the estimate that Canada expected to extend credits of no more than $430 million in the next year. Towers pointed out that the decreasing credits would have a tendency to decrease the deficit with the United States. The American officials felt that Canada feared that Europe would never fully recover and that Canadian planners had concluded, perhaps too hastily, that their economy would have to be adjusted to balance trade with the United States.

Wood emphasized that he hoped that the Canadians would adopt Plan B, as Plan A would be almost impossible for them to defend in the U.S. He also tried to persuade Clark and Towers to delay implementation until January 1. He pointed out that their announcement would coincide with the summoning of Congress to consider the Marshall Plan and with the publication on November 18 of the Geneva Agreements. It would also remove any need for the U.S. to agree not to invoke the United States-Canada Trade Agreement of 1938 against the Canadians. Clark replied that Canada had already gone too far in delaying action and that there had been a sizable increase in American consumer goods flowing into Canada in anticipation of import controls. Under no circumstances would the Canadians delay action beyond mid-November. Clark and Towers had met earlier in the day with Lovett and Thorp and both U.S. officials expressed opinions similar to those of Wood.[1]

On October 29, the Canadian team divided into two groups. Deutsch and McKinnon met with the State Department Director of the

Office of International Trade Policy, Clair Wilcox, as well as Nitze, Foster and Willoughby. Deutsch briefly reviewed the Canadian balance of payment situation for Wilcox. McKinnon pointed out that Plan B would be adopted if Canada was included in the Marshall Plan and a trade treaty was agreed to in principle involving, wherever possible, complete elimination of duties between both countries. McKinnon claimed that the Canadian government had decided that, even if such a trade treaty involved a major readjustment of trade patterns with other traditional customers, he was authorized to commit his country to this direction. Canada must either integrate her economy more closely with the United States or embark upon policies of economic nationalism, bilateralism and closer ties with Europe. Wilcox noted that such a treaty would involve Congressional approval, but he would approve of such an idea and take the matter to higher offices in the State Department. Later, he would be willing to approach Congressional leaders on a bipartisan basis to seek their reaction. A definite answer would not be ready for mid-November, but Wilcox was personally sympathetic to the Canadian concept of such a comprehensive treaty. Congressional reaction to Marshall Plan funding and the coming Presidential election would take priority over this proposal. Deutsch and McKinnon later met with representatives of the Departments of Commerce and Agriculture to discuss the same matter.[2]

On the same day, Clark and Towers met with Southard, Hebbard and Fields at the Treasury Department to discuss the possibilities of a loan. Southard indicated that he thought it would be a mistake to raise the question of a government loan just when Congress would be considering the European Recovery Program. Southard suggested that the Canadians should approach:

(i) The International Monetary Fund;

(ii) Borrow in New York;

(iii) Place hope on getting Marshall Plan dollars, and

(iv) Delay imposing restrictions until January 1.

Clark and Towers took a firm stand, pointing out that none of these ideas was acceptable. If it was the best that could be done, then Canada would impose Plan A. Another Treasury official suggested an alternate proposal. He emphasized that, if Canada imposed Plan B, the U.S. government could let it be known that an unspecified sum of money from the Export-Import Bank was being earmarked for the Canadians just in case Congress doubted the necessity for such a loan. Clark and Towers requested time to consider this approach and told Wrong after the meeting about their disappointment.[3]

On October 30, all members of both delegations gathered together in Wood's office. Willoughby and Foster produced a draft exchange of notes which would allow Canada to break the terms of the United States-Canada Trade Treaty of 1938 before it was superceded, on January 1, by the Geneva Agreement. A draft press statement was also examined and the Canadians were pleased with the sympathetic tone of both documents, which were to be released to the public after the restrictions were announced. Clark and Deutsch reserved approval until they had been examined by the Cabinet and agreed that they would study provisions for exemption involving goods in transit. Both estimated that a reply would be forwarded through the Embassy by the middle of the following week. Clark emphasized that his government would like to make reference to discussions leading to a long term trade agreement. The

Americans agreed to the idea, provided that they could ~~closely~~ examine the actual wording. They feared that certain Congressmen might want to use such a reference for political purposes. Clark and Deutsch agreed to supply data on items, especially manufactured goods, which they would be able to export to the United States if tariffs were lowered. Wilcox, who was sympathetic to this scheme, agreed that he was taking up the matter with higher officials. Willoughby asked about the possibility of reaching an agreement on a treaty of commerce, friendship and navigation. Clark and Deutsch pointed out the major stumbling block. The federal government had to secure agreement from the provinces and municipalities to grant exemption from taxes to U.S. consulate property. Wrong agreed to investigate the possibilities of such a treaty and conceded that a manpower shortage at the Department of External Affairs might have been responsible for creating delays. However, it was the long term trade treaty with the United States that was really important to the Canadians.

The most hopeful information to the Canadians was announced by Wood. He said that in the past two days Marshall Plan policy had reached the stage which allowed him to report that the executive branch would make a strong stand to obtain "off shore procurement" flexibility from Congress. He also emphasized that the Canadians should prepare a list of items, but exclude exports already being supplied to the United Kingdom and Western Europe. He was sure that Congress would hesitate to supply Marshall Plan dollars to underwrite Canadian exports. The list should concentrate on items which could not be expected to move from Canada to Europe unless U.S. dollars were made available. Nitze agreed to check the list of items in the Paris Report for those items not available in the United States. Clark asked that a copy of these items be made available to the Canadians as soon as possible. Wood pointed out that it would help their desire for flexibility in presentation of the Marshall Plan to Congress to specify those goods that could be furnished by Canada.

Fields acted as spokesman for the Treasury Department. First he referred to the problems that Canadian exporters experienced at the hands of U.S. Customs authorities. He requested that the Canadians bring specific cases of abuse directly to Southard's office rather than directly to the Customs authorities. Next, he announced that his department would support a bill during the next session of Congress that would increase the exemptions from duty on purchases by U.S. tourists from $100 to $1000. This would be allowed twice a year for tourists who had been in Canada for more than twelve days. The $100 exemption would continue to apply quarterly for visits of more than two days, but less than twelve. Fields' most important news was a request that large quantities of strategic and critical raw materials would be purchased by the U.S. government if the Canadians could make them available. It was agreed that Deutsch would explore this possibility at the Treasury Department the next day.[4] It was also agreed that Wood and Willard Thorp would help the Canadians if they ran into difficulty in presenting their request for a loan to the Export-Import Bank.[5]

For the meeting at the Treasury Department on October 31, Keith from the Canadian Embassy accompanied Deutsch. For the Americans, Fields and Delaney represented the Office of International Finance and Freeman and Casto the Bureau of Federal Supply,[6] the purchasing agency of the Treasury Department. Freeman and Casto outlined to Deutsch a long list of items, laying particular stress upon the point that the U.S.

government was prepared to purchase large quantities over several future years. The high priority items included copper, nickel, asbestos, lead and zinc. Deutsch was pleased with Freeman's presentation and indicated that, after his government had examined the list, Ottawa officials would probably push for expansion of production of certain materials and divert supplies of others from non-dollar areas who were not experiencing severe foreign exchange problems like the Canadians. Deutsch was informed by Freeman that the Bureau of Federal Supply would forward a complete list of all the items in which the U.S. government had the greatest interest. Freeman and Casto both believed that, as a result of the meeting, sizable quantities of copper would be made available for stockpiling.[6]

Later, at dinner on the same day attended by Clark, Southard and Hickerson, the concept of stockpiling was carried a step further. Hickerson told Southard about his idea of a loan of gold that the Canadians could secure from future gold production. Instead, Southard suggested to Clark the possibility of a $250 million loan from the Export-Import Bank, combined with a $250 million advance for strategic and critical materials required by the United States over the next three or four years. The $250 million advance would require a large increase in production of such materials as copper, nickel and asbestos, rather than a diversion of current exports to the U.S. market or cutbacks for the domestic market. Clark immediately backed away from Southard's suggestion and the matter was dropped. Clark doubted this approach for several reasons: Canada's supplies were insufficient to make such a commitment over a period of years; to tie supplies of critical materials to one buyer was not in Canada's interest; and, finally, such important metals would warrant a higher priority than stockpiling.[7] The next day, Wrong reported to Clark that the U.S. government had just announced that about $5 billion worth of military supplies, previously to have been disposed of as surplus, were now to be retained for stockpiling. Southard's stockpiling concept was an extension of government policy rather than a personal suggestion to the Canadians.

Wilcox discussed with Lovett the proposal for a new comprehensive trade agreement with the Canadians. Lovett agreed to the idea, provided that the State Department received a list of items, particularly manufactured goods, that Canada would like to include in the agreement.[8] However, the most discouraging development occurred when Towers visited the Export-Import Bank on October 31. Gaston, the Acting Chairman, gave little reason for hope, making it clear that Bank policy since early 1946 had been to decline loan applications based on balance of payments difficulties. A loan to Canada would be impossible without Congressional approval. Towers explained that the Canadian import control program depended in large measure upon the amount of the loan granted by the Bank, and that Gaston's position on the application could have long term effects upon the friendly relations of both countries. Gaston merely assured Towers that he would study the request immediately and a reply would be ready for another meeting scheduled for November 4. Towers left the Bank after this forty minute meeting and immediately contacted both Southard and Tyler Wood. Both officials reassured Towers that Gaston's discouraging attitude should not be taken too seriously and that they would press for more favourable consideration.[9] Southard mentioned to Towers the same concept that he had mentioned earlier to Clark, and Towers checked with Ottawa before he was to present such a proposal at the next meeting.[10]

On November 4, Towers accompanied by his deputy, Louis Rasminsky, returned to the Export-Import Bank. Gaston immediately advised that the request for $500 million to be repaid over ten years was out of the question. He made it clear that, for an exchange deficit, the borrower was expected to take as small an amount as possible and repay the principle at the earliest possible date. Maffery, another Export-Bank official, suggested that the Canadians should approach a syndicate of New York banks. Towers pointed out that, without any other source of credit and the necessity to acquaint the bankers fully with the details of the exchange deficit and remedies such as Plans A and B, it would be unwise to make any approach unless the Canadians were sure that they would be successful. The Governor of the Bank of Canada asked if officials had considered linking part of the desired credit, such as $300 million to imports of machinery, which the Canadians would need. The response to this suggestion was negative. To Southard's idea, reworded by Towers, that the loan be repayable over five years from delivery of strategic and critical raw materials to the United States, Gaston was not impressed. Realizing that a different approach was required, Towers tactfully repeated a suggestion from another highly placed financial official. He expressed the view that, because of the limited loaning authorization left to the Export-Import Bank, a credit for a smaller amount than $500 million would not be difficult to arrange. Towers believed that this idea shook Gaston. The Acting Director quickly agreed that the Export-Import Bank would consider an application for a smaller loan to be repaid over a shorter period.

Shortly after this meeting, Towers, Rasminsky and Wrong went to see Tyler Wood. Towers expressed his dissatisfaction with the results of the earlier meeting with Gaston. Wood then asked Norman Ness, State Department Director of the Office of Financial Development, to report about the interview which, along with Willard Thorp, they had had with Export-Import Bank officials. Ness stated that he believed that the officials to whom he spoke would be willing to make available a standby credit of $250 million if the Canadians could arrange a $200 million credit in New York and drew $75 million from the International Monetary Fund. Though Ness mentioned nothing about the term of the Export-Import Bank credit, Towers believed that the credit would have to be repaid in three years. He agreed that he would pass this proposal along to Ottawa, but he was by no means satisfied with the talks to date. He was convinced that Export-Import Bank officials had not discussed the Canadian exchange problem with the National Advisory Council and, for that reason, he would have to talk to Frank Southard the following day.[11]

In response to Towers' request for further direction, Clark telephoned a counter proposal. If the Export-Import Bank was willing to authorize a credit of $425 million, the Canadians would be willing to approach a New York banking syndicate for an unspecified sum, dependent upon reasonable rates, no earlier than January, 1948. Upon receipt of such a credit, Canada would be willing to use it before drawing on the Export-Import Bank loan. The repayment terms for the latter would be determined by the loan granted by New York bankers, but Canada was willing to commence payments in the third year at the rate of $75 million and continue such a policy for two more years. For any amount borrowed from the Export-Import Bank beyond $225 million, such terms would depend entirely upon the loan application to the New York banking syndicate. If an Export-Import Bank credit was not forthcoming, Canada would adopt "Plan A" of its import control program and refuse to make further efforts to extend credits to other countries. This proposal represented the final position by Canada and any further risks would be considered unacceptable. This position was presented by Towers to C. Tyler Wood at a meeting in his office on November 5. Rasminsky and Wrong accompanied the Governor of the Bank of Canada. Wood asked if it were possible for Rasminsky to have an informal discussion with a senior Export-Import Bank official. Towers replied that this would be satisfactory only if the State Department gave the strongest possible support to the Canadian counter proposal. Wood promised a definite reply would be made to Wrong by the following day. The Ambassador added that, if negotiations for the credit broke down, the Ministers for External Affairs and Finance would approach the Secretary of State and the Secretary of the Treasury. This was the toughest stance taken by Canada during the entire period of negotiations. Towers noted that Southard had not attended the meeting, but was convinced that his support was still strong and sympathetic towards the Canadian position.[12]

On November 8, the National Advisory Council approved a loan of $300 million from the Export-Import Bank to the Canadian government.[13] On November 10, the Minister of Finance, D.C. Abbott formally applied to the Acting Chairman, H.E. Gaston, Export-Import Bank for a credit of $300 million. The purpose of the loan was to help Canada to purchase essential equipment and raw materials in the United States to maintain a high level of production. Abbott believed that Canada would draw on the credit up to December 31, 1948 and that repayments would be made in three equal installments during the third, fourth and fifth years of the loan. Abbott also noted that Canada would sell securities to banks and other private investors in America and that the proceeds would be utilized before drawing on the Export-Import Bank credit. Before final arrangements for the sale of such securities had been completed, he promised to consult with the Export-Import Bank as to how the proceeds would be used before drawing on the proposed credit.[14] On November 12, Gaston replied to Abbott that the Export-Import Bank Board of Directors had approved his request for a credit of $300 million. Such funds had been set aside on the terms suggested by the Canadians, but other conditions were included. A rate of interest for each drawing on the credit would have to be determined, and a schedule of the equipment and raw materials with the dollar amount to be financed within each category would have to be established. Gaston hoped that Canada would investigate as soon as possible the sale of securities to United States' investors, encouraged the proposal to consult before the sale was completed, and suggested that the Export-Import Bank would await further initiatives before a formal agreement was executed.[15]

In anticipation of the approval of an Export-Import Bank credit, close consultation continued between officials of both countries. On November 10, George Bateman of the Department of Reconstruction and Supply met with officials from the Treasury Department Bureau of Supply on the possibilities of the sale of strategic and critical materials to the United States. He believed that, during the first half of 1948, monthly copper shipments could increase from 4,000 to 6,000 tons, mainly by diverting shipments from non-dollar areas. What he found disappointing was that Treasury officials were not willing to absorb the cost of American import duties. Copper was temporarily on the free list but, unless Congress acted, duty would be reimposed in March, 1948. Without some additional price incentive, it would be very difficult for Canadians to expand their production. A guarantee that Canadian producers would be paid the American domestic price could solve this problem. But this problem would have to be taken up with senior Treasury officials before the sale of critical materials became a reality. Besides this aspect, the nickel industry was suffering from a power shortage which held back maximum production. The lead and zinc producers could only increase capacity with more labour, more housing and an increase in prices. The demand for asbestos was so large that shipments for stockpiling appeared out of the question. While Ambassador Wrong was not encouraged by the talks to date, he was convinced that the problems would be overcome in the near future.[16] Wrong also suggested to Clark that the American news media in Washington and New York be given the text of the announcement of the import control program and that preparations be made for a press conference in Washington to be held after the announcement. Equally important for Congressional committees investigating purchases outside the United States would be a table showing the extent of aid granted to Europe by Canada since the end of the war.[17]

The drafts of the Canadian and American aide memoires and the proposed press release, to be issued by the Secretary of State when the Canadians announced their import restrictions, were written by Foster and Willoughby of the State Department. They were closely examined in Ottawa and Canadian senior officials appreciated the sympathetic tone of the drafts. For the most part, their changes were of a minor nature except for one item dealing with the honouring of contracts for U.S. imports in effect at the time of the announcement. Deutsch explained to Wrong why this item had been deleted from the Canadian aide-memoire. To recognize all contracts between Canadian and American business interests for exemption would nullify the purposes of the restrictions. The Canadian government was prepared to consider individual cases of hardship. As an example, American manufacturers under contract to produce articles to Canadian specifications who proved that they were unable to sell these in other markets would receive sympathetic consideration from the Canadian government.[18]

On November 11, Foster and Willoughby were given copies of the revised drafts by Wrong. The Canadian Ambassador told them that in the event that the Export-Import Bank authorized a credit at its meeting the next day, it was likely that his government would adopt "Plan B". Wrong was convinced that both State Department officials were pleased with this news and would urge senior officials to accept the Canadian amendment regarding contracts. Wrong pointed out that Willoughby had made several revisions in the original drafts and Ottawa officials found that his changes were almost identical to theirs. The press release to be issued by the Secretary of State would have to be altered as Willoughby had only learned the day before that the Canadians planned to announce both the import restrictions and the signing of the Geneva Agreements on the same day. The State Department had already prepared their press releases on the Geneva Agreements which included references to the concessions granted by Canada. Willoughby pointed out that he and Foster would have to alter their releases so that their announcements would reflect the Canadian situation.[19]

The exchange of aide-memoires was made necessary by the fact that Canada was breaking the United States-Canada Trade Agreement of 1938 by imposing import restrictions. The United States was agreeing not to invoke any penalties during the interval before the provisional coming into force on January 1, 1948, of the General Agreement on Tariffs and Trade which would replace the earlier trade agreement. Ottawa accepted all the changes proposed by the State Department.[20]

Willoughby and Foster suggested several additions to the press release to be announced by the Secretary of State on Tuesday morning, November 18, the day the import restriction program would begin. These included recent figures of Canadian trade with the United States to emphasize Canada's importance as America's most important customer and an estimate of the current rate of the trade deficit was set at $1 billion. Willoughby also suggested that a general picture of the import restrictions should be included and, after consultation with Ottawa, these were incorporated in the press release. He also believed it necessary to explain Article 12 of the Geneva Agreement. This article allowed countries to impose import restrictions to conserve foreign exchange reserves, and was the legal mechanism which allowed Canada to be a signatory to the Agreement and, at the same time, allowed Canada to take such measures for a brief time and still remain in good standing. It was Article 12 that was indicative of the kind of compromise necessary to promote the return of a postwar trading world of multilateralism. Willoughby also felt that it was necessary to include reference to the loan from the Export-Import Bank, as the Bank was planning to make a statement on the same day. Canada concurred with these suggestions.[21]

Wrong warned Ottawa that the State Department wanted no direct reference to a new trade agreement in the Canadian announcements. Willoughby feared that such a treaty, with far-reaching implications requiring Congressional approval, could be embarrassing to his government. Willoughby suggested a sentence that Wrong found too evasive. The Ambassador suggested that Canada could make a statement expressing their hopes for such a treaty, while leaving out any reference to consultations with the American government. Ottawa incorporated this idea in their announcements.[22]

Wrong also learned that on Tuesday, November 18, the same day of the simultaneous announcements, the State Department team led by Paul Nitze would be prepared to discuss Canadian supplies for the Marshall Plan. Wrong, reporting on November 13, added that the State Department hoped that Canada would arrive with full information and be ready for serious negotiations.[23]

One of the major reasons why the import control program initially gained favourable reaction in both countries was due to the timing. In the United States, besides the press releases issued by both the Secretary of State and the Export-Import Bank, President Truman vigorously attacked inflation in an address to Congress on November 17. His measures for the control of inflation diverted attention away from the Canadian announcements. At a press conference the following day at the Canadian Embassy, Wrong reported that American reporters pressed most insistently about two items. The first dealt with Canada's ability to contribute to the Marshall Plan; the second with the steps that both countries were planning for "maximum economic co-operation". To the first, Wrong assisted by Rasminsky, referred to

Canada's record of postwar financial assistance, the Canadian loan to the United Kingdom still in effect, and the credits to other Western European countries. To the second, both spoke in generalities of Canadian hopes and specifically avoided any reference to a comprehensive trade agreement. The press releases issued by the Secretary of State and the Export-Import Bank were only briefly reported.[24]

Prime Minister King, who was in London for the Royal Wedding, made the announcement about the Geneva Agreement on the evening of November 17. King noted that the General Agreement on Tariffs and Trade, signed on October 30, involved twenty-three countries and one hundred and twenty-seven separate negotiations, of which one hundred and twenty-three were successfully concluded. As Canada derived nearly one third of its national income from external trade, the re-establishment of multilateral trade by virtue of the Agreement insured that Canadian exports would enjoy a larger and more equal access to world markets than ever before. King also mentioned that severe emergency measures, because of foreign exchange problems, would be announced by the Minister of Finance later in the evening. Parliament would be asked to approve these measures when it assembled on December 5.[25]

D.C. Abbott, Minister of Finance, made his radio broadcast suitably sombre.

After reviewing the reasons for the loss of exchange reserves, the government's expectations for the Geneva agreements and the Marshall Plan, Abbott turned to four measures that were hoped would shape the future. The first was to expand production for export to the United States; the second involved greater development and processing of natural resources; the third anticipated a better balance in the operations of U.S. branch plants located in Canada; and the fourth caused considerable concern in Washington. This measure involved the payment of a subsidy to the gold mining industry to help defray rising costs and to stimulate production. To that end, the government was prepared to pay for a three-year period the costs of additional production, beyond the amounts produced in the year ended June 30, 1947. The subsidy was to amount to $7 for each fine ounce of additional production. Before the Geneva agreements, the Marshall Plan and these four measures could take effect, however, it was necessary to impose a program of temporary restrictions on imports, on pleasure travel and apply special excise taxes on consumer goods.

Controls would be applied in a variety of ways. Control of capital goods, such as machinery, equipment and certain raw materials, would be under the authority of the Minister of Reconstruction and Supply, C.D. Howe. His job was to consult with industry to examine what plans could be deferred or postponed to reduce the drain on Canada's exchange reserves. Some consumer goods would be completely prohibited. Items such as jewellery, candy, novelties, typewriters, radios, refrigerators, washing machines and furniture would be placed in this category. All motor vehicles would also be effected in this way, but later it was planned to place this item under a restrictive quota system. At the outset, certain classes of goods would be placed under quota restrictions. These included oranges, grapefruit, lemons, fruit juices, potatoes, apples and onions. Most canned goods and out-of-season fresh fruits and vegetables would be completely prohibited. In textiles, except on raw cotton and yarns, quotas would apply. Quotas would also apply to all leathers, all kinds of footwear, gloves, leather garments and luggage. Quotas would also apply to a variety of items including clocks, watches, cutlery, games, toys, sporting goods and smokers' supplies. The quotas were set for each group of countries on the basis of twice the prewar value of imports, except for the textile quota, which was set at 400% of prewar values. Canada's trading partners would be divided into two groups. The quotas would fall most heavily on the first group. Countries who demanded payment in U.S. dollars and were not short of dollars were included in this group. All other countries would be placed in the second group. These were the ones that were short of dollars and did not demand payment in dollars. Trade would be encouraged with the second group as long as their imports remained below the quotas. Goods in transit to Canada would not be affected by the controls, but goods on order would not be exempted.

Travel restrictions included an annual quota of $150 per person for those visiting U.S. dollar areas. Exemptions would be considered, on an individual basis, for reasons of health, education or business. The travel restriction was aimed at curbing Canadian spending on pleasure travel.

Special taxes on durable consumer goods would apply to items which contained a large portion of parts or materials from the United States. A special excise tax of 25% would apply to sporting goods, outboard motors, pleasure boats, firearms, oil burners, motor cycles, musical instruments, cameras, radios, phonographs and most types of electrical home appliances. Where a tax of 10% already existed, it would be raised to 25%. In the case of automobiles, the tax would be raised from 10% to 25% on the value up to $1,200, with 50% applying to the additional value up to $2,000 and the rest on the excess over $2,000.

These taxes would apply on the manufacturer's prices and were designed to limit purchases on these goods rather than raise revenue for the government. It was also designed to reduce the steel and other imported materials which were contained in these goods. In addition, domestic production of these items to fill the gap would not be permitted.

Tax reductions would also apply to a limited number of items purchased by all Canadians which would result in lower prices. Taxes were removed on sugar, electricity, gas and tea; and taxes were reduced on coffee.

As in the case of budget proposals, a special bill would be introduced at the coming session of Parliament. In order to avoid evasion of the restrictions, the proposed measures would be made effective from midnight of November 17 under the provisions of the Foreign Exchange Control Act. The Minister of Finance also explained that Canada had borrowed $300 million from the Export-Import Bank to lessen the severity of the restrictions and to avoid undue dislocation of the North American economy in its efforts to restore economic stability in Western Europe. He also added that Canada would seek further funding in the American market from private investors. D.C. Abbott closed his broadcast by emphasizing the co-operative attitude of the United States and that the restrictive measures would be removed just as soon as circumstances would permit.[26]

Writing from the American Embassy in Ottawa on November 18, Ambassador Atherton noted that the general reaction of the Canadian press seemed to be favourable to the restrictions. He noticed, however, that the gold subsidy had been given considerable prominence.[27] On November 20, the Canadian Consulate General in New York reported to

Lester Pearson that both the press and American exporters had accepted the restrictions as inevitable under the circumstances, but hoped that they would be temporary.[28] On the same day, an American Embassy official in Ottawa reported to Andrew Foster at the State Department. He observed that the Royal Wedding had knocked coverage of the restrictions off the front pages of the newspapers. He was convinced that the Canadians had taken this into consideration in the timing of their announcement by Abbott. He reported that there had been no serious opposition to the restrictions. The only debate centred around their duration. However, the major point of the letter was to report a private conversation with the Minister of Finance. Abbott admitted that he believed that Canada was part of America's economic orbit and hoped that the United States would continue to be helpful. Abbott was referring to the expanded use of American branch plants to export to dollar areas. Abbott pointed out that C.D. Howe was very confident about his ability to encourage new and existing branch plants to direct their production to dollar markets. What the embassy official found so encouraging was that both Abbott and Pearson, in private conversations, recognized that integration of Canada into the American economic sphere was inevitable and that economic development was dependent on U.S. assistance.[29]

That Canadian economic development was dependent upon American goodwill was brought home once again on the evening of November 19. Willard Thorp, the Department of State Assistant Secretary of State for Economic Affairs, telephoned Ambassador Wrong on behalf of the National Advisory Council. Thorp requested a prompt meeting to discuss the Canadian proposals to subsidize additional production of gold. The

Assistant Secretary added that the Secretary of the Treasury and the Chairman of the Federal Reserve Board were particularly disturbed at the possible consequences if such proposals were acted upon. Thorp added his own objections. He pointed out that other leading gold producers might follow Canada's lead, which could result in a revision of the gold buying policy of the United States. Also, he believed that labour and supplies should not be diverted from other forms of production in order to increase gold supplies. Ambassador Wrong contacted Mr. St. Laurent, the Secretary of State for External Affairs, early next morning. Copies of the message were quickly delivered by hand to the Ministers of Finance, Mines and Resources, Trade and Commerce and the Governor of the Bank of Canada, which indicated the seriousness and urgency that top Canadian officials attached to Thorp's comments.[30]

One day later, on November 21, Clark, accompanied by Ambassador Wrong and another official from the Canadian Embassy, met with a group of senior officials from the Departments of State and the Treasury and the Federal Reserve Board. This meeting was held at the Treasury Department in the office of Frank Southard. He was accompanied by two assistants from his own office, Eddy and Hebbard, as well as A.M. Overby, Executive Director of the International Monetary Fund; J.B. Knapp, Assistant Director, Division of Research and Statistics, Federal Reserve Board and Norman Ness, State Department Director of the Office of Financial and Development Policy.

Clark opened the discussion with a vigorous exposition of the reasons for the gold subsidy policy. He spoke of gold exploration as the dynamic force which had opened up the Canadian north and led to further discoveries of important base metals. During the war, gold production had decreased. There was a short postwar upsurge, but this was reversed when the dollar was restored to parity with the U.S. dollar in July. 1946. With climbing production costs and falling dividends, not only were Canadian gold producers demanding support but, most important, the further opening of the north was jeopardized. Clark believed that the proposed subsidy was a moderate incentive and would only keep the communities dependent on gold production in subsistence. As the industry was working well below capacity, the diversion of capital would be slight, and labour would only be increased from 18,000 to a maximum of 25,000.

Southard was the first U.S. official to begin the questioning. He noted that, given the importance that America attached to the price of gold, any action taken by a major producer such as Canada was bound to attract attention. He believed that other foreign producers could well feel justified to follow Canada's policy of subsidies. United States gold producers might also make similar demands upon their government. Southard was also concerned that machinery imported from America for increased gold production would be done at the expense of other types of mining operations.

Overby referred to the talks held in January, 1947, with Bryce and Parkinson and that both parties had agreed that action on gold subsidies would not be taken without close consultation.

Clark tried to avoid this question by claiming that these discussions was related only to premium prices for gold and the marked differences in gold production in both countries.

Knapp reacted to Clark's statement by stating that he believed that there had been consultation on the gold subsidy as part of the discussions leading to Canada's import restriction program. As this did not appear to be the case, he was surprised by Canada's proposed gold subsidy. As America purchased all gold production, thus helping countries short of U.S. dollars, it also placed inflationary pressures on the American economy. He did not want foreign gold producers to use this as a means to force a loan from the United States. Southard picked up on this point by adding that he doubted if the United States could justify the purchase of subsidized gold.

Clark reminded the U.S. officials that Canada had alway been a staunch ally on the question of gold stability, but the declining position of the north had left the government with no alternative. Southard noted that while the proposed subsidy might be good for Canada, gold was a major factor in world economic stability. As such, Canada would have to find a better explanation for its policy. Ness doubted that the subsidy would really aid future exploration in the north.

Clark pointed out that the recently adopted import restriction program was severe and the proposed subsidy was a step to make it acceptable to the Canadian people. The U.S. officials were not impressed with this point, especially when Clark mentioned a moment later that the opening of the north, rather than the exchange crisis, was the only rationale for the gold subsidy policy.

Ness summed up the position of the United States. Regardless of any economists concept of the gold standard, America had the responsibility for using gold as an instrument for stable relationships between countries. As the United States was the only gold purchasing country, gold could also be used as a means to force a loan from America. Whatever benefits the proposed subsidy would bring to Canada, it would have definite repercussions in America and could also undermine the concept of international stability tied to a fixed price for gold.[31]

Wrong believed that Dr. Clark's explanation had little hope of changing the attitude of the American government on this issue.[32] Three days later, Wrong pointed out that, although the matter had already been discussed by the National Advisory Council, he expected that further consideration would be given at the next meeting within the next few days.[33]

On December 4, Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs, asked Wrong to come to his office for a brief meeting. Besides Wood, Norman Ness was also present. Wood wasted no time in explaining the official position of the American government objection to the proposed gold subsidy. This position was also that of the National Advisory Council. The American government was opposed to the subsidization of gold in any form, and it would be necessary to issue a public statement which would include a specific reference to the proposed Canadian gold subsidy. Further, Overby, the United States Executive Director of the International Monetary Fund (IMF) had been formally instructed to oppose the proposed subsidy as being a violation of the Articles of Agreement of the IMF. Wood also explained that several U.S. government officials also proposed the possibility of stopping the buying of gold. Wood felt that Canada should be aware that this issue was given serious consideration. Wrong was thinking of asking Wood if the idea was related to the buying of all gold, or just subsidised gold. He decided to accept the statement rather than raise this question. Wood added that this decision was given in light of the fact that the Canadian parliament was to meet the following day. Wrong thanked Wood for his frank statement and assured him that Ottawa would be informed immediately. Wrong also pointed out that, if Canadian officials decided in any way to alter the method of gold subsidization, the United States would be consulted. Wrong emphasized, however, that discussion of the issue was confined to the IMF and would remain as such until the Fund had reached a decision. Both Wood and Ness agreed that the official U.S. government position would not be made public until the Fund's decision had been reached.[34]

Louis Rasminsky, Canadian representative on the IMF, was to carry on further discussions with Overby. Clark despatched instructions as a result of Cabinet considerations. Rasminsky was instructed to make it as clear as possible that Canada did not consider subsidized domestic gold production to be illegal under the Fund agreement. However, since Clark's visit, Canada had considered various alternative forms of subsidy which could be acceptable to both the IMF and the Canadian gold industry.[35] Rasminsky was also given a summary of a brief presented by the Quebec and Ontario mining industry, which produced 86.3 percent of total Canadian gold production. Their views indicated that they felt that the original gold subsidy proposal presented on November 17 would only produce minor benefits.[36] The original purpose of Rasminsky's visit was to discuss these alternatives with IMF officials. However, as the National Advisory Council had taken the position opposing any form of subsidy on gold and was going to issue a public statement outlining the stance of the United States government, the purpose of Rasminsky's visit seemed to be futile. Clark instructed Rasminsky to meet with Overby and find out precisely the wording of the NAC statement and establish how soon the statement would be made public. A clearly worded statement would allow the Canadians to choose their next course of action. Rasminsky was reminded that Canada intended to introduce legislation on the matter by the middle of the following week.[37]

Somehow, a Washington journalist discovered that the American government did not like the proposed Canadian gold subsidy. A Canadian journalist in Ottawa asked the Minister of Finance if there was any truth to the story. Although Abbott probably should have offered no comment, instead he confirmed that the State Department had called in the Canadian Ambassador in Washington to "protest" the proposed subsidy. While it is impossible to assess what effects Abbott's statement had upon the issue, Clark told Wrong that he felt that the comment may have helped the Canadian position.[38] On the whole issue, there was some conflict between the Departments of State and the Treasury. Without the strong support of the State Department, the eventual gold subsidy program would have been impossible.[39]

On December 10, Rasminsky sent Clark a copy of the proposed public statement to be issued by the IMF. Although the statement made it clear that the IMF did not favour subsidies for gold subsidies, as they could undermine exchange stability, any proposed subsidy would depend upon consultation upon the specifics of the measures to be introduced. Most important for Canada was the fact that the IMF would judge a proposed subsidy based upon the circumstances of the particular case, if it did not undermine the principles of the Fund. In addition, the public statement made no mention of Canada.[40]

At its meeting on December 11, the Canadian Cabinet agreed that the revised proposals for assistance to the gold mining industry be approved and announced in Parliament.[41] On the evening of the same day, the Minister of Finance announced in Parliament an outline of the revised proposals. Through the Department of Mines and Resources, the government proposed to make a payment to each gold mine to help defray its increased costs of production. The payment would be based upon half the amount by which a mine's current cost of gold production exceeded $18 per fine ounce. This would apply to gold produced that exceeded two-thirds of the base year ending June 30, 1947. For new mines, the payment would apply to the entire production of the first year and in the two succeeding years on the amount that exceeded two-thirds of the first year's production. Other details of the forthcoming legislation would include definition of the term "cost of production" and would limit assistance only to gold mines rather than mines which produced gold as a by-product. Payments would apply to production after December 1, 1947 and would be granted for three years.[42] At its meeting on December 18, a draft printed bill was submitted to the Cabinet. Noting the revisions included by the Ministers of Finance and Justice, the Cabinet approved the bill, subject to any views expressed by the Minister of Mines and Resources. Subject only to this limitation, the Cabinet agreed that the bill should be introduced in Parliament.[43] Thus, the government hoped to reconstitute Canada's depleted gold reserves.

CHAPTER IV

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Two other aspects of "Plan B", the proposed Trade Treaty and availabilities for the European Recovery Program (ERP) remained to be investigated by the Canadians.

It was the Canadians who had suggested a Trade Treaty which would carry the Geneva trade conference tariff cuts a stage further, including the free listing of a considerable number of items. Such free listing was not possible at Geneva because of the limitation on the Truman Administration's power under the existing Trade Agreement legislation. United States officials, during the talks in Washington at the end of October, had asked for a list of items which the Canadians would seek as concessions in the American tariff. It was arranged that Homer Fox, Commercial Attache at the United States Embassy in Ottawa, would meet with Hector McKinnon, Chairman of the Tariff Board, and John Deutsch, Director of Economic Relations, Department of Finance. The meeting was held early in November in Ottawa, and Deutsch and McKinnon made an oral statement of the items but emphasized that they should be considered only as informal and unofficial and not as a complete or final proposal. The items were included under five headings: Agriculture, Fisheries, Forest Products, Base Metals and Manufactures. Under Agriculture were included cattle, seed potatoes, field seeds, eggs, live and dressed poultry, turnips, hay and straw. Under Fisheries were included "all important fish". Under Forest Products were included lumber, flooring, shingles, plywood and veneers. Under Base Metals were included aluminum and "other base metals". Under Manufactured Goods were included certain categories of heavy machinery, certain heavy chemicals, certain fertilizer materials, a selection of fine papers, millwork and selected building materials. All these items were to be placed on the free list, or to be free of all duties. Deutsch and McKinnon also hoped to arrange for reciprocity on primary iron and steel and certain items of machinery. Fox took notes during the discussion and assured the Canadian officials that the items would only be considered as being illustrative.[1] The major reason that the Canadians were not prepared to enter formal negotiations was noted by H.R. Kemp, the Director of the Commercial Relations Division of the Department of Trade and Commerce. Research was still incomplete on the particular industries that could develop exports for the American market.[2] A forecast of the kind of trouble that would be encountered in formal negotiations by the Canadians became evident at Havana, Cuba, where the Geneva trade conference had reconvened in November in hopes of establishing the International Trade Organization. Just as Canada and the United States stood united on a variety of issues, in particular that of quantitative restrictions, they also had a few major differences. The Canadian position that was opposed to agricultural subsidies was almost the direct opposite to that of the United States. Willard Thorp, Assistant Secretary of State for Economic Affairs, was so concerned that he informed Ambassador Wrong about the divergence of views. He hoped that a reconciliation could be established. Thorp pointed out that the U.S. delegation was not acting on instructions from the Secretary of State, as the American position was really controlled by acts of Congress. Thorp asked that an expert from

Ottawa be included in talks scheduled for the last day of December. Wrong believed that the State Department would like to see Deutsch if it could be arranged, and noted that this issue was a cause of real concern to State officials, as the powerful agricultural lobby in Congress wielded considerable influence.[3]

Another thorn in Canadian-American trade relations was the habit of the U.S. Customs Administrations to include Canadian taxes in the value of goods imported into the United States. Both Kemp and the Deputy Minister of National Revenue, David Sim, noted that the Americans by virtue of both GATT and the draft Charter of the ITO had a commitment to get Congressional approval for the necessary amendments to their Customs laws.[4] Sim believed that, if Wrong's pessimism about the American prospects for amending their Custom laws turned out to be prophetic, then Canada should reconsider its position to change its laws in accordance with the trade agreements reached at Geneva.[5]

State Department officials had their doubts about the proposed trade treaty as well. Fox 'phoned McKinnon's and Deutsch's suggestions to Washington.[6] Andrew Foster believed that such a treaty would never get enough support to become a fact. He noted, however, that the Commercial Policy Division was conducting a technical study on the subject and that Paul Nitze and Woodbury Willoughby felt that the matter should be explored.[7] But Nitze believed that the items reported by Fox would simply not get through Congress. But whatever the difficulties, he believed that the Canadian proposal could work toward "the most effective utilization of the resources of the North American continent".[8]

On December 1, Willoughby visited Ottawa. He saw Clark and Rasminsky. When Willoughby used the term "customs union" it brought a straightforward response. In the original discussions in Washington, McKinnon and Deutsch pointed out that such a term would bring an emotional response in Canada because it would be interpreted as abandoning the Empire and constitute a long step in the direction of political absorption by the United States. Clark stated that a customs union would be unacceptable because it would involve raising tariffs against the United Kingdom. Rasminsky observed that Canada would be an unequal partner and would have to adjust her tariff to that of the United States. Willoughby also asked Clark to keep all information about the proposed trade treaty secret. The Associate Chief of the Division of Commercial Policy was worried that the Minister of Finance would be asked questions in the House of Commons when he introduced the emergency exchange conservation bill on December 12. Willoughby feared that if Abbott mentioned a new trade agreement, the Republicans and Democrats would take opposite sides and develop it into an election issue. Clark agreed to draft a statement to be used by Abbott for such an eventuality and submit it to the State Department.[9] Clark sent a draft to Wrong, who passed it on to the State Department.[10] Willoughby, Foster and Wood examined the draft and toned down the wording. Wrong suggested to Clark that it would be wise to accept the wording, especially before they had approached key Congressional leaders of the Republican Party. Wood told Wrong that Senator Vandenburg, the Chairman of the Senate Foreign Relations Committee, and Senator Millikin, Chairman of the Senate Finance Committee, would be approached the following week.[11] Clark agreed to Wrong's suggestion.[12]

The American business community took an active interest in the proposed trade treaty. On December 12, Andrew Foster received a telephone call from Mr. C.A. Grasselli of the Foreign Relations Department of E.I. du Pont de Nemours and Company. Citing a reliable source, Grasselli asked Foster to comment about the possibility that the economic fusion between Canada and the United States was being negotiated and that the Export-Import Bank credit was designed to co-ordinate their production facilities and eventually lead to a free-trade status between both countries. Foster replied that, as far as the State Department was concerned, no such program was under consideration. Four days later, Grasselli, referring again to an updated version of the same source, asked if there was any truth that the U.S. and Canada had agreed to undertake negotiations of a new and comprehensive treaty in the spring that would greatly expand the area of free trade. This time, Foster agreed that the State Department had received a proposal but had had no time to examine it, nor had any definite views been determined. Foster gave three reasons for this position. The State Department did not know what Congressional reaction might be; it was too soon to gauge the effects of Canada's dollar conservation program and, finally, as a personal observation, Foster pointed out that the Geneva Agreements had not gone into effect and the repercussions would have to be examined before embarking upon further trade agreements.[13]

However, in the State Department considerable thought had been given to the proposed trade treaty by Nitze and Willoughby. Both were concerned about the speculation in the Canadian press that both countries had agreed to negotiate. Willoughby had spoken personally to Senator Millikin and other congressional leaders had been briefed on the actual status of the matter. Based on informal discussions to date, it was clear that the Canadians believed strongly that steps would have to be taken to reduce trade barriers, particularly to allow greater exports to the United States. The import controls could soon build up strong pressures to continue protection of domestic industries. The list of items submitted by the Canadians had been examined and it presented difficult economic and political problems. Willoughby and Nitze thought the best way to handle the problem would be to have both countries agree to a special form of customs union that would allow for substantial free trade, but would allow each to retain its own tariff in trade relations with other countries. There would have to be exceptions to free trade between both to permit quotas to protect subsidized agricultural products and to allow for balance of payments problems. It was highly probable that both Democrats and Republicans would support the concept of duties cut to Canada, providing that these were not provided for other countries. The Republicans were already on record as approving a reciprocity treaty that would place many items on a free list. As Canada would retain tariff autonomy, there would be less grounds for fearing absorption by the United States. On the other hand, free entry into Canada for American products would result in the U.S. receiving more preferential treatment than the United Kingdom and other Commonwealth countries.

Another problem with the concept of a special form of customs union was that it would run counter to the definition of a customs union as outlined in Article 42 of the draft Charter of the proposed ITO and Article 24 of GATT, which specified that the same tariffs and other commerce regulations must be applied by all members in their trade relations. Such a concept was also contrary to the United States position to eliminate preferences whenever possible. As customs unions and preferences were still being debated at the ITO Conference in Havana, Cuba, perhaps a formula could be devised to modify the customs unions provisions to allow the special type already discussed as an alternative. Such a form of regional economic unity might be supported by Western Europe or the Arab League that would allow economic benefits and, at the same time, allow the control of preference systems. If such a debate ensued, the proposed trade treaty with Canada could be kept in mind.

Foster agreed that the concept of a special customs union should be explored and he believed, with Willoughby, that a memorandum on the subject should be sent to the State Department Director of the Office of International Trade Policy, Clair Wilcox, for his consideration. Wilcox was the Acting Chairman of the U.S. Delegation at the ITO Conference at Havana. Copies of the memorandum were also examined by the Assistant Secretary of State for Economic Affairs, Willard Thorp, and his deputy, Tyler Wood.[14] It was becoming obvious to Foster and other State Department officials that the more they examined the Canadian proposal for a trade treaty, the more that difficulties appeared to be insurmountable.

The other issue of Canadian capabilities for supplies for ERP had been studied in Washington on November 18-20. Scully, the Deputy Minister of Reconstruction and Supply, had led the Canadian team of experts. The purpose of the meeting was to compare estimates of availabilities prepared by both countries and it was found that the figures were closely comparable. Further information was required and Scully and his experts returned to Ottawa immediately to continue their research.[15] During his visit to Ottawa on December 1, Willoughby met briefly with Scully, but new information concerning Canadian availabilities was not yet completed.[16] One important reason that Canada did not wish to make any definite commitments on this issue was because the British Trade

Mission was to arrive in Ottawa during the second week of December. The Canadians realized that the British lacked the necessary U.S. funds to maintain their food purchase program, and Canada realized that it could not maintain their previous levels of exports without payment in U.S. dollars. Canada also wanted to divert, when possible, some of these supplies for her share towards the European Recovery Program. It was expected that talks would not be completed until December 17. The Canadians wanted a meeting with the State Department to review a number of issues after they had evaluated the results of their discussions with the British. The meeting was planned for December 31.[17]

On the afternoon of December 19, a State Department official gave Ambassador Wrong two copies of the Truman Administration proposals to the Congress for the European Recovery Program. Wrong drew attention to the passages concerning Canada, in particular that the first year of ERP would run from April 1, 1948 to June 30, 1949, and that Western Hemisphere countries, other than the United States, were expected to provide $700 million.[18] Wrong had earlier emphasized that State Department officials were continually reminding him that Canada was expected to establish an export surplus as the only means whereby a real contribution in goods to European recovery would be effective. For his part, Wrong reiterated the position that the unexpended portion of Canadian export credits and low export prices for certain commodities, such as those included in the food contracts with the United Kingdom, should be taken into account. The State Department feared that dollars provided to finance exports to Western Europe would promptly be spent to purchase United States imports for domestic consumption, thereby adding to the demands on American production. Wrong feared that such an attitude would influence the administration of ERP.[19] He was much concerned about the first reports that he noticed about Canadian reaction to the ERP proposals. He drew attention to comments by the Minister of Reconstruction and Supply, C.D. Howe, to the effect that, if Congress accepted the ERP proposals, it was possible that Canada's quotas and restrictions could be removed after a few months. Wrong believed that such a remark provided ammunition both to Congressmen and officials within the Truman Administration who believed that a generous use of offshore purchases, instead of loans to Canada to finance exports to Europe, was "merely a method of bailing us out of our difficulties". Wrong also suggested that it would be worthwhile for Canadian officials to educate the press to look upon ERP as something other than a large pie from which Canada expected its "cut".[20] On December 23, the same day as Wrong's words of caution to Ottawa, Andrew Foster was reporting to Jack Hickerson about United States-Canada relations during the months of November and December. Commenting upon a number of differences that had been resolved and projects that were under joint development, Foster drew attention to certain items. He emphasized that the Canadians were very happy that the Administration had presented a strong case to Congress for procurement in Canada for ERP. Knowing of Hickerson's interest in North American economic integration, he advised that the Canadian trade treaty proposal was being explored by officials from both countries and that the Commercial Policy Division was making a technical study of the subject. He also added that the Canadian Import Restriction Program had not led to the number of complaints in the United States that the State Department had anticipated.[21]

However, the Canadians, always sensitive to the need for American foreign investment, grasped the opportunity to reassure New York financial interests by having the Minister of Finance address the Annual Meeting of the Life Insurance Association of America at New York on December 18. Abbott opened his speech by reminding his audience of certain economic facts in Canadian-American relations. Comparing trade statistics between September, 1946 to September, 1947, he pointed out that the United States had shipped more than $2 billion of exports to Canada. This represented more than the combined totals of exports to America's second and third largest customers, the United Kingdom and France. Canada always made full payments in cash. The United States also had more imports from Canada than any other two countries combined and had invested more money, $5 billion, than in any other country in the world. After reviewing Canada's role as an ally during and after the war, Abbott drew attention to the fact that production had expanded 50% since 1939, production costs were amongst the lowest in the world, and there were still great resources and opportunities. Abbott then went on to explain the reasons for the dollar conservation program and the close consultations that occurred with the American government. He assured his audience that the measures were only temporary and Canada planned to expand its trade, especially with the United States. Not only did Canada have a history of economic stability, but America had been paid since the outbreak of the war over $1.75 billion in interest and dividends. There was no reason why the future would be any different for U.S. investors. In summing up, the Minister of Finance reminded his audience that "only the United States can provide the leadership and the help that can make the world the sort of place that your people and our people want to live in".[22]

On the last day of 1947, a Canadian delegation met in Tyler Wood's office for a general discussion of various matters in their economic relations. For the Americans, the most important item was Canadian availabilities of products for ERP; for the Canadians, the valuation of imports was considered the most urgent matter. The Canadian spokesman was John Deutsch, Director of Economic Relations, Department of Finance. He was accompanied by Ambassador Wrong and members of his staff. The American team was represented by the Departments of State, Commerce, Treasury and Agriculture. Tyler Wood acted as spokesman.

From the outset of the meeting, Deutsch made a firm statement about Canada's balance of payments position. Reserves were down to less than $500 million against a total trade of about $5 billion, and they would not be allowed to drop any further. He expected that Canada would have a small overall trade balance in 1948. Canada was not planning to extend further credits to the United Kingdom and Western Europe that would involve a loss of reserves, including drawings on the Export-Import Bank loan. The United Kingdom was being allowed to use only $45 million of its remaining credit against the projected deficit of the sterling area with Canada in the first quarter of 1948. Western Europe would also be allowed only one half of their remaining credits of $127 million. Canada had no intention of making further credit commitments until it saw what developed under ERP. Deutsch added that Canada was giving to the United Kingdom the sum of $200-$225 million just on wheat, because they were selling well below world prices. He made the point that, had Canada charged world prices, there would have been a considerable surplus in the overall trade balance.[23] When Wood was asked what part of ERP Canada was expected to finance, he replied that no allocation had yet been decided. However, Cassels from the Commerce Department and a former Rhodes scholar from Alberta, volunteered that he thought that Canada's contribution should be in proportion to her national income. As its share for the first year, he calculated that Canada should be expected to provide about $345 million. It was not until the end of the meeting that other State officials indicated their anxiety at Cassels' projection. It was Rosenson who suggested to Jackson that, as the ERP had yet to be scrutinized by Congress, it was unwise to let the Canadians believe that ~~Cassels'~~ remarks reflected government policy. Jackson agreed, as did other State officials, and Wood was asked to explain the Congressional angle to Wrong. The matter was explained to the Canadian Ambassador and Wood added that, although Cassels' views were not necessarily wrong, they were not those of the government at the present time.

On the issue of availability of products for ERP, the Canadians issued a report that indicated that they were making serious efforts to produce an export surplus. First, they reported on their discussions with the British that had been recently completed. The United Kingdom would purchase the whole export surplus of meats and dairy products for 1948. They would also require most of the wheat crop, except for some 20 to 30 million bushels that could be sold to the United States. Canadian domestic wheat consumption had declined but, because of the poor feed-grain crop, wheat had to be used for the feeding of cattle. Only if the 1948 wheat crop was much larger than the poor yield of the previous year would the Canadians be able to guarantee wheat for ERP.

On the other hand, virtually any quantity and any species of fish could be made available. With regard to timber, the contract with the British had been spread out over a longer period, thus releasing a considerable quantity of West Coast lumber for ERP uses. They could not provide an accurate estimate at the meeting, but promised to do so in the near future. The production of base metals appeared promising. If there was an assured market under the Marshall Plan, the Canadians believed they could expand their output of lead, zinc and copper. They could add about 20,000 tons to annual lead production of 165,000 tons and zinc and copper could be increased in similar proportions. However, they pointed out that with considerable domestic demands for copper, the United Kingdom could be of great help. It was pointed out that the British could substantially increase copper production in Rhodesia for Marshall Plan use if Canada could provide the necessary rail equipment. However, Canadian railway equipment production for this purpose would depend on imports of American steel. Also, the United Kingdom wished to increase its supplies of base metals to increase capacity for exports, but Canadian companies were trying to reduce these shipments and divert them to the Marshall Plan. The Canadians did not have accurate estimates of base metal availabilities, but when they were completed they would be made available. Manufactured goods, such as railway equipment, motor trucks and farm machinery, could be supplied on a selective basis. Canada could expand production on these products, but simply lacked the capacity to produce on a wide variety of items. Deutsch emphasized that his country was stopping the use of critical materials in short supply, such as steel for marginal ourposes, such as building skyscrapers, movie houses, bakeries and laundries. However, there were no cutbacks on industries geared to export markets.

Deutsch emphasized that the most urgent matter in the immediate sense was the question of excise taxes. He believed that it was American policy to include excise taxes in the valuation of imports from Canada. Willoughby pointed out that the Customs Bureau was studying the matter and that Canada would be informed before any final decision was reached. Deutsch suggested the possibility of changing the basis of the tax from the manufacturing to the retail level to avoid its inclusion in U.S. valuation. Willoughby responded to this idea, as the bill dealing with the problem was still-being drafted. On the directly related matter of the Geneva Agreements, Deutsch and his team were assured that the Truman Administration would place legislation involving changes in customs valuations and marketing provisions before Congress during the current session. Both sides agreed that their governments would approach their respective legislatures regardless of any problems that might delay the acceptance of the ITO Charter.

Ambassador Wrong raised the question of the validity of the Hyde Park Agreement. At a recent meeting on fuel oil at the Department of Commerce, a Commerce official stated that his Department believed that the Agreement was no longer applicable. Quickly, Cassels pointed out that, regardless of the remark, the Department of Commerce definitely recognized the principle of the Hyde Park Agreement. Wood also said that the State Department considered it as binding. He added that he could conceive of no situation where his government would not consult the Canadians on matters covered by the Agreement.[24] The whole issue had been raised because of shortages of fuel oil in the United States. When it was discovered that Canada was importing at a rate four times greater than the previous winter, a Congressional Committee demanded an embargo to reduce the flow. The Canadians responded by offering to reduce their fuel-oil imports by 50%.[25] Foster believed that this rapid response had been satisfactory for this problem.[26] But he was much concerned about attacks by officials within the U.S. government on the grounds that the Agreement prevented the Americans from cutting back on commodities in short supply that were exported to Canada. He agreed with Wood's reasoning and believed that any abrogation would seriously damage co-operation between both countries. To Foster, the Hyde Park Agreement was the foundation for consultation of many economic problems of mutual concern. Wood never mentioned to the Canadians that he would soon be appearing before a Senate Committee to defend the Agreement vigorously.[27]

The discussion then moved on to the Canadian dollar conservation program. Deutsch reported that there had been less protest than was expected, but it was still impossible to predict the long term effects of these measures upon Canada's foreign exchange reserves. The present tendency of his government was to limit the list of absolute import restrictions and to replace them with quotas, in order to maintain contact with other trading partners. Planners were studying the possibility of setting up quotas by countries for automobiles or their equivalent in components. The Canadians were studying an arrangement whereby dollars obtained for automobile exports would be available for the import of auto materials. This concept had yet to be discussed with automakers in Canada and elsewhere. Cassels warned that this scheme could distort the economy by overstimulating Canadian car exports to dollar markets, but it was finally agreed that this would not necessarily occur.

The proposed trade treaty was the last item of the morning discussions. Deutsch was concerned that a delay of a year or more in negotiating further reductions in tariffs would freeze the present situation. What Canada wanted was to lessen its traditional triangular trade relationship and yet avoid economic nationalism. It had chosen increased integration with the United States partly because Canada believed that the British preference system was bound to decline and partly because tariff preferences would be replaced by exchange problems.

In the afternoon, Deutsch met with Willoughby for an informal session on the subject of the proposed treaty. Deutsch mentioned that, while Canada hoped to market such items as wood, potatoes and fish fillets in greater quantities in the United States, its first concern was to increase its export of manufactured goods. Deutsch believed that the best approach would be for both countries to manufacture certain products that could be easily exchanged. This would require detailed talks with concerned manufacturers to identify such products. Deutsch hoped that exploratory discussions with American corporations with Canadian branch plants could begin in the near future. Willoughby, because of the Marshall Plan proposal just presented to Congress and because of the coming U.S. election, wanted to avoid anything that could be construed as talks that had already been worked out on a detailed basis. Deutsch responded with a frank comment. Whatever details were agreed upon, Canada would have to expand her present level of exports to the United States greatly. The Americans wished to delay talks on this item and no date was set for further discussions.[28]

The long term trade treaty discussions eventually opened on February 18, 1948, and negotiations continued through to March 12, 1948. The chief spokesmen were Deutsch for Canada and Willoughby for the United States. As a result of the discussions, agreement was reached on the following items:

(i) Both countries agreed to remove all duties;

(ii) Import restrictions would be prohibited after 5 years, except each country retained the right to impose absolute quotas on specific imports; wheat and wheat flour would not be exported to the United States, nor would certain fresh fruits and vegetables be exported by the Americans during the Canadian growing season;

(iii) Both countries retained the right to impose absolute transitional quotas on certain products during a five-year period to allow for adjustments and provision for progressive increase in quotas was included;

(iv) Joint consultation and advance consultation was another provision, the former for joint marketing agreements for agricultural products, the latter for any export controls on short supply items;

(v) Canada would limit import restrictions for foreign exchange reasons to transitional quotas, but retain control of her rate of exchange;

(vi) Imperial preferences granted by Canada would be eliminated, but a similar offer of free trade to the United Kingdom could undermine any British opposition to the proposed treaty.[29]

The Canadians insisted that Congress would have to ratify the treaty before a Canadian election could be called on the proposed treaty, and L[illegible] agreed to attempt to get approval after ERP was adopted.

Deutsch mentioned that Abbott, Towers, Clark and St. Laurent had approved the proposals, but that Prime Minister King had not been fully consulted. Deutsch insisted that Congressional ratification would be required by May because of possible opposition in Canada. Not only were provincial elections to be held at the end of June, but the Canadian Manufacturers' Association was scheduled to meet on June 4. Deutsch was well aware that certain iron and steel mills would probably go out of business due to American competition, and only the largest branch plants of American automakers would probably remain operating in Canada. It was decided that, if the Prime Minister did not approve the plan, treaty discussions would be suspended until after the U.S. elections in the fall and a different approach would be required to negotiate a further trade agreement.[30]

Prime Minister Mackenzie King was responsible for suspending further action on the proposed treaty.[31] The dangers of postwar recession and unemployment had been avoided and Canada's prospects as a supply area for ERP were promising. King was well aware that whatever long term benefits might accrue by virtue of the treaty, the short term envisaged both Canadian manufacturers and some tobacco growers being unable to compete with American business interests. The closing down of some branch plants also seemed likely. In short, it was expected that unemployment and some business dislocation would be part of the price for continental free trade. It was expected that there would be considerable criticism from Quebec and Ontario business interests, both of which were strongholds of King's political strength. Even in the face of growing criticism of the dollar conservation program, the Canadian government had little difficulty defending this policy on the basis that sacrifice was required for the destitute economies and peoples of Western Europe.

The official explanation given to the Americans was passed along by Wrong in a note to Hickerson on April 1. With the possibility that the proposal for a security pact for the North Atlantic area would be made public in a few weeks, the Canadian Cabinet felt that both this item and the proposed trade treaty could lead to considerable controversy. It was felt that attention would have to be concentrated on rallying support for the security pact. The trade talks could be reopened after the pact had been signed and the United Kingdom could be included, which would help to overcome the anticipated criticism against free trade between Canada and the United States.[32] When C.D. Howe met with Robert Lovett on April 27, Howe elaborated on Wrong's explanation. He explained that Prime Minister King would be leaving office in August and that there would be an election in the spring of 1949. During the campaign, the Liberals would advocate the complete removal of import duties with all countries on a reciprocal basis. Depending upon the reaction of public opinion, the talks could be continued. Lovett agreed with this approach, pointing out that, with a new Congress in January, 1949, the American political situation would be more settled. Both agreed that this timing would allow for the arranging of support for the proposed Western European Union that could lead to closer economic co-operation. Both Howe and Lovett agreed that this approach could be successful and beneficial to the trade of Canada and the United States.[33] The trade treaty proposals were never taken to the highest ranking officers in the United States government and, with the passage of the European Recovery Program during the first week of April, 1948, it is doubtful that the proposals would have met with their approval. Aside from any domestic, political and economic questions raised by the treaty, the Canadians were assured by the ERP offshore purchasing mechanism that their exports would be purchased with U.S. funds. The proposed treaty would no longer be required as a device to replace the November import control restrictions in the near future. Nor would it be considered as the ultimate solution to Canada's chronic trade deficit with the United States. The traditional practice of a triangular trade pattern with the United Kingdom, Europe, the Commonwealth and the United States, gave the Canadians time to reflect fully on the repercussions of eventual total economic integration with a country who had assumed the role of global leader and policeman of the postwar world. Mackenzie King's position on the proposed treaty, and the suspension of further talks, allowed Canada to maintain some semblance of sovereignty in her foreign policy.

CONCLUSION

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An increase of $450 million in the value of Canada's exports to the United States and a reduction of $150 million in value of imports from America were major factors in the improvement of Canada's foreign exchange reserves in 1948. Whereas in 1947 Canada's reserves fell by $743 million, in 1948 they rose by $496 million to a year end total of $997.8 million. Of this amount, $150 million of the increase was due directly to government borrowing in the United States and there was an increase of $70 million from the tourist trade. The importance of the European Recovery Program to Canada's exports was made evident by the fact that the overall trade balance with all countries in 1948 amounted to $472 million, compared to $85 million in 1947.[1] As of December 15, 1948, the United States had authorized procurement in Canada for ERP in the amount of $566 million and that total was expected to rise further. The Americans were counted upon to take directly or to underwrite over $2 billion of Canada's total exports of slightly over $3 billion from July 1, 1948 to June 30, 1949. About 60% of Canada's exports to ERP countries would depend upon United States financing. A junior official in the Canadian Embassy in Washington reporting to Ambassador Wrong in December, 1948 thought, however, that future prospects for Canadian exports to both the United States and Western Europe were not promising. He believed that there could be a sharp reduction in off-shore purchasing due to: increased supplies of U.S. agricultural products; the recently adopted U.S. agricultural price support program; the expected decline in European demand due to increased European production; and the improvement in the Canadian exchange position. This official believed that Canada could only stabilize her foreign markets by negotiating a new trade agreement on a wide variety of items with the United States.[2]

Reporting to the Minister of Finance during mid-March, 1949, Graham Towers was also concerned about the growth of bilateral trade and payment measures in the United Kingdom and Western Europe, which he believed had worked to the detriment of Canadian exports. However, Towers seemed to indicate that closer ties with the Americans would provide Canada with some future security. He welcomed the large increase of funds from the United States for direct investment. He noted that this inflow had risen in succeeding years from $17 million in 1945 to $68 million in 1948, but these figures did not include reinvested earnings of branch plants. Including this factor during 1947, the book value of U.S. direct investment had increased by $117 million. Towers welcomed this investment for three reasons: it contributed directly to the physical development of Canada's natural resources; it brought with it experience and technological skills: and, rather than speculative ventures, these investments were usually permanent. Towers was also pleased with the change in Canada's trading pattern during 1948. Fifty percent of Canada's commodity exports went to the United States, compared with 39% in 1947 and 33% went to the sterling area, compared with 41% in 1947.[3]

There appears to have been unanimity amongst Canadian planners that the solution to the foreign exchange crisis would ultimately depend upon American foreign economic policies. There is no evidence to suggest that either economic nationalism or closer ties to the sterling bloc were seriously debated as alternatives. As one-third of Canada's national income in 1947 was derived from foreign trade, closer ties with the United States and the restoration of multilateralism was considered essential in the postwar world. The Americans had a growing shortage of strategic and critical raw materials. United States direct investment would contribute to the physical development of Canadian natural resources, as well as provide needed exchange. The Export-Import Bank credit was designed not only to protect Canada's reserves but to make available necessary items to insure a flow of such raw materials as copper, lead and zinc to the United States. The restoration of multilateralism, the eventual expansion of postwar markets, and the Canadian standard of living were inseparable. So basic was this concept that Canada was willing to accept the depletion of her reserves until the provisional agreement of GATT had been signed by her major trading partners, the United States and the United Kingdom. Upon GATT also hinged tariff autonomy, as the Canadians were able to establish a position of lesser dependence upon the British preference system. Even before State Department officials had decided that foreign assistance would be the mechanism to provide the leverage for the establishment of American economic hegemony, Canadian planners assumed that the only viable solution to their exchange crisis was the subsidization of their exports to the United Kingdom and Western Europe by United States foreign aid dollars.

Planners from both countries agreed that the only way to implement the principle of multilateralism was to restore economic and political stability in the United Kingdom, Western Europe and their colonial dependencies in the Third World. Both Ottawa and Washington believed that the Soviet Union, a model of state trading practices, was an economic rather than a military threat. It was the war-damaged Soviet economy in 1947 that allowed both countries to assume that the United States could seize the initiative in global economic relations and assure that the world could be made safe for capitalist trade expansion and investment opportunities. While both countries wanted to rebuild the economy of the United Kingdom, the central banker of the sterling bloc, neither Canada nor the United States wanted the sterling area to regain its prewar strength. The Canadians specifically rejected the U.K. proposal of a sterling bloc pool of dollars to meet the world wide shortage of U.S. dollars. When the United Kingdom had to suspend convertibility of the pound sterling on August 20, 1947, it virtually assured that ERP dollars would be the device used for the revival of North Atlantic trade. The banker of the sterling bloc would have to defer to Washington, sign the agreements at the Geneva trade conference and support the concept of Marshall Plan assistance. However, the United States needed British co-operation because of America's shortage of strategic and critical raw materials, two-thirds of which were imported from the sterling area. In exchange for these badly needed imports, the United States hoped to expand her growing export surplus. America wished to restore and control sterling area postwar development.

In case West European bilateral and payment arrangements continued in spite of GATT, Canadian planners hoped to reorient her economy away from dependence on this area and replace it by means of a free trade treaty with the United States that would lead to eventual integration of the North American economy. These negotiations revealed several illusions of Canadian planners. Before negotiations were completed, Canada had to give up its hopes of sending manufactured goods and 20 to 30 million bushels of wheat and wheat flour to the American market. Another illusion was that Canada could reorient the trade pattern of United States branch plants towards the American market. Although Canada was aware that free trade could lead to American control of her economy, many of her planners felt that secure markets for exports, tariff autonomy with other countries, greater industrial efficiency and resource development would insure sovereignity. Amongst Canadian planners, the most sympathetic to the treaty appear to have been Abbott, Deutsch, Howe, McKinnon, Pearson, Towers and Wrong. Those who had serious reservations included Prime Minister King, Clark, Rasminsky and Keenleyside, the Deputy Minister of Mines and Resources. The most optimistic American planners included Wilcox, Willoughby, Thorp and Ness. Nitze wanted nothing to detract from ERP and Andrew Foster, who manned the "Canadian desk" at the State Department, thought that the negotiations should be held primarily to help the Canadians justify their dollar conservation program. Once it was known that Canada would be included as a supply area for ERP, there was little likelihood that top U.S. officials would push for passage of a free trade treaty through Congress. Negotiators recognized that ERP had top priority and would defer for a lengthy period whatever benefits could be established by free trade.[4] The Canadian concept of North American integration gave way to the American concept of a block of free enterprise countries whose recovery would be fuelled by U.S. foreign aid. Their development would be expanded behind the containment and intervention thesis of the Truman Doctrine.

The foreign exchange crisis of 1947 revealed that Canada had the status rather than the substance of power in the postwar world. A national income heavily reliant upon foreign trade and one of the smallest economies in the Western World were two harsh economic factors that would perpetuate Canadian dependence upon American goodwill for the indefinite future.

FOOTNOTES

FOOTNOTES

CHAPTER I

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2. Canada, Department of Reconstruction and Supply, Encouragement to Industrial Expansion in Canada, (Ottawa, 1948), p. 15.

3. PAC, Department of Finance, W.C. Clark Papers, File E3F, Volume 3440, unsigned memo to Clark, February 26, 1947; National Archives of the United States in Washington (hereafter NA), Lot 65A987, Box 99, "Minutes of a Meeting of the United States Delegation", Geneva, Switzerland, July 2, 1947.

4. Jones to Benton, February 26, 1947, Joseph Jones Papers, Box 1, Truman Library, quoted in Henry W. Berger, "A Conservative Critique of Containment: Senator Taft on the Early Cold War Program", in David Horowitz, ed., Containment and Revolution, (Boston, 1968), pp. 126-127.

5. U.S., President, Public Papers of the Presidents of the United States, (Washington, 1963), Harry S. Truman, 1947, pp. 167-172.

6. NA, U.S., Department of State, File 841.50/1-1847, The Secretary of State to the Embassy in the United Kingdom, January 18, 1947; U.S. Department of State, File 841.51/2-647, The Secretary of State to the Embassy in the United Kingdom, February 6, 1947; U.S. Department of State, File 841.51/2-1747, The Secretary of State to Consular Officers in British Colonial Dependencies, February 17, 1947.

7. PAC, Department of External Affairs, File 251(s), Volume 1, Bryce to Clark, January 24, 27, 30, 1947.

8. NA, U.S., Department of State, File 842.5151/4-1447, Harrington to Foster, April 14, 1947; File 842.5151/4-2347, Harrington to Foster, April 23, 1947; File 842.00/4-2247, Foster to Truman, April 22, 1947.

9. PAC, W.L.M. King Papers, Volume 240, File 2412, C161757-161761, Wrong to King, April 21, 22, 1947.

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12. U.S., Department of State, Problems of United States Foreign Economic Policy, (Washington, 1947), p. 3.

13. U.S. Department of Commerce, Foreign Trade of the United States, 1936-1949, (Washington, 1951), p. viii.

14. Walter Millis, ed., The Forrestal Dairies, (New York, 1951), p. 268.

15. PAC, L.B. Pearson Papers, Volume 65, Part I, Wrong to Pearson, July 5, 1947.

16. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3440, Rasminsky to Clark, May 6, 1947; Department of External Affairs, File 4901-40C, Volume 4, Wrong to Pearson, March 3, 1947.

17. PAC, Department of External Affairs, File 4901-40C, Volume 4, Wrong to Pearson, May 10, 1947.

18. NA, U.S., Department of State, File 842.5151/8-2247, Atherton to the Secretary of State, August 22, 1947.

19. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, May 22, 1947; File 5207-40, Volume 1, Wrong to the Secretary of State for External Affairs, May 26, 1947; File 5207-40, Volume 1, Rae to Moran, May 28, 1947; Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Moran to Clark, May 26, 1947; Bryce to Clark, n.d.

20. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, May 31, 1947; Pearson to King, June 2, 1947; U.S. Department of State, Foreign Relations of the United States: 1947, Volume 3, (Washington, 1972), pp. 117-118.

21. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, June 5, 1947.

22. PAC, Department of External Affairs, File 265(s), Volume 1, Stone to Pearson, June 7, 1947.

23. PAC, Department of External Affairs, File 265(s), Volume 1, Stone to Pearson, June 12, 1947.

24. NA, U.S., Department of State, File 842.20 Defense/6-947, Foster to Truman, June 9, 1947.

25. PAC, Department of External Affairs, File 265(s), Volume 1, Stone to Pearson, June 12, 1947.

26. PAC, Department of Finance, Clark Papers, File E2f, Volume 3438, Bryce to Clark, June 16, 1947.

27. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, June 20, 1947; NA, U.S., Department of State, File 842.5151/6-2547, Spiegel to Acheson, June 25, 1947; File 842.5151/6-2347, Rosenson to American Embassy in London, June 23, 1947.

28. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, June 20, 1947.

29. NA, U.S., Department of State, File 842.5151/9-1147, Atherton to the Secretary of State, September 11, 1947.

30. PAC, Department of External Affairs, File 264(s), Volume 1, Wrong to Pearson, June 25, 1947.

31. PAC, Department of External Affairs, File 8932-A-40C, Volume 1, Wrong to Pearson, June 26, 1947.

32. PAC, Department of External Affairs, File 8932-A-40C, Volume 1, Keenlyside to Pearson, June 30, 1947; Moran to Wrong, July 25, 1947.

33. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, July 2, 1947.

34. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, July 3, 1947.

35. NA, U.S., Department of State, File 842.5151/7-847, Spiegel to Lovett and Thorp, July 8, 1947.

36. NA, U.S., Department of State, File 842.5151/7-1847, Harrington to the Secretary of State, July 18, 1947.

37. PAC, Department of External Affairs, File 265(s), Volume 1, Pearson to Stone, August 7, 1947.

38. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Pearson, July 30, 1947.

39. PAC, Department of External Affairs, File 264(s), Volume 2, Wrong to Pearson, November 25, 1947.

CHAPTER II

1. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Blyth to Clark, August 1, 1947.

2. NA, U.S., Department of State, File 842.5151/8-2247, Atherton to the Secretary of State, August 22, 1947.

3. NA, U.S., Department of State, File 842.5151/8-1447, Tibbetts to Foster, August 14, 1947.

4. NA, U.S., Department of State, File 842.5151/8-1447, Tibbetts to Foster, August 14, 1947.

5. NA, U.S., Department of State, File 842.5151/8-2247, Atherton to the Secretary of State, August 22, 1947.

6. NA, U.S., Department of State, File 842.5151/9-847, Foster to Atherton, September 8, 1947.

7. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Clutterbuck to King, August 1, 1947.

8. NA, U.S., Department of State, File 842.5151/8-2847, Thoreson to Brown and Fox, August 28, 1947.

9. NA, U.S., Department of State, File 842.5151/9-247, Brown and Fox to the Secretary of State, September 2, 1947.

10. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, W.C. Clark, "Outline of discussions during trip to Washington and New York, September 16-20, 1947".

11. NA, U.S., Department of State, File 842.5151/9-1147, Atherton to the Secretary of State, September 11, 1947.

12. NA, U.S., Department of State, File 842.5151/9-1247, Atherton to Foster, September 12, 1947.

13. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Keith to Clark, September 18, 1947.

14. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, September 19, 1947; NA, U.S., Department of State, File 842.5151/9-1847, Foster, "Canadian Dollar Problem", September 18, 1947.

15. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, W.C. Clark, "Outline of Discussions during trip to Washington and New York, September 16-20, 1947".

16. NA, U.S., Department of State, File 842.5151/9-2547, Foster, "Canadian Dollar Problem", September 25, 1947.

17. NA, U.S., Department of State, File 611.4231/9-2647, Myer to British Commonwealth Division, September 26, 1947.

18. NA, U.S., Department of State, File 611.4231/9-2947, Maroney to Lewis, September 29, 1947.

19. NA, U.S., Department of State, File 842.5151/9-3047, Atherton to the Secretary of State, September 30, 1947.

20. NA, U.S., Department of State, File 842.5151/9-3047, Foster, "Canadian Dollar Problem", September 30, 1947.

21. NA, U.S., Department of State, File 560.AL/9-2947, Brown to Wilcox and Willoughby, September 29, 1947.

22. NA, U.S., Department of State, File 842.5151/10-147, Foster, "Canadian Dollar Problem", October 1, 1947; U.S., Department of the Treasury (Treasury documents are retained within the Department and have no file numbers); Hebbard, "Memorandum for the Files", October 2, 1947; PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, October 1, 1947.

23. PAC, Department of External Affairs, File 264(s), Volume 2, Wrong to Clark, October 2, 1947.

24. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, October 2, 1947.

25. PAC, Department of External Affairs, File 264(s), Volume 2, Moran to Pearson, October 2, 1947.

26. PAC, Department of External Affairs, File 264(s), Volume 2, Wrong to Moran, October 6, 1947.

27. NA, U.S., Department of State, File 842.5151/10-747, Foster, "Canadian Dollar Problem", October 7, 1947.

28. NA, U.S., Department of State, File 560.AL/10-1547, Inverchapel to Lovett, October 15, 1947.

29. NA, U.S., Department of State, Lot 65A987, Box 98, Brown to Truman, October 17, 1947.

30. U.S., Department of the Treasury, Delaney to Schmidt, October 22, 1947.

31. U.S., Department of the Treasury, Delaney, "Memorandum of Conference", October 24, 1947.

32. NA, U.S., Department of State, File 842.5151/10-2747, Foster to Wood, October 27, 1947.

33. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438. no signature, "The Dollar Problem", October 23, 1947.

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1. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, November 1, 1947; NA, U.S., Department of State, File 842.5151/11-147, Foster, "Canadian Dollar Problem", November 1, 1947.

2. NA, U.S., Department of State, File 611.4231/10-2947, Willoughby, "Memorandum of Conversation", October 29, 1947; PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, November 1, 1947.

3. PAC, Department of Finance, W.C. Clark Papers, File E2f, Volume 3438, Wrong to Clark, November 1, 1947; U.S., Department of the Treasury, Fields to Richards, October 30, 1947.

4. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Clark, November 1, 1947; U.S., Department of the Treasury, Hebbard and Fields, "Memorandum for the Files", November 3, 1947.

5. NA, U.S., Department of State, File 842.5151/11-147, Foster, "Canadian Dollar Problem", November 1, 1947.

6. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Clark, November 1, 1947; U.S., Department of the Treasury, Delaney, "Memorandum of Conference", October 31, 1947.

7. PAC, Department of External Affairs, File 265(s), Volume 1, Clark to Wrong, November 3, 1947.

8. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 1, 1947.

9. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Clark, November 1, 1947.

10. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, November 1, 1947.

11. PAC, Department of External Affairs, File 265(s), Volume 1, Towers to Clark, November 4, 1947.

12. PAC, Department of External Affairs, File 265(s), Volume 1, Towers to Clark, November 6, 1947.

13. NA, U.S., Department of State, File 842.5151/11-1447, Wood to the Under-Secretary, November 14, 1947.

14. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, Gaston to Abbott, November 10, 1947.

15. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, Gaston to Abbott, November 12, 1947.

16. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 13, 1947.

17. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to Clark and Moran, November 10, 1947.

18. PAC, Department of External Affairs, File 265(s), Volume 1, Deutsch to Wrong, November 10, 1947.

19. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 11, 1947.

20. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 13, 1947.

21. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 13, 1947.

22. PAC, Department of External Affairs, File 265(s), Volume 1, Deutsch to Wrong, November 16, 1947.

23. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to St. Laurent, November 13, 1947.

24. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, November 19, 1947.

25. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, Text of an address made by the Right Honourable W.L. Mackenzie King, Prime Minister of Canada, over the CBC network at 10.15 p.m. E.S.T. on November 17, 1947.

26. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, Broadcast by Hon. Douglas Abbott, Minister of Finance on November 17, 1947.

27. NA, U.S., Department of State, File 611.4231/11-1847, Atherton to the Secretary of State, November 18, 1947.

28. PAC, Department of External Affairs, File 265(s), Volume 1, Scully to Pearson, November 20, 1947.

29. NA, U.S., Department of State, File 842.5151/11-2047, Harrington to Foster, November 20, 1947.

30. PAC, Department of External Affairs, File 265-A(s), Volume 1, Wrong to St. Laurent, November 20, 1947.

31. PAC, Department of External Affairs, File 265-A(s), Volume 1, Keith, "Canadian-United States Discussion on Stimulation of Canadian Gold Production", November 24, 1947.

32. PAC, Department of External Affairs, File 265-A(s), Volume 1, Wrong to Moran, November 22, 1947.

33. PAC, Department of External Affairs, File 265-A(s), Volume 1, Wrong to the Secretary of State for External Affairs, November 25, 1947.

34. PAC, Department of External Affairs, File 265-A(s), Volume 1, Wrong to the Secretary of State for External Affairs, December 4, 1947.

35. PAC, Department of External Affairs, File 265-A(s), Volume 1, Clark to Rasminsky, December 5, 1947.

36. PAC, Department of External Affairs, File 265-A(s), Volume 1, Clark to Rasminsky, December 5, 1947.

37. PAC, Department of External Affairs, File 265-A(s), Volume 1, Clark to Rasminsky, December 5, 1947.

38. PAC, Department of External Affairs, File 265-A(s), Volume 1, Clark to Wrong, December 8, 1947.

39. NA, U.S., Department of State, File 842.00/12-3147, Foster to Wailes, December 31, 1947.

40. PAC, Department of External Affairs, File 265-A(s), Volume 1, Rasminsky to Clark, December 10, 1947.

41. PAC, Department of External Affairs, File 265-A(s), Volume 1, "Gold production; incentive payments", December 11, 1947.

42. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, D.C. Abbott, "Assistance to Gold Mining Industry, 8 P.M.", December 11, 1947.

43. PAC, Department of External Affairs, File 265-A(s), Volume 1, "Legislation; assistance to Gold Mines", December 18, 1947.

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1. PAC, Department of External Affairs, File 8924-40, Volume 1, Deutsch to Moran, December 16, 1947.

2. PAC, Department of External Affairs, File 265(s), Volume 1, Kemp to the Deputy Minister, December 27, 1947.

3. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, December 26, 1947.

4. PAC, Department of External Affairs, File 265(s), Volume 1, Sim to Pearson, December 27, 1947.

5. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, December 23, 1947.

6. PAC, Department of External Affairs, File 265-B(s), Volume 1, Wrong to Moran, December 1, 1947.

7. NA, U.S., Department of State, File 842.00/12-2347, Foster to Hickerson, December 23, 1947.

8. NA, U.S., Department of State, File 611.4231/12-1847, Nitze to Wilcox, December 18, 1947.

9. PAC, Department of External Affairs, File 265-B(s), Volume 1, Moran to Wrong, December 4, 1947; NA, U.S., Department of State, File 611.4231/12-1847, Nitze to Wilcox, December 18, 1947.

10. PAC, Department of External Affairs, File 265-B(s), Volume 1, Clark to Wrong, December 5, 1947.

11. PAC, Department of External Affairs, File 265-B(s), Volume 1, Wrong to Clark, December 6. 1947.

12. PAC, Department of External Affairs, File 265-B(s), Volume 1, Clark to Wrong, December 9, 1947.

13. NA, U.S., Department of State, File 611.4231/12-1647, Grasselli to Foster, December 16, 1947; NA, U.S., Department of State, File 611.4231/12-2047, Foster to Grasselli, December 20, 1947.

14. NA, U.S., Department of State, File 611.4231/12-1847, Nitze to Wilcox, December 18, 1947.

15. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, November 21, 1947.

16. PAC, Department of External Affairs, File 265-B(s), Volume 1, Moran to Wrong, December 4, 1947.

17. NA, U.S., Department of State, File 842.5151/12-1247, Atherton to the Secretary of State, December 12, 1947.

18. PAC, Department of External Affairs, File 264(s), Volume 3, Wrong to the Secretary of State for External Affairs, December 19, 1947.

19. PAC, Department of External Affairs, File 265(s), Volume 1, Wrong to the Secretary of State for External Affairs, November 21, 1947.

20. PAC, Department of External Affairs, File 264(s), Volume 3, Wrong to Pearson, December 23, 1947.

21. NA, U.S., Department of State, File 842.00/12-2347, Foster to Hickerson, December 23, 1947; PAC, Department of External Affairs, File 264(s), Volume 3, Wrong to the Secretary of State for External Affairs, undated.

22. PAC, Department of Finance, J.J. Deutsch Papers, File E3k, Volume 3604, D.C. Abbott, "Canada Meets a Challenge", December 18, 1947.

23. Canada's trade balance declined from $454 million in 1946 to $85 million in 1947. See Canada, Dominion Bureau of Statistics, <u>The Canadian Balance of International Payments</u>, (Ottawa, 1947), p. 7.

24. NA, U.S., Department of State, File 611.4231/12-3147, Rosenson and Southworth, "Memorandum of Conversation", December 31, 1947.

25. NA, U.S., Department of State, File 842.00/12-2347, Foster to Hickerson, December 23, 1947.

26. NA, U.S., Department of State, File 842.00/12-2347, Foster to Wailes, December 31, 1947.

27. NA, U.S., Department of State, File 842.20 Defense/1-248, Foster to Hickerson, January 2, 1948.

28. NA, U.S., Department of State, File 611.4231/12-3147, Rosenson and Southworth, "Memorandum of Conversation", December 31, 1947.

29. NA, U.S., Department of State, File FW611.422/10-2649, Thorp to Lovett, March 8, 1948.

30. NA, U.S., Department of State, File FW611.422/10-2649, Southworth, "Memorandum of Conversation", March 9-12, 1948.

31. Lester B. Pearson, <u>Mike: The Memoirs of the Rt. Hon. Lester B. Pearson</u>, Volume 1, (Scarborough, 1973), pp. 297-299.

32. NA, U.S., Department of State, File FW611.422/10-2649, Wrong to Hickerson, April 1, 1948.

33. NA, U.S., Department of State, File 611.4231/4-2748, C. Tyler Wood, "Memorandum of Conversation", April 27, 1948.

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1. PAC, Department of External Affairs, File 5207-40, Volume 1, Foreign Exchange Control Board press release, March 11, 1949.

2. PAC, Department of External Affairs, File 3300-40, Volume 4, Murray to Wrong, December 20, 1948.

3. PAC, Department of External Affairs, File 5207-40, Volume 1, Foreign Exchange Control Board press release, March 11, 1949.

4. NA U.S., Department of State, File FW 611.422/10-2649, Southworth, "Memorandum of Conversation", March 1, 1948.

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