

CANADA'S POSITION AND PARTICIPATION IN THE EARLY  
DEVELOPMENT OF THE INTERNATIONAL MONETARY FUND,  
1940-1943

A thesis  
submitted to Graduate Studies in partial fulfillment  
of the requirements for the degree of  
Master of Arts

by  
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Abstract

This study focuses on Canada's involvement in the informal discussions that ultimately led to the creation of the International Monetary Fund. These discussions, which involved three main participants, Canada, the United Kingdom and the United States, took place during 1940-1943 and established the basic format of the plan used at the Bretton Woods conference in 1944.

During the discussions of 1940-1943, two proposals for an international financial organization, one British and one American, were considered. In part, the differences in the two proposals were owing to the differences in the British and American international financial situations. It was the task of Canadian officials to not only advocate the proposal that was beneficial to Canadian interests, but also to maintain Anglo-American cooperation. It is argued that the position taken by Canadian officials was based on past Canadian trade and financial experiences, as well as on expectations

of the postwar world. However, Canada needed both Britain and the United States in her trade and financial network, but this was not assured in either proposal. In fact, it often seemed as though Britain and the United States would not be a part of the same international financial organization. Moreover, there was also a fine line between achieving Anglo-American cooperation and being faced with an Anglo-American diktat, which Canadian officials had to deal with.

Although Canadian officials considered either proposal an improvement over the situation that existed in the interwar period, they nevertheless believed that further benefits to Canada could be achieved through active Canadian participation throughout the informal discussions. With all of these considerations in mind, Canadian officials drafted a Canadian proposal which was presented in 1943.

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## INTRODUCTION

One of the main obstacles to arriving at a reasoned understanding of Canadian involvement in international financial matters during the 1940's is the misconception of the United Kingdom's and the United States' influence on Canadian decision making. In recent years several studies have emerged that focus on Canada's relationship with the United States. By far the predominant theme of these studies concerns American domination over many facets of Canadian life. However, much of the perception of American domination comes from the experiences of the 1950's and 1960's when a tremendous influx of American investment was flowing into Canada. Yet many studies concerning this influx of American capital report that the cause lay in an earlier period. For example, Jim Laxer, writing on the political economy of Canada, claimed that "the establishment of the permanent joint defence board on August 17, 1940 marked the political



transition of Canada into the American empire."<sup>1</sup> Similarly, Donald Creighton claimed that

the process by which the Dominion became a branch-plant dependency and a military satellite of the American Republic began with the Ogdensburg Agreement of 1940; and since then Canada's subordination to American foreign policy and American capital has continued progressively with scarcely a serious interruption.<sup>2</sup>

The crucial question of how these experiences during the war led to later American economic domination is left virtually unaddressed. Statements similar to Creighton's critical pen of William Lyon Mackenzie King are inadequate:

William Lyon Mackenzie King had systematically undermined Canada's connections with Britain; and instead of strengthening her national self-sufficiency, he had simply replaced the broken imperial ties with infinitely stronger continental bonds, which had effectively shackled Canada to the United States.<sup>3</sup>

An examination of the total international financial environment in which Canadian officials operated must be considered.

Vernon Fowke's analysis of national policy in Canada offers an alternate perception of Canadian economic policy. In his article, "The National Policy - Old and New", Fowke states, "in its broadest aspects the national policy was the design of creating a national political and economic unit

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<sup>1</sup>Jim Laxer, "Introduction to the Political Economy of Canada", in Robert Laxer (ed.), The Political Economy of Dependency, (Toronto: McClelland and Stewart Ltd., 1973), p. 34.

<sup>2</sup>Donald Creighton, Towards the Discovery of Canada, (Toronto: Macmillan of Canada, 1972), p. 169.

<sup>3</sup>Donald Creighton, Canada's First Century, 1867-1967, (Toronto: Macmillan of Canada, 1970), p. 268.

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in the British North America of a century ago."<sup>4</sup> Stressing the evolutionary nature of the Canadian national policy, Fowke did not restrict his analysis of the national policy to the National Policy of the late nineteenth century. Instead, he placed the National Policy, as well as the creation of the Dominion in 1867, as part of the first national policy whose origins could be seen as early as 1825.<sup>5</sup> According to Fowke, "the economic objective of the first national policy was the creation of a new frontier of investment opportunities for the commercial and financial interests of the Saint Lawrence."<sup>6</sup> Elaborating on the economic objective of the first national policy, Fowke writes, "by the middle of the nineteenth century these interests thought of investment opportunities in terms of large-scale agricultural immigration and settlement . . ."<sup>7</sup> Viewed in the light of Fowke's concept of the national policy, Reciprocity with the United States in the 1850's and tariff protection in the late nineteenth century were both instruments used in the development of an integrated national economy. The fulfillment of this first national

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<sup>4</sup>Vernon Fowke, "The National Policy - Old and New", Canadian Journal of Economics and Political Science, 18 (August 1952):272.

<sup>5</sup>Ibid., pp. 275-76.

<sup>6</sup>Ibid., p. 275.

<sup>7</sup>Ibid.

policy was seen in the years 1900-1930 when Canada experienced a tremendous growth in population and in agricultural production.

Owing to the disruptions caused by the First World War, the 'new' national policy, as seen by Fowke, began only after 1920. However, this second national policy " . was not a great project waiting to be set in motion again but a number of comparatively minor changes which required completion in order that the Canadian economy might operate satisfactorily within its existing limits."<sup>8</sup> In his article, "The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930's", R.F. Holland notes the major obstacle to the satisfactory generation of the Canadian economy:

In the self-governing Dominions of the British Empire the 1900-1930 period witnessed a rapid development in which constitutional and economic advance were closely related. But because these economies were initially geared to the production of exportable primary produce they were peculiarly vulnerable to instability in commodity markets. Indeed, in retrospect the situation of the Dominion economies after the First World War can be seen as inherently fragile, since they were engaged in a struggle to maintain the highly-expanded agricultural capacity built up between 1914 and 1918 just when the famous 'scissors' (the tendency of industrial prices to rise more quickly than those of primary products) was becoming pronounced.<sup>9</sup>

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<sup>8</sup>Ibid., p. 279.

<sup>9</sup>R.F. Holland, "The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930's", Journal of Imperial and Commonwealth History 11 (1983):159-60.

As a result of the fragility of the Canadian economy, Fowke recognized that;

The new national policy, like the old, is concerned with agriculture, but to quite a different degree and in quite a different way. . . . Without detailed analysis it can nevertheless be said that the major differences between the agricultural features of the old and the new national policies relate to a modification in the national view concerning the price system in relation to the agricultural economy. Price support and crop failure legislation had no place in the first national policy but may be regarded as an integral part of the second. The first national policy was concerned with an agricultural-commercial economy; the second will necessarily conform to the requirements of an economy<sup>10</sup> which is becoming increasingly industrial-commercial.

Although Fowke's analysis of the national policies does not extend into the years of the Second World War, it nevertheless indicates that a conscious and consistent effort to build a national economy has been underway since the early nineteenth century. Although the Canadian economy was closely associated with that of the United Kingdom, the Canadian government formulated national policies consistent with national economic interests.

Canada's role in the early stages of the development of the International Monetary Fund (IMF) has not been given the detailed attention it warrants. Indeed, a critical look at the origin of the IMF itself has been lacking as well. Considering the extent of American economic involvement in the world and considering many Canadians' perception of American economic domination, this lack of attention given

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<sup>10</sup>Fowke, pp. 285-86.

to the IMF is striking. The IMF developed out of a desire to obviate the financial disorders similar to those felt in the wake of World War One. Consequently, the first proposals for an international financial organization developed in the early years of World War Two. The main purpose behind these proposals was to overcome the financial problems that were likely to occur in the postwar period. Two proposals that were developed, one British and the other American, were similar in purpose but very different in character. This difference in character was owing to the difference in the United Kingdom's and the United States' international trade and financial relationships.

Canada, like many other nations, felt the effects of the financial disorder of the interwar period. However, unlike many other nations, when proposals were being developed in the United Kingdom and the United States, Canada was actively involved in wartime and postwar planning. As a result, Canadian officials were in a position to affect the outcome of the discussions on international finance. In part Canadian influence in these discussions was felt when a Canadian plan was produced in 1943 which was similar in character to that of the American proposal. Although a superficial look at Canada's involvement in these discussions might indicate that Canada merely followed the United States' lead, a more thorough analysis reveals otherwise. Similar to Fowke's analysis of national policy in Canada, Canada's

position during these discussions was based on Canadian experiences that involved international trade and finance during the interwar period as well as on wartime changes to these experiences. The pages that follow will examine the position Canadian officials held during the informal discussions that led to the creation of the IMF. It is hoped that this study will lead to a better understanding of Canadian economic relations during the war as well as in the decades following the war.

## CHAPTER I

### THE 1930's: THE DECLINE OF ECONOMIC NATIONALISM

By the early twentieth century international trade had developed in a complex network. Simple barter arrangements had given way to sophisticated multilateral trade patterns. The world's financial system had developed in ways that would facilitate this international trade. Consequently, an international monetary system, the gold standard, had developed and was widely practiced. However, multilateral trade and international finance deteriorated throughout the interwar period. As the international monetary system began to break down, some nations tried to take refuge in policies of economic nationalism. This led to an even greater breakdown of the international system. The downward spiral of these events dragged the world into the depths of depression. Canada, which traded extensively with the United States and the United Kingdom, was particularly affected by the events of the interwar period.

The decade of the thirties opened on a foreboding

note for Canada. In 1930 a United States Congressman from Oregon, William Hawley, and a United States Senator from Utah, Reed Smoot, achieved the successful passage of their bill for higher tariffs. For the United States, the Hawley-Smoot Tariff meant protection of American domestic producers from the competition of foreign goods. For the rest of the world, it meant the marketplace for export goods had become smaller. Canada, in particular, was extremely vulnerable to the American tariff.

Throughout the 1920's Canada had an unfavourable trade balance with the United States.<sup>1</sup> In 1929 this trade imbalance stood at \$371,021,000.<sup>2</sup> Now, in 1930, the Hawley-Smoot Tariff was sure to reduce Canadian exports to the United States and this would make the adverse trade balance even worse. However, partly to retaliate against the American tariff and partly to allay protectionist pressures within Canada, the newly elected Conservative government led by R.B. Bennett also raised tariff rates on many goods entering Canada. Restricting imports into Canada in response to restrictions on Canadian exports offered only a partial solution to Canada's overall balance of payments problem.

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<sup>1</sup>See Canada, Department of Trade and Commerce, Canada's Foreign Trade, for the years 1920-1929.

<sup>2</sup>Canada, Department of Trade and Commerce, Canada's Foreign Trade, Calendar Year 1929, p. 2.



The rationale employed at the time was that a country's international payments could be brought into equilibrium by effecting a balance in foreign trade. Because the importation of goods and services was a contributory factor to a nation's adverse balance of payments, it was believed that by decreasing imports a balance in international payments could be achieved. This was a deceptively easy method of balancing international payments and one enthusiastically supported by domestic industries that competed with foreign goods. It was, for these reasons, a very attractive policy for a government to pursue. However, when placed within a global context, as all international trade and finance policies must, this method of balancing the international payments proved to be not only short-sighted but also disastrous. If Canada alone had been faced with international payments difficulties, then it would have been conceivable that other nations could have absorbed the effect of a decreased market in Canada. As we know, Canada was far from being alone in experiencing these difficulties nor was she alone in pursuing the type of policy outlined above. Consequently, the world's marketplaces decreased and this created even more havoc for countries like Canada which were dependent on foreign trade.

The need for additional outlets for Canadian producers became even more critical because of the tendency throughout the 1930's for export prices to decrease relative to import prices. In a study on the Canadian economy of the 1930's,

A.E. Safarian states, "as compared with the period 1926 to 1929, it was necessary in the years 1930 to 1936 to export 3 to 14 per cent more in volume of exports for one volume of imports."<sup>3</sup> Consequently, maintaining a relatively stable level of economic activity within Canada required that the Canadian government find a larger export market than had existed before the United States tariff.

Caught in an increasingly difficult predicament, Canada turned to the Mother country and the Empire. At the Imperial Conference of 1930 the Canadian Prime Minister, R.B. Bennett, asserted that, "the Conservative party of Canada believes in, and employs, the principle of protection of the home producer of agricultural and fabricated products from harmful interference by world competition."<sup>4</sup> However, this assertion did not preclude the Prime Minister from pressing for a policy that would extend the preference for Empire goods.<sup>5</sup> In essence, Bennett was attempting to find new

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<sup>3</sup>A.E. Safarian, "Foreign Trade and the Level of Economic Activity in Canada in the 1930's", Canadian Journal of Economics and Political Science 18 (August 1952):338.

<sup>4</sup>Extracts from Minutes of Imperial Conference 1930, 2nd Plenary Session, 8 October 1930, in Alex I. Inglis (ed.), Documents on Canadian External Relations, vol. 4, (Hull: Minister of Supply and Services, Canada, 1971), (hereafter Documents, vol. 4), Doc. 174, p. 227.

<sup>5</sup>Ibid.

markets for Canadian producers but not to open domestic producers to foreign competition. Although this attempt at extending the Imperial preference failed for the moment, it laid the foundations for the Ottawa Conference of 1932.

At the Ottawa Conference, Imperial preferences were discussed at great length. Although the United Kingdom was reluctant to increase the existing Imperial preferences, the British finally acquiesced. For Canada, the most important document to come out of this Conference was the Anglo-Canadian Agreement. The main British exports which were guaranteed a tariff rate below that for other foreign goods entering Canada were chemicals, textiles, primary iron and steel goods, and anthracite coal.<sup>6</sup> In return, certain Canadian exports which were assured free entry into Britain included lumber, apples and bacon. Although preferential treatment was also extended to many Canadian agricultural products including wheat, exports of these goods did not increase because of competition from other Commonwealth countries which were also granted preferential entry into the British market.<sup>7</sup>

Although Canada secured a major concession from the United Kingdom in the Anglo-Canadian Agreement of 1932, forces were already at work to undermine it. Owing to tremendous pressures on her monetary reserves, Britain had been

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<sup>6</sup>John A. Stovel, Canada in the World Economy, (Cambridge: Harvard University Press, 1959), p. 227.

<sup>7</sup>Ibid.

forced to abandon the gold standard in September 1931. The pound sterling no longer maintained a gold parity and subsequently fell in value relative to the American and Canadian dollars.<sup>8</sup> As a result of the appreciation of the Canadian dollar relative to sterling, Canadian exports to the United Kingdom were at a disadvantage compared to those countries which used sterling. Because of the Canadian dollar's appreciation relative to sterling, British imports into Canada were in an advantageous position in comparison with Canadian domestic producers. Apart from the effect this had on Canadian industry, it compounded Canada's balance of payments problems. As a result of the increase in imports from the United Kingdom and a decrease in exports to the United Kingdom, Canada's net favourable balance with the United Kingdom declined from earlier levels. That is, there was a smaller favourable trade balance with the United Kingdom to offset the unfavourable trade balance with the United States. Since sterling also depreciated relative to the United States dollar, more sterling was required to pay off debts in the United States after 1932 as compared to 1930.

When sterling was removed from the gold standard in 1931, the Canadian authorities could have followed the British lead by attaching the Canadian dollar to sterling. Although the Canadian authorities pondered this option, there

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<sup>8</sup> See Susan Howson, "The Management of Sterling, 1932-1939", The Journal of Economic History 60 (March 1980):54.

was no doubt which way they would go. Had the Canadian dollar followed sterling, Canada's competitive position with other sterling countries would have remained unchanged. However, Canada's indebtedness to the United States would have become completely unmanageable. If the Canadian dollar had followed sterling, it too would have depreciated relative to the United States dollar. As a result, more Canadian dollars would have been required to service debts owed to the United States. Moreover, United States goods imported into Canada would decrease because they would be more expensive. Many of these goods were essential to Canadian industry. In fact, the Deputy Minister of Finance, W.C. Clark, raised this point with Bennett when he asked, "in view of our trade and debt relationship with the United States, would it be wiser national policy for Canada to tie up with gold standard New York than with London?"<sup>9</sup> In a much later correspondence with an executive of the Bank of Montreal, Bennett revealed his response, "I find it difficult to understand how men of intelligence knowing the extent of our financial obligations to the United States, can even suggest the possibility of our coming within the sterling area until we have paid off

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<sup>9</sup>W.C. Clark to R.B. Bennett, 28 March 1932, quoted from Ian M. Drummond, The Floating Pound and the Sterling Area, 1931-1939, (Cambridge: Cambridge University Press, 1981), p. 66.

these obligations."<sup>10</sup>

One effective method of "paying off" the financial obligation to the United States would be to secure better trade arrangements. Fortunately for Canada, Franklin D. Roosevelt was elected President of the United States in 1932. Although the Roosevelt administration did not immediately pursue less restrictive trade practices, Canadian officials saw signs of hope. In April 1933 the Canadian minister in the United States, W.D. Herridge,<sup>11</sup> reported that Secretary of State Cordell Hull recognized that " . the postwar policy of the United States has contributed greatly to the development of economic nationalization all over the world, and that a grave responsibility rests on the present Administration to work for the reversal of the current."<sup>12</sup> Even though there was a ray of hope shining from the United States, Canadian authorities were well aware

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<sup>10</sup>R.B. Bennett to H.F. Skeg, 27 January 1933, quoted from Ian M. Drummond, The Floating Pound and the Sterling Area, 1931-1939, (Cambridge: Cambridge University Press, 1981), p. 68.

<sup>11</sup>J.B. Brebner, an historian, made the following comment on Herridge's relationships with American officials, ". . . the Roosevelt Administration treated the Canadian minister at Washington, Mr. W.D. Herridge, almost as one of the official family. They tried out their ideas on him wholesale in return for his understanding North American comment", quoted from J.R.H. Wilbur, "Canadian-American Trade War during the Great Depression", International Perspectives (March/April 1975):19.

<sup>12</sup>W.D. Herridge to Secretary of State for External Affairs, 10 April 1933, in Documents, vol. 4, Doc. 227, p. 244.

of the obstacles still facing them. One such obstacle was the Farm Relief Bill which was before Congress in 1933. Designed to raise United States domestic prices, the Farm Relief Bill would increase tariffs on selected agricultural imports. With this diversion from liberalizing international trade, Herridge commented that "[the Farm Relief Bill] leads one to wonder whether a synthesis of policies has been achieved in the highest quarters of the [U.S.] Government."<sup>13</sup>

In spite of the Roosevelt Administration's inability to follow Hull's policy of freer trade, Canadian officials continued to press for better trade relations with the United States. Discussions with American officials were pursued at high levels by R.K. Finlayson, a member of the Canadian Legation in Washington, W.C. Clark, the Deputy Minister of Finance, Dana Wilgress, the Director of Commercial Intelligence for the Department of Trade and Commerce, and Norman Robertson, an official of the Department of External Affairs.<sup>14</sup> Although no agreements resulted from these discussions, the United Kingdom High Commissioner in Ottawa, Sir William Clark, noted in November 1933 that "during the past month signs have not been wanting that Canada is gradually being drawn by force of circumstance further within the

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<sup>13</sup>Ibid.

<sup>14</sup>J.R.H. Wilbur, p. 19.

orbit of the United States National Recovery Administration."<sup>15</sup> The United States increasingly viewed foreign trade relations as an important part of its National Recovery programme. However, strong protectionist forces within the United States as well as in many other countries created obstacles to the freer trade policies advocated by Hull. Nevertheless, Canada's willingness to negotiate a trade agreement that would increase the exports of both countries secured Canada a prominent position in the American economic programme.

In November 1934 the Canadian government informed the Americans that they believed " . . . the time has come for definite action and that the declared desire of both Governments to improve conditions of trade between the two countries should now be carried into effect by the negotiation of a comprehensive trade agreement."<sup>16</sup> The result of these negotiations was the United States-Canadian Trade Agreement of 1935. Although these negotiations were initiated by the Conservative government, Mackenzie King's Liberal government was in power when the terms of the Agreement were approved by

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<sup>15</sup>Sir William Clark to Thomas, 16 November 1933, quoted from R.F. Holland, "The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930's", Journal of Imperial and Commonwealth History 11 (1983):169.

<sup>16</sup>Herridge to Hull, 4 November 1934, in Alex I. Inglis (ed.), Documents on Canadian External Relations, vol. 5, (Hull: Minister of Supply and Services, Canada, 1973), (hereafter Documents, vol. 5), Doc. 170, p. 177.



Order in Council.<sup>17</sup> This Agreement increased American markets for Canadian lumber, cattle, fish, whisky and potatoes. In return, the United States received concessions on farm implements, electrical apparatus, gasoline and machinery.<sup>18</sup> In a report to Prime Minister King in 1936, Herbert M. Marler, Canadian Minister in the United States, indicated that Canadian exports to the United States had not only increased but had increased faster than the increase of American imports flowing into Canada. During the first nine months of 1936, Canadian exports to the United States rose by \$58 million while American exports to Canada increased by only \$33 million.<sup>19</sup> Although Marler had noted rightly that at least some of the increase in Canadian exports to the United States could be attributed to an unusual demand for wheat in the United States, there was little doubt in the minds of the Canadian officials that the Canadian-American Trade Agreement was beneficial to Canada.

Although the Canadian government had no misgivings when it entered into this Agreement with the United States,<sup>20</sup>

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<sup>17</sup>Order in Council, P.C. 3551, 11 November 1935, in Documents, vol. 5.

<sup>18</sup>Stovel, p. 228.

<sup>19</sup>Minister in the United States to the Secretary of State for External Affairs, 28 November 1936, in Documents, vol. 6, Doc. 441, p. 569.

<sup>20</sup>See Herridge to Hull, 4 November 1934, in Documents, vol. 5, Doc. 170, p. 182.

the British government frowned upon the Canadian-American accord. In correspondence with the High Commissioner in Britain, the Under-Secretary of State for External Affairs, O.D. Skelton, noted that

. . . His Majesty's Government in the United Kingdom have watched with a certain restiveness the negotiation of the Trade Agreement between Canada and the United States of America . . . They appear to have expected that consideration of Canadian trade relations with the United Kingdom would take precedence over other and more pressing aspects of this country's economic relations with the rest of the world.<sup>21</sup>

Even though Canada was attempting to open up more markets for her producers, the United Kingdom government was justified in feeling injured. The Ottawa Agreement gave certain Canadian products preferential access into the British market. In return, certain British exports received preferential treatment in Canada. However, when the United States-Canada Trade Agreement was signed, some of these British exports were placed at the same tariff level as American goods. Preferential treatment that had been extended to some British exports was discontinued.

Although there was a certain degree of continuity in the Liberal and Conservative trade policies, it is worth noting their differences. The Bennett government's use of protective tariffs, development of Imperial preference, and

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<sup>21</sup>O.D. Skelton to High Commissioner in Great Britain, 16 May 1936, in John A. Munro (ed.), Documents on Canadian External Relations, vol. 6, (Hull: Minister of Supply and Services, Canada, 1973), (hereafter Documents, vol. 6), Doc. 255, p. 328.

negotiation of the Canadian-American Trade Agreement all served a narrow, self-interested purpose. This purpose was to protect Canadian producers from foreign competition while increasing Canada's export market. This form of economic nationalism excluded consideration of the larger international framework. However, Bennett defended his government's policy by drawing attention to the global economic environment in which Canada had to operate;

Is there any one within the sound of my voice to-night who does not know that had we not taken the action we did in 1930 we would not now be in a position to negotiate with our great neighbour? Everybody knows that this is so, and what is more, had we not done it, we could not have remained a solvent people.<sup>22</sup>

Bennett may have been right in suggesting that, under the circumstances, their policy prevented Canada's economic collapse. However, the Liberals saw the Conservative policy in a different light. Early in 1936 Prime Minister King enunciated his economic policy;

We on this side of the house believe that recovery is bound up with the restoration of international trade. Our policies have been based upon this conviction and have sought to secure, on the basis of reciprocity, the reduction of tariffs and the removal of restrictions which have choked and encumbered our trade with the world.<sup>23</sup>

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<sup>22</sup>Canada. Parliament, House of Commons, Debates, 1935, vol. 1, 21 January 1935, p. 66.

<sup>23</sup>Canada. Parliament, House of Commons, Debates, 1937, vol. 1, W.L.M. King, "The Address", 18 January 1937, p. 46.

The Liberal government was aware of the need to free trade from the restrictive policies strangling it and was prepared to take advantage of the opportunity that arose.

In early 1937 the United States government attempted to persuade the British government to negotiate a trade agreement but the British were reluctant to assent to this overture. The Empire, or perhaps more definitively the Sterling area, had become an important factor in the prosperity of the United Kingdom during the 1930's.<sup>24</sup> Nevertheless, in response to the American overture, the President of the British Board of Trade, Walter Runciman reportedly claimed that Britain ". . . would be glad to enter into a comprehensive trade agreement with the United States if it were not for the insistence of the Dominions in general and of Canada in particular on the maintenance of their preferential position in the United Kingdom market."<sup>25</sup> Richard N. Kottman's interpretation of Runciman's claim is that,

. . . the British had made no great effort at London to satisfy the Dominions or even to inform them of what compensation Whitehall would grant for their compliance.

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<sup>24</sup>In 1938 the United Kingdom was sending forty-seven percent of her exports to Empire countries. By comparison, in 1913 the percentage was only twenty-two percent. See Ian M. Drummond, British Economic Policy and the Empire, (London: George Allen and Unwin Ltd., 1972), p. 18.

<sup>25</sup>Herbert M. Marler (Minister in the United States) to Secretary of State for External Affairs, 5 February 1937, in Documents, vol. 6, Doc. 444, p. 576.

The easier route, and the one adopted by a government only lukewarm about a trade agreement, was to saddle the Dominions with the responsibility for inaction.<sup>26</sup>

Kottman has missed the significance of Whitehall's failure to present the Dominions with compensation for abandoning imperial preference. The United Kingdom, not the Dominions, stood to lose the most if the United States negotiated separate agreements with each of the Dominions. Nearly half of the United Kingdom's total exports, most of which were manufactured goods, went to Empire countries. The United States, also an exporter of manufactured goods, could displace British exports if given the opportunity.

Although the United Kingdom market was vital to Canada, it was inconceivable that Canadian officials would obstruct the negotiation of a multilateral trade agreement between her two most important trade partners. As a result of Runciman's discussion with the Americans, Herbert M. Marler, the Minister in Washington, observed that

. . . Mr. Hull and his advisers are coming to regard Canada as the obstacle to what they look upon as a vitally important step in economic disarmament. . . . If this impression has in fact been left, as I fear it has, it will be necessary to eradicate it before the question can be successfully taken up of the renewal and extension of the Trade Agreement between Canada and the United States.<sup>27</sup>

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<sup>26</sup>Richard N. Kottman, Reciprocity and the North Atlantic Triangle, 1932-1938, (Ithaca, New York: Cornell University Press, 1968), p. 184.

<sup>27</sup>Herbert M. Marler to Secretary of State for External Affairs, 5 February 1937, in Documents, vol. 6, Doc. 444, pp. 576-7.

In response to Marler's observation, Skelton wrote a lengthy dissertation on Canada's position on matters of international economic policy. In this dissertation Skelton stated that ". . . the Canadian Government have insisted on the progressive liberalization of the preferential system and have endeavoured to apply within that system the principles of commercial policy which they hope to see realized in international economic relations."<sup>28</sup> As it became increasingly apparent that some of the Dominions desired bilateral negotiations with the United States, the British position became clearer. When negotiations finally took place in 1938, it was the British government that insisted on including ". . . Newfoundland and the Colonies in the proposed agreement between the United States and the United Kingdom and not to conclude separate agreements thereof."<sup>29</sup> The significance of including the Colonies in an Anglo-American trade agreement was made clear when the American Ambassador in the United Kingdom, Joseph P. Kennedy, reported that ". . . J.M. Keynes,

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<sup>28</sup>O.D. Skelton to Minister in United States, 18 February 1937, in Documents, vol. 6, Doc. 444, p. 578.

<sup>29</sup>Memorandum of a conversation with Hawkins, Deimel, and Carr of the State Department; Fox, Mark Smith, and Lane of the Tariff Commission and Chalkley and Leach of the British Embassy, by Robert M. Carr, 2 January 1938, in Foreign Relations of the United States: Diplomatic Papers, 1938, vol. 2, The British Commonwealth, Europe, Near East and Africa, (Washington: United States Government Printing Office, 1955), p. 1.

the economist, in a letter to the Times today pointing out the bad trade balances, says that it is becoming more and more apparent that England should only buy where they can sell and that barter doubtless must be considered strongly by the Government."<sup>30</sup> In financial difficulties, the United Kingdom needed a secure export market. British economists, particularly Keynes, saw expansion of export trade as a necessity in solving the balance of payments difficulties and reducing the high rate of unemployment which had plagued Britain throughout the interwar period. In the letter referred to by Kennedy, Keynes clearly stated how attractive barter was for Britain:

In the circumstances of the moment I suggest that the balance-of-trade position and the net disinvestment in this country's foreign accounts which is probably going on (about which we have, as usual, no adequate statistics) also needs particular attention - not, indeed, by an aggravation of tariffs but by a new, and now necessary machinery for linking up exports with imports, so as to make sure that those from whom we buy spend a reasonable proportion of the proceeds in corresponding purchases from us.<sup>31</sup>

Keynes understood, as few economists did, the important

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<sup>30</sup>Kennedy to Cordell Hull, 7 October 1938, in Foreign Relations, vol. 2, pp. 59-60.

<sup>31</sup>Keynes to the editor of The Times, 5 October 1938, in Donald E. Moggridge (ed.), The Collected Writings of John Maynard Keynes, vol. 21, Activities, 1931 to 1939: World Crises and Policies in Britain and America, (New York: Cambridge University Press, 1979), (hereafter Collected Writings, vol. 21), p. 483.

relationship that existed between balancing individual nations' foreign trade and expanding world trade. To ensure that a balance in exports and imports was established, Britain turned to those countries on whom she had the greatest influence. The countries in question were usually either countries belonging to the Empire or countries which were following sterling. However, should the United States negotiate trade agreements with these countries, British officials would be less able to balance its exports and imports. Consequently, the British were extremely reluctant to allow the United States to negotiate bilateral trade agreements with these countries. American officials, however, perceived the British position as an obstacle to their objective of promoting the expansion of world trade.

Britain's trade policy was incompatible with the vision many Canadian officials had of promoting greater international trade. In his defence of the trade agreement with the United States delivered in the House of Commons early in 1936, King enunciated the virtues of unrestricted international trade;

During these last few years the different countries of the world have been going mad through basing their actions on a fake doctrine of economic nationalism, through having nothing to do with their neighbours, regarding trade as a species of warfare, instead of a matter of mutual interest. . . . I believe we will live to see the day when this agreement between the United States and Canada, will be held up as marking a new beginning in the relations between the countries of the world; a new beginning in the direction of more in the way of trade and of international friendship; and of less in the way of those things that make for ill in the world



at large.<sup>32</sup>

Few would now argue that economic nationalist policies which decreased the volume and value of international trade were destructive to virtually every nation. However, King, as with many other world leaders, did not recognize that the policies advocated by Keynes were not simply economic nationalism. The type of barter arrangements put forward by Keynes was an economic necessity for Britain to continue its active participation in world trade.

The ideal of marking a 'new beginning' with the objective of bettering the world was a noble endeavour. However, the fact that this endeavour was also the most direct route to Canadian prosperity should not be overlooked. The Canadian economy was more dependent upon external trade than that of most nations. The importance of exports in the Canadian economy as a whole was obvious in the fact that in 1939 Canadian export trade represented almost \$100 per capita. By comparison, American export trade represented only \$25 per capita.<sup>33</sup> Moreover, even though Canada was blessed with many raw resources, much of the nation's industries relied

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<sup>32</sup>Canada. Parliament, House of Commons, Debates, 1936, vol. 1, W.L.M. King, 11 February 1936, p. 92.

<sup>33</sup>A.K. Harvie, "Financing Canada's International Trade", in J.F. Parkinson (ed.), Canadian Investment and Foreign Exchange Problems, (Toronto: University of Toronto Press, 1940), p. 35.

heavily on imports. In a study prepared for the League of Nations' General Study Conference on Economic Policies in Relation to World Peace, J.F. Parkinson had enumerated the deficiencies inherent in the Canadian economy;

. . . this country is almost totally deficient in certain natural resources, and incapable of producing other commodities which are indispensable to the maintenance of an industrial society and a western standard of living. The principal industrial shortages are fuels, iron, rubber, textile materials (cotton, wool, silk) while all foodstuffs of a tropical or semi-tropical character are lacking.<sup>34</sup>

Throughout the latter half of the thirties Canadian imports of those commodities that were required by Canadian industries represented approximately one-third of Canada's total imports.<sup>35</sup> While American goods represented the bulk of imports into Canada (61% in 1938), only about 39% of Canadian exports went to the United States. The bulk of Canadian exports were sold to the United Kingdom. Consequently, the British and American markets were crucial to the Canadian economy. Policies which kept these two markets open to Canadian trade were foremost in the minds of the Canadian officials.

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<sup>34</sup>J.F. Parkinson, "The Basis of Canadian Commercial Policy, 1926-1938", (Paris: League of Nations, 1939), p. 77.

<sup>35</sup>Of the imported commodities used for Canadian industry for the years 1935-1938, approximately 51% were classified under raw materials, approximately 21% were semi-manufactured, and approximately 28% were fully manufactured. See Canada. Department of Trade and Commerce. Canada's Foreign Trade.

## CHAPTER II

### THE EARLY 1940's: THE RISE OF MULTILATERAL TRADE

During the first couple of years of war, Canada made a very significant contribution to the war effort. Virtually every facet of Canadian society and economic structure became oriented towards winning the war. Not the least of these efforts was the re-focussing of peacetime industries into suppliers of war materiel. As important as these contributions were in themselves, they were all the more important by the fact that the United States provided only minimal supplies to the allies and showed few signs of stepping up production. As a result, Canadian officials were anxious to integrate the tremendous productive capacity of their southern neighbour into the overall war effort. In a study of this aspect of the Canadian-American relationship, R.D. Cuff and J.L. Granatstein have written;

the Canadian aim in these critical months of 1940 and 1941 had been to bind the Dominion to the United States. In part this was a plain and simple desire for the protection that could be afforded by the American Government. Part, too, was a clear desire to involve the United States more closely with a belligerent, to

tie America and the Commonwealth closer together.<sup>1</sup>

However, there was a more basic motive behind the desire to align the Canadian economy with that of the United States. The United Kingdom's adverse balance of payments with Canada from 15 September 1939 to 31 March 1941 was calculated to be \$794,500,000 (Can).<sup>2</sup> For the same period Canada's adverse balance of payments with the United States was estimated to be \$430,000,000 (U.S.).<sup>3</sup> Normally, as in the interwar period, Canada would have been able to meet this latter deficit by selling surplus sterling in New York in exchange for American dollars. However, this exchange market had not been available to Canada since the outbreak of the war.

By Order in Council on 15 September 1939, Canadian control of the movement of capital was given to the Foreign Exchange Control Board. The purpose of this control on capital was explained by the Minister of Finance, J.L. Ralston,

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<sup>1</sup>R.D. Cuff and J.L. Granatstein, Ties That Bind: Canadian-American Relations from the Great War to the Cold War, (Toronto: Samuel Stevens Hakkert and Co., 1977), p. 99.

<sup>2</sup>W.C. Clark, "Canada's Exchange Position Vis-à-Vis the United Kingdom", n.d. April 1941, in David R. Murray, Documents on Canadian External Relations, 1939-1941, vol. 8, pt. 2, (Hull: Minister of Supply and Services, Canada, 1976), (hereafter Documents, vol. 8, pt. 2), Doc. 188, p. 310.

<sup>3</sup>W.C. Clark, "Canada's Exchange Deficit with the United States", n.d. April 1941, *Ibid.*, p. 312.

in his budget speech of 1940:

At this time . . . when Britain has such vital need of gold and US dollars to purchase planes and other war equipment, we cannot expect her to settle all her trade balance with us in gold or foreign exchange . . . Consequently, . . . a very large proportion of the surplus sterling exchange which we obtain and which formerly we were able to convert into US dollars in order to meet any adverse balance of payments with that country can no longer be so converted.<sup>4</sup>

As a result, Canada had the two-fold problem of financing Britain's deficit on the one hand and meeting her own deficit with the United States on the other. To finance the United Kingdom deficit (less \$249,800,000 (Can), the amount of gold transferred to Canada from the United Kingdom during this period), Canada repatriated securities (\$336,700,000 (Can)) and accumulated sterling (\$208,000,000 (Can)).<sup>5</sup> To meet her own deficit with the United States Canada transferred most of the gold received from the United Kingdom (\$227,100,000 (U.S.)) and used up her United States dollar reserves (\$236,600,000 (U.S.)). Canada also liquidated American assets to a total of \$70,300,000 (U.S.).<sup>6</sup>

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<sup>4</sup>Canada. Parliament, House of Commons, Debates, vol. 2, 1940, J.L. Ralston, "The Budget", 24 June 1940, pp. 1015-16.

<sup>5</sup>W.C. Clark, "Canada's Exchange Position Vis-à-Vis the United Kingdom", in David R. Murray, Documents on Canadian External Relations, vol. 8, pt. 2, (Hull: Minister of Supply and Services, Canada, 1976), (hereafter Documents, vol. 8, pt. 2), pp. 310-11.

<sup>6</sup>W.C. Clark, "Canada's Exchange Deficit with the United States", Ibid., p. 312.

Although Canada had thus met the exchange difficulties that she faced during the first year of war, the prospects for continuing to do so were extremely dim. In early December 1940, Britain restricted gold transfers to Canada because she was required to send gold to the United States to meet her obligations there. As a result, in the last four months of the period under discussion, Canada was obliged to meet the bulk of her deficit with the United States solely with American assets.<sup>7</sup> As her deficit with the United States had usually been met from the trade surplus with the United Kingdom, this was an incredibly heavy burden on Canada's balance of international payments. The deficit predicted for the 1941 fiscal year indicated that the coming year was going to be even more difficult. The United Kingdom's projected deficit with Canada was estimated at \$1,152,000,000 (Can) while Canada's deficit with the United States was expected to reach \$478,000,000 (U.S.).<sup>8</sup>

Canada's ability to overcome this formidable problem was crucial to continuation of her valuable contribution to the war effort but it also had important implications for Canada in the postwar period. Since Canada's gold and United

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<sup>7</sup>Ibid., pp. 312-13.

<sup>8</sup>W.C. Clark, "Canada's Exchange Position Vis-à-Vis the United Kingdom", Ibid., p. 310; and Clark, "Canada's Exchange Deficit with the United States", Ibid., p. 311.

States dollar reserves stood at only \$312,000,000 as of 28 February 1941, her American assets could not withstand the projected deficit. Some other method would have to be found to cover the deficit with the United States. Just prior to W.L. Mackenzie King's historic trip to Hyde Park in April 1941, W.C. Clark, Deputy Minister of Finance, enumerated five methods that could be used to meet this balance of payments problem: 1) to liquidate United States securities held by Canadians, 2) to have the United States component of British purchases in Canada fall under the Lease-Lend Agreement, 3) to increase United States purchases in Canada, 4) to require Britain to use some of its gold and United States dollar reserves for Canadian purchases, and 5) to have Canada come under the Lease-Lend Agreement for its purchases in the United States. Apart from the first option, these methods all implied that a mutual agreement would have to be reached with the United States. The first and the last options were related in that it was believed that the United States would seek liquidation of Canadian investments in the United States before it would allow Canada to take advantage of the Lease-Lend Agreement.

Clark, while prepared to liquidate such assets, argued strongly against such a programme. He claimed that Canadian investments in foreign countries, especially the United States, provided Canada with a cushion when the value of Canadian exports declined temporarily. It was Clark's con-

tention that, because Canada's exports consisted predominantly of raw resources and foodstuffs, the prices of which tended to drop quicker in times of depression than those of manufactured goods, and since the former represented the bulk of Canadian exports, and the latter covered the bulk of Canadian imports, an additional strain was put on Canada's balance of payments. As a result, Clark argued;

It is obvious that if Canada is forced to liquidate her U.S. securities, United States exports to Canada after the war must decline, not only as compared with the war years but as compared with the pre-war years. . . . Not only will her imports from the United States decline for this reason but the protectionist forces in Canada will find as a result of our balance of payments difficulties an additional and very strong argument for promoting their particular doctrines. It is not difficult to visualize a situation where the high tariff advocates will be in the ascendent, not only in the field of manufactured products but in that of agricultural products as well. As a result, the trade agreements program and all the fine work which has been achieved in recent years in promoting a more enlightened attitude in the trading relations of our two countries will be undermined or perhaps scrapped altogether.<sup>9</sup>

Clark was concerned about the war effort, and thus sought ways to permit Canada to continue the supply of goods to Britain. However, he was also keenly aware of the potential consequences this supply could have on the Canadian economy after the war. Clark's concern about the sale of United States securities underscored the extent to which the American and Canadian economies had become interwoven.

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<sup>9</sup>W.C. Clark, "Should Canada be Forced to Liquidate Her Holdings of United States Securities", n.d. April 1941, in Documents, vol. 8, pt. 2, Doc. 188, p. 318.



It has become commonplace to focus attention on the extent of American investment in Canada and its effect on the Canadian economy. However, with the experience in the interwar years of declining trade levels still fresh in the minds of many Canadians, the loss of Canadian investment in the United States was not looked upon with favour. The experience of the interwar period enlightened many economists on the disastrous effects of curtailing imports as a means of correcting an imbalance in international payments. As stated in the preceding chapter, restricting imports had the short-term benefit of working towards a balance in international payments. However, this was only a temporary benefit because sooner or later exports would also diminish. The loss of Canadian investments in the United States would affect Canada's ability to pay for imports from the United States. The loss of Canadian markets would force the United States to restrict Canadian exports to the United States. Since the United States was Canada's largest trade partner, the effect on the Canadian economy would be felt almost immediately. Consequently, the burden of war threatened to destroy Canada's trade relationships and demanded immediate action to prevent this from occurring.

In Granatstein's account of Canada's balance of payments difficulties during the first two years of war he claims;

Morgenthau was not too accommodating. When Canadian officials saw him again on March 18 and 19 he told

them if there were exchange problems Canada should begin to liquidate her securities. As for the question of bringing the British components of Canadian imports under Lend-Lease, that was a matter for Harry Hopkins to decide.<sup>10</sup>

However, when Prime Minister King arrived in Washington in mid-April, he presented Morgenthau with ". . . his scheme for a virtual system of barter in war materiel [and] [t]his interested the American. . . ." <sup>11</sup> Later, when King met with the President, Granatstein describes their conversation as 'warm and friendly'. <sup>12</sup> The President made only two changes in King's draft of the Hyde Park Agreement, and Granatstein claims that "it had all been incredibly easy." <sup>13</sup> Granatstein explains elsewhere that the reason it had been "incredibly easy" was ". . . the willingness of President Roosevelt to receive Mackenzie King and to listen to him." <sup>14</sup> This interpretation propagates the legend that King won the day through his personal friendship with the President and secured a favourable settlement for Canada. As with most

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<sup>10</sup>J.L. Granatstein, Canada's War: The Politics of the Mackenzie King Government, 1939-1945, (Toronto: Oxford University Press, 1975), p. 140.

<sup>11</sup>Ibid., p. 142.

<sup>12</sup>Ibid.

<sup>13</sup>Ibid., p. 143.

<sup>14</sup>J.L. Granatstein and R.D. Cuff, Ties That Bind: Canadian-American Relations in Wartime, From the Great War to the Cold War, (Toronto: Samuel Stevens Hakkert and Co., 1977), p. 91.

legends, it has a basis in fact but also obscures much detail. In a memorandum dated 12 March 1941, Norman Robertson, the Acting Under-Secretary of State for External Affairs, recounted a meeting between Clark and Morgenthau during the preceding week. This memorandum reported that "Mr. Morgenthau himself, when he thought about the effect on the depressed American stock market of the enforced liquidation of Canadian holdings of United States securities, was not as explicit as his advisors had been in insisting on the mobilization of Canadian holdings of United States securities."<sup>15</sup> A few weeks later, after a meeting with Morgenthau on 18 April 1941 at which W.C. Clark, J.E. Coyne and H.D. White were present, the financial attaché of the Canadian legation in Washington, J.E. Coyne, reported:

Morgenthau said that he had told the Prime Minister of his suggestion that the exchange position could be helped through the United States buying munitions in Canada. He had told this idea to the President, who liked it. (It was quite evident that the whole matter had come up, perhaps in very general terms, at a [US] cabinet meeting).<sup>16</sup>

That this bears striking resemblance to Clark's preferred handling of Canada's balance of payments difficulties was no

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<sup>15</sup>Memorandum from Norman Robertson, Acting-Under-Secretary of State for External Affairs to the Prime Minister, "Canada and Lease-Lend", 12 March 1941, in Documents, vol. 8, pt. 2, Doc. 181, p. 290.

<sup>16</sup>Memorandum by Financial Attaché, Legation in United States, "Memorandum of Meeting with Morgenthau, April 18, 1941", 18 April 1941, in Documents, vol. 8, pt. 2, Doc. 189, p. 321.

coincidence. During the weeks intervening between 12 March and 17 April, Clark had been in contact with Morgenthau. Although there is no record of the conversation, it is likely that Clark put forward arguments similar to those he sent to the Prime Minister. However, since Morgenthau had earlier expressed some misgivings about the liquidation of Canadian-held United States securities, it was probably not difficult for Clark to convince the Secretary of the Treasury not to press for this liquidation. Rather than forcing Canada to liquidate her United States securities, Morgenthau and the President realized the benefits that could be derived from American purchases in Canada. The fact that the American leaders had come to this realization before the Prime Minister's historic trip to Hyde Park suggests that the Hyde Park Agreement had less to do with personal relationships than with practical economic sense.<sup>17</sup>

Faced with many difficulties arising out of the close integration of the Canadian and American economies, the Canadian government had transmitted an aide-mémoire to the State Department on 17 March 1941, containing the suggestion

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<sup>17</sup>At King's request Clark produced the draft statement that provided the ". . . basis for discussion with the President of what might be given out", The Mackenzie King Diaries, 1932-1949, (Toronto: University of Toronto Press, 1980),

that Joint Economic Committees be established.<sup>18</sup> Initially the primary purpose of these Committees was to study and submit recommendations to their respective governments on how best to integrate the two war economies so that an efficient supply line to Europe could be attained. However, this was not the only purpose of the Committees. A secondary motive revealed the importance that the Canadian government attached to the economic consequences that would be manifest in the postwar period:

. . . the solution of the problem which will arise during the months of the transition from war to peace, and provision for meeting the economic and social problems which are likely to arise in the postwar period, require that immediate and detailed study be given to this problem.<sup>19</sup>

Indeed, it was this concern for the postwar period rather than about the efficiency of war production that led to the eventual formation of the Joint Economic Committees. Although there was every indication that the United States would be very receptive to the ideas of these Joint Economic Commit-

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<sup>18</sup>Granatstein states that the Joint Economic Committees " . . . was a Canadian initiative toward closer integration of the North American economy", in J.L. Granatstein, "Getting on With the Americans: Changing Canadian Perceptions of the United States, 1939-1945", in The Canadian Review of American Studies 5 (Spring 1974):9.

<sup>19</sup>Public Archives of Canada (hereafter PAC), RG19, vol. 3977, file E-3-2, Secretary of State for External Affairs to High Commissioner in Great Britain, 21 March 1941.

tees' ensuring the efficient integration of the two economies,<sup>20</sup> it was not until the first week of June 1941 that the United States formally agreed to the Canadian proposal.

The timing of the United States acceptance of the Canadian proposal was important. Various joint bodies had already come into existence, which meant that the original purpose for the formation of the Joint Economic Committees had been satisfied. The American response to the Canadian suggestion acknowledged this fact:

The Government of the United States agrees with the Canadian Government that present channels of communication between Ottawa and Washington would not provide adequate facilities for detailed consideration of certain of the subjects present in the Aide Mémoire of March 17th under reference, as further developed by the Memorandum on Economic Cooperation with the United States attached thereto. Developments occurring subsequent to the date of that note have, however, taken care of certain of the problems dealt with in the note under reference. More especially, direct contact has already been established between the officials of the Government of the United States and the Government of Canada charged with priorities, and with production of war material . . . It is not considered desirable to entrust to the proposed Committees jurisdiction over these specific contacts already established, except as the Committees may from time to time, from their knowledge of the situation, feel it desirable to make recommendations.<sup>21</sup>

In so far as the Joint Economic Committees was not well

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<sup>20</sup> See Secretary of State for External Affairs to Minister in the United States, 28 April 1941, in Documents, vol. 8, pt. 1. Doc. 201, pp.335-36.

<sup>21</sup> PAC, RG19, vol. 3977, file E-3-2, Department of State to Canadian Legation in Washington, 5 June 1941.

utilized for the integration of the war economies of the two nations, Granatstein is justified in claiming that "the Joint Economic Committees were an abortive Canadian effort at co-operation and integration."<sup>22</sup> However, the primary purpose of the Committees had been changed to explore the economic problems of the postwar era. Further evidence that the United States intended to redirect the orientation of the Committees was attested by the personnel chosen to sit on the American section. The Americans selected were: William L. Blatt, Deputy Director of the Production Division of the Office of Production Management; E. Dana Durand, member of the United States Tariff Commission; Harry Dexter White, Director of Monetary Research in the Treasury Department; A.H. Hansen, attached to the Staff of the Federal Reserve Board; A.A. Berle, Assistant Secretary of State who was granted the right to sit with the Committees from time to time, and L.D. Stinebauer, who was on the staff of the Economic Advisor to the Secretary of State and was to act as liaison officer to the Secretary of State.<sup>23</sup> As we will see later, three of the six named, Berle, Hansen, and White, became extensively involved in postwar economic planning.

As for Canada, officials had no illusions as to the changed character of the Joint Economic Committees. In his

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<sup>22</sup>J.L. Granatstein, Canada's War, p. 147.

<sup>23</sup>PAC, RG19, vol. 3977, file E-3-2, Department of State to Canadian Legation in Washington, 5 June 1941.

covering telegram announcing the American acceptance of the Canadian proposal, the Minister Counsellor at the Canadian Legation in Washington, Hume Wrong, noted that the main points of the American reply were ". . . first, a cordial acceptance of the proposal; secondly, the suggested modification of the terms of enquiry in view of the developments which have taken place since the Canadian proposal was advanced. ."<sup>24</sup> As a result, the Canadian members were chosen with these changed 'terms of enquiry' in mind.<sup>25</sup> The Canadian section of the Committees consisted of R.A.C. Henry, Economic Adviser to the Minister of Munitions and Supply; J.G. Boucard, Assistant Deputy Minister of Agriculture; W.A. Mackintosh, Special Assistant to the Deputy Minister of Finance; D.A. Skelton, Chief of the Research Department, Bank of Canada; H.L. Keenleyside, a member of External Affairs who was granted the same privileges as Berle; and H.F. Angus, who acted as liaison officer to the Secretary of State for External Affairs.<sup>26</sup> Of these men, Mackintosh and Skelton

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<sup>24</sup>Hume Wrong to Secretary of State for External Affairs, 6 June 1941, in Documents, vol. 8, pt. 2, Doc. 203, p.337.

<sup>25</sup>Norman Robertson to Cabinet War Committee, "Economic Co-Operation Between Canada and the United States", n.d. June 1941, in Documents, vol. 8, pt. 2, Doc. 204, p. 341.

<sup>26</sup>Order in Council, 4500, 20 June 1941, in Documents, vol. 8, pt. 2, Doc. 207, pp. 344-45.



were to be largely involved in postwar economic planning and Keenleyside and Angus involved to a lesser extent.

The Joint Economic Committees studied various aspects of the postwar economic problems and adopted a resolution in December 1941 which recognized that "the economic problems of Canada and the United States in the postwar period cannot be considered apart from the conditions which will govern world economic activity and the organization of world trade."<sup>27</sup> The Joint Economic Committees recommended that the governments of Canada and the United States invite the participation of other countries, particularly the British, in a joint declaration which stated;

To achieve a just and durable peace in an economically interdependent world, the signatory governments recognize their common responsibility to collaborate with one another in promoting full employment, increasing production, expanding markets, improving standards of living, and fostering social security and economic stability throughout the world.<sup>28</sup>

To attain these objectives the Committees proposed the establishment of an International Stabilization and Development Board. This Board's mandate was to be the prevention of depression and the checking of inflation in the postwar period by achieving stability in exchanges and in prices. The Board was also to explore the need for reconstruction and development projects in countries or regions

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<sup>27</sup>PAC, RG19, vol. 3977, file E-3-2, "Resolution of the Joint Economic Committees of Canada and the United States," Resolution No. 6, 5 December 1941.

<sup>28</sup>Ibid.

where the necessary capital was lacking. Once these needs had been considered, the Board was "to work out specific and concrete plans for the organization of such public international agencies or instrumentalities as may be helpful in promoting such projects by credit, investments or commodity operations, or by other means, and in furthering the objectives set forth in this declaration."<sup>29</sup> Although not as detailed, the basic principles of this resolution proved to be strikingly similar to White's plan of a Stabilization Fund drafted almost six months later.

Although this resolution was not officially accepted by the American or Canadian governments, it did demonstrate where their officials were heading in postwar economic planning. A "Report on International Economic Collaboration" was drafted by the Canadians John J. Deutsch, Special Wartime Assistant to the Under-Secretary of State for External Affairs, and O.D. Skelton and the Americans Charles P. Kindleberger, who had been named the American Secretary for the Joint Economic Committees, and A.H. Hansen. The above resolution was largely based on this report which defined the policy direction of Canadian and American officials. This report assumed Britain would win the war but lose a large part of its overseas income. It also recognized that, in any programme for reconstruction, Britain

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<sup>29</sup>Ibid., p. 2.

would have to import a larger volume of foodstuffs and raw materials. The dilemma was how Britain would pay for these imports when her overseas income was so devastated. The authors of the report saw two alternatives before Britain. The first was to pursue a policy of 'national autarky and bilateralism'; the second consisted of the ". . . re-establishment of a functioning world economy, with expanding multilateral trade, by deliberate and effective international collaboration as a means of increasing productivity and raising the standards of living."<sup>30</sup> The phrasing of these two alternatives indicated which the authors preferred. The authors provided great detail on the effects the two alternatives presented to both Canada and the United States as well to the world as a whole.

Under the first alternative of autarky and bilateralism, various mechanisms such as rigid control of foreign exchanges, clearing agreements, import quotas, subsidization of exports, and centralized government purchasing would be required.<sup>31</sup> These mechanisms were anathema to the Americans and evoked mixed feelings from the Canadians. Certainly control of foreign exchange, import quotas, and subsidization of exports were mechanisms Canada had used in the inter-

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<sup>30</sup>PAC, RG19, vol. 3977, file E-3-2, Joint Economic Committees, "Report on International Economic Collaboration", 5 December 1941, p. 3.

<sup>31</sup>Ibid.

war period. Canada would not relinquish them in the postwar era without assurances that they would be unnecessary. However, the Canadian officials were in complete agreement with the Americans in opposing the resort to autarky when the report went on to suggest that large industrial nations would

. . . use the bargaining power of their large markets to play one small country off against the other in order to obtain their requirements of raw materials and agricultural products at the lowest possible prices. At the same time, each large industrial country could block the proceeds of its purchases and could thus in large measure force the raw material and agricultural exporters to buy their imported manufactured goods exclusively from it at dictated prices.<sup>32</sup>

While the report presented such a pessimistic view of what Britain might resort to, it stressed that "the resort to autarky may not be a matter of choice but of necessity . . ."<sup>33</sup> Under this system of autarky and bilateralism, the report concluded that the United States would be better off than most countries but it would "completely wreck an exposed economy such as Canada."<sup>34</sup> This conclusion was essentially correct. Studies by Hansen's economic subcommittee of the Council on Foreign Relations suggested that the United States could satisfy most of its export-import requirements even if

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<sup>32</sup>Ibid., pp. 4-5.

<sup>33</sup>Ibid., p. 7.

<sup>34</sup>Ibid.

it were denied a European market.<sup>35</sup> That was not true for Canada. According to the report by the Council on Foreign Relations, Canadian exports to the United States had already achieved their maximum level. Canada was obliged to find other outlets for her exports if she wished to maintain a high level of international activity and ultimately a high level of employment. The conclusions reached in this report underscored Canada's stake in multilateral trade while minimizing the urgency of such a programme for the United States. This is not to say that the United States, or at least some influential circles in the United States, were not interested in multilateral trade. However, the need for it was certainly less striking in the American case than it was for Canada.

To fulfill the second alternative of expanding multilateral trade, the Report noted that ". . . there must be collaboration in the whole range of direct international activities -- the stabilization of exchange rates; the control of capital movements; the direction of external investment and development policies; the adjustment of tariff and commercial restrictions; the use of shipping and other

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<sup>35</sup>The Library, Arthur Upgren, "Economic Trading Blocs and Their Importance to the United States", 10 February 1941, Studies of American Interests in the War and the Peace, Economic and Financial Series, No. E-B27, and William Diebold jr., "Methods of Economic Collaboration: Methods of Measuring Self-Sufficiency", 25 June 1941, Ibid., No. E-B34, Supplement I.

international services."<sup>36</sup> Even though the Report stated that "it is not suggested that a giant international blueprint formulating detailed policy on all these matters is desirable. . . .",<sup>37</sup> it is interesting to note that virtually all of these international activities were later included in the White Plan. The Resolution did not address the immediate postwar problems of relief and reconstruction per se, however, it recommended that this could be better met by different organizations.<sup>38</sup> The stabilization of exchange rates in the Committee's Resolution is particularly noteworthy as it was given a position of primacy in both this Report and in White's Stabilization Fund Plan.

Another Canadian official involved in economic planning was R.B. Bryce, the Secretary to the Economic Advisory Committee.<sup>39</sup> In a confidential memorandum dated December

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<sup>36</sup>PAC, RG19, vol. 3977, file E-3-2, Joint Economic Committees, "Report on International Economic Collaboration", 5 December 1941, p. 12.

<sup>37</sup>Ibid.

<sup>38</sup>PAC, RG19, vol. 3977, file E-3-2, W.A. Mackintosh to W.L. Mackenzie King, 17 December 1941.

<sup>39</sup>The EAC was established by Order in Council, P.C. 2698 on 14 September 1939, to coordinate economic and financial policy. Bryce was not originally appointed by Order in Council, as were the other members except Mackintosh, but ". . . simply by action of the Committee itself." PAC, RG19, vol. 4660, file 187, R.B. Bryce to Miss E. Saunders (Secretary, Civil Service Commission), 4 August 1940.

1941 Bryce discussed the "Basic Issues in Post-War International Economic Relations" from a Canadian perspective.<sup>40</sup> The central theme of this paper revealed Bryce's economic views. Bryce believed that two great economic needs of the postwar period were inherited from the interwar period. These were ". . . first the need to achieve a much higher, as well as a more stable, level of employment; and second, the need to make more effective use of our labour and other resources by taking advantage of the possibilities of international exchange of goods, services and capital."<sup>41</sup> The prevailing popular attitude in Canada, according to Bryce, gave support to his emphasis on the need for high employment levels, albeit for slightly different reasons. Although the connection to international trade may have been too abstract for the average Canadian to appreciate, ". . . the war has convinced the man in the street, indeed even the man in business that governments can put men to work and make private business profitable by spending money, and, what is more, that when need arises, the money can be found in undreamt of quantities."<sup>42</sup> As a former student of Keynes, Bryce knew all too well that the

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<sup>40</sup>PAC, RG19, vol. 3977, file E-3-2, R.B. Bryce, "Basic Issues in Post-War International Economic Relations", n.d. December 1941.

<sup>41</sup>Ibid., p. 1.

<sup>42</sup>Ibid., p. 2.

maintenance of high levels of employment went hand in hand with buoyant international trade. Because the Canadian economy was so dependent on international trade, the soundness of this aspect of Keynes' teaching was easy to see.

While many countries could find themselves in a similar predicament to Canada, Bryce noted that Britain and the United States were not among them. Certainly Canada was not a unique nation in that she needed to trade with a sterling country and an American dollar country to maintain an equilibrium in her balance of payments. Many South American countries found themselves in this situation. Like his colleagues, Bryce assumed that Britain would find her balance of international payments in complete disarray after the war. Similarly, Bryce concluded it " may be that no other course will be open to Britain except to restrict in some way or other the use of [American] dollars to the more essential purposes, - which may involve what will appear to be discrimination in trade or exchange policies."<sup>43</sup> Bryce understated 'what will appear to be discrimination' for it surely would be discrimination even though it was necessary in the British circumstances. Nevertheless he demonstrated the same understanding as Mackintosh and Deutsch had that, irrespective of the existence of an enlightened economic

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<sup>43</sup>Ibid., p. 6.



policy in Britain, British officials might not have any alternative but to pursue an autarkic policy. Consequently, many nations would be faced with the choice of trading with one currency or the other. Either choice could have devastating effects on their economies.

Even though there might have been less urgency for the United States to press for growth in international trade as a means to achieving high levels of employment, Bryce noted that, ". . . spokesmen in the United States, both official and unofficial, are making it quite clear that they hope and expect to see equal treatment in trade policies established as a general rule after the war."<sup>44</sup> Bryce recognized that freer trade policies could be beneficial to the United States as that country was confident that its industries could compete with any nation in an open market. However, Bryce believed that a more important reason lay behind this American internationalism. This reason had been developed by the State Department and was not strictly economic in nature. Bryce maintained that the underlying purpose of the United States policy was based on recognition of ". . . the danger of international friction, ill-will and instability which is created by international bargaining and discrimination."<sup>45</sup> Like Mackintosh and Deutsch, Bryce recognized the United States to have a legitimate desire to promote inter-

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<sup>44</sup>Ibid.

<sup>45</sup>Ibid., pp. 6-7.

national trade.

Bryce assumed that American open trade policy would prevail over other nations' trade policies because the United States was " . . . the great economic power, . . . the greatest creditor nation in the world, with nearly all its [the world's] gold reserves and the major source of its [the world's] currency savings."<sup>46</sup> Bryce envisaged several mechanisms at work which would operate this system of multi-lateralism. But, unlike his colleagues, Bryce placed less emphasis on exchange stability, although he recognized that exchange stability was likely to be an even greater problem after the war than before it. He knew that there would be even less willingness to maintain stable exchanges at the expense of the domestic economy after the war than before it. Bryce believed that, if international trade were developed on a large scale and based on a high level of employment, there would be less danger of exchange instability.<sup>47</sup> In this emphasis on expansion in international trade instead of exchange stability, Bryce was espousing Keynesian principles.

A memorandum circulating among a select group of Canada's mandarins identifies two principal schools of

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<sup>46</sup>Ibid., p. 9.

<sup>47</sup>Ibid., p. 8.

economic policy in Britain.<sup>48</sup> As with the memorandum by Bryce, this memorandum also suggested that Britain would be faced after the war with a shortage of foreign exchange and loss of overseas markets and thus would experience great difficulty in purchasing imports. The author of the memorandum also noted, probably with Canadian trade in mind, that the countries from which Britain would wish to purchase raw materials would have greatly developed their manufacturing industries during the war. In all likelihood these countries would seek to protect their industries by various forms of restrictive measures. To open these countries to British trade, the memorandum under discussion reported that, as the leaders of one school of thought, Keynes and the Economic Adviser to the United Kingdom Treasury, Hubert D. Henderson, advocated that Britain make a series of bilateral trade agreements with the major resources-producing countries, binding them to purchase British manufactured goods. Even though the other school of thought, led by Lionel Robbins and J.E. Meade, both Economic Assistants for the Economic Section of the Cabinet Office, advocated freer trade, the memorandum suggested that the Keynes and Henderson school was more influential in shaping British economic policy.

Not everyone, however, shared this concern about

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<sup>48</sup>Bank of Canada Archives (hereafter BCA), LR76-191-7, C.H. Herbert, "International Trade After the War", 14 January 1942.

the bilateralist nature of the Keynes school, as was indicated by the response from the Assistant Chairman of the Foreign Exchange Control Board, Louis Rasminsky; " . the opposition between the views of Robbins and Meade and those of Keynes and Henderson may be less difficult to resolve than appears on surface."<sup>49</sup> The reason Rasminsky believed these two opposing views were not difficult to resolve was revealed about a month later. After a meeting with Sir Arthur Salter, United Kingdom Parliamentary Secretary to the Minister of War Transport, Redvers Opie, Counsellor at the British Embassy in the United States, and R.H. Tawney, Advisor on Social and Economic subjects at the British Embassy in the United States, Rasminsky noted; "I gather that the Henderson bilateralist views are losing ground in the U.K. and that even Keynes now is shifting his ground because he feels that attempts at U.K. bilateralism will lead to serious political friction with the U.S."<sup>50</sup> It seemed from Rasminsky's perspective, that the bilateralist school had gradually moved into an international framework because of American opposition rather than shift in ideology.

The 14 January 1942 memorandum also noted the views

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<sup>49</sup>BCA, LR76-191, Louis Rasminsky to C.H. Herbert, 20 December 1941.

<sup>50</sup>PAC, RG19, vol. 3977, file E-3-1(3), Louis Rasminsky, "Meeting of Council on Foreign Relations, New York, January 24, 1942", n.d.

of Americans on international economic policy. It reported that the Department of State followed Secretary of State Cordell Hull's policy of lower tariffs through mutual agreements and a strict avoidance of discriminatory tariffs, clearing agreements, exchange restrictions or any other mechanism that was linked to bilateralism. Hull advocated lower tariffs because " unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war."<sup>51</sup> However, it was noted that a few individuals within the State Department favoured bilateral trade arrangements over multilateral trade policies. The memorandum identified the policies of the United States Treasury as lying closer to the official State Department view but recognized that abolishing all forms of restrictive trade agreements might be impossible for countries in a weak economic position. As a result, the Treasury Department was prepared to allow a measure of bilateralism on condition that multilateralism was the ultimate objective. Like other Canadian officials who examined the British position and the American response, this memorandum indicated that the predominant American view was towards freer multilateral trade. To prevent bilateralism it was thought the United States had two options: first, to provide financial assistance to Great Britain and others during the transition period, or

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<sup>51</sup>Cordell Hull, The Memoirs of Cordell Hull, vol. 1, (New York: Macmillan, 1948), p. 18.

second, to engage in economic warfare with Britain and the Empire. Obviously, if the United States were committed to multilateralism, the only policy open to it was to pursue the first option. Certainly this option, which preserved the multilateral trade pattern, was preferable to Canada and Canadian officials consequently endeavoured to bind the United States to multilateralism. The effort to ensure that the United States would be involved in the promotion of multilateral trade might seem to be an easy task, as it appeared the United States was already favourably inclined towards it. However, it should be kept in mind that, while there was an indication that the United States would promote such a policy, this was by no means certain.

H.L. Keenleyside, the Assistant Under-Secretary of State for External Affairs, also commented on Anglo-American relations with specific reference to the divergent economic policies emanating from the United States and the United Kingdom. Keenleyside sent the Prime Minister a memorandum concerning a conversation he had with " friends occupying positions of importance in, or in relation to, the White House, the State Department, and the Treasury."<sup>52</sup> Keenleyside noted that a clash of economic opinions between two opposing groups was growing in intensity in the United

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<sup>52</sup>H.L. Keenleyside to W.L.M. King, 15 September 1941, in Documents, vol. 7, pt. 1, Doc. 641, p. 501.

States. The Assistant Under-Secretary of State referred to these two groups as the 'Freer Traders' and the 'Autarchists'. The Freer Traders believed that the international and domestic economic problems, both at the present and in the future, could be solved by a policy of freer trade. This group recognized:

. . . that at the conclusion of the war it will be necessary for the United States to continue to contribute to the support of Britain and the democratic powers, and to assist in the rehabilitation of central Europe. They believe that this can best be done by assisting those crippled powers to gain easy access to sources of raw material and achieve relative prosperity by a tremendous expansion of international trade. They recognize that this will involve a momentous reduction in the United States tariff rates and for this they are prepared to fight the dissidents within their own ranks and within the United States generally.<sup>53</sup>

The Autarchists argued that, because trade and exchange controls would likely continue into the postwar period, it would not be " . . . worth while to bother trying to re-establish any very large volume of general trade with Europe or Asia."<sup>54</sup> The Autarchists maintained that, " . . . in any case, North and South America can become almost self-sufficient."<sup>55</sup> If North and South America did become self-sufficient, Canada would suffer a severe dislocation in her traditional trade relationship. Cut off from her United

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<sup>53</sup>Ibid.

<sup>54</sup>Ibid.

<sup>55</sup>Ibid.

Kingdom market, Canada would be completely under the sway of the American economy.

Although the Freer Traders had the support of the Administration, Keenleyside suggested that the "President and his advisors are under severe and growing pressure from those who want the United States to adopt 'self-sufficiency' as the national watchword."<sup>56</sup> When Keynes, Arthur Salter, the Head of British Merchant Shipping Mission in Washington and former Director of the Economic and Financial Section of the League of Nations, Sir Frederick Phillips, the Joint Second Secretary for the United Kingdom Treasury, and other United Kingdom economists expressed opinions which undermined the position of the Freer Traders, a tremendous strain was put on Anglo-American relations. These British economists claimed that the " . . . proper course for Britain to follow will be to maintain all her war-time controls, unite the sterling bloc as closely as possible, and engage in trade with other areas only to the extent that bilateral arrangements can be made on advantageous terms."<sup>57</sup> Keenleyside related the consequences this would have for Canada when he remarked " . . . this will mean that Great Britain will buy from Canada only goods equivalent to the amount of Canadian

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<sup>56</sup>Ibid., p. 503.

<sup>57</sup>Ibid.



purchases from the United Kingdom."<sup>58</sup> Keenleyside was immensely concerned about the effect these British economists could have in strengthening opposition to the Freer Traders. The Assistant Under-Secretary of State wrote:

It is not by any means impossible that a reactionary movement may, within the next two years, become a real menace to all the Roosevelt policies. . . . Yet the activities of Mr. Keynes and the others mentioned above are calculated to contribute directly and materially to just such a result.<sup>59</sup>

Keenleyside proposed immediate intervention into this state of affairs because "economic warfare between the United Kingdom and the United States would be a tragedy for themselves, for the world, and perhaps above all, for Canada."<sup>60</sup>

In spite of the obstacles in the path of the free trade policies of the American Administration, there were positive signs emanating from the United States as early as December 1941 which indicated that she would vigorously press for international trade policies. In another memorandum to King written late in 1941, the Under-Secretary of State for External Affairs noted that, in return for Lease-Lend assistance, "what the United States wants is an undertaking now that the United Kingdom will cooperate with the United States in pursuing a liberal international economic policy

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<sup>58</sup>Ibid.

<sup>59</sup>Ibid., p. 505.

<sup>60</sup>Ibid.

after the war. The United States regards the abolition of import discriminations as an essential objective for workable post-war economic arrangements."<sup>61</sup> In essence the United States wanted to see the end to Imperial preferences. The Under-Secretary of State also noted that, "the United Kingdom is reluctant to accept this objective in terms at this time because it feels that it implies the ultimate abandonment of the right of Empire countries to grant each other exclusive trade preferences."<sup>62</sup> As for Canada's position on this, he noted that

. . . we have a greater interest in supporting the main objectives of American international economic policy. As Acheson pointed out to Lord Halifax, the United States proposals recognize the primary importance of increased economic activity, both national and international, in employment, production, consumption and exchange of goods. It is against this background and in conjunction with it that there are added the objectives of the elimination of the discriminatory treatment, reduction of tariffs and the achievement of other economic objectives of the Atlantic Charter. They recognize explicitly that a liberalization of commercial policy is a question that requires action by all participants and that high standards of productivity and consumption will be required to succeed on it.<sup>63</sup>

Canadian policymakers considered two alternatives to be open to them. The first was to side with the 'Autarchists'.

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<sup>61</sup>Under-Secretary of State for External Affairs to the Prime Minister, 30 December 1941, in Documents, vol. 9, Doc. 559, pp. 604-5.

<sup>62</sup>Ibid., p. 605.

<sup>63</sup>Ibid., p. 606.

Canadian officials rightly sought to avoid this as it would cause the Canadian economy to fall completely into the American nexus. If Canada followed the 'Autarchist' programme trade outside the North and South American continents would be reduced to a minimal level. Because Canada conducted very little trade with South American countries virtually all Canadian imports and exports would be dependent upon the United States. The second was to support the 'Freer Traders'. The 'Freer Traders' were appealing because Canadian export trade could continue along more or less traditional routes, or so it seemed. In reality, the British market was not as secure for Canadian exporters as many believed. In spite of the warnings of many renowned British economists, no one in Canada considered Britain to be incapable of expanding economically in a free trade world. This was regrettable because Britain's prosperity was directly linked to Canada's success in preserving her export market. If Britain did not prosper, then her capacity to import would diminish.

## CHAPTER III

### THE BRITISH AND AMERICAN PLANS

Shortly after World War Two broke out the Germans espoused the creation of a 'new world order' that would end the tremendous disorder of the interwar period. Under the direction of Dr. Hjalmar Schacht, Reichsminister of Economics, the Germans circumvented the need for large monetary reserves to finance trade through a programme that provided effective utilization of an economic bloc. Under the leadership of the Germans, trade was restricted to a small group of nations, in order to ensure both markets and supplies for countries within the economic bloc. The propaganda value of this 'new order' on the overall war effort was immense. German domination would be more easily accepted if the economic disorders of previous decades were abolished.

The British were quick to see the propaganda value of the 'new order' and sought to counter it. In late 1940, the Foreign Secretary, Lord Halifax, enquired of the Chancellor of the Exchequer if it might be possible to have

Keynes " . . . prepare an authoritative statement exposing the fallacious character of the German promises for a 'New Order'." <sup>1</sup> Keynes responded on 25 November 1940, with a memorandum entitled "Proposals to Counter the German 'New Order'" and it was circulated within the United Kingdom Treasury on 1 December 1940. <sup>2</sup> However, rather than criticizing the 'new order', Keynes found much to commend in its basic principles;

This idea was to cut the knot by discarding the use of a currency having international validity and substitute for it what amounted to barter, not indeed between individuals, but between different economic units. In this way he [Dr. Schacht] was able to return to the essential character and original purpose of trade whilst discarding the apparatus which had been supposed to facilitate, but was in fact strangling it. This innovation worked well, indeed brilliantly . . . <sup>3</sup>

Even though the Germans were using this 'new order' to build up their war machine, Keynes recognized the effectiveness of the German programme. Together with a colleague in the United Kingdom Treasury, H.D. Henderson, Keynes believed that the programme would have worked equally well had Germany

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<sup>1</sup>Quoted from Donald E. Moggridge (ed.), The Collected Writings, vol. 25, Activities 1940-1944: Shaping the Post-War World: The Clearing Union, (New York: Cambridge University Press, 1980), (hereafter Collected Writings, vol. 25), p. 7.

<sup>2</sup>J.M. Keynes, "Proposals to Counter the German 'New Order'", in Collected Writings, vol. 25, p. 7.

<sup>3</sup>J.M. Keynes, "Post-War Currency Policy", 8 September 1941, in Collected Writings, vol. 25, p. 23.

wished for butter instead of guns or aeroplanes."<sup>4</sup> Unlike Dr. Schacht, however, Keynes believed that it was possible to use a currency having international validity without reverting to the " . . . currency disorders of the epoch between the wars . . ." <sup>5</sup> There needed to be " . . . a refinement and improvement of the Schachtian device."<sup>6</sup> Keynes' determination to provide Britain with her own "new order" resulted in his proposal for an International Currency Union. This soon became known as the Clearing Union. Although a draft of this proposal was first circulated in the Treasury on 8 September 1941, it was mid-December before his proposal took the shape it retained throughout the wartime discussions.

In a scathing criticism of the old gold standard system Keynes wrote that "the problem of maintaining equilibrium in the balance of payments between countries has never been solved since methods of barter gave way to the use of money and bills of exchange."<sup>7</sup> Instead of using gold as an international monetary unit, Keynes offered " . . . a quan-

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<sup>4</sup>J.M. Keynes, "Post-War Currency Policy", Collected Writings, vol. 25, p. 23., and PAC, RG19, vol. 3977, file E-3-1, H.D. Henderson, "The Nineteen Thirties", 11 August 1941.

<sup>5</sup>Ibid., p. 24.

<sup>6</sup>Ibid.

<sup>7</sup>J.M. Keynes, "Post-War Currency Policy", 8 September 1941, in Collected Writings, vol. 25, p. 21.

tum of international currency which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry nor subject to large variations depending on the gold reserves policies of individual countries . . ." <sup>8</sup> This new unit, which Keynes christened "bancor", was to be " . . . fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years . . ." <sup>9</sup> Bancor could be transferred to a country's account in exchange for gold and bancor was to be given a value in terms of gold although this value could be altered. The archaic notion that a gold parity had to be maintained at all costs was rejected. Keynes implied, however, that "the position of gold would be left substantially unchanged." <sup>10</sup> Nevertheless, bancor could not be translated into gold on demand, except under special circumstances. Keynes had long considered gold a 'barbarous relic', but he recognized that "gold also has the merit of providing, in point of form whatever the underlying realities may be, an uncontroversial standard of value for international purposes, for which it may not yet be easy to find a service-

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<sup>8</sup>J.M. Keynes, "Proposals for an International Currency Union", 15 December 1941, Preface, Para. C, in Collected Writings, vol. 25, p. 84.

<sup>9</sup>Ibid., Para. 6(3).

<sup>10</sup>Ibid., p. 84.

able substitute."<sup>11</sup> The role of gold in the Clearing Union was, however, of symbolic value only. This limited role came to light during a discussion on the Clearing Union at a meeting of the War Cabinet Committee on Reconstruction Problems; "Mr. Keynes, in reply to a question as to how these proposals differed from the old theory of the gold standard, remarked that he did not think that he personally would be suspected of tenderness towards the gold standard. In fact these proposals completely dethroned gold in polite language."<sup>12</sup>

Each member nation of the Union would be allotted a quota which would permit it to conduct trade in the postwar era at a level of activity commensurate to that of the pre-war period. The allotted quota was an important feature because of the tremendous dislocation of the world's gold reserves. This was obviously beneficial to nations with relatively small reserves but possessing a large volume of trade, such as Britain. It offered less direct benefits for countries such as the United States which held large reserves and were less dependent on international trade. However, there were benefits. No nation would be isolated from the effects of world trade, as had occurred in the Great Depression. Keynes

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<sup>11</sup>Ibid., p. 85.

<sup>12</sup>"From Minutes of Meeting of the War Cabinet Committee on Reconstruction Problems", 31 March 1942, Collected Writings, vol. 25, p. 140.



had not followed the short-sighted nationalist policy of devising a plan that would benefit only Britain. It has been said of Keynes that, had he died in 1936,

he might possibly have been classified, in the sphere of commercial policy, as an apologist for economic nationalism; . . . Be this as it may, the Keynes of the war period was a consummate internationalist, and the apparent shift in his point of view appears to have been very largely the result of the change in the international environment.<sup>13</sup>

Although Keynes may not have been as consummate in his internationalism as was suggested, he desired to facilitate Britain's trade with other countries as part of his primary objective of achieving full employment in the British economy. Full employment in Keynesian economic thought was dependent upon expanding international trade. Keynes' "economic nationalism" was inextricably interwoven with his internationalism; the two went hand in hand.

Another feature of the proposed Union that exemplified its expansionist character was what Keynes frequently alluded to as the "essential banking principle". This principle was simply the "necessary equality of credits and debits" which was characteristic of the closed banking system of the United Kingdom.<sup>14</sup> Under this principle " . . . credit

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<sup>13</sup>Randall Hinshaw, "Keynesian Commercial Policy", in Seymour E. Harris (ed.), The New Economics, p. 321.

<sup>14</sup>Kenneth Dam, Rules of the Game: Reform and Evolution in the International Monetary System, (Chicago: University of Chicago Press, 1982), p. 72.

was automatically extended by those countries which at any moment had a favourable balance of payments to those countries which at any moment had an unfavourable balance."<sup>15</sup> That is, no credits or debits on current account transactions could be removed from the Clearing Union and a perfect balance would always be maintained. Since nations could trade freely within prescribed limits, a debit on one side of the accounting ledger would always be matched by a credit on the other side. Because bancor was to be universally accepted, deficiencies in foreign exchange holdings or in reserves would not hamper trade. This automatic extension of credit had an appeal to nations that had experienced difficulties in the past in financing their international trade. Keynes felt that this aspect of his proposal had special merit because;

Our British problem of gaining enough receipts overseas to balance our import requirements is so acute that we can scarcely hope to solve it except through a scheme which . . . provides us with a margin during the period before we can re-establish equilibrium by an international scheme which does not require us to ask particular favours or accommodations from the U.S. but merely gives to us, and requires of us, the same facilities for the expansion of international trade and the maintenance of international equilibrium which all the countries will be asked to receive and to allow . . .<sup>16</sup>

The appeal to creditor nations was less obvious. The source

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<sup>15</sup>PAC, RG19, vol. 3989, file T-2-9-2, "Report of the Canadian Representatives at the 'Post-War Economic Talks' Held in London Between October 23rd and November 9th, 1942", part II, "International Clearing Union", n.d.; Earlier drafts of part II "International Clearing Union" found in Rasminsky's file at BCA, LR76-188.

<sup>16</sup>J.M. Keynes, "Proposals for an International Currency Union" 15 December 1941, Section 12, in Collected Writings, vol. 25, p. 94.

of the credit was "anonymous" and removed the special status accorded creditor nations in the past which had allowed them, for good or ill, to dictate certain policies as criteria for the extension of credit.

This 'essential banking principle' met with criticism from nations not familiar with its practice. In a recent analysis of the Clearing Union Kenneth Dam, an economist, maintains that the "banking principle" could have been " . . . restructured as simple lending as part of a line of credit, if Keynes had been more interested in American understanding than in abstract elegance."<sup>17</sup> Dam underestimates Keynes' knowledge of the United States, however, and binds Keynes in a dogmatic strait-jacket. In a study on "The Pragmatic Basis of Keynes's Political Economy", Dudley Dillard asserts that "if the influence of Lord Keynes were limited to the field of technical economic doctrine it would be of little interest to the world at large. However, political economic policy bears even more deeply than economic theory the imprint of Keynesian thought."<sup>18</sup> In a letter to his colleague Richard Kahn, just prior to a completing his first draft of the Clearing Union plan, Keynes stated that he was not concerned with abstract elegance;

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<sup>17</sup>Dam, p. 78.

<sup>18</sup>Dudley Dillard, "The Pragmatic Basis of Keynes's Political Economy", Journal of Economic History 6 (November 1946):121.

my aim will be not to allow [Robert Jones] Shackle and others to waste too much of my time, but to aim at putting the practical problem in its true light and then concentrate on technical means of solution without bothering myself about ideals, which, whether right or wrong, are in actual circumstance pure fantasy.<sup>19</sup>

Keynes realized that, if his Union were to work effectively, it must have some kind of self-correcting feature similar to that found in the pre-1914 gold standard. Thus a member country would be permitted to draw up to one-quarter of its quota from the Union without restriction. Once the one-quarter mark had been exceeded, a charge of one percent would be put on its balance; a further one percent charge would be added when one-half of its quota was drawn.<sup>20</sup> These charges were inducements to the country to bring its balance of payments back into equilibrium. In order to facilitate this balance, a country could devalue its currency by five percent annually once it had exceeded one-quarter of its quota. This was no doubt a reflection of the problems encountered by Britain in the 1920's and early 1930's when its currency was fixed at an unalterable rate and also of the relatively successful experience of the mid-1930's when the pound was permitted to fluctuate. Although Keynes was no

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<sup>19</sup>J.M. Keynes to Richard Kahn, 21 August 1941, in Collected Writings, vol. 25, p. 20.

<sup>20</sup>J.M. Keynes, "Proposals for an International Currency Union", 15 December 1941, in Collected Writings, vol. 25, p. 20.

advocate of fluctuating exchanges,<sup>21</sup> he maintained that the correct value of any currency might be difficult to determine and accepted that some measure of flexibility was therefore desirable. The purpose of the charge on debit balances had its parallel in the pre-1914 era when losses from a country's gold reserves indicated a disequilibrium in the balance of payments and, if persistent, provided the incentive to correct it. To prevent delinquent nations from drawing on the Union without restraint, a country that exceeded one-half of its quota would be obliged to seek permission and counseling from the Union before it could undertake future transactions.<sup>22</sup>

One of the most striking features of the proposal was the responsibility Keynes placed on creditor nations. Under the gold standard the mechanism for equilibrating the balance of international payments required that debtor and creditor nations meet halfway in the adjustments that would restore equilibrium. However, Keynes recognized that:

. . . if a country is in economic importance even one-fifth of the world as a whole, a given loss of gold will presumably exercise four times as much pressure at home as abroad . . . so that the contribution in terms of the resulting social strains which the debtor country had to make to the restoration of equilibrium by changing its prices and wages is altogether out of proportion

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<sup>21</sup>See J.M. Keynes, "Post-War Currency Policy", 8 September 1941, in Collected Writings, vol. 25, p. 23.

<sup>22</sup>J.M. Keynes, "Proposals for an International Currency Union", paras. 6(5)b and 6(6), in Collected Writings, vol. 25.

to the contribution asked of its creditors. Nor is this all. To begin with, the social strain of an adjustment downwards is much greater than that of an adjustment upwards. And besides this, the process of adjustment is compulsory for the debtor and voluntary for the creditor.<sup>23</sup>

The experience of the 1930's demonstrated that creditor nations were not always willing to volunteer their share in the process of adjustment. With the United States likely to be the only major creditor nation in the postwar period, Keynes felt the urgency to ensure a creditor nation would assume its share of responsibility in the adjustment process. In a rather blunt fashion Keynes explained that " . . . the aim would be to interfere as little as possible, provided that a balance is maintained with the outside world as a whole. But unquestionably it would involve a discrimination against the United States if she persisted in maintaining an unbalanced creditor position."<sup>24</sup> As a result, the one and two percent charges which were to be applied when debit balances exceeded one-quarter and one-half of the country's quota were also to be applied to credit balances which exceeded specified quota levels. One Canadian commentator on this aspect of the Clearing Union observed at the time: "It is naturally difficult to say to what extent this stress on the responsibility of the creditor countries reflects a

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<sup>23</sup>J.M. Keynes, "Post-War Currency Policy", 8 September 1941, in Collected Writings, vol. 25, p. 28.

<sup>24</sup>J.M. Keynes to F.T. Ashton-Gwatkin, 25 April 1941, in Collected Writings, vol. 25, p. 17.

strikingly rapid progress of economic thought in official circles in the United Kingdom during the past few years and to what extent it reflects the loss of foreign assets."<sup>25</sup> It is safe to assume rapid progression in economic thought as Keynes' reason for implementing this principle but one can only speculate whether the United Kingdom Treasury would have adopted this plan had there been a possibility that the United Kingdom would be the creditor nation.

Perhaps the most controversial aspect of the Clearing Union proposal was the provision to attach postwar relief and rehabilitation schemes to the Union.<sup>26</sup> Keynes suggested that provision for extending credits was necessary to meet peculiar financial needs in the transitional period and had advantages for countries who sought such credit. Like the regular functioning of the "banking principle", the source of these credits would be anonymous. This meant that debtor countries would not have to go 'hat in hand' to a creditor nation to obtain the funds needed to prevent deflationary pressures, particularly during the transitional phase of

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<sup>25</sup>PAC, RG19, vol. 3989, file T-2-9-2, "Report of the Canadian Representatives at the 'Post-War Economic Talks' Held in London Between October 23rd and November 9th, 1942", part II, "International Clearing Union", n.d., by Rasminsky.

<sup>26</sup>See section VIII of J.M. Keynes, "Proposals for an International Currency Union", 15 December 1941, in Collected Writings, vol. 25.

relief and reconstruction. Conversely, a creditor nation would not be obliged to use its government's legislative processes, which could be narrowly self-interested, in order to extend credit to countries in need of it. The inclusion of this provision was likely related to passage of two pieces of American legislation, the Johnson Debt-Default Act of 1934 and the Neutrality Act of 1939, which effectively blocked the United States Government and its citizens from extending credit to Britain.<sup>27</sup> Although it could be argued that the Lease-Lend Agreement of 1941 enabled the United States to extend aid to Britain's war-torn economy, it did so at a high cost to Britain. W.C. Clark participated in some of the informal discussions between the United States and United Kingdom Treasuries on this issue and reported that, ". . . during the last two weeks [prior to 21 March 1941] there had been two series of crises between Mr. Morgenthau and the U.S. Treasury on the one hand, and Sir Frederick Phillips or Sir Edward Peacock and the British Treasury on the other hand."<sup>28</sup> The cause of these crises was the determination of the United States to "strip the British of

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<sup>27</sup>Warren F. Kimball, "Beggars My Neighbour: America and the British Interim Finance Crisis, 1940-1941," Journal of Economic History 29 (December 1969):758.

<sup>28</sup>W.C. Clark, "Report on Visit to Washington, March 17-21", 21 March 1941, in Documents, vol. 8, pt. 1, Doc. 185, p. 299.



all their assets in the United States."<sup>29</sup> The first crisis arose from Morgenthau's insistence on " sending a British cruiser from Brazil to South Africa to pick up \$120 million of gold and take it to the United States in order that he might be able to announce that all the gold production of South Africa during the last three months had been turned over to him by the British."<sup>30</sup> The second crisis was due to the forced liquidation of British direct investments in the United States. The British sought to delay this liquidation by raising numerous objections over the sale of their investments which proved "intensely irritating to Mr. Morgenthau".<sup>31</sup> Consequently Morgenthau;

instructed [ Lord] Halifax that progress must be shown immediately by the sale of at least one substantial direct investment. The result was that, in spite of all the difficulties which had been conjured up previously, the British were able to sell the American Viscose Company (subsidiary of Courtaulds) at the end of last week and had to agree that the price received was pretty satisfactory. The British, however, resent having to continue to sell their direct investments and their delays and objections will be a continuing source of irritation to the U.S. Treasury.<sup>32</sup>

The provision for attaching the relief and rehabilitation

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<sup>29</sup>Ibid.

<sup>30</sup>Ibid., p. 296; Clark went on: "to make this even physically possible involved the most extraordinary series of transactions which I cannot put down on paper. Certainly the public statement that will be made will be far from a candid presentation of the actual facts."

<sup>31</sup>Ibid.

<sup>32</sup>Ibid.

schemes to the Union was thus far more important than was suggested by Keynes' tentative phrasing: "the Union might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction."<sup>33</sup> Throughout the later discussions with the Americans, Keynes was unwilling to abandon his essential banking principle, even when he conceded that his Union would operate very much like the American subscribed-capital fund. The reason for this refusal to abandon the banking principle was that " . . . the linking up with other international institutions [i.e. relief and rehabilitation schemes] would be difficult, if not impossible, on the subscribed capital basis."<sup>34</sup> But the Clearing Union came under heavy criticism both within Britain and abroad on the basis that linking up too many functions not relevant to the immediate objective of the plan could jeopardize the whole scheme.<sup>35</sup>

Perhaps the most overlooked aspect of the Clearing Union was that it was designed so that it would not " interfere with the discretion of Central Banks which desire to maintain a special intimacy within a particular group of

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<sup>33</sup>J.M. Keynes, "Proposals for an International Currency Union", para. 38(1), in Collected Writings, vol. 25.

<sup>34</sup>J.M. Keynes to Sir Frederick Phillips, 16 April 1943, in Collected Writings, vol. 25, p. 249.

<sup>35</sup>BCA, LR76-188-18, Rasminsky, "Report on Visit to London October-November, 1942", 28 November 1942.

countries associated by geographical or political ties, such as the sterling area . . . <sup>36</sup> The war had increased the import requirements of the United Kingdom and the growth in imports disrupted the United Kingdom's trade balance. Moreover, this trade imbalance was likely to continue into the postwar period. Consequently, United Kingdom officials wished to find a means of bringing their nation's trade back into balance. The effective use of sterling and the influence of the London banking establishment provided one means of achieving an increase in the volume of trade within the sterling area. As Keynes explained in a letter to Harold Nicolson of the Foreign Office;

. . . the area pound is a simple mechanism to make the resources of the area available to traders all over the world. When you use it, you use the long-established and smooth, reliable machinery of the City of London, which has grown up on conducting international trade on the simplest, most honourable and cheapest basis. It avoids the complications of barter and compensation, which hide the lack of resources and - too often - the juggling of prices to the organiser's benefit which lie behind them. . . . [However] it is not sterling itself which is useful; it is the sterling area, to which it is the key, and that is necessary to all the world.<sup>37</sup>

But the importance of sterling and the sterling area was not always clear during informal presentation of the Clearing Union plan. Rasminsky drove to the heart of the

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<sup>36</sup>J.M. Keynes, "Proposals for an International Currency Union", para. 21, in Collected Writings, vol. 25.

<sup>37</sup>Keynes to Harold Nicolson, 20 November 1941, in Collected Writings, vol. 25, p. 7.

issue when he questioned the ability of a country to hold foreign reserves that were not reflected in its account with the Union. Rasminsky argued that the bancor position of a country should indicate " the trend in the country's balance of payments, but in point of fact it may choose to put up or dissipate outside gold and foreign exchange reserves, which means that the bancor position itself does not reflect its true international position."<sup>38</sup> Rasminsky's argument was designed to determine the importance of the sterling area in relation to the Clearing Union proposal. The response he received was that it was " better not to disturb existing practices any more than necessary."<sup>39</sup> Stated more clearly, sterling would play a significant role in the ultimate effect of the Clearing Union plan.

By holding sterling balances separate from the scrutiny and consequently the control of the Clearing Union, Britain would depend on sterling area relations to solve its postwar trade imbalance. As reported by a later observer, multilateral payments within an economic bloc,

. . . could be possible but . . . would exclude countries such as the United States and Canada whose currencies, it is feared, are likely to become scarce. Trade between members of the currency bloc and non-members would be limited to the amount of non-member currencies available to each member of the bloc on the basis of a pooling

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<sup>38</sup>PAC, RG19, vol. 3989, file T-2-9-2, Louis Rasminsky to G.F. Towers, 4 November 1942.

<sup>39</sup>Ibid.

arrangement or as a result of each member's dealings with non-members.

Consequently, Britain would seek to maintain a trade bloc that could be insulated from American and Canadian exports. Owing to this currency bloc, the United States and Canada would be induced to increase their imports from this area so that more of their currencies would be at the disposal of the member countries of the bloc. Once this foreign exchange (United States and Canadian currencies in this case) was at the disposal of the member countries, these countries would be able to purchase exports from the United States and Canada without depleting their reserves or foreign exchange holdings. This ability to discriminate against non-member countries was revealed in the exchange controls operated by Britain during the war period. As a result of these controls the Central Reserve into which

. . . belligerent members of the Sterling Area paid gold and dollar earnings in exchange for British Government securities, and from which the British Government, in turn, made dollars available as needed by member nations . . . [provided] tight control [which] enabled the central banks of Sterling Area countries to discriminate against the scarce dollar.<sup>41</sup>

As the head of the sterling area, Britain was able to regulate the movement of capital into and out of the area. Since

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<sup>40</sup>Raymond Mikesell, "United States International Financial Policy", Canadian Journal of Economics and Political Science 12 (August 1946):315.

<sup>41</sup>J.M. Livingstone, Britain and the World Economy, (Harmondsworth: Penguin Books Ltd., 1966), p. 37.

trade is based on the movement of capital, Britain was able to control trade into and out of the sterling area. Although the objective in developing this economic bloc was to balance trade between the sterling area and the non-sterling area, the fact remained that Britain controlled the sterling area. Since a balance was to be preserved between the sterling area and the non-sterling area, countries within the sterling bloc were encouraged to satisfy their trade requirements within the area.

Keynes was committed to introducing a scheme that would provide as wide a multilateral trade relationship as the system could bear. However, Keynes was also cognizant of the dangers that would arise from a persistent reluctance by countries holding sterling to purchase British exports. The use of sterling encouraged trade within the sterling area but there was no guarantee that Britain's external trade would grow. Keynes' concern was evidenced in the fact that, even though the Clearing Union plan stated it would " . . . restore unfettered multilateral clearing between its members",<sup>42</sup> Keynes asserted that this clause " . . . was not intended to exclude bilateral trade agreements."<sup>43</sup> Indeed,

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<sup>42</sup>J.M. Keynes, "Proposals for an International Currency Union", 15 December 1941, para. 17, in Collected Writings, vol. 25.

<sup>43</sup>BCA, LR76-188-35, "Post War Economic Talks", Draft Minutes of Fourth Meeting, 28 October 1942.

in order to avoid the economic consequences, both international and domestic, which would result should Britain be forced to reduce her exports, the Union left the door open for Britain to pursue measures that would ultimately encourage British exports. Keynes realized that " . of the special measures which it is open to us to employ by far the most potent is to use the importance of the British market to producers of food and raw materials overseas as an inducement to them to make equivalent purchases of manufactured articles from us."<sup>44</sup> Because the Clearing Union did not preclude bilateral trade agreements and because of the provision for currency blocs, Keynes' proposal would aid the maintenance of an economic bloc with Britain at its centre. Britain's attempt to dominate in this economic bloc, however, was in conflict with American desire for trade and financial influence within a sphere which encompassed the sterling area.

As soon as the war broke out, American officials gave thought to the problems that could arise in the postwar period. The development of official postwar economic planning in the United States was divided between two departments - the Department of State and the Department of the Treasury. Each of these departments struggled to become the

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<sup>44</sup>J.M. Keynes, "Post-War Currency Policy", 8 September 1941, in Collected Writings, vol. 25, pp. 25-26.

leading voice in guiding official American policy in this area. Since international trade and international finance are not activities that can be distinctly divided, both the State Department and the Treasury were justified in claiming that postwar economic planning fell within their jurisdiction. However, matters pertaining to international trade, which was the predominant domain of the State Department, were given early attention. The State Department demonstrated its early leadership in mid-September 1939 when the Secretary of State, Cordell Hull, appointed Leo Pasvolsky as Special Assistant to the Secretary of State so that he could commence consideration of the economic problems that would likely arise after the war. It has been said of Pasvolsky, a Russian born economist, that ". . . probably more than any one other single person [he] was the brains behind the postwar planning of the United States government during these years."<sup>45</sup> Although Pasvolsky made the largest single contribution, the Council on Foreign Relations (CFR), a privately funded organization which included Pasvolsky as one of its members, had a tremendous impact in shaping American policy. As an organization, the CFR provided a counter-weight to the isolationist sentiments that predominated in American poli-

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<sup>45</sup>Laurence A. Shoup, "Shaping the National Interest: The Council on Foreign Relations, the Department of State, and the Origins of the Post War World 1939-1943," (Ph.D. dissertation, Northwestern University, 1974), p. 69.



cies after the Great War.<sup>46</sup> As the United States gradually showed signs of shedding its isolationism, the CFR became an important body both in framing policy and as a recruitment ground for the State Department and the Treasury Department. At President Roosevelt's request in late 1939, Hull formed the Advisory Committee on Postwar Foreign Policy.<sup>47</sup> The Assistant Secretary of State, Sumner Welles, presided as chairman of the Committee which was further divided into three sub-committees, each designed to study a particular area of postwar planning. The Economic Sub-Committee was chaired by Pasvolsky and included Adolf Berle and Herbert Feis. Both of these members, as well as Sumner Welles, were members of the CFR.

Apart from sharing membership with influential government committees, the CFR had embarked on its own deliberations under the heading, Studies of American Interests in the War and the Peace, which produced an impressive quantity and quality of detailed memoranda. The programme of study was broken into various sections with the

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<sup>46</sup>Laurence A. Shoup and William Minter, Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy, (New York: Monthly Review Press, 1977), p. 18.

<sup>47</sup>Ibid., p. 148; The formation of the Committee was publicly announced on 8 January 1940. See William L. Langer and S. Everett Gleason, Challenge to Isolationism: The World Crisis of 1937-1940 and American Foreign Policy, 2 vols., (New York: Harper Torchbooks, 1964), p. 352.

Financial Group and the Economic Group led respectively by Jacob Viner and Alvin H. Hansen. Significantly, in 1939 Viner became an adviser to the Treasury Department and Hansen was put in charge of postwar planning at the Federal Reserve Board in Washington.<sup>48</sup> Through numerous memoranda, the Financial and Economic Groups jointly developed an economic strategy to counter the threat posed to world peace by a German-dominated Europe. In the development of this strategy the "Grand Area" concept was established. This area comprised nations which, when bound together in an economic bloc, provided a measure of self-sufficiency greater than that achieved by the Germans in Europe. To achieve this degree of self-sufficiency, the Grand Area would have to include all of the non-German dominated world with the exception of Russia. Although the Grand Area was envisaged to satisfy American aims under diverse situations, perhaps the most significant was developed under the hypothesis of an Anglo-American victory over Germany. In this situation,

During an interim period of readjustment and reconstruction, the Grand Area might be an important stabilizing factor in the world's economy. Very likely the institutions developed for integration of the Grand Area would yield useful experience in meeting

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<sup>48</sup>Laurence A. Shoup, "Shaping the National Interest: The Council on Foreign Relations, the Department of State, and the Origins of the Post War World 1939-1943," (Ph.D. dissertation, Northwestern University, 1974), p. 66.

European problems, and perhaps it would be possible simply to interweave the economies of European countries into that of the Grand Area. Above all, if the United States and Britain wish to ensure a durable peace on lines they believe desirable, an economically integrated Grand Area will be important to them, as a basis of power, and a useful instrument for adjusting difficulties.<sup>49</sup>

Achieving the Grand Area concept was not an easy task. As stated in one CFR memorandum,

From our point of view, the inclusion of Britain within a preferential system of which the United States will be an important part is required, economically speaking, as it is the most important market for the agricultural surpluses of the temperate climate countries of the Western Hemisphere and the Far East. It would perhaps not be far wide of the mark to say that, if the British Isles were excluded from this area, Argentina-Uruguay and Australia-New Zealand would have to be excluded, were a like degree of complementarism to be obtained in any smaller area than the grand area. Or put the other way around, the tropical sections of the Western Hemisphere and Asia are highly complementary to the United States, whereas the temperate climate areas are highly complementary only with Britain.<sup>50</sup>

However, in an insightful comment, it was also recognized that,

. . . American and British interests are neither identical nor entirely parallel. Not only will there be disagreements as to what policy is best, but also real clashes of interest which can be resolved only to the hurt of certain groups within one or the other country. In war-time the tendency is for such clashes

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<sup>49</sup>The Library, Arthur Upgren and William Diebold, "Methods of Economic Collaboration: Introducing the Role of the Grand Area in American Economic Policy", 24 July 1941, Studies of American Interests in the War and Peace, Economic and Financial Series, No. E-B34, p. 4.

<sup>50</sup>The Library, Arthur Upgren, "Problems of Bloc Trading Areas for the United States: Intra-Bloc Preferential Tariff and Other Devices for Encouraging Economic Integration", Studies of American Interests in the War and Peace, Economic and Financial Series, No. E-B31, p. 3.

of interest to be submerged and subordinated to the single goal of winning the war.<sup>51</sup>

As early as July 1941 the War and Peace Studies committee stressed the necessity of international institutions that would have the purpose of " . . . stabilizing currencies and facilitating programs of capital investment for constructive undertakings in backward and underdeveloped regions."<sup>52</sup> By November 1941 this program had widened to encompass the more developed nations as well.<sup>53</sup> In February 1942, Viner suggested the establishment of two financial institutions. One would be concerned with the stabilization of exchanges and the other would act as an international bank for short-term transactions that were not immediately connected to stabilization.<sup>54</sup> This appears to have been the first written reference to two separate institutions to handle the postwar economic problems.

Owing perhaps to bickering within the Department of State<sup>55</sup>, the Department's leadership in postwar economic

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<sup>51</sup>Arthur Upgren and William Diebold, "Methods of Economic Collaboration, . . . ", p. 5.

<sup>52</sup>Shoup and Minter, p. 166.

<sup>53</sup>Ibid., p. 167.

<sup>54</sup>Ibid., p. 168.

<sup>55</sup>See Ferrell, (ed.), The American Secretaries of State and Their Diplomacy, vol. 12, and Alfred E. Eckes, Jr., A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971, (Austin: University of Texas Press, 1975), p. 41.

planning began to wane visibly by the end of 1941. The Treasury Department, however, was more than willing to assert its leadership in planning for the postwar period. Harry Dexter White was not as well known internationally as his illustrious British counterpart, Keynes, but he was nevertheless an adept economist. With Viner's assistance, White had received his first special assignment with the United States Treasury in September 1934. Although this was a temporary appointment, it began his long career in the civil service.<sup>56</sup> During his appointment to the Treasury in the 1930's, White demonstrated his appreciation for Keynesian concepts.<sup>57</sup> Even though the Secretary of the Treasury, Henry Morgenthau, was not one of the Keynesians in the Treasury, he was very impressed by White's organizational and technical skills. As a result, Morgenthau gave White responsibilities that exceeded his official position in the Treasury. In December 1941, White was given full responsibility for the Treasury's share in the conduct of foreign affairs and was also given the same authority as the Assistant Secretary of the Treasury.<sup>58</sup> White did not betray his superior's faith

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<sup>56</sup>Officially White was not classified as a civil servant until January 1942 but he was well established in the Treasury long before this. See David Rees, Harry Dexter White: A Study in Paradox, (New York: Coward, McCann and Geoghegan, 1973), pp. 43-44.

<sup>57</sup>David Rees, p. 64.

<sup>58</sup>Morgenthau was not entitled to assign the official title to White, only the responsibility. See Rees, p. 131.

in him. By the end of December 1941, White had produced a general statement entitled "A Suggested Program for Inter-Allied Monetary and Bank Action."<sup>59</sup> In April 1942 he completed a "Preliminary Draft Proposal for a United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations"<sup>60</sup> which was more detailed than his December draft. This version called for separate institutions, one to handle the stabilization program and one to act as a world bank. The President was given this latter document around the middle of May. Subsequently, Roosevelt suggested that the Secretary of the Treasury discuss future developments with the Secretary of State. The result was the formation of a Cabinet Committee which first met on 25 May and the consolidation of experts within the American Technical Committee. Dean Acheson, Adolf Berle, Herbert Feis, Leo Pasvolsky, and Alvin Hansen were all involved either on the Cabinet Committee or on the Technical Committee. White and his assistant, E.M. Bernstein, oversaw and led these committees in developing an American

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<sup>59</sup>J. Keith Horsefield, The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation, vol. 1, Chronicles, (Washington: International Monetary Fund, 1969), p. 12.

<sup>60</sup>J. Keith Horsefield, The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation, vol. 3, Documents, (Washington: International Monetary Fund, 1969), pp. 37-82.

postwar economic plan.<sup>61</sup>

During the winter of 1942 Keynes and other United Kingdom officials met with the American Ambassador, J.G. Winant, whose staff had been bolstered with economic advisers, to discuss economic plans. Although specific reference to the respective plans was avoided, both the Americans and the British likely knew the general tone of the others intentions. An actual exchange of plans took place during the summer of 1942 and Keynes and White met briefly in the fall of that year. By the end of November 1942, the American plan had become more detailed as to the composition of the Fund and its operation. This particular version of the White plan was redrafted three times in December and three times in January 1943.<sup>62</sup> A draft entitled "Preliminary Draft of Proposal for a United and Associated Nations Stabilization Fund", dated 24 December 1942, was almost identical to the one distributed to the United Nations in April 1943.

In a memorandum attached to the December 1942 version of the American plan, the author presented his objectives. The memorandum explicitly recognized three inseparable monetary problems which the Stabilization Fund was designed

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<sup>61</sup>Shoup, "Shaping the National Interest:", p. 230.

<sup>62</sup>J. Keith Horsefield, The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation, vol. 1, Chronicles, (Washington: International Monetary Fund, 1969), p. 31.

to meet; "to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade."<sup>63</sup> Although the Keynes and the White plans had this similar purpose of promoting the expansion of trade, the two plans differed on how best to attain this. Unlike Keynes, who saw liquidity as the major obstacle to trade growth and thus proposed a new international currency, White saw no such need for a new currency. White reasoned that

the value of any currency in terms of any other currency was a consequence of a complex of monetary and economic forces, [and] changes in these forces influenced the value of one currency in terms of others. The adoption of a new international currency would not modify these forces one whit.<sup>64</sup>

White identified the monetary problems of the interwar period with the flight of capital, the high rate of inflation, and the consequent disruption of foreign trade which resulted from unstable currencies.<sup>65</sup> Consequently, the American technical experts stated that:

By providing stable currency and removing the fear of sudden changes in exchange rates, the Fund will contribute to the revival of international trade and the resumption

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<sup>63</sup>PAC, RG19, vol. 3981, file M-1-7-2, "A Stabilization Fund of the United and Associated Nations", 16 December 1942.

<sup>64</sup>Horsefield, vol. 3, p. 78.

<sup>65</sup>Ibid., p. 46.



of international investment. With international cooperation on exchange policy it will be possible to avoid the 'beggar my neighbour' tactics of the 1930's which contributed to the spread of depression from country to country.<sup>66</sup>

The December 1942 version of the White plan thus stated that the value of the currency of each member country could not be altered without the permission of the Fund.<sup>67</sup>

An interesting aspect of the December memorandum was that the statement of objectives largely paralleled the economic war aims stated earlier by the CFR. This memorandum stated that the Stabilization Fund plan was presented as an important factor in winning the war. The Stabilization Fund could achieve this desired objective since

. . . the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war.<sup>68</sup>

Indeed, the White plan could facilitate the development of

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<sup>66</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Replies to Questions on the International Stabilization Fund Which Have Been Submitted by the Experts of Various Governments Participating in the Technical Discussions in Washington", May 1943, p. 32.

<sup>67</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Preliminary Draft Proposal for a United and Associated Nations Stabilization Fund", 16 December 1942, Section III(2).

<sup>68</sup>PAC, RG19, vol. 3981, file M-1-7-2, "A Stabilization Fund of the United and Associated Nations", 16 December 1942.

the Grand Area concept. Even within the title of the plan the term 'United and Associated Nations' suggested this. 'United' referred to the belligerents in the war against the Axis powers and 'associated nations' referred to "nations which have broken diplomatic relations with the Axis . . . [in which] eventually neutrals [also] may be taken in, and, with the passage of time, possibly even enemy countries."<sup>69</sup> That is to say, the plan encompassed the entire world. There were no provisions for currency or trade blocs like those contained in the Clearing Union. In fact, the White plan was directly linked to the multilateral trade objectives stated in the Lease-Lend Agreement.<sup>70</sup> Article VII of the Lease-Lend Agreement of 1942 stated that the primary objective would be;

. . . directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers . . .<sup>71</sup>

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<sup>69</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Fund Proposals", 22 April 1943, p. 2.

<sup>70</sup>See "Replies to Questions . . .", Question 7.

<sup>71</sup>Master Lend-Lease Agreement: Preliminary Agreement Between the United States and the United Kingdom, February 23, 1942, in A Decade of American Foreign Policy: Basic Documents, 1941-49, pp. 3-5.

While the British and Americans were negotiating the terms of Lease-Lend during the summer of 1941, Keynes had, as reported by a later observer,

. . . frightened top officials of the State Department by hinting that the postwar era might compel Britain to resort to far more stringent and discriminatory trade control to save its depleted financial resources. As a result, Welles, Hull and other American officials determined to obtain British endorsement of their sharpened economic peace aims as the price of American support during the war, thus compelling the Americans to define these aims more explicitly.<sup>72</sup>

Consequently the White plan committed member countries "to abandon . . . all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) . . ."<sup>73</sup>; "to maintain by appropriate action exchange rates established by the fund on the currencies of other countries . . ."<sup>74</sup>; and "not to enter upon any new bilateral foreign exchange clearing arrangements except with the approval of the Fund."<sup>75</sup>

Unlike the Clearing Union, the White plan was founded on a subscribed capital basis. Most projections of the postwar economic situation assumed that the United States would be the only major creditor country. To safeguard the

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<sup>72</sup>Gabriel Kolko, The Politics of War: The World and United States Foreign Policy, 1943-1945, (New York: Random House, 1968), p. 248.

<sup>73</sup>"Preliminary Draft Proposal for a United and Associated Nations Stabilization Fund", 16 December 1942, Section V(2).

<sup>74</sup>Ibid., Section V(1).

<sup>75</sup>Ibid., Section V(4).

United States against enormous liability as a creditor nation, the subscribed capital was to total approximately \$5 billion and the American share of this total fund would be approximately \$2 billion. The determination of the \$5 billion total was revealed in a report by American technical experts:

. . . based on the view that resources of this magnitude would be adequate for the needs of member countries for foreign requirements recognized as legitimate. The resources of the Fund are to be used by member countries primarily to meet adverse balances of payments on current account . . . It should be recalled that the Fund is not designed to provide the resources needed for relief and rehabilitation, or for reconstruction and development. While resources will be needed for these purposes, they should be provided from sources other than the International Stabilization Fund.<sup>76</sup>

Apart from the desire to limit the function of the Stabilization Fund, the subscribed capital principle also placed limits on the extent to which debtor countries could draw on the Fund. Although these two aspects of the subscription principle were related, they differed in one major respect. When a country's balance of payments was persistently in disequilibrium, certain monetary and/or trade adjustments must be instituted to restore equilibrium. White feared that " a fund with larger resources may result in the excessive postponement of necessary adjustments, [and] neither

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<sup>76</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Replies to Questions on the International Stabilization Fund which have been submitted by the experts of various governments participating in the technical discussions in Washington", May 1943, pp. 75-76.

this fund or any fund can meet the unlimited demands of all countries without the application of restraints demanded by underlying circumstances."<sup>77</sup>

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<sup>77</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Fund Proposals", 22 April 1943, p. 2

## CHAPTER IV

### AN OPPORTUNITY FOR CANADA

Before the United States declared war on Japan and Germany, Canada played an instrumental role as the 'linchpin' between the United States and the United Kingdom. However, once the United States entered the war in December 1941 as a belligerent, this role was lost since the United States and Britain no longer felt it necessary to operate through a third party. In the realm of economic policy, the resulting tendency to negotiate bilaterally between the United States and the United Kingdom had unique repercussions to Canada. As the United States became increasingly involved in international affairs, American officials continually pressed for the " . . . abolition of import discriminations as an essential objective for workable post-war economic

arrangements."<sup>1</sup> These principles were embodied in Article VII of the Lease-Lend Act which was signed by the United States and United Kingdom on 23 February 1942. On the other side of Canada's economic triangle, the United Kingdom was reluctant to accept the American proposal to abolish import discriminations because " it implie[d] the ultimate abandonment of the right of Empire countries to grant each other exclusive trade preferences."<sup>2</sup> Although Canada had a vested interest in maintaining and perpetuating trade preferences, the Under-Secretary of State for External Affairs, Norman Robertson, maintained that Canada had " a greater interest in supporting the main objectives of the American international economic policy."<sup>3</sup> American officials affirmed their recognition of " . . . the primary importance of increased economic activity, both national and international, in employment, production, consumption and exchange of goods."<sup>4</sup> Canadian officials favoured these objectives not only on their own merits but also because Britain was favouring a trade policy which would restrict Canadian exports.

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<sup>1</sup>Norman Robertson, "Memorandum from the Under-Secretary of State for External Affairs to Prime Minister", 30 December 1941, in John F. Hilliker (ed.), Documents on Canadian External Relations, vol. 9, 1942-1943, (Hull: Minister of Supply and Services, 1980), (Hereafter Documents, vol. 9), Doc. 559, p. 604.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid., p. 606.

Even though the Canadian Department of External Affairs had been " . . . worried about the disposition on the part of the United States to determine, by bilateral negotiations with the United Kingdom, questions of policy intimately affecting us"<sup>5</sup>, the Under-Secretary of State cautioned against raising objections to either the British or the Americans. Robertson believed that there existed " a considerable block of opinion in the United Kingdom ready to see these negotiations fail, and to ascribe the United Kingdom's inability to reach agreement with the United States to the paramount necessity of preserving preferential trade relations with the Dominions."<sup>6</sup> Although Canadian officials did not relish bilateral settlement of trade policy between the United States and the United Kingdom, the prospect that Britain would diverge from the American objective of freer trade was even more abominable. Canadian officials were convinced that only small gains would accrue to Canada under a preferential trade system. These officials were also aware of the importance to Canada of attracting Britain into a multilateral system.

The problems that arose from the bilateral negotiations between the United States and the United Kingdom were almost immediately perceived by Canadian officials. In

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<sup>5</sup>Ibid.

<sup>6</sup>Ibid.



January 1942 Rasminsky observed that:

. . . it was necessary on several occasions to put in a word for Canada and other small countries. When the word was put in, it was generally assumed that at least Canada, and probably other Dominions as well, should be made a party to any discussions which took place now or later, but it seems to me that it will be necessary for us to put forward our claims to be represented so that our views receive adequate consideration.<sup>7</sup>

The fact that the United States and Britain had a tendency to discuss postwar economic problems while excluding other nations had a particularly unsettling effect on Canada whose interests were so inextricably interwoven with these two great Anglo-Saxon nations. However, only a few months after Rasminsky observed with some irritation that the British and the Americans tended to decide policy matters between themselves, Canadian officials began to fear that Britain and the United States were drifting away from one another, particularly on economic issues. A telegram sent from Lord Cranborne, the Secretary of State for Dominion Affairs, dated 23 May 1942, gave a brief outline of American economic planning to the Secretary of State for External Affairs,

W.L. Mackenzie King:

We think it probable that the United States experts will wish to discuss the use of particular devices such as protective tariffs, preferences, import quotas, anti-dumping duties, export subsidies, centralized purchase of staple commodities and bilateral payments agreements.

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<sup>7</sup>PAC, Deputy Minister's Office, Department of Finance, RG19, vol. 3977, file E-3-1(3), Louis Rasminsky, "Meeting of Council on Foreign Relations, New York, January 24, 1942."

Whether the ambitious schemes mentioned above are adopted or not we think it doubtful whether we or many other countries could afford entirely to forego all such forms of trade without grave risk of economic and financial collapse and without reversing the probable trend of our domestic social policy.<sup>8</sup>

This telegram to the Canadian authorities demonstrated two aspects of British policy-making. First, and more obviously, the British did not agree with the United States experts on the issues closely associated with multilateral free trade practices. The second aspect was merely implied in the telegram. The implication was that British officials assumed Canada's compliance with their objection to the abolition of trade devices proposed by the United States. Although this lack of appreciation of Canadian interests by the British should not have surprised Canadian officials, it nevertheless complicated an already difficult task of bringing about a resolution between the United States and the United Kingdom that was satisfactory to Canada. It was with this telegram in mind that Robertson wrote to Clark on 24 May stating, "I have been wondering whether, in light of this new development, we should review again the Joint Economic Committees' abortive recommendation of last winter about Canada-United Kingdom-United States economic collaboration."<sup>9</sup> As previously stated,

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<sup>8</sup>PAC, RG19, vol. 3989, file T-2-9-2, Secretary of State for Dominion Affairs to Secretary of State for External Affairs, 23 May 1942.

<sup>9</sup>Ibid., Norman Robertson to William Clifford Clark, 24 May 1942.

Canadian officials were reluctant to press for Canada's involvement in the negotiations between the United States and the United Kingdom as long as they developed satisfactorily. However, the prospect of an outcome satisfactory to Canada emerging from these bilateral negotiations was dim. Consequently, Canadian officials reconsidered becoming involved in a trilateral cooperative effort in which Canada would not simply mediate the differences between the United States and the United Kingdom but give voice to Canadian interests.

Providing a forum in which Canadian interests would be given due consideration by the United States and the United Kingdom proved to be a formidable task for Canadian policymakers. Many countries had come under the Lease-Lend umbrella and the United States used this agreement as a means of establishing postwar economic collaboration. Article VII of the Lease-Lend Agreement, which committed the signatory governments to the principles of free trade, was seen as a quid pro quo for Lease-Lend supplies.<sup>10</sup> Canada was reluctant to join the ranks of Lease-Lend countries because the advantages of doing so did not outweigh the disadvantages. Since Canada did not receive any benefits from Lease-Lend, Canadian

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<sup>10</sup>Jay Pierrepont Moffat to Norman Robertson, "Memorandum of Conversation with Mr. Norman Robertson, Under-Secretary of State for External Affairs", 2 October 1942, in Documents, vol. 9, Doc. 568, pp. 618-19.

officials hesitated to sign an agreement which in principle was equivalent to Article VII. Among those countries subscribing to Article VII, Canada alone would concede abandoning preferential trade practices while receiving none of the Lease-Lend benefits in return. However when the United States increased its pressure on Canada to sign Article VII of the Agreement in the fall of 1942, Canadian officials tended to interpret this overture as an attempt to give Canada an entry into postwar economic collaboration. This was certainly the meaning which Mackintosh attached to it when he wrote " . . . we can think of this exchange of notes as a means by which a country not a Lease-Lend recipient may be brought into discussions which, technically, will occur out of Lease-Lend agreements. It seems to me highly probable that this is actually in the mind of the State Department."<sup>11</sup>

Canadian officials decided that Canada should sign if for no other reason than to avoid being excluded from further postwar talks. However, they felt that Canada should press for more concrete proposals than a simple statement of principles offered by the United States. In early October Robertson sought the opinion of influential Canadian officials on how to achieve the most appropriate response to this American overture. Rasminsky responded by claiming

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<sup>11</sup>PAC, RG19, vol. 3977, file E-3-1, W.A. Mackintosh to Norman Robertson, 6 October 1942.

that Canada should " propose immediate agreement on a long range programme of action designed to give practical effect to the general principles incorporated in Article VII and the draft American note."<sup>12</sup> The long range program Rasminsky had in mind involved the progressive reduction of tariffs over a ten year period. While this arrangement would be worked out by Canada and the United States, Rasminsky thought that

. . . it would be better to work towards an arrangement under which the proposed Canadian-American treaty would be a keystone in a series of similar arrangements between Canada and the United States on the one hand and other "like-minded" countries on the other hand. To accomplish this we might propose that this treaty be negotiated now but that it enter into force when Canada and the United States have concluded similar treaties with the other countries which have signed Mutual Aid Agreements with the United States.<sup>13</sup>

Rasminsky was firmly committed to lower tariffs and freer trade. His great fear was that postwar unemployment would influence countries to pursue policies of high tariffs which " . . . we will spend the decade after the war regretting and trying unsuccessfully to lower."<sup>14</sup> But there was no guarantee that the Canadian Government would agree to this long range programme, let alone achieve agreement with the United States Government. This explained Rasminsky's conviction that the

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<sup>12</sup>Ibid., Rasminsky to Norman Robertson, 6 October 1942.

<sup>13</sup>Ibid.

<sup>14</sup>Ibid.

time to act was while the war raged. Without the pressing problems of unemployment and while the spirit of international cooperation resulting from the exigencies of war continued, governments were more likely to commit themselves to this type of action. Nevertheless, Rasminsky noted that, " if in fact it is going to be impossible for the United States to have a liberal commercial policy when the war is over, then the sooner that fact is made clear the better for all concerned."<sup>15</sup> This sense of urgency in binding the United States to a firm commitment to liberal trade practices dominated Rasminsky's decision-making.

But the Canadian officials had apparently misread the signals emanating from the United States State Department. Following talks with Jay Pierrepont Moffat, Minister of the United States, Robertson wrote that the United States government

. . . was most anxious to keep the general language of the proposed agreement with Canada in exact conformity with the language used in the comparable agreements with others of the United Nations. They thought of the present agreement with Canada as completing a series and not an instrument in which they could break new ground.<sup>16</sup>

The United States obviously had its own ideas on pursuing postwar economic planning. Whether the United States had considered collaborating with both the United Kingdom and

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<sup>15</sup>Ibid.

<sup>16</sup>Ibid., Norman Robertson to Towers, 21 November 1942.

Canada was unknown to Canadian officials. In any event, as far as Canada was concerned, this collaboration was desirable and not something Canada was willing to forego. Although Canada had close contacts with officials in the United States and the United Kingdom, there remained a growing need to have a trilateral agreement rather than separate bilateral agreements. Canada agreed to sign the American proposal because, as Clark stated, " further delay would probably hinder us in endeavouring to discuss these matters jointly with the United Kingdom and the United States rather than independently."<sup>17</sup>

Britain had arranged for representatives of Commonwealth countries to meet in London in late October 1942 in order to discuss postwar financial planning. Canada welcomed the invitation to discuss these issues but was reluctant to participate since these talks could be interpreted as an " . . . attempt to confront United States representatives in later talks with a common Commonwealth front."<sup>18</sup> Throughout these discussions, the Canadian representatives repeatedly stated that any document should remain solely a United

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<sup>17</sup>Ibid., William Clifford Clark to Norman Robertson (no date).

<sup>18</sup>PAC, RG19, vol. 3989, file T-2-9-2, Secretary of State for External Affairs to Secretary of State for Dominion Affairs, 3 October 1942.

Kingdom document and not carry any implication that it had the approval of the Canadian Government. Canadian officials not only wanted to maintain a free hand in subsequent discussions but also wanted the United States to know that Canada did not automatically act in accord with Britain. This was important to Canada because she found herself in closer agreement with the United States on economic matters than she did with Britain. As early as 23 May 1942, the Secretary of State for Dominion Affairs wrote to his Canadian counterpart that " the Clearing Union would be a centre round which other international agencies would gather. It would provide convenient means for financing post-war relief, international development schemes and commodity control schemes."<sup>19</sup> The Canadian representatives at the October Commonwealth discussions voiced their disagreement with attaching these schemes to the Clearing Union. The reason given for the disagreement was that these schemes were not necessary and their close association with the Clearing Union might imperil the much needed financial organization.

The Commonwealth meetings began on Friday, 23 October, but, owing to wartime transportation difficulties, the arrival of Canadian representatives was delayed. Although a brief discussion was held on the Friday, the substantive

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<sup>19</sup>Ibid., Secretary of State for Dominion Affairs to Secretary of State for External Affairs, 23 May 1942, para. 4.



talks were postponed until Monday when the Canadians would be able to participate. Throughout these discussions, indirect references occurred to American postwar economic planning. It is uncertain whether the other Dominion representatives knew of the American plan but the Canadian representatives definitely had prior knowledge of it. Sir Frederick Phillips of the United Kingdom Treasury stated that, although " . . . it had been hoped that the United States would send senior officials to London for a preliminary examination of these problems, nothing had come of these aspirations."<sup>20</sup> Phillips' definition of the term 'senior officials' is enigmatic. Phillips and Keynes had met in London earlier in the month to discuss the currency plans with the American Secretary of the Treasury, Henry Morgenthau, and his assistant, Harry Dexter White. Perhaps instead of 'senior officials' he had in mind plenipotentiaries. Nevertheless, the British were vague whenever the subject of American attitudes towards postwar economic planning was raised.

Throughout the latter part of 1942 and the early part of 1943, Canadian officials were extremely sensitive to the direction that discussions on postwar economic policy should take. While in London during October 1942, Hume Wrong,

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<sup>20</sup>BCA, LR76-188-33, "Post War Economic Talks: Draft Minutes of Second Meeting 26 October 1942".

now Assistant Under-Secretary of State for External Affairs, and Rasminsky called on the American Ambassador, J.G. Winant, in an attempt to ascertain what path the Americans were likely to follow. In the course of this meeting Winant indicated that there was a considerable difference of opinion within Washington as to how the United States should proceed. Winant probably had in mind differences of opinion between State Department officials and Treasury Department officials. On 10 July 1942, some Treasury officials, notably White, had recommended the scheduling of a conference of thirty-six countries of the United Nations to discuss post-war economic plans but had been blocked by the State Department.<sup>21</sup> White's desire for such a conference was revealed when he reportedly remarked that " . . . all the brains were not concentrated in two great powers and . . . many of the smaller countries might have an important contribution to a discussion of this type."<sup>22</sup> As a result of the impasse on how to proceed with the discussions, a scheduled meeting of British and American representatives was postponed. With the American elections so close at hand, it was felt best

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<sup>21</sup>See Alfred E. Eckes, Jr., A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971, (Austin: University of Texas Press, 1975), pp. 61-62.

<sup>22</sup>PAC, RG19, vol. 3981, file M-1-7-2, W.C. Clark, "Stabilization Fund Plan", 9 April 1943.

to hold a meeting sometime after November to avoid any undue controversy or publicity. When asked by the Canadian representatives what course he thought these proposed discussions should follow, Winant suggested that it was necessary that the United Kingdom and the United States reach an initial agreement. Winant did not disclose whether he had in mind agreement of a general statement of principles or agreement on a specific plan. Once this agreement was attained, the next step would be discussions with the other allied countries. Although Winant sympathized with Wrong's remark " . that it was very important to avoid any impression of an Anglo-American diktat,"<sup>23</sup> the American Ambassador did not seem to think that an Anglo-American agreement presented to the allied countries would appear as a diktat.

Wrong and Rasminsky were more concerned about an Anglo-American agreement, not because of the impression it would leave but rather because they were all too familiar with lack of consideration for third party interests, particularly Canada's, when an economic agreement was reached between these two countries. The Canadian delegation were optimistic that the United States would be sensitive to the repercussions of an Anglo-American agreement. A memorandum

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<sup>23</sup>BCA, LR76-188, Rasminsky's notes on talks with American Ambassador.

in Rasminsky's possession, entitled "Progress in the War of Ideas", and clearly of American origin suggested that

Our intentions should be put forward not as American ideas and not even as Anglo-American proposals but rather as the joint intentions of the United Nations. This is necessary if the danger of suggestions about American imperialism or if an Anglo-American hegemony are to be avoided.<sup>24</sup>

Canadian officials did not want to be party to any American ploy. The involvement of the United Nations, however, suited Canadian aspirations about the discussions of postwar economic solutions.

While in London the Canadian representatives also discussed with Sir Frederick Phillips and Sir Wilfred Eady, Second Secretary of the United Kingdom Treasury, the direction the British were likely to take. In his report on this meeting, Rasminsky noted that the British considered the Americans to have erected a major obstacle to the successful resolution of future Anglo-American discussions. This obstacle was identified as being the American insistence on placing commercial policy at the forefront of postwar economic discussions. The British not only did not want to give priority to commercial matters but they also disapproved of American commercial policy which demanded substantial reductions in preferential trade practices. The British maintained that commercial policy could only be discussed

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<sup>24</sup>BCA, LR76-188, "Progress in the War of Ideas", n.d.

after international financial arrangements had been resolved. The United Kingdom wanted to be assured that " . . . there would be an expansionist international system"<sup>25</sup> before signing any specific trade agreements. As a result, the United Kingdom Treasury intended to forge ahead with the Clearing Union plan: " . . . they felt that this was the central part of the post-war picture and other matters could only be dealt with intelligently in relation to it."<sup>26</sup>

There was merit both in the American insistence on placing commercial policy ahead of financial arrangements and in the British refusal to do so. The Americans were not willing to provide credit for foreign reconstruction efforts only to find that American producers were being denied international markets. On the other hand, Britain was unwilling to foreswear restrictive trade measures if the international financial arrangements adopted were not going to be conducive to expanding international trade. With this impasse in the development of the discussions, Rasminsky suggested that W.C. Clark, the Deputy Minister of Finance, and Graham F. Towers, the Governor of the Bank of Canada, might be useful in "bringing about a meeting of minds",<sup>27</sup>

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<sup>25</sup>BCA, LR76-188, Rasminsky, "Report on London Trip", 10 November 1942. This report was based on a meeting on 9 November 1942 with Sir Frederick Phillips and Sir Wilfred Eady.

<sup>26</sup>Ibid.

<sup>27</sup>Ibid.

since both Clark and Towers had cultivated good relations with officials in the American Treasury. Clark particularly had achieved a close relationship with Morgenthau and White. It appeared to Rasminsky that Phillips heartily agreed with his suggestion.

Keynes had also become concerned about development of the discussions. After receiving Phillips' observations on the American attitude towards the discussions to this point, Keynes noted that " the meeting at the State Department on 26th November to consider our replies suggests a very harmless, indeed, almost too harmless an atmosphere."<sup>28</sup> After considering the problem, Keynes suggested that the best method by which to proceed had appeared earlier in a report by the British Ambassador in Washington, Lord Halifax, following his conversations with the American President on 21 April 1941. According to Halifax, Roosevelt had argued that the " . . . best way of preparing for post-war economic matters on the economic side would be to appoint a joint Anglo-American Commission of small numbers to prepare some ideas for the consideration of the two Governments."<sup>29</sup> Keynes believed that "this procedure would perhaps lift the whole matter out of the rut, prevent it from getting bogged down

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<sup>28</sup> Keynes to Phillips, 16 December 1942, in Collected Writings, vol. 25, p. 197.

<sup>29</sup> Ibid., p. 202.

and give it a more authoritative position."<sup>30</sup> Keynes believed that the Foreign Office would welcome the suggestion and would likely advise the Foreign Secretary to approach the Prime Minister with it. Usually well informed on American policy Keynes was, nevertheless, unaware that a change had occurred in official circles in Washington with respect to postwar economic planning. Phillips was stationed in Washington, however, and was more sensitive to the changing directions of United States foreign policy. Phillips noted that Keynes' suggestion " . . . may have had good points in 1941 but we are not in 1941."<sup>31</sup> In 1941 the United States was not yet leading in the war effort and in postwar planning, therefore the Americans might have agreed to a joint Anglo-American Commission. By the end of 1942, however, the American government had assumed a leading role in the war effort and strove for the same in postwar planning.

The American elections brought renewed tensions in the already strained Anglo-American relationship. The November elections saw the isolationist Republicans swell the ranks of Congress at the expense of their internationalist Democratic colleagues. Although these isolationists differed from their interwar counterparts, they nevertheless remained suspicious of entangling the United States in the web of

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<sup>30</sup>Ibid., p. 203.

<sup>31</sup>Phillips to Keynes, 8 January 1943, in Collected Writings, vol. 25, p. 205.

the British Empire.<sup>32</sup> One of the first indications of this renewed tension was recognized at an Institute of Pacific Relations Conference held in Ottawa in December 1942. Rasminsky, who attended it, wrote his superior, Graham Towers: "as you know I returned in a pretty gloomy frame of mind. This was largely due to the obvious lack of understanding between the British and the Americans."<sup>33</sup> Rasminsky blamed this lack of understanding on the poor prospect for future American participation in international schemes: " in one or two cases this was no doubt a reflection of the isolation of the participants but in other cases it appeared to be an appraisal of trends in American public opinion and was no doubt largely influenced by the November election."<sup>34</sup> Rasminsky also noted that the British did little to allay American suspicions of British colonial policy.<sup>35</sup> This resistance to cooperation with the British, exacerbated by the American elections, made the possibility of an Anglo-American diktat very unlikely.

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<sup>32</sup>Viscount Halifax to Mr. Eden, "Political review of the United States for the Year 1942", 26 June 1943, in Thomas E. Hachey, Confidential Dispatches: Analysis of America by the British Ambassador, 1939-1945, (Evanston, Ill.: New University Press, 1974).

<sup>33</sup>BCA, LR76-189, Rasminsky, "Mont Tremblant Conference; Memorandum to the Governor [of The Bank of Canada]", n.d.

<sup>34</sup>Ibid.

<sup>35</sup>Rasminsky to Hume Wrong, 16 December 1942, in Documents, vol. 9, Doc. 839, pp. 1004-05.



In preparation for discussions with the United Nations, White had drafted a new version of the Stabilization Fund plan which contained more detail on the operations and management of the Fund than his earlier drafts. This version of the White plan met with sharp criticism in both Canada and the United Kingdom. British officials were taken aback by it because they were expecting further American comments on the Clearing Union plan. However, this criticism was, for the most part, not aimed at the Stabilization Fund plan per se but at the finality which this version suggested. The American and British proposals, while differing somewhat in form, had been similar in general principle. As a result, it appeared that agreement could be reached on these shared principles. Owing to the depth of detail of this version of the White plan, it now appeared that the Americans were less inclined to negotiate the format of their plan with the British on a strictly bilateral basis. This suspicion was confirmed when Assistant Secretary of State Berle informed Phillips that the United States was planning to send the White plan:

. . . to the United and Associated Nations a little later with the suggestion that they, in the not too distant future, send one or more of their technical experts to Washington to give us their preliminary reaction as to the draft proposal, and discuss with our technical experts the feasibility of international monetary co-operation along the lines suggested in those

documents or along any other they may wish to suggest.<sup>36</sup> British officials were reluctant to agree to this procedure as they still felt an Anglo-American agreement should be reached before other nations were brought directly into the discussions. Phillips offered his view of the problems that were likely to arise in a hypothetical description of discussions involving several parties:

there would be an official or unofficial or semi-official Russian wise man, ditto Chinese wiseman [sic], with Canada squawking across the Border, and London insisting that Van Zeeland shall be on to represent Europe and why should the I.L.O. and the League be ignored? . . . The dilemma is that you must have a team from each country for no one man can cover the ground. But it is hardly a workable idea to have a team from each of several countries to draft plans.<sup>37</sup>

The British authorities raised objections to the American suggestion of involving other nations ostensibly because there was not enough time to review the American document. Out of deference to the British objections, the United States agreed to delay their schedule and even agreed to meet with British officials first.<sup>38</sup>

Curiously, by 24 February 1943, the British had reversed their criticisms of the United States proposal to

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<sup>36</sup>PAC, RG19, vol. 3981, file M-1-7-2, Adolf A. Berle to Sir Frederick Phillips, 1 February 1943.

<sup>37</sup>Phillips to Keynes, 8 January 1943, in Collected Writings, vol. 25, p. 205.

<sup>38</sup>PAC, RG19, vol. 3981, file M-1-7-2, Phillips to R. Gordon Munro, n.d. A copy of this telegram was sent to W.C. Clark by Munro on 19 February 1943.

present their plan to the United and Associated Nations. In fact, a telegram from the British Secretary of State for Dominion Affairs to the Canadian Secretary of State for External Affairs claimed that the

. . . best course would be for experts from United Nations concerned to be invited to Washington as soon as possible to discuss main points of difference between the two drafts. We have asked Phillips to put the suggestion to the United States authorities in discussing with them their ideas as to future procedure and will telegraph further as soon as their reactions are known.<sup>39</sup>

Perhaps this change of heart was related to Britain's desire that, as Keynes mentioned in a later letter, the United States " . . . should become aware of the world-wide preference for C.U. [Clearing Union] ."<sup>40</sup> A world-wide preference for the British plan would compel the Americans to make drastic revisions to their plan.

Canadian officials had a natural predilection for any proposal which would bring the United Nations into the discussions. A memorandum entitled "Current Anglo-American Relations", which was drafted on the basis of discussions held in Ottawa on 6 and 7 February 1943, reported that Canadian participants suggested that " the United Kingdom and the United States should discuss large issues of public policy with other members of the United Nations

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<sup>39</sup>Ibid., Secretary of State for Dominion Affairs to Secretary of State for External Affairs, 24 February 1943.

<sup>40</sup>Keynes to Phillips, 27 May 1943, in Collected Writings, vol. 25, p. 282.

most concerned present, rather than in formal conversations from which all other countries were excluded."<sup>41</sup> The rationale behind this approach was that it provided Canada with an opportunity to influence British and American decisions so that Canadian interests could be better served. The Canadians were pleased to see the American suggestion of 1 February as it suited their preference for further discussions. However, the British insisted on presenting their Clearing Union plan to the United Nations, which complicated the course Canada would like the discussions to take. Clark in particular did not like to have the United States and the United Kingdom each submitting its own plan for discussion as

. . . this put the two drafts into competition with each other and would embarrass a good many Governments which might prefer the British draft but would be very reluctant to state their views frankly lest they offend the United States Government whose cooperation was essential if we are going to have any kind of international monetary cooperation.<sup>42</sup>

Clark argued that " . . . the best approach would be not to have the experts debate the differences between the two plans, but rather to have them use the United States draft as the basis of discussion which should afford opportunity for debate on any amendment which any nation may wish to propose."<sup>43</sup> A debate on the two plans would drive the

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<sup>41</sup>BCA, LR76-189-67, "Current Anglo-American Relations; Discussions in Ottawa, February 6 and 7, 1943", n.d.

<sup>42</sup>PAC, RG19, vol. 3981, file M-1-7-2, W.C. Clark to Norman Robertson, 6 March 1943.

<sup>43</sup>Ibid.

British and the Americans further away from a negotiated settlement. However, Clark knew full well the implications behind accepting the American draft as the basis for discussion. The subscribed capital principle, the heart of the American plan, would be accepted while the essential banking principle of the British plan would be disregarded. Clark had a formidable reputation in Ottawa both as a civil servant and as an economist. Clark's rejection of the Clearing Union principle, therefore, suggested that he preferred the American plan because of its economic advantage for Canada.

A telegram to the British Government from the Secretary of State for External Affairs tactfully communicated Canada's desire that a conference of experts of the United Nations should consider both plans with the objective of settling on one plan. Similar to Clark's earlier suggestion of avoiding a direct confrontation of the two plans, this telegram argued that

. . . in order to avoid the appearance of competition and of differences of principle we feel that the best method of approach would be not to debate the differences between the two plans but to take the United States plan as the basis for discussion. The United Kingdom would naturally reserve the right to suggest changes in the United States draft which would bring it closer to the Clearing Union plan.<sup>44</sup>

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<sup>44</sup>Ibid., Secretary of State for External Affairs to Secretary of State for Dominion Affairs, 9 March 1943.

In response to this suggestion by the Canadian Secretary of State for External Affairs about taking the American plan as the basis for discussion, the British indicated that they still hoped to have further discussions between Phillips and the American experts to clarify some "obscure" points in the Stabilization Fund plan. Furthermore, the United Kingdom officials regarded it as premature to decide that the American plan should be the only basis of discussion before such clarification took place.<sup>45</sup> The British were not anxious to relinquish the essential banking principle while the Americans were equally adamant that an Anglo-American diktat not be presented to the nations of the world.

As compromise between the United States and the United Kingdom became increasingly doubtful, the hope of an international order satisfactory to Canada also became increasingly dim. The prospects of a satisfactory settlement took a turn for the worse in the last half of March. On 15 March the Secretary of State for Dominion Affairs informed his Canadian counterpart that sections of the Clearing Union document had been leaked to the British press and, as a result, United Kingdom officials felt constrained to publish their plan. Until this juncture, the proposals for postwar economic solutions had for various reasons been kept out of the public eye. Technical experts, civil servants, and poli-

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<sup>45</sup>Ibid., Secretary of State for Dominion Affairs to Secretary of State for External Affairs, 15 March 1943.

ticians alike tended to consider that the general public had neither the prerequisite knowledge nor the desire to give fruitful thought to certain complex fields of endeavour such as international economics. Clark demonstrated that he concurred with this consideration when he once claimed that "foreign exchange seems to me to be accepted by the public as sufficiently esoteric to concern them only slightly. ."<sup>46</sup> To his credit, Keynes had persistently maintained that, before enlightened international schemes could be accepted, the public mind would have to be educated. Although the Keynes and White plans had many differences in form, they had similar objectives which had not yet been presented by the public. Publication of the plans would help in the educating process but the danger of the British and American plans being in competition with one another was increased. Once they were in the public domain, the plans would inevitably be affected by political considerations. However, when the press procured the Clearing Union document, the decision to publicize the proposals became a moot point for the United Kingdom. The British officials gave notice to the United States that they were compelled to publish their plan. Under these circumstances, the most Britain could hope for was an agreement by the United States to publish their plan also. If the British plan alone were known,

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<sup>46</sup>Ibid., W.C. Clark to J.H. Williams, 21 August 1943.

it alone would come under severe criticism as there would be no indication that such principles had become internationally accepted by many experts. The Americans, on the other hand, could defer publication, discern the form of the public criticism, and then tailor their plan to meet these criticisms. The result would be that their plan would be the more palatable of the two. Strategically, delaying publication was an adroit decision. The United States government in fact served notice on Britain that it was not yet ready to publish its plan and asked that any reference to it be avoided.

Curiously, in spite of this pronouncement by the Americans, the British Secretary of State for Dominion Affairs wrote that "simultaneous publication of both plans may however be possible."<sup>47</sup> The Canadian officials regretted that the Clearing Union plan had to be published but hoped "that it will be found possible to arrange for simultaneous publication of the United States Stabilization Fund Plan."<sup>48</sup> They were well aware of the barriers that could arise to a settlement satisfactory for Canada when the British and the Americans felt compelled to assume antipodal attitudes toward economic issues. If public scrutiny of the proposed plans

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<sup>47</sup>Ibid., Secretary of State for Dominion Affairs to Secretary of State for External Affairs, 15 March 1943.

<sup>48</sup>Ibid., Secretary of State for External Affairs to Secretary of State for Dominion Affairs, 19 March 1943.



were inevitable, then simultaneous publication was to be favoured. The 5 April 1943 issue of the London Financial News unexpectedly contained a full summary of the White plan. With the American plan public, the United Kingdom felt confident in publishing its plan on 7 April. Much to their irritation, the United States was compelled to publish the White plan on the same day. Although simultaneous publication of the two plans kept the British at the negotiating table, it did so at the price of deepening the tensions that existed between the two nations.

Prior to the publication of the two plans, the United States had made arrangements to begin bilateral discussions with the various members of the United and Associated Nations. The discussion to be held with Canada was scheduled for 21 April but, owing to the publication of the plans, Canadian officials once again attempted to temper the worsening climate in Anglo-American relations. When Clark met with White on 6 April, the day after the Financial News printed a summary of the White plan, he considered proposing an informal discussion between Canada, the United States, and the United Kingdom. However, White expressed the American irritation at being forced to publish their plan and reiterated American reluctance about the United Kingdom and the United States getting together to agree upon a plan. Consequently, Clark felt it wiser to refrain from making the proposal until a

later date. While in Washington Clark also had a chance to talk with Phillips. During the course of this conversation Clark speculated that the dialogue between the United States and the United Kingdom was "not likely to get anywhere."<sup>49</sup> Phillips appeared to concur with Clark's observation that an impasse had developed between the two countries: "Phillips read cables which he received from his own Government, the gist of which was that if I could suggest a workable procedure they could be content."<sup>50</sup> Clark then suggested that perhaps the best procedure would be to have J.L. Ilesley, the Canadian Finance Minister, write to Morgenthau to suggest "an informal conference of experts preferably in Ottawa and in the week beginning April 19. . ."<sup>51</sup> Phillips liked this suggestion as " . . . the letter to Mr. Morgenthau would get the issue above the heads of the experts concerned and probably to the President himself. . . and a conference in Ottawa in the week of April 19 would give time to study the public reactions to the plans. . ."<sup>52</sup> Clark promptly contacted Ilesley who forwarded the proposal to Morgenthau on 8 April. In his confidential dispatch, Ilesley put forward the Canadian suggestion for a tripartite confer-

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<sup>49</sup>Ibid., W.C. Clark, "Stabilization Fund Plan", 9 April 1943.

<sup>50</sup>Ibid.

<sup>51</sup>Ibid.

<sup>52</sup>Ibid.

ence as delicately as possible;

It would not be the object of such informal discussions to develop immediately a common plan, but rather that there should be an exploration of the contributions which certain features of each plan might make to the solution of the essential problems and of the lines of discussion which might be followed most usefully with other countries if the desired result of final agreement is to be achieved.<sup>53</sup>

This letter demonstrated the extent to which Canada had become concerned about deterioration of Anglo-American relations. Earlier in the year Canada had been in favour of discussions along the lines preferred by the Americans but, by April, they preferred an Anglo-American-Canadian conference. Canadian officials were faced not only with bringing officials from the United States and the United Kingdom together, but also with ensuring an active role for Canadian participation in the planned discussions. However, finding common ground for Britain and the United States was a difficult and arduous task. Morgenthau rejected Ilsley's overture and, as Phillips wrote to Keynes, ". . . it is difficult to be optimistic at present as to the future of post-war planning."<sup>54</sup> Informal discussions among eighteen countries were slated for 15-17 June. As D.H. Robertson of the United Kingdom Treasury commented, however,

of course it will be a ridiculous gathering, but it is evidently quite hopeless to get White to agree to a

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<sup>53</sup>Ibid., J.L. Ilsley to Morgenthau, 8 April 1943.

<sup>54</sup>Phillips to Keynes, 22 April 1943, in Collected Writings, vol. 25, p. 249.

small hand-picked meeting which could really get down to it. So one can only hope that at least the party will do no harm and (no doubt over-optimistically) that there may be something to drink.<sup>55</sup>

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<sup>55</sup>Norman Robertson to Sir Wilfred Eady, 3 June 1943, in Collected Writings, vol. 25, p. 291.

## CHAPTER V

### THE CANADIAN PLAN

Canadian officials had sensed worsening Anglo-American relations at the end of 1942. It was to be expected that Canada would attempt to mediate between the two North Atlantic partners. A.F.W. Plumptre, an economist stationed at the Canadian Legation in Washington, was particularly sensitive to the state of Anglo-American relations. Commenting to Clark on the arrested development of economic policy between the British and the Americans, Plumptre had suggested that a third plan, drafted by a Canadian, could prove useful since

. . . three or more plans put forward for discussion would . . . focus attention on the broad differences of the various plans and therefore on the broad principles which ought to underlie the plans. It would divert attention from the details of the several plans - which is just what seems to me to be necessary at this juncture.<sup>1</sup>

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<sup>1</sup>PAC, RG19, vol. 3981, file M-1-7-2, Plumptre to W.C. Clark, 16 January 1943.

Clark was in complete agreement with this suggestion of playing down the differences between the two plans. However, Plumptre was not interested in a Canadian plan that would offer a workable synthesis of the American and British plans. Nor was he concerned about a Canadian plan that would necessarily embody characteristics of specific interest to Canada. Plumptre's notion of the main purpose behind a Canadian plan was to "divert attention away from details." The Canadian plan would include details only to the extent that " . . . if the Canadian plan merely consisted of a few broad suggestions, it would appear too obvious that we were only putting up a straw man for a special purpose."<sup>2</sup> Plumptre's initial reaction to the Stabilization Fund was that " . . . it is economically and financially ingenious, although there are certain points which are debatable"<sup>3</sup>, but he preferred the Clearing Union proposal and assumed a Canadian plan would more closely resemble that than the American plan. In reflecting on the development of the Canadian plan long afterward, Plumptre wrote:

It was most important . . . that the compromises should not flounder, as had the League of Nations, on the rock of the U.S. Congress. It was this factor, rather than lack of sympathy for the more imaginative and far reaching plans of Lord Keynes and his colleagues, that led Canadians to advocate positions that, on the whole,

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<sup>2</sup>Ibid.

<sup>3</sup>PAC, Ibid., Plumptre to W.C. Clark, 8 December 1942.

seemed more American than British.<sup>4</sup>

In this almost apologetic tone, Plumptre reiterated his personal preference for the Clearing Union plan. Whether Plumptre based his preference on the advantages which he perceived the British plan to have for Canada is unclear. It is possible that Plumptre made his choice on the basis of a colonial relationship that, if still in existence, was in decay. This relationship placed Canada within the orbit of the British Empire. One commentator claimed a few years later that, "if at the Ottawa Conference, as some believed, the vision of an Imperial zollverein began to take form, by 1939 in Canada, in any case, it had faded from view perhaps forever."<sup>5</sup>

The reason this vision of an Imperial zollverein had faded from view in Canada was owing to a change in the United Kingdom's economic relationship with Canada. In the fiscal year ending 1938, approximately two-thirds of Canada's raw and partly manufactured goods were exported to the United Kingdom.<sup>6</sup> The importance of this to the Canadian economy as

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<sup>4</sup>A.F.W. Plumptre, Three Decades of Decision: Canada and the World Monetary System, (Toronto: McClelland and Stewart, 1977), p. 29.

<sup>5</sup>Douglas Rudyard Annett, British Preference in Canadian Commercial Policy, (Toronto: Ryerson Press, 1948), p. 91.

<sup>6</sup>The Library, Arthur Upgren, "Canadian-United States Economic Problems: Problems of Economic Integration of Canada and the United States", 11 February 1941, Studies of American Interests in the War and Peace, Economic and Financial Series, No. E-B25.

a whole was seen in the fact that this export accounted for almost 28.5% of Canada's total exports. In terms of balancing Canada's import-export trade, the export of raw and partly manufactured goods to the United Kingdom represented 37.8% of the total value of Canadian exports to the United Kingdom. However, imports from the United Kingdom amounted to only 18.1% of Canada's total imports. Although fully manufactured goods represented approximately two-thirds of Canada's total imports, the United Kingdom supplied only 24.7% of these. If Britain felt the need to secure export markets through bilateral agreements, Canada would be vulnerable to British pressure. Should Canada be forced to turn away from the United States as a source of manufactured goods, the consequences would be extremely disruptive to the Canadian economy. This disruption would occur because, as the source of Canada's imports changed from the United States to the United Kingdom, the direction of Canada's exports would increasingly change as well. Of Canada's exports to the United States, 38.4% consisted of fully manufactured goods and constituted 46.4% of Canada's total fully manufactured exports. Given the experience of the early 1930's, it was unlikely that Britain would be interested in this component of Canadian exports.<sup>7</sup> While it was possible that Canada

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<sup>7</sup>R.F. Holland, "The End of an Imperial Economy: Anglo-Canadian Disengagement in the 1930's", Journal of Imperial and Commonwealth History 11 (1983):159-174.



could have increased its agricultural exports to offset the loss in manufactured exports, it would not have been desirable to do so. The importance of a manufacturing sector to the Canadian economy was expressed by Clark when he noted that

. . . in the time of depression the prices of raw materials and foodstuffs fall very rapidly, far more rapidly than the prices of manufactured goods. Thus at the turning point from boom to depression the value of Canada's exports tends to fall off suddenly and rapidly while the value of her imports tends to keep up for a time.<sup>8</sup>

Canada had been increasing her manufacturing sector<sup>9</sup> and was willing to protect it because, among other things, it was important as a buffer against the deflating value of primary goods. However, the industrialization that had developed in Canada was " . . . in response to external demands, with the result that Canada is probably more dependent than ever upon external markets for maintaining a high level

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<sup>8</sup>W.C. Clark, "Should Canada be Forced to Liquidate Her Holdings of United States Securities?", April 1941, in Documents, vol. 8, pt. 2, Doc. 188, p. 137.

<sup>9</sup>The growth in Canada's industrialization can be traced into the interwar period, 1925-1929, when the "annual net value of manufactures increased almost \$600 million or by approximately fifty per cent." From John A. Stovel, Canada in the World Economy, (Cambridge: Harvard University Press, 1954), p. 222. Similarly, in 1939 raw materials accounted for only twenty-six per cent of Canada's total exports (as compared to 50-60% before WW1) and approximately thirty-three per cent were partly manufactured and forty-one per cent fully manufactured. See A.K. Harvie, "Financing Canada's International Trade," in J.F. Parkinson, ed., Canadian Investment and Foreign Exchange Problems, (Toronto: University of Toronto Press, 1940), p. 35.

of employment of her productive resources."<sup>10</sup>

Should Britain refuse Canadian imports because it could not find a reciprocal outlet for its exports, Canada would have to find another export market. Indeed, this was the fear expressed by the Deputy Minister of Trade and Commerce, Dana Wilgress. Following a meeting with Clark and Wilgress in October 1942, the American Ambassador to Canada recorded that Wilgress had pointed out that " . . . Britain by buying or not buying great bulks of wheat from Canada had a leverage on Canadian national economy for which she could extract almost any amount of concession."<sup>11</sup> Since Wilgress had also noted that the British " . . . evinced considerable worry over the extent of Canadian industrialization during the war",<sup>12</sup> one of the concessions Britain would likely attempt to extract from Canada would be to reduce the amount of manufactured goods exported from Canada. The United States would seem like a natural alternative for Canadian exporters. However, based on trade statistics for 1937, American import requirements would account for only

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<sup>10</sup>C.D. Blythe, "Some Aspects of Canada's International Financial Arrangements", Canadian Journal of Economics and Political Science 12 (August 1946):302.

<sup>11</sup>Nancy Harvison Hooker, The Moffat Papers: Selections from the Diplomatic Journal of Jay Pierrepont Moffat, 1919-1943, (Cambridge: Harvard University Press, 1956), p. 386.

<sup>12</sup>Ibid., p. 387.

about 38% of Canada's total exports. Thus the United States was not in itself a sufficient outlet for Canadian goods. Attempts in the early 1940's to expand Canadian trade to Latin American countries had been rebuffed by the United States. Consequently, if Canada were to maintain the level of manufactured exports, the triangular pattern of trade had to be preserved.

However, in his January letter, Plumptre implied that a relationship akin to an Imperial zollverein was still an important factor in determining Canadian policy when he made an observation concerning the American Treasury Department's attitude towards Canada; " . . . the Treasury and particularly one inmate of it, likes to think that we in Canada are highly independent of the British."<sup>13</sup> This was an interesting statement since the two great concerns in Canadian-American relations had initially been to convince the United States that Canada was independent of Britain and, later, to convince the Americans that Canadian interests could not be assumed to be identical to those of the United States. If convincing the Americans of Canada's independence from Britain was difficult, convincing the British of Canada's independence was almost impossible. For his part, Plumptre made the task no easier. During a conversation with Edward W. Playfair, an official with the

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<sup>13</sup>PAC, RG19, vol. 3981, file M-1-7-2, Plumptre to W.C. Clark, 16 January 1943.

British Treasury, Plumptre suggested " . . . that we Canadians are in this matter marching in step with the British."<sup>14</sup>

Plumptre, however, was not the only Canadian who had close contacts in the British Treasury. Keynes had written to Hume Wrong to keep him abreast of the developments in Britain and to suggest the possibility of creating a synthesis of the Clearing Union and Stabilization Fund plans. Keynes wrote: "I am convinced that such a synthesis is possible and very possible that you in Canada might use your good offices to put forward something on these lines."<sup>15</sup> Keynes recognized Canada as the best mediator since " . . . the Canadians have been more successful than any other as interviewees in getting to grips, partly because they are not so unduly nervous about how to handle the American Treasury and partly because they are exceptionally well informed on these matters."<sup>16</sup> By creating a synthesis of the two plans, Keynes seemed to have had in mind a synthesis that was developed in close association with the British.

The letter by Keynes which suggested that Canada

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<sup>14</sup>PAC, RG19, vol. 3981, file M-1-7-2, Plumptre to W.C. Clark, 12 February 1943.

<sup>15</sup>PAC, RG19, vol. 3981, file M-1-7-1, Keynes to Wrong, 19 May 1943.

<sup>16</sup>Keynes to R.H. Brand, 9 June 1943, in Collected Writings, vol. 25, p. 284.

might play an instrumental role in providing a synthesis of the two plans Wrong forwarded to Clark with the comment, "his letter reads as though he was not familiar with the discussions on this point that we have had with Phillips."<sup>17</sup> In fact, Phillips and Clark had had several discussions on the best way to achieve a satisfactory compromise between the two plans. Phillips' view was that Canada " should produce an independent scheme which would lean more in point of form to S.F. than to C.U. but would nevertheless involve substantial changes in S.F."<sup>18</sup> However, Phillips' view of an "independent scheme" was that " [the British] must and ought to know the main and essential features of any scheme you propose to put forward."<sup>19</sup> Phillips probably desired to have Britain informed in advance so that they would have the opportunity to influence the final text.<sup>20</sup> Phillips had also encouraged Keynes to work on a plan that might make the Stabilization Fund more acceptable. If the Canadian and British schemes showed " . . . a substantial

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<sup>17</sup>PAC, RG19, vol. 3981, file M-1-7-2, Wrong to W.C. Clark, 31 May 1943.

<sup>18</sup>PAC, RG19, vol. 3981, file M-1-7-2, Phillips to W.C. Clark, 5 June 1943.

<sup>19</sup>Ibid.

<sup>20</sup>In fact, when the Canadian plan was presented in advance the British retorted, "We judge Canadian draft certainly not acceptable unless . . ." RG19, vol. 3982, file M-1-7-4, Secretary of State for Dominion Affairs to High Commissioner for United Kingdom in Ottawa, 12 June 1943.

measure of agreement, it might be practicable for us to put forward a scheme to the Americans which would stand as a basis for final settlement, assuming we are going to get one at all."<sup>21</sup> But presenting the United States with a scheme concocted by Britain and Canada was antithetical to the course Canada desired for future discussions. Not only would Canadian interests be lost in a British scheme but Canada would find herself on the side of those with whom she had the least common interest.

In a memorandum to the Prime Minister, Mackintosh outlined several reasons which were compelling Canada to submit its own plan at the upcoming discussions.<sup>22</sup> The intent of this memorandum was to win government approval to present a Canadian plan and not to gain approval for the plan itself.<sup>23</sup> The tone of the memorandum was therefore

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<sup>21</sup>Ibid.

<sup>22</sup>PAC, RG19, vol. 3981, file M-1-7-2, W.A. Mackintosh, "Proposed steps in the Future Discussions of the Clearing Union and Stabilization Fund Proposals", 2 June 1943.

<sup>23</sup>Granatstein suggests that the Cabinet War Committee had 'adopted' the Canadian plan on 2 June, [The Ottawa Men: The Civil Service Mandarins, 1935-1957, (Toronto: Oxford University Press, 1982), p. 161.] but in fact, the War Cabinet Committee only "... approved participation of Canadian representatives in the Washington discussions, and the presentation thereof by Canadian representatives of specific proposals, it being understood that the proposals so presented would in no way commit the government." (Extract from Minutes of Cabinet War Committee 2 June 1943, in Documents, vol. 9, Doc. 593.) Indeed, as late as 11 June the Committee "... agreed that, in view of the fact that the proposals would be presented in such a manner as to avoid any commitment on the part of the government, it would not be necessary to have them submitted to or examined by the War Committee." (Extract from Minutes of Cabinet War Committee, 11 June 1943, in Documents, vol. 9, Doc. 596.)

biased towards the conciliatory character of the plan rather than its representation of Canadian interests. Winning the government's approval to present the plan was a formidable task. King, well known for his cautious nature, was unlikely to back a proposal that would arouse opposition. In his diary King recorded that "I took exception to calling the plan of some of the financial experts: Clark, Towers, and Robertson. They had drawn up, on international finance, a Canadian plan. I am sure a large section of the H. of C. [House of Commons] would not wish it so named."<sup>24</sup> Mackintosh, likely anticipating his leader's hesitance at sanctioning a Canadian plan, therefore appealed to King's impression of Canada's general station in the triangular relationship between Canada, the United States and the United Kingdom. Aspects of the plan which would not find enthusiastic support were evaded. Mackintosh appealed, instead, to the perception that Canada was independent of both the United States and the United Kingdom - "Our suggestion, if put forward as a whole in an integrated plan, will make clear that we are neither pro-London nor pro-Washington."<sup>25</sup> He also appealed to the 'Linchpin' concept: "A Canadian plan would bring

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<sup>24</sup>The Mackenzie King Diaries, 2 June 1943.

<sup>25</sup>PAC, RG19, vol. 3981, file M-1-7-2, Mackintosh, "Proposed Steps in the Future Discussions of the Clearing Union and Stabilization Fund Proposals", 2 June 1943.

discussion into the open and probably establish some merger of the two plans as to the desirable model."<sup>26</sup> Finally, he appealed to the perception of Canada's special relationship vis-à-vis the United States: "It [a Canadian plan] would give rise to no instinctive opposition such as the British plan."<sup>27</sup>

While elements of the above were legitimate rationalizations for presenting a Canadian plan, Mackintosh obscured the real reason by exaggerating their importance. This was clear in his claim that Canada has " an almost embarrassingly high position in banking and financial circles in the United States and is not without reputation in Congress. . A Canadian plan would probably attract more support in the United States than a Treasury plan."<sup>28</sup> It was surely unlikely that Congress would accept a Canadian plan without consideration of its content, simply because it was drafted by Canadians. But Mackintosh was not the only civil servant who projected such an exaggerated view of the purpose behind the Canadian plan. Many of the arguments used in Mackintosh's memorandum seem to have originated with Clark. By presenting this distorted picture of the Canadian plan, the experts revealed their predilection for giving direction to Canadian foreign economic policy. After

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<sup>26</sup>Ibid.

<sup>27</sup>Ibid.

<sup>28</sup>Ibid.



the War Cabinet Committee met with the financial experts, King recorded that "there is a great danger of members of the permanent service trying to frame policies and make members of the government their mouthpiece instead of members of government shaping policy and members of the service carrying it out."<sup>29</sup> If King had no other exceptional qualities, he was certainly perceptive.

The Canadian plan that was presented during informal discussions in mid-June of 1943 was based principally on the American plan.<sup>30</sup> That is, it employed the subscribed capital principle and generally followed the White plan more than the Keynes plan. J.L. Granatstein has suggested that the main reason for the similarity of Rasminsky's plan to White's was fear that the American Congress would object to a new international financial scheme.<sup>31</sup> Although an American plan would be more palatable to Congress, Granatstein believed that the United States would only be willing to accept a plan that did not risk American capital. Although some Canadians who were involved in the discussions, including Plumptre, took this view, Granatstein suggests that Canada

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<sup>29</sup>The Mackenzie King Diaries, 2 June 1943

<sup>30</sup>For further analyses of the similarities between the two plans see Lawrence F. Mansfield, "The Origins of the International Monetary Fund", (Ph.D. dissertation, University of North Carolina, 1960), p. 261.

<sup>31</sup>J.L. Granatstein, The Ottawa Men, pp. 146-

adopted the American format with the simple purpose of enticing an isolationist Congress into a world organization. While that was a noble endeavour, it was not the only reason for adopting the American format nor was it the most important.

The main reason behind the adoption by Canadian officials of the subscribed capital principle lay deeper than concern about the United States Congress. Rasminsky felt that the " banking principle is much neater and more beautiful than the fund principle"<sup>32</sup> but he found merit in the fund principle because

. . . the capital subscription provides the Fund with foreign exchange. [And] at a time when the United States dollar supply of the Fund is exhausted, the Fund would not owe the United States money as a creditor. [Instead] its debt would be to the United States as a stockholder.<sup>33</sup>

Similarly, Rasminsky had noted that the Clearing Union's use of overdrafts was as foreign to Canadian banking as it was to American banks.<sup>34</sup> The essential reason for the subscribed capital principle was not to win Congressional approval but to place constraints on the liabilities of the member countries. However, Rasminsky argued that "there is much to be

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<sup>32</sup>BCA, LR76-206, Rasminsky to Keynes, 3 June 1943.

<sup>33</sup>BCA, LR76-206, "Notes on White Plan", 25 January 1943.

<sup>34</sup>Armand Van Dormael, Bretton Woods: Birth of a Monetary System, (New York: Holmes and Meier Publishers, 1978), p. 82.

said for not applying the restraints or pressures, on either the debtors or creditors, too soon or too abruptly."<sup>35</sup> He nevertheless concurred with the American experts that it would be

. . . extremely dangerous to use the extension of short-term credits as a continuing device to cover up unsound positions . . . [since] No debtor country can live beyond its resources in perpetuity; and no creditor country can persistently refuse to lend its surplus abroad or make other adjustments to its creditor position without ripping the international fabric.<sup>36</sup>

Granatstein has asserted that "White's plan, with its fund limited to \$5 billion for all members, was far too small in toto and equally skimpy as an American contribution to the reconstruction of the world."<sup>37</sup> Moreover, he has suggested that "Rasminsky doubled the size of the fund to \$10 billion, to be raised from each member . . ."<sup>38</sup> However, Granatstein has misconstrued the intention of the \$5 billion limitation as well as muddled the character of the Rasminsky draft which he claims "doubled the size of the fund". It is beyond question that \$5 billion was too little for the "reconstruction of the world"; however, the fund was

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<sup>35</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Proposals", 22 April 1943.

<sup>36</sup>PAC, RG19, vol. 3982, file M-1-7-2, Rasminsky, "Plans for Post-War Monetary Organization", n.d., p. 7; Rasminsky sent copies of this memorandum to Clark, Mackintosh, Deutsch, Bryce, and N.A. Robertson on 20 May 1943 (BCA, LR76-211-6).

<sup>37</sup>Granatstein, The Ottawa Men, p. 147.

<sup>38</sup>Ibid.

not designed to finance the reconstruction of the world. One of the basic differences between the British and American proposals was that the British wanted to include reconstruction schemes within the monetary organizations of the Clearing Union while the Americans believed these schemes were best left to separate organizations. The Canadians agreed with the Americans on this particular point. The \$10 billion provision in the Rasminsky draft, which Granatstein claims "doubled the size of the Fund", also misrepresents the development of the Canadian plan. In the draft referred to, Rasminsky based the plan on the simple mechanism found in the Clearing Union.<sup>39</sup> That is, it was based on the essential banking principle and not on the subscribed capital principle. The figure of \$10 billion in the Rasminsky draft was in reference to aggregate quotas and not to subscribed capital: ". . . the aggregate quotas shall not be less than \$10,000mm."<sup>40</sup> However, unlike Keynes who would require one country to be liable for the aggregate quota, Rasminsky placed a limit on the ". . . obligation to accumulate international currency"<sup>41</sup> which limited any one country's stake to an amount equivalent to its quota. Although Rasminsky also introduced an initial gold contribution, this was only equal

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<sup>39</sup>PAC, RG19, vol. 3447, file 'International Clearing Union', Rasminsky, "United Nations Currency and Stabilization and Clearing Fund", n.d.

<sup>40</sup>Ibid.

<sup>41</sup>Ibid.

to twenty percent of a member's quota and was inserted simply to " . . . lessen the stake of the creditor countries in the plan as [the gold contribution] will be at the disposal of these countries in the event of liquidation."<sup>42</sup>

Once a limited liability was accepted, Rasminsky noted that,

. . . there is really no very important difference, other than esthetic difference, between the two methods. . . . If one assumes, as one must, that the United States would insist on a limit on the amount of resources she is willing to provide through the new institution, then the banking principle is not in itself necessarily more expansionist than the fund principle.<sup>43</sup>

Although Rasminsky refrained from indicating that Canada was in complete agreement with the Americans on limiting the resource of the Fund, it should not be assumed that Canadians were either closer to Keynes on this point nor more " . . . sensitive to American desire for a fund with a limited liability because Canada would likely emerge from the war as a creditor on current account. . . ."<sup>44</sup>

Before the plans had been made public, Canadian officials endeavoured to determine the intention behind certain points in the White plan by posing informal questions to the American experts. One of these points concerned the significance of the limitation to a \$5 billion fund. The Canadians wanted to know if this amount had anything to do

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<sup>42</sup>Ibid.

<sup>43</sup>BCA, LR76-212-1, Rasminsky to Keynes, 3 June 1943.

<sup>44</sup>Granatstein, The Ottawa Men, pp. 144-45.

with the United States participating in an organization of this character.<sup>45</sup> The response of the American experts was that it had nothing to do with United States participation. In fact, the Americans said that they " . . . would not hesitate to ask Congress to approve larger amounts if that were considered necessary."<sup>46</sup> Even though Bernstein had claimed that "an examination of the needs, on the basis of the net balance of payments, for the period 1936-39 indicated that this sum would be adequate"<sup>47</sup>, the Canadian officials believed that \$5 billion was too small for its intended purpose. Rasminsky argued that "one of the objects of the fund should be to avoid what happened during 1936-38."<sup>48</sup> The Canadians recognized that a limitation on the creditor's liability was not only desirable but also would not hinder the Fund's effectiveness in meeting its intended purpose. However, the Canadian experts differed from their American counterparts as to what sum should be considered an adequate limitation.

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<sup>45</sup>BCA, LR76-207-1, Mackintosh to Plumptre, 6 March 1943.

<sup>46</sup>BCA, LR76-207-1-3, Plumptre to Mackintosh, 12 March 1943. This statement, which was made before the plans were made public, adds credence to the claim that Congress' attitude towards the schemes was not a significant factor in limiting the American contribution to the Fund.

<sup>47</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Proposals", 22 April 1943, p. 3.

<sup>48</sup>Ibid., p. 4.

The assertion that Canada desired a limited liability because she would emerge as a creditor nation ignores two important aspects. First, Canadian experts believed that this creditor position was likely to be only a temporary position. To suggest that the Canadians would insist on a point that satisfied their needs for such a short time fails to credit the expertise which the Canadian officials exhibited throughout the discussions. Secondly, the Canadian experts knew full well that " the resources provided to the Fund are not a contribution à fonds perdus . ."49

In a multilateral system all countries had a keen interest in ensuring that each country had sufficient reserves of foreign exchange to maintain its trade relationship with other members of the system. Canadians were perhaps more keenly aware of this than any other nationals. This was less the result of ideological tendencies on the part of a few Canadian experts than on their practical experience of Canadian relationships over the years. Unlike the British, who could maintain their trade levels within one currency bloc, and the Americans, who arrived at multilateral trade as a system conducive to world peace, the Canadian desire for a multilateral world was based on practical economic experience. Consequently, the Canadian experts saw the advantages of pro-

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<sup>49</sup>PAC, RG19, vol. 3982, file M-1-7-4, Rasminsky, "Plans for Post-War Monetary Organization", n.d., p. 5.

viding an international monetary organization with adequate funds and the disadvantages that would occur if the funds allocated were inadequate. At the same time, they were also aware of the potential abuse of an unlimited liability fund. A country that lived beyond its means had to be brought into line or else the abuses of a few delinquent countries would cause the entire financial system to break down. The Canadian experts were therefore convinced that a fund with limited liability but adequate resources could best meet the monetary problems that would be likely to occur in the postwar period. The main problem was in the determination of "adequate resources".

Although there was virtual worldwide unanimity in the belief that the postwar period would see a tremendous disequilibrium in normal trade relationships, there was much speculation as to its precise character. A contemporary economist, Norman S. Buchanan, dramatically epitomized this speculation;

No one can delineate the precise state of affairs likely to prevail at the conclusion of the present world conflict. The drama is too kaleidoscopic, too much is hidden in the wings, and the number of acts is uncertain. The best that one can hope for is to distinguish the main threads of the unfolding mystery and to guess the probable position of the dramatis personae at the final curtain.<sup>50</sup>

Indeed, to a great extent the Clearing Union and the Stabili-

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<sup>50</sup>Norman S. Buchanan, "International Investments: Some Post-War Problems and Issues", Canadian Journal of Economics and Political Science 10 (May 1944):139.



zation Fund were based on 'guesses' as to the probable position of the leading dramatis personae - the United Kingdom and the United States. In the middle of February 1943, Mackintosh constructed two hypothetical situations; in one he believed the Clearing Union would work better and in the other he saw the Stabilization Fund as better suited.<sup>51</sup> In the first model Mackintosh assumed that the creditor country's economy would be depressed while the deficit country was at active or full employment. Mackintosh suspected, and was correct in assuming, that Keynes had a similar situation in mind when he drafted the Clearing Union. In his memorandum on "Post War Currency Policy", dated 8 September 1941, Keynes had harkened back to the Great War when he noted that

the United States never succeeded in effecting the re-orientation of her domestic economy required by the changed circumstances in which she found herself after the last war. Her necessary task after this war will be still more severe. The solution involves a serious disturbance to the vested interests both of industry and of agriculture of a kind which it would be contrary to the political traditions and national customs of the country to carry through.<sup>52</sup>

The Keynes plan, with its provisions for currency blocs and the essential banking principle, would help to insulate

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<sup>51</sup>BCA, LR76-211, Mackintosh, "Notes on Keynes' Plan and Whyte's [sic] Plan for Exchange Stabilization", 12 February 1943.

<sup>52</sup>Keynes, "Post War Currency Policy", in Collected Writings, vol. 25, p. 24.

Britain from the adverse effects of this American decline. As we have seen, the currency blocs of the Clearing Union, particularly the sterling area, would strengthen British trade in that area and lessen her dependence on the United States. A slump in the American economy would thus not be felt as severely in the United Kingdom as it would if the United States were a more important factor in the United Kingdom's foreign trade. In this hypothetical situation, American dollars would be scarce since the depressed American economy would not buy enough abroad to satisfy the capacity of foreign nations to conduct trade with the United States. As a result, these foreign nations would be forced to contract their trade. However, the essential banking principle circumvented this problem since the automatic drawing rights and the use of an international currency, bancor, eliminated the repercussions of a scarce currency.

In a later paper delivered to a Discussion Group at Harvard University on 18 March 1945, Rasminsky noted that one of the reasons the United Kingdom would be more willing to borrow from the sterling area than from the dollar countries was based on

. . . a fear that the United States will not be successful in maintaining high employment after the war, and that periodic tail-spins in the American economy will not only involve repayment difficulties, but will also interfere, in a multilateral system, with high employment policies

in the United Kingdom.<sup>53</sup>

However, Rasminsky disagreed with the British apprehension of the United States' lack of success, claiming that,

. . . stripped to essentials, what this argument says is that the United States is an unreliable trade partner because (1) it cannot be relied upon to manage its own affairs in such a way as to remain reasonably prosperous all the time, and (2) it cannot be relied on to adjust any unbalance which occurs in its international accounts by expanding its imports or otherwise increasing the current supply of dollars.<sup>54</sup>

Experiences during the war years had convinced many Canadians, including Rasminsky, that the United States was sincere in its desire to pursue policies of full employment and expanding multilateral trade. Canada had a real stake in ensuring that the United States did not turn from these objectives. If the United States chose another course Canada would find herself abandoned at both points in her North Atlantic trade pattern. As we have already seen, with existing import and export requirements, Canada would be excluded from the sterling area. If the United States deviated from its multilateral trade objective, Canada would find herself in competition with the United States for many of her export markets.<sup>55</sup>

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<sup>53</sup>Rasminsky, "Anglo-American Trade Prospects: A Canadian View", in The Economic Journal 55 (June-September 1945):168.

<sup>54</sup>Ibid., pp. 169-70.

<sup>55</sup>The Library, Arthur Upgren, "Canadian-United States Economic Problems: Problems of Economic Integration of Canada and the United States", 11 February 1941, Studies of American Interests in the War and Peace, Economic and Financial Series, No. E-B34.

In the second situation outlined by Mackintosh, he assumed that the creditor country would be at or near full employment and the deficit countries " . . . fairly active and trying to get their economies on a still more active basis."<sup>56</sup> Mackintosh realized that full employment in the creditor country would help export " . . . sufficient of its currency for the needs of others"<sup>57</sup>, but he also believed it to be " quite possible that the rates of exchange and the competitive position of the creditor country would be such that the deficit countries would again have large over-drafts and the currency of the creditor countries be scarce."<sup>58</sup> Because of the favourable trade position of creditor nations, the extension of credit to deficit countries prescribed in the Clearing Union plan " . . . would not be desirable unless it was assumed that it would necessarily go into just the proper increase of prices and incomes to make the international adjustment desired."<sup>59</sup> Mackintosh was not disposed to concede that chance would ensure the proper adjustment. Since the Clearing Union did not ensure such a

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<sup>56</sup>BCA, LR76-211, Mackintosh, "Notes on Keynes' Plan and Whyte's [sic] Plan for Exchange Stabilization", 12 February 1943.

<sup>57</sup>Ibid.

<sup>58</sup>Ibid.

<sup>59</sup>Ibid.

proper rise in prices and incomes, Mackintosh concluded that "It would be better if measures were pressed on the creditor country to facilitate imports, appreciate its currency or take other measures which would set up movements toward a stable balance."<sup>60</sup> The Scarce Currency clause of the White plan provided these measures which ultimately affected the levels of prices and incomes, although there was controversy over the United States' commitment to such measures.<sup>61</sup>

Although Canadians had no greater insight as to the size of an adequate fund, they nevertheless advocated a fund that would be somewhat larger than that proposed in the American plan. The Canadian experts believed that too large a fund was better than a fund which proved to be too small. The plan that the Canadian experts presented at the June 1943 discussions possessed a capital base of \$8 billion<sup>62</sup> as compared to \$5 billion in the American proposal. However, the Canadian plan gave the Union the authority to borrow

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<sup>60</sup>Ibid.

<sup>61</sup>Relating to the Scarce Currency clause, Keynes " . . . interpreted it as a half-baked suggestion, not fully thought through, which was certain to be dropped as soon as its full consequences were appreciated." Keynes to R.F. Harrod, 4 March 1943, in Collected Writings, vol. 25, p. 230.

<sup>62</sup>PAC, RG19, vol. 3982, file M-1-7-4, Rasminsky, "Draft Canadian Proposals for a Foreign Exchange Stabilization Union", 1 June 1943, Section II(1).

"an amount not exceeding 50 per cent of the quota of each member country"<sup>63</sup>, which raised the resources of the Union to \$12 billion. The United States plan had a provision for borrowing but it was not mandatory as in the Canadian plan. The American experts had nevertheless attached great importance to this provision in their plan and had indicated that the United States could lend up to \$10 billion.<sup>64</sup> However, White had informed Rasminsky that "a provision making the extension of loans to the fund mandatory would not succeed in the United States."<sup>65</sup> Ignoring American objections to mandatory loans, Rasminsky inserted this provision into the Canadian plan to make more American dollars available to the fund<sup>66</sup> and also to provide more Canadian dollars. Rasminsky estimated that Canada would have a favourable balance on current account of approximately \$150 million per annum while Canada's quota under the White plan would be only \$200 million.<sup>67</sup> Consequently, "when the fund's holdings of Cana-

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<sup>63</sup>Ibid., II(2).

<sup>64</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Proposals", 22 April 1943, p. 8.

<sup>65</sup>Ibid., p. 16.

<sup>66</sup>PAC, RG19, vol. 3982, file M-1-7-4, "Proposals for an International Currency Stabilisation and Clearing Fund", n.d.; See 'remarks' in Section II(7).

<sup>67</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Fund Proposals", 22 April 1943, p. 5.

dian dollars are used up it is likely that Canadian exports will fall owing to the inability of other countries to pay for them."<sup>68</sup> The Canadian plan provided for alterations in the quotas but this was for long-term adjustments, while the heavy demand for Canadian exports was likely to be of relatively short duration. The short-term demand could best be handled through the extension of loans which could be provided as they were needed.

Even though the Canadian plan enlarged the capital base of the American fund, its ability to meet the postwar financial requirements was increased by an even greater margin. The American plan had provided for the complete liquidation of the blocked balances that had accumulated during the war. Since this liquidation would draw upon the \$5 billion resources of the Fund, the ability of the American plan to meet the "normal" requirements of the world's monetary needs was lessened. The Canadian plan, however, stated that,

During the first two years of operation the Union shall have the right to purchase abnormal wartime balances held by member countries in other member countries for the national currency of the country selling such balances or for exchange needed to meet current account deficits in such country's balances of international payments, in amounts not exceeding in the aggregate 5 per cent of the quotas of all member countries.<sup>69</sup>

This provided an assurance that the liquidation of these bal-

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<sup>68</sup>Ibid., p. 6.

<sup>69</sup>PAC, RG19, vol. 3982, file M-1-7-4, Rasminsky, "Draft Canadian Proposals for a Foreign Exchange Stabilization Union", 1 June 1943, Section VIII.

ances would not obstruct the primary purpose of the Union. At the end of the two year period, the Governing Board would either recommend further liquidation or suggest an alternative method of handling the problem.

While the Canadian suggestion for liquidating blocked balances may have made practical sense, there was also an expedient reason for Canada to exclude the complete liquidation of blocked balances from its plan. During the April bilateral discussions with the Americans, Rasminsky had raised the issue of blocked balances. White responded by indicating that the provision, as laid out in the American draft, would act as an incentive to members of the Commonwealth, as well as others, to join the Fund; he had pointed out that ". . . the suggested treatment of blocked balances would provide more means of payment for trade and possibly enable a higher level of world trade."<sup>70</sup> White had assured Rasminsky that he was aware that, "If the blocked balances are used rapidly - the total of which is likely to reach \$8 to \$10 billion - the fund would not be adequate,"<sup>71</sup> but that "It should be remembered that the unblocked [sic] balances can be used only for current account purchases which would greatly restrict the possible drain."<sup>72</sup> While Rasminsky

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<sup>70</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Fund Proposals", 22 April 1943, p. 38.

<sup>71</sup>Ibid., p. 36.

<sup>72</sup>Ibid.



had no argument with this, he did raise the issue of Canada's decision to extend an interest-free loan of \$700 million to the United Kingdom instead of holding a blocked balance. Rasminsky's primary concern with the American treatment of blocked balances was that, "If it should turn out that other countries are able to saddle their claims on the rest of the world, Canada's decision would look, to say the least, like a bad choice."<sup>73</sup> The liquidation of blocked balances under the Canadian plan would probably not be much different, in practice, than their liquidation in the American plan. However, the phrasing of the provision in the Canadian plan made it explicit that such blocked balances would not be automatically liquidated. The interest-free loan to Britain would thus be protected against critics.

One of the most important features of the Canadian plan concerned Canada's ability to offset her deficit in American dollars with her surplus of sterling. The Clearing Union proposal, with its provision for control of capital movements, disturbed Canadian officials. If Canada were to enjoy a surplus on current account transactions, she would simply possess a credit balance with the Union. This credit balance could only be used for current account transactions. That is, it could not be translated into a capital account transaction as in the pre-war days when a trade surplus re-

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<sup>73</sup>Ibid., p. 37.

sulted in a movement of gold. Keynes saw the control of capital as preventing " . . . the withdrawal of this purchasing power from circulation for the exercise of a deflationary and contractionist pressure on the world as a whole, including in the end the creditor country itself."<sup>74</sup> However, it also reduced Canada's ability to reduce its indebtedness by using the surplus on current account to repatriate foreign-held Canadian securities.

One purpose of the control of capital movements was to stop speculative flights of capital while allowing movements that would " . . . help to maintain equilibrium, from surplus countries to deficiency countries."<sup>75</sup> Perhaps what Keynes had in mind, as he had noted a few months before drafting the Clearing Union plan, was that " . . . international capital movements would be restricted so that they would only be allowed in the event of the country from which capital was moving having a favourable balance with the country to which they were being remitted. In other words they would only be allowed when they were feasible without upsetting the existing equilibrium."<sup>76</sup> The restrictions on capital movements envisaged in the Clearing Union plan would

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<sup>74</sup>J.M. Keynes, "Proposals for an International Currency Union", para. 9, in Collected Writings, vol. 25.

<sup>75</sup>Ibid., para. 33.

<sup>76</sup>J.M. Keynes to F.T. Ashton-Gwatkin, 25 April 1941, in Collected Writings, vol. 25, pp. 16-17.

require exchange controls at both the importing and exporting ends of the movements.<sup>77</sup> This was an effective format as both the importing and exporting countries would have to agree to the movement in order for it to take place.

The issue of exchange control was never very clear in discussions on the Clearing Union. Because of American reluctance to agree to exchange control, Keynes and others thought that " the question of capital control should not be put in the forefront but should emerge at a later stage out of other discussions."<sup>78</sup> Consequently Bryce believed that " . . . this whole proposal leaves open the question of policy with regard to exchange control. . . indeed the function of this Union might make it more possible to dispense with control over capital movements than otherwise."<sup>79</sup> Bryce did not know that Keynes disagreed with him on dispensing with capital controls in the Clearing Union. A colleague of Keynes', R.F. Harrod, had similar views as Bryce on the use of capital controls. In response to Harrod's views, Keynes wrote, "I disagree most strongly with your view that the control of capital movements may very possibly

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<sup>77</sup>J.M. Keynes, "Proposals for an International Currency Union", 15 December 1941, para. 31, in Collected Writings, vol. 25.

<sup>78</sup>J.M. Keynes to R.F. Harrod, 19 April 1941, in Collected Writings, vol. 25, p. 148.

<sup>79</sup>PAC, RG19, vol. 3981, file M-1-7-1, R.B. Bryce, "Notes on Memorandum Proposing an International Credit [sic] Union", 10 October 1942.

be unnecessary, especially if a Clearing Union comes into existence."<sup>80</sup> During the Commonwealth discussions on the Clearing Union, Keynes indicated that he was prepared to fall back on the American suggestion that the capital-importing country impose a control while seeking the permission of the capital-exporting country before the movement took place. However, as Rasminsky noted, it was " . . . even more difficult for the importing than the exporting country to distinguish between capital movements and straightforward payments in respect of current trade, etc."<sup>81</sup> This meant that the United States would administer every country's exchange control.<sup>82</sup> In essence, there would be very little control if the American proposal were adopted. Rasminsky, Clark, and Towers had all come to the conclusion that exchange control was desirable for Canada. But, if exchange control operated as proposed in the Clearing Union, American investment would continue to flow into Canada and Canada's indebtedness in terms of its current account obligations to the United States would increase with little opportunity for Canada to reduce it.

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<sup>80</sup>J.M. Keynes to R.F. Harrod, 19 April 1942, in Collected Writings, vol. 25, p. 148.

<sup>81</sup>BCA, LR76-188-35, "Post War Economic Talks", Draft Minutes of the Fourth Meeting 28 October 1942.

<sup>82</sup>PAC, RG19, vol. 3989, file T-2-9-2, "Report of the Canadian Representatives at the 'Post-War Economic Talks' Held in London Between October 23rd and November 9th, 1942", part II, "International Clearing Union", n.d., by Rasminsky.

Since the American and Canadian proposals were intended for current account transactions only, a problem existed in disposing of an overall surplus on current account. In the interwar period, when such a situation arose, Canada was able to invest the surplus abroad or repatriate foreign-held securities. Since these were classified as capital account transactions, they could not be made under the Stabilization Fund. Consequently, if Canada obtained United States dollars by selling sterling in an amount " greater than Canada's current account deficit with the United States, Canada would then be obliged to offer to sell the excess United States dollars to the fund."<sup>83</sup> Under normal circumstances Canada would receive Canadian dollars in exchange for the excess American dollars. However, if the Canadian dollar had become a scarce currency, Canada " . might be required to hold sterling or to take some other foreign currency or foreign obligation which she does not want."<sup>84</sup> Obviously, Canada would desire to hold a currency that either had a strong demand in the world market or was the currency of a country with which Canada wanted to expand trade. In Canada's case only one country, the United States, suited either criteria; it actually fit both.

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<sup>83</sup>PAC, RG19, vol. 3981, file M-1-7-2, "Canada-United States Discussion of Stabilization Fund Proposals", 22 April 1943, p. 26.

<sup>84</sup>Ibid., p. 27.

Because of the United Kingdom's unusual postwar import requirements, sterling was likely to be a plentiful currency throughout the world. If Canada opted to hold sterling, the only way she could use it would be to import more from sterling area countries. This tended to limit the freedom of Canadian importers and ultimately of exporters of manufactured and semi-manufactured goods. Many American products had become familiar to Canadians. For example, Canada was the second largest exporter of automobiles, many of the components of which came from the United States. Consequently, Rasminsky offered a solution to this dilemma with the provision that;

when the Union's operations have resulted in excess sales of the currency of any member country to the extent of 75 per cent of the quota of that country the Union may, in order to increase its resources of the currency in question, attempt to arrange with the member country a programme of foreign capital investment or repatriation and may sell foreign exchange to facilitate such capital movements.<sup>85</sup>

The reason for this provision was made explicit by Rasminsky in an earlier version of his plan;

. . . in case the plans do turn out to be bilateralist on capital account it provides us with an opening to provide additional Canadian dollars to the Fund and thus reduce our sterling current account surplus by repatriating securities from the U.S.A.<sup>86</sup>

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<sup>85</sup>PAC, RG19, vol. 3982, file M-1-7-4, Rasminsky, "Draft Canadian Proposals for a Foreign Exchange Stabilization Union", 1 June 1943, section VI(2).

<sup>86</sup>Ibid., "Proposals for an International Currency Stabilisation and Clearing Fund", n.d., section III(70M).

In this way Canada could reduce her capital account indebtedness without having to disrupt her trade patterns. Also, by repatriating U.S. held securities or investing in the United States, Canada would put more United States dollars at its disposal. Since American dollars would be in heavy demand world-wide, Canada could use them to purchase imports or invest in a third country if she so desired. Indeed, most countries would be eager to receive American dollars and Canada would therefore be in a comfortable position as compared to being saddled with sterling.

## CONCLUSION

During postwar planning Canadian officials found themselves in a position which neither Britain nor the United States occupied. In a recent article, John J. Deutsch reveals the Canadian position; "Among the greatest concerns that we had were two highly unfavourable possibilities with regard to postwar developments: the prospect of the continuing inconvertibility of sterling and economic isolationism by the United States."<sup>1</sup> Although United Kingdom officials increasingly viewed the sterling area in terms of rectifying its troublesome import-export imbalance, Canadian officials increasingly viewed the sterling area in terms of the difficulties in balancing Canada's international payments by utilizing a trade surplus with Britain against a trade deficit with the United States.

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<sup>1</sup>John J. Deutsch, "Canadian Views", in A.L.K. Acheson, J.F. Chant and M.F.J. Prachowny, (eds.), Bretton Woods Revisited: Evaluations of the International Monetary Fund and the International Bank for Reconstruction and Development, (Toronto: University of Toronto Press, 1972), p. 45.



The first few years of war amply demonstrated to Canadians the problems caused by the inconvertibility of sterling. Even though Keynes' Clearing Union did not advocate inconvertibility per se, the management of a currency bloc, as proposed in the Clearing Union, had virtually the same effect for the Canadian economy. With the inconvertibility of sterling, Canada had two methods of reducing its international payments problems: to decrease exports to the sterling area or to increase imports from the sterling area. Currency blocs, while permitting 'free-trade' within this area, would tend to balance exports from the bloc with imports to the bloc. Although no one particular country would necessarily be forced to balance its trade with the bloc, Canada would nevertheless find itself under increasing pressure to balance its trade with the sterling area. The reason Canada was susceptible to this pressure was owing to the disruption in trade caused by the war. During the early postwar period many of the sterling area countries would have to look outside the bloc for goods needed to re-build their economies. Consequently, because of the inherent nature of the sterling bloc, pressure would be exerted on virtually every country exporting to the sterling area to balance their trade by increasing their sterling imports.

From a political standpoint, it would be almost impossible for Canada to decrease exports to the sterling area. Economically, decreasing exports to the sterling area

would decrease the level of economic activity in Canada because no alternate export market was available to Canadian producers. However, increasing imports from the sterling area might have had devastating effects on the Canadian economy. First, it would shift the close association of Canadian manufacturers with their United States counterparts to a closer association with British manufacturers. The possibility of this occurring raised fears in Canada that the growing Canadian industrial economy would be vulnerable to pressures by British manufacturing interests. There were also the financial problems associated with increasing Canada's trade with the sterling area. Even if Canada had increased its trade with the sterling area it would still possess a heavy investment debt owed to the United States. Because of the experiences encountered in the interwar period, when sterling decreased relative to the American dollar, Canadians knew the difficulties that arose servicing a financial debt owed in one currency with another currency. The Canadian officials rejected the British proposals because of the difficulties presented to the Canadian economy.

The American isolationists also presented problems for the Canadian economy. These isolationists assumed two forms. The first, and the more extreme, were represented by the 'autarchists'. These isolationists desired a restricted continental economy that would shield the United States from European disruptions. Such a continental economy would tear

Canada's traditional trade relationship apart and would have "effectively shackled Canada to the United States". Fortunately the 'multilateralists' were in the ascendancy and Canadian officials did not have to deal with the autarchist agenda beyond ensuring international support for the multilateralists. The second form of American economic isolationism was moderate, but nevertheless existed within the multilateralists. The multilateralists viewed the development of the Grand Area as a means of achieving, if not world peace, at least a stable economic environment that would ensure the United States' security. Although these multilateralists emphasized multilateral trade and financial relations which included most of the non-German world, they did not have the same sense of urgency to include the United Kingdom as had Canadian officials. As much as the multilateralists wanted to include Britain, several occasions arose which threatened to destroy Anglo-American cooperation. In late 1942, just after the American elections, and into early 1943, Anglo-American relations were at a low point. This deterioration in Anglo-American relations caused many Canadians to doubt the possibility of an Anglo-American partnership in an international financial organization. Without such a partnership the United Kingdom would likely pursue its proposals irrespective of the American or Canadian plans. Leaving aside the disadvantages which the British proposals presented to the Canadian economy, an Anglo-American partnership was

desirable because the American proposal was inadequate to meet the problems encountered by countries such as Canada, which traded extensively in two different currency areas. The American plan provided an effective means of facilitating multilateral relations but only for current account transactions. Canada, which had relied upon American investment to build its economy, needed a means to convert trade surplus to a capital account transaction. However, since Canada's trade surplus came from the sterling area, and since the American plan allowed currency purchases for current account transactions only, Canada would not be permitted to meet its debt obligations to the United States with its trade surplus from the United Kingdom. Although the Canadian plan provided for converting a trade surplus to a capital account transaction, without the participation of Britain and the sterling area it was doubtful whether the United States would have fully appreciated the value of this provision in the Canadian plan.

Although Canadian officials were most anxious for Anglo-American cooperation, it was not sufficient that the United States and the United Kingdom merely sat together to discuss world economic matters. These Canadians recognized that Canada's interests were distinct from either the United States or the United Kingdom. As a result bilateral talks between these two great nations would not ensure that Canadian interests would be satisfied. Consequently, Canadian

officials strove diligently to be represented at discussions that affected Canada's economic interests. However, gaining this representation was not always easy. During the Commonwealth talks of late October 1942, Canada was adamant in refusing official sanction of the British proposals because it did not want a united Commonwealth front presented to the United States. As a result, Canadian influence on the British proposals was limited. In discussions with the Americans, Canadian officials were more eager to assert Canadian interests. Owing to the fact that much of Canada's interests involved its connection to the sterling area, several Americans had difficulty discerning Canada as independent from the United Kingdom. Consequently, many Americans tended to view Canadian proposals as the extent to which the British would compromise. Indeed, British officials often had difficulty in discerning an independent Canadian interest and tended to view Canada's role as a 'Trojan horse' in which British interests would be concealed in a Canadian proposal in an effort to coerce the Americans into a compromise. Keynes' bitterness towards the presentation of the Canadian plan reflected this aspect of British attitudes towards Canada:

. . . we were much upset by the Canadian draft. . . . It all seems a great misfortune. The Canadian re-draft is, of course, a great improvement so far as it goes. All the changes are for the better, and the drafting has been improved or made much clearer in many points of detail. But this makes one all the sorrier that it has been put so definitely at this stage. For at a later date and

with some further changes it might have been so easy for Canada to take the really decisive part of producing a mediated scheme. As it is they are wasting their ammunition. Really a most awful pity.<sup>2</sup>

Keynes did not consider that Canadian interests would not be served in his definition of a "mediated scheme". In spite of the difficulties encountered in asserting Canadian interests, the level of expertise of several Canadian officials and the desire to assert Canadian interests ensured that Canada was effectively represented in the informal postwar financial discussions.

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<sup>2</sup>Keynes to D.H. Robertson, 11 June 1943, Collected Writings, vol. 25, p. 298.

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