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The Politics of Food and the Disintegration of the Anglo-Canadian Trade Relationship, 1947-1948

B. W. Muirhead

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See table of contents

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Article abstract

This paper examines a somewhat peripheral event in postwar transatlantic diplomacy, the 1947-48 food negotiations between Canada and the United Kingdom, because the process and the outcome of these talks illuminate the deterioration in the traditionally close relationship between the two countries. Because of the financial strains caused by British wartime expenditures, Canada was unable to negotiate a reestablishment of the prewar trade relationship, in which surpluses in her trade with Great Britain financed deficits in her accounts with the United States. The British negotiating strategy forced the Canadian government to reconsider its traditional dependence on the British connection, which had hitherto been so fundamental to Canadian history. This paper therefore challenges the view that Canadian politicians "sold out" the country in shifting attention from Britain to the United States after World War II.

The Politics of Food and the Disintegration of the Anglo-Canadian Trade Relationship, 1947-1948

B. W. MUIRHEAD

Résumé

This paper examines a somewhat peripheral event in postwar transatlantic diplomacy, the 1947-48 food negotiations between Canada and the United Kingdom, because the process and the outcome of these talks illuminate the deterioration in the traditionally close relationship between the two countries. Because of the financial strains caused by British wartime expenditures, Canada was unable to negotiate a reestablishment of the prewar trade relationship, in which surpluses in her trade with Great Britain financed deficits in her accounts with the United States. The British negotiating strategy forced the Canadian government to reconsider its traditional dependence on the British connection, which had hitherto been so fundamental to Canadian history. This paper therefore challenges the view that Canadian politicians ''sold out'' the country in shifting attention from Britain to the United States after World War II.

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Si cette article se penche sur un événement périphérique, en quelque sorte, dans l'histoire de la diplomatie transatlantique de l'après-guerre, soit les négociations entre le Canada et la Grande-Bretagne au sujet du commerce des produits alimentaires, c'est que le processus de même que les résultats de ces rencontres mettent en lumière la détérioration des relations traditionnellement proches entre les deux pays. En raison des contraintes financières apportées par les dépenses de guerre de la Grande-Bretagne, le Canada ne fut pas en mesure de réinstaurer les relations commerciales d'avant-guerre au moyen desquelles il avait pu utiliser ses ventes au Royaume-Uni pour financer le déficit des ses échanges avec les États-Unis. La stratégie britannique de négociation allait forcer le Canada à repenser la dépendance envers le marché britannique qui avait occupé une place majeure dans son histoire jusque là. Ces conclusions nous portent à remettre en question l'idée que le gouvernement aurait ''vendu'' le pays lorsqu'il a détourné son attention de la Grande-Bretagne vers les États-Unis, aux lendemains de la deuxième guerre mondiale.

The 1947 Anglo-Canadian food negotiations are not terribly important in and of themselves. Certainly there was much more of far greater import happening both in Canada and elsewhere in the world. This then raises the question, why are they at all noteworthy?

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Their significance lies in the interpretive questions that they raised for Canadian policy-makers in 1947 and 1948 over the future course of the transatlantic relationship. In short, the negotiations are a microcosm of the larger Canadian-United Kingdom relationship as it developed in the early postwar era. For the first time in the postbellum period, Ottawa began to harbour grave and substantive doubts about British intentions and policy that differed qualitatively from concerns expressed in 1944 and 1945. For a historian, the negotiations also raise questions about the so-called sellout to the United States by the Liberal government of William Lyon Mackenzie King, a position that has been espoused by critics on both the left and right.[1]

With respect to the former, Sir Andrew Jones, head of the United Kingdom Food Mission in Canada, put it most clearly when he hypothesised in mid-1949 that Canadians were beginning to think that they had "made a mistake when they decided to base their agricultural economy on the continuance of long-term agreements with the United Kingdom."[2] That fear went far beyond merely losing a market. It went right to the heart of Canada's foreign economic policy. Ottawa was desperate to reestablish the "traditional" North Atlantic triangle where a surplus in trade with the United Kingdom helped to pay for a deficit with the United States — a situation characterised by R. S. Sayers as "a bilateral imbalance within a balanced North Atlantic triangle."[3] The 1947 negotiations and their aftermath suggested that those days might be over forever, much to the consternation of the Canadian government.

This then calls into question the accuracy and applicability of the sellout thesis. The 1947 negotiations demonstrated Ottawa's commitment to maintaining its market in Britain and Britain's determination to pare dollar expenditures to the minimum. The continuing establishment of a continental economy in North America was, in part, a reflection of that reality. Critics have exaggerated the extent to which this development indicated the subjective preferences of Canadian politicians and civil servants. Both recognised the perils inherent in continentalism, but came reluctantly to the realisation that they were powerless to resist those forces. In the critical period after World War II, when world commerce was in a state of flux, the United States represented the only available and viable option for Canadian traders. This was a development which the negotiations highlighted despite the fact that, in the words of one British official, Canada "leaned over backward" to accommodate their demands.[4]

Ultimately, the maintenance of soft and inconvertible currencies and pervasive dollar problems and crises experienced throughout the postwar period worked against the development of Canada's trade with Britain. This, in fact, became the crux of the

1. For a sampling of this literature, see Donald Creighton, *The Forked Road: Canada, 1939-1957* (Toronto, 1976), preface and 226; James Laxer, *Canada's Economic Strategy* (Toronto, 1981), 10-11; Melissa Clark-Jones, *A Staple State: Canadian Industrial Resources in Cold War* (Toronto, 1987).
2. Public Record Office (PRO), Dominions Office Records, DO35, Vol. 3503, Sir Andrew Jones to Sir John Bodinnar, 24 August 1948.
3. Cited in R. S. Sayer, *Financial Policy, 1939-45* (London, 1956).
4. PRO, United Kingdom Treasury, Economic Policy Committee Records, T234, Vol. 1974, "UK Exports to Canada," August 1948.

food negotiations as British officials, strictly controlled by their political masters, followed a much more calculated and self-interested path than did their Canadian counterparts. Canada remained a generous ally, despite the fact that its problems remained, potentially, the equal of Britain's.

THE CONTEXT: THE WAR YEARS

World War II brought with it a whole new array of problems for Canada. Not the least of these was British currency inconvertibility, implemented early in September of 1939. At one fell stroke, Ottawa's balance of payments equilibrium was thrown into chaos. Britain, along with the United States, was an essential pillar of Canada's North Atlantic triangle. With a "soft" pound came the imposition of exchange controls throughout the British-dominated sterling area, which was comprised of British dominions, colonies, and certain other associated countries. The area agreed to pool its resources during the war for the benefit of the whole, allowing the United Kingdom to purchase goods and services and credit by accumulating sterling balances and postponing the day of reckoning to a more advantageous time. Sterling could still be transferred freely between the countries of the area, but it could be exchanged freely for other currencies only in severely circumscribed and government-approved ways.[5] Private trade was also curtailed in many sectors as Whitehall took over the task of securing the necessary supplies for the war effort. This practice was extended into the postwar period and, during 1946, 1947, and 1948, 96 per cent, 91 per cent, and 91 per cent respectively of imports were subject to government controls.[6]

This development had ominous implications for Canada since she did not belong to the sterling area, the only Commonwealth country to remain outside. Reflecting its economic self-interest, Canada was in the informal dollar grouping, whose currency remained hard and convertible. Nor was Ottawa interested in amassing sterling in the form of balances which it could not use in the foreseeable future. Deputy Minister of Finance Clifford Clark summarised the government's attitude best when he told Grant Dexter of the *Winnipeg Free Press* in the first months of the war that he "would as leave . . . be hit with a brick as a British pound these days."[7] Accordingly, Ottawa provided the United Kingdom with credits, as it would in the postwar period, designed to ensure that Britain would not be "in hock" to Canada after the war. A seven hundred million dollar loan and a one billion dollar gift in 1942 went part way toward addressing the imbalance in Anglo-Canadian trade, while Mutual Aid, implemented in 1943, rationalised the aid process to Britain.

Canadian help was much appreciated by the dollar-starved British and, while in Ottawa negotiating the new financial arrangement with the Canadian government in August of 1944, John Maynard Keynes, then in the employ of the Treasury, told Minister

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5. Economic Cooperation Administration, *The Sterling Area: An American Analysis* (London, 1951), 21. Sterling balances increased over the course of the war from about £540 million in 1938 to more than £3.5 billion by 1946.
6. J. C. R. Dow, *The Management of the British Economy, 1945-60* (Cambridge, 1965), 174.
7. Queen's University Archives (QUA), Grant Dexter Papers, Box 2, Folder 16, Memorandum, 12 December 1939.

of Finance J. L. Ilsley that "unquestionably Canada [had] given the UK a much better deal than anyone else [had]."[8] This was true, partly because a commercially secure Britain was in the Canadian interest, but also because there was genuine regard for the role played in the war by the United Kingdom. The implicit assumption, however, was that this ally would be "on-side" in multilateral and nondiscriminatory terms after a brief postwar transitional period. In large measure, Ottawa felt that Canadian prosperity depended upon such a position.

By 1944, however, there were some indications that London was backsliding. In the meeting between Keynes and Ilsley, the British laid out a very bleak scenario: imports had exceeded exports by some one billion pounds in 1944 and civilian consumption had fallen from a base of 100 in 1939 to 70 in 1944. Over the same period in the United States, the same index had increased from 100 to 115. Finally, and perhaps most ominously, the United Kingdom had liquidated overseas assets worth approximately three billion pounds and had run up onerous bills in the sterling area. Moreover, some members of the British Cabinet, who were not without popular support, told Prime Minister Winston Churchill that they would not stand for any "multilateral nonsense." Countries that wanted to export to Britain after the war would have to take British goods in return; she intended to "luxuriate in the position of a debtor country."[9] All of that, some Canadians thought, seemed to imitate "the policies worked out for Germany [in the 1930s] by Dr. Schacht."[10]

This was where matters stood with Britain when German resistance crumbled in May of 1945. On the other hand, Canada had become, relatively, fabulously wealthy during the nearly six years of war — industry now employed more Canadians than ever before, agriculture was hard pressed to keep up with demand, and unemployment was nonexistent. The country was prosperous as never before. The stark fact remained, however, that Canadian prosperity continued to rest on the fragile base of international trade; the war had not changed that fact. This impelled the government to commit itself to a policy of multilateralism and nondiscrimination, and to pursue it perfervidly.[11] Yet it also meant that Ottawa would do all in its limited power to help reestablish the bilateral imbalance within the balanced North Atlantic triangle and assist in resurrecting the United Kingdom, its major overseas market, from wartime devastation.

THE CONTEXT: A SHORTAGE OF DOLLARS

"After the war we must protect our best market to the extent of helping the UK rebuild its economy," or so Minister of Munitions and Supply C. D. Howe had explained to

8. *Documents on Canadian External Affairs*, 10:547.
9. Bank of Canada Archives (BCA), Louis Rasminsky Papers, LR76-415-7, "Post-War Commercial Policy Prospects: A Proposal for Averting a Breakdown in International Trade Relations," 18 January 1945. See also J. L. Granatstein, "Settling the Accounts: Anglo-Canadian War Finance, 1943-45," *Queen's Quarterly* 83 (1976): 239.
10. Robert Bothwell and John English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-47," *Canadian Review of American Studies* 8 (Spring 1977): 58.
11. See my "Perception and Reality: The GATT's Contribution to the Development of a Bilateral North American Relationship," ibid., 20 (1990): 279-301 for an account of this.

Prime Minister King in mid-1944.[12] With an eye to the potential disruption of North Atlantic trade, the King government had reason to be concerned about the general thrust of British policy. In short, Ottawa was most anxious that Britain return, with some Canadian assistance, to a convertible and nondiscriminatory regime. The fact remained, however, that British prospects were not encouraging.

This reality caused much soul searching in Ottawa. With Canada dependent upon Britain for vital export markets, it would be unable to pay for imports from the United States and would end up "ground between the upper and nether millstones."[13] What was needed, according to the Governor of the Bank of Canada, Graham Towers, was a major salvage operation if the trend towards complete postwar breakdown in international trade relationships was to be averted. It was for this reason that, in February of 1945, the Canadian government mooted the possibility of offering a substantial loan that would help see Britain through its anticipated transitional period difficulties.

The British, however, preferred to deal with the Americans first and, over the course of several gruelling months of negotiations, received a loan of $3.75 billion from Washington, less than one half of what they had sought. Following these discussions, a British delegation came to Ottawa in search of a Canadian credit. In general, Canadians disliked the hard line taken by Washington. Indeed, Graham Towers was so distressed by the prospects of the United Kingdom after the American negotiations that he urged Prime Minister King to be particularly generous. As Towers pointed out, her European ally "was relatively weak" and Ottawa's interests lay "in strengthening the United Kingdom . . . within the limits of our power to do so."[14] He, at least, was supportive of an interest-free loan. Canada was generous, offering without much hesitation the $1.25 billion asked for by British negotiators. Ottawa was, however, barred by the terms of the Anglo-American credit from offering a better deal. The Canadians also forgave British indebtedness accumulated under the British Commonwealth Air Training Plan.

In a separate negotiation, a four-year wheat deal was finalised in June of 1946, whereby that commodity was offered to the United Kingdom at lower than the world price for the first two years. This was not altogether altruistic, however, as Ottawa believed that wheat prices would collapse in the postwar period, as they had following World War I, and wanted to be as well placed as possible to deal with the anticipated

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12. Canada. National Archives (NA), W. L. M. King Papers, J-1, Howe to King, 31 August 1944, p. 313042. It was clear by 1944 that the British economy would take some "reestablishing." Prime Minister Attlee pointed out in the House of Commons in August of 1945 that "the initial deficit with which we start the task of re-establishing our economy . . . is immense." Lord Keynes called it "a financial Dunkirk." Sir Alec Cairncross, *Years of Recovery: British Economic Policy, 1945-51* (London, 1985), 6 and 10.
13. BCA, Rasminsky Papers, LR76-415-7, "Post-War Commercial Policy Prospects . . .," 18 January 1945.
14. BCA, Graham Towers Papers, Memo #502, 22 February 1946. See L. S. Pressnell, *External Economic Policy Since the War: The Post-War Financial Settlement* (London, 1986), 1:342-55 for an account of the Anglo-Canadian loan negotiations. See also Hector Mackenzie, "The Path to Temptation: The Negotiation of Canada's Reconstruction Loan to Britain in 1946," *Historical Papers/Communications historiques* (1982): 196-220.

fallout. From the government's perspective, it seemed a superb idea and would address two related problems: it would help to iron out the peaks and troughs of farm income following the disastrous experience of the 1930s and would provide at least a partial answer to the political questions raised when Saskatchewan returned only a brace of Liberals to Parliament in the federal election of June 1945.

This initiative came back to haunt the Liberal government, however, as prices paid per bushel climbed steadily through the five years after the war. They reached the lofty height of $3.16 per bushel by Christmas of 1947, compared with the $2.00 per bushel that Britain was paying for Canada's crop. The eventual cost of further (unintended and unanticipated) assistance given in this way was more than $365 million. Such aid was practical bilateral politics, given Canada's dependence on the British market for a number of its export products, and it was also an attempt by Ottawa "to do its part" in helping to ease the United Kingdom back into a convertible and nondiscriminatory trading world that was the object of so much Canadian policy. Even given the self-interest of the Canadian position, it was nevertheless true that the country did substantially more relative to its size and resources than any other to help the United Kingdom's postwar recovery. In the process, Ottawa extended itself to the limit.

Following the granting of these loans, Canada's trade with Britain improved. Indeed, total Canadian exports increased by 20 per cent in 1946, and a goodly proportion of that increase went to the United Kingdom. Under these circumstances, Ottawa was reasonably optimistic that the postwar world would meet its expectations. Unfortunately, that was not to be the case. Primarily as a result of the misguided restoration of parity between the Canadian and American currencies in 1946, Canada began the slide into dollar difficulties as consumers stocked up on American goods, now made cheaper because of the strengthened dollar.

This trend was further aggravated by increased British exports to sterling-area countries, from about 45 per cent of total UK exports in 1946 to 48 per cent by 1950. This left Canada importing larger volumes of certain commodities from the United States which had traditionally come from Britain. To make matters worse, many of those British goods that did find their way to Canada were priced out of the market. For example, English china and pottery, shirts and haberdashery, and automobiles all met with sales resistance because of their high cost.[15]

As a result of these and other developments, Canada's US dollar deficit rose dramatically. Early in 1947, at the height of the buying binge, Britain began to experience serious financial difficulties of her own, sustaining the first of several postwar dollar crises that threw the entire balance of Anglo-Canadian trade into complete disarray. This was reflected in the very rapid rate at which London was running through the Canadian credit. By the end of March 1947, Chancellor of the Exchequer Hugh Dalton was so concerned over the rate of drawings on both the Canadian and American loans that he formally warned the entire Cabinet that it was "racing through [the] dollar credits at

15. Canada. Department of External Affairs, External Affairs Records (CEAR), 154-s, Norman Robertson to Lester Pearson, 15 November 1947.

reckless and ever-accelerating speed.''[16] In effect, the British were partially living off of the largess of Canadian and American taxpayers and Canada, at least, could not sustain that contribution to England while, at the same time, incurring a growing deficit in her trade with the United States.

Throughout the spring of 1947, the British and Canadian dollar situations continued to deteriorate. Ottawa asked London to refrain temporarily from further drawings on the Canadian credit, a demand which did not please the British who considered it an infringement of the agreement. If the credit were restricted, London would have to consider curtailing such dollar imports as poultry, bacon, eggs, and cheese which, like wheat, were subject to long-term contractual arrangements, unless Ottawa made further concessions. In the end, the United Kingdom was allowed to continue to draw on the credit, but the King government demanded a *quid pro quo*: London would have to match its drawings on the loan with an equal amount of convertible currency, the 50/50 deal. While the British were reluctant to agree, there were few alternatives. The British government also made it known, however, that the token import scheme first arranged in May of 1945 — where the British government had allowed token imports of commodities for which Canada had been the traditional prewar supplier — was in jeopardy. The policy constituted an attempt to ensure Canadian producers at least a presence in the British market during the transition period, ''to encourage them for a better future,'' and was much welcomed for that reason.[17] It was pointed out, however, that the British were quite willing to continue the arrangement if Canadian exporters ''were prepared to accept payment in [inconvertible] sterling.''[18]

Canadians found such pronouncements distasteful and unhelpful in the extreme, with London again threatening reductions in imports of Canadian products. Clark instructed Robert Bryce of the Department of Finance to prepare a memo that presented Canada's case against the undue use of import restrictions. It was important to reiterate the obvious to London, namely that Canada had given a loan relatively much larger than that of the United States, kept its price levels down, given export credits exceeding its favourable balances at a time when Canada was losing American dollars, and shown its willingness to increase imports from the United Kingdom and other sterling countries.[19] Given their own problems and the imminence of nonresident sterling convertibility, a requirement under the terms of the Anglo-American loan agreement, the British paid little heed to Canada's demands for reassurance.

16. Hugh Dalton, *High Tide and After: Memoirs, 1945-1960* (London, 1962), 220.
17. R. W. B. Clarke, *Anglo-American Economic Collaboration in War and Peace, 1942-49* (Oxford, 1982), 66.
18. PRO, United Kingdom Treasury, Overseas Negotiating Committee (ONC) Records, T238, Vol. 4, B. P. (O.N.) (47), 36th meeting, 14 November 1947.
19. NA, Department of Finance Records, RG 19, E2 (f), Vol. 3437, Clark to Bryce, February 1947; see also BCA, Rasminsky Papers, LR76-411-6-1, R. B. Bryce, ''Necessity for the Continuance of the Present Arrangement of Drawing Upon the Canadian Credit,'' June 1947. Comparing the increase in American and Canadian prices between the first quarter of 1946 and June of 1947, the former's had gone up by 37 per cent while the latter's had increased by only 12 per cent.

London introduced sterling convertibility on 15 July 1947. This was a fateful move that lasted slightly longer than one month and resulted in the loss of millions of borrowed dollars — seven hundred million dollars in July alone. Of all the currencies of the European belligerents, sterling alone was now freely convertible, and other countries simply cashed in their accumulated (and abundant) soft pounds for hard (and very scarce) dollars to buy much-needed North American goods. Hugh Dalton pointed out the obvious when he announced the suspension of convertibility on 21 August, noting that "the burden of the desperate dollar shortage of so many other countries was simply shifted to our shoulders."[20] That was true, but the British government also emerged from the crisis, as Sir Alec Cairncross has pointed out, "with little credit": the Cabinet "was content with drift," while the Bank of England offered very suspect advice.[21]

In the aftermath of the convertibility disaster, the British claimed to be unable to continue with the 50/50 arrangement. Their situation was now simply too acute to permit payment in American dollars. Furthermore, the British insisted that, if Canada needed US exchange — the Canadian deficit with the United States was forecast at nine hundred million dollars — then it was obvious that she was doing "relatively little . . . to conserve United States dollars at a time when all countries were denying themselves things they wanted because of the dollar shortage."[22] In other words, Ottawa should embark on an all-out programme of restricting imports from the United States, just as Britain was doing. Needless to say, that argument was interpreted differently on each side of the Atlantic.

The reality was that Canada was not experiencing a dollar crisis because she was impoverished. Rather, exchange controls were the result of a number of factors. In large part, they grew from a high level of Canadian prosperity which manifested itself in the purchase of American products. As well, Canada's exchange problems were a reflection of the difficult international financial position of the United Kingdom and, in part, derived from the fact that Ottawa had provided a disproportionate share of the money needed for the recovery of Britain and Western Europe. Nevertheless, the disagreement over the exchange positions of both countries did nothing to contribute to a greater understanding of each other's problems.

With the return of inconvertibility, Canada's worst fears were realised as restrictions on commodities imported from the dollar area were imposed. For Ottawa, the crux

20. R. N. Gardner, *Sterling-Dollar Diplomacy* (New York, 1969), 315.
21. Cairncross, *Years of Recovery*, 137.
22. CEAR, 154-s, Bryce to Clark, 16 September 1947. By some calculations, the United Kingdom was actually better off in terms of gold and dollar reserves on hand than was Canada. A memo prepared in the Department of Finance noted that British reserves at the end of 1946 had represented nearly 40 per cent of their current account payments to all countries in that year. Canada's reserves of eight hundred million dollars represented less than 30 per cent of its current accounts payments. Further, United Kingdom reserves were 135 per cent of her 1946 imports from dollar countries, while Canada's amounted to about 50 per cent of her 1946 imports from those countries. Finally, it was forecast that, in 1947, British holdings would be in excess of her estimated dollar deficit, while Canadian reserves would fall short. See BCA, Rasminsky Papers, LR-76-412-5, "Memo of the Export Position and Credit to the UK," 1 May 1947.

of the problem was clear: more than 40 per cent of her exports were comprised of four products, wheat, newsprint, woodpulp, and lumber. Much of this had traditionally gone to Britain.[23] Put bluntly, much of what could not be sold there, it was feared, could not be sold at all. Further, the production of some Canadian goods like eggs and bacon were tailored almost entirely to meet British consumer tastes. Many Canadians felt that, even if Ottawa could redirect part of its trade, "it would be quite unable by such means to offset the loss of the British market."[24] Ever on guard against a further loss of custom, the government in Ottawa applied increasing pressure on London to reverse the decline in Anglo-Canadian trade which, as a percentage of total Canadian merchandise exchange, had fallen dramatically.

As this situation worsened, so too did Canada's dollar position, as declining sales to Britain combined with rising imports from the United States. With the growing deficit, the Canadian government announced on 17 November 1947 a programme of import and travel restrictions directed against the United States. It also sought a loan from the Export-Import Bank, an agency of the American government. Ottawa wanted five hundred million dollars over ten years, but the best the bank would do was three hundred million dollars over a "painfully short" five.[25] As well, in part to address a deteriorating situation, the King government undertook top-secret negotiations with the United States for a free-trade agreement between the two countries. By March of 1948, however, this initiative had spent itself and the idea was quietly shelved. Even so, it demonstrated the depth of concern with which the Canadian government viewed its situation.

In short, Canada was facing serious fiscal problems that seemed almost to threaten the country's economic viability. Exchange controls and import quotas became the outward manifestations of the turmoil in Ottawa. It was in this context that British and Canadian officials undertook to negotiate the former's 1948 food import programme, discussions that the British Ministry of Food memorandum called "the most important which are in sight." In the Ministry's estimation, "nothing less than the future pattern of Canadian agriculture and Canada's future economic position in the British Commonwealth may be determined by these discussions."[26] If they failed, not much hope could be held out for the Anglo-Canadian relationship.

THE FOOD NEGOTIATIONS

Sir Percivale Liesching, the Permanent Secretary of the Ministry of Food, led the British mission to Ottawa in November of 1947. His mandate was simple: "to extract every possible advantage from Canada."[27] That included, so a strategy memo noted, breaking long-term contracts. As Prime Minister Attlee was told by a senior aide, "if we do not [now] make the cuts necessary to protect our reserves, we run a very real risk of having

23. Paul Wonnacott, *The Canadian Dollar, 1948-62* (Toronto, 1965), 4.
24. PRO, Dominions Office Records, Vol. 3506, File 2291/36, *New Statesman*, 21 May 1949.
25. NA, Department of External Affairs Records, RG 25, A-12, Vol. 2081, File AR13/8, Vol. 1, Graham Towers to Norman Robertson, 17 November 1947.
26. PRO, United Kingdom Treasury, Overseas Finance Division (OFD) Records, T236, Vol. 8, B. P. (O. N.) (47) 70, "Canadian Negotiations," 2 November 1947.
27. Ibid., Vol. 15, Brief for Minister, "The 1948 Dollar Programme," 16 October 1947.

cuts of a wholly different order of magnitude forced upon us in the not very distant future.''[28]

Table 1
United Kingdom Import Programme, 1948 (in millions of pounds sterling)

	Full Programme	Reduced Programme
Wheat and Flour	74.2	74.2
Bacon	25.2	0.0
Beef	2.1	0.0
Cheese	4.3	4.3
Eggs	9.0	0.0
Other Foods	1.0	1.0
Total Food	**115.8**	**79.5**
Timber	25.5	21.2
Nonferrous minerals	29.4	29.4
Steel	8.8	6.0
Pulp and Newsprint	21.8	15.5
Other Raw Materials	12.5	12.5
Total Raw Materials	**108.0**	**84.6**

Source: PRO, United Kingdom Treasury, Overseas Negotiating Committee Records, Vol. 8, B. P. (O. N.) (47) 80, ''Negotiations With Canada,'' 6 November 1947.

At the top of the British ''hit list'' (see Table 1) were the long-term bacon and egg contracts which were highly valued by Canadian suppliers for whom they had provided an element of security. While the United Kingdom recognised the hardships that would be visited upon Canadian egg and hog farmers, there was, in London's opinion, no other course. As well, the United Kingdom anticipated cuts of four million pounds in timber from Canada, a reduction that would necessitate ''very delicate negotiations'' as Britain absorbed approximately 40 per cent of the output of British Columbia's largest industry.[29] As it stood, the British anticipated taking only 350,000 standards of softwood in 1948, compared to 545,000 the year before. In the case of wheat, the contract would be honoured as long as the world price did not fall below the minimum set by the four-year deal. Wheat was a special case, however, and London was only too well aware of this fact, especially given the concern expressed by some ministers (most notably by Minister of Food John Strachey) over the necessity, political or otherwise, of ending bread rationing.[30] To do so, he badgered his Cabinet colleagues to allocate more scarce

28. Ibid., Memorandum for Prime Minister, 7 October 1947.
29. Ibid., Vol. 8, B. P. (O. N.)(47) 68, ''United Kingdom Exports to Canada,'' 2 November 1944.
30. See Alec Cairncross, ed., *The Robert Hall Dairies, 1947-53* (London, 1989), 15. Indeed, Hall noted in his diary that Sir Edwin Plowden, the Chief Planning Officer and Chairman of the Economic Planning Board, thought that ''Ministers [were] in a panic both about the very bad situation and their own prospects.'' An end to bread rationing would certainly have been a favourable political omen.

dollars to purchase additional quantities of wheat, albeit at prices substantially higher than those being paid Canadian producers.

Seen in this light, the Anglo-Canadian wheat agreement was crucial. Similarly, other contracts had to be maintained, especially those covering steel and nonferrous minerals, which were vital for continued British recovery. From their perspective, the problem with metals was that these commodities would find American buyers ready to pay in hard currency. In prenegotiation strategy sessions in London, the British decided that, when dealing with unpleasant issues like a revision of the 50/50 agreement, Canadian surpluses of sterling, or the abrogation of the long-term contracts, the British mission would have to be careful that it did not "drive the Canadians at once into breaking off contracts which we wished to continue."[31]

When the actual negotiations begun late in November, the position of the United Kingdom came as a horrible shock to the Canadians, who had discounted rumours of a British hard line as a mere bargaining strategy. London was playing for high stakes as economic conditions continued to worsen. Hard economic realities meant that the British would "[keep] some contracts, [reject] others, and [spend] money on base metals, particularly copper, urgently needed by the UK." The Canadian Minister of Agriculture, James Gardiner, "found it impossible . . . to take seriously Liesching's statement." In his opinion, it was a case of renegotiating all, or none, of the agreements: he would not be a party to negotiations that "double-crossed" and made "suckers of" Canadian farmers.[32] Indeed, Gardiner insisted to his colleagues that the wheat agreement be used as a lever to compel the United Kingdom to accept all other contracts.[33]

There was no Cabinet agreement on this issue, however, with Gardiner and Minister of Finance Douglas Abbott staking out competing positions. Moreover, the Prime Minister had just returned from London where he had listened to a chilling account from British Foreign Secretary Ernest Bevin of the deepening conflict between East and West. King was adamant that the British delegation not be allowed to return home empty-handed for political, if not economic, reasons.[34] Always the consummate negotiator, Liesching exploited the leverage he had to good advantage. For example, in discussions

31. PRO, United Kingdom Treasury, ONC Records, Vol. 8, B. P. (O. N.) (47) 66, "Scope for Negotiations with Canada," 2 November 1947. See also Clark, *Anglo-American Economic Collaboration*, 73-74.
32. QUA, Dexter Papers, Box 4, Folder 31, "Long Distance Telephone Call from Max Freedman," 5 December 1947. See also PRO, United Kingdom Treasury, OFD Records, Vol. 5, B. P. (O. N.) (47), 69th meeting, 31 December 1947. The Canadian Ambassador to Washington, Hume Wrong, also questioned the British position. As he wrote to the Under Secretary of State for External Affairs, Lester Pearson, "The most surprising thing to me is the apparent ignoring by the United Kingdom representatives of the probable marked improvement in their balance of payments position through the operation of the European recovery programme [which London had totslly discounted]. The admirable spirit of Mr. Churchill's speeches during the Battle of Britain of fighting 'if necessary alone' is hardly applicable to the economic battle of the United Kingdom." CEAR, 154-s, Wrong to Pearson, 5 December 1947.
33. QUA, Dexter Papers, Box 4, Folder 31, "Long Distance Telephone Call from Max Freedman," 5 December 1947.
34. I am indebted to Hector Mackenzie for this information.

with Towers, he pointed out the obvious problem related to continuing secure markets for Canadian farm products. In response to Liesching's assertion that the United States could not absorb unsold surpluses, Towers conceded that he was probably correct.[35] In the sanctity of the Cabinet room, Ministers agreed: the United Kingdom remained crucial as a market for Canada's exports. Nothing, it was thought, could change that imperative. As Liesching had intimated to Towers, and as Secretary of State for External Affairs Louis St. Laurent had observed in Cabinet, the fact remained that "the price structure of Canada [could not] stand complete or extensive diversion of food exports to the US," the only possible hard currency market.[36]

Through increasingly bitter negotiations, a compromise was finally worked out. The political implications of a failure to arrive at an acceptable conclusion were too sobering to contemplate. In both Canada and Britain, to say nothing of the United States, the outcry, it was believed, would be deafening. Even so, the agreement eventually accepted by the British created divisions within the Canadian government. The decision to meet them more than half way was Prime Minister King's alone and, according to Britain's High Commissioner in Canada, Sir Alexander Clutterbuck, "ran against the entire body of financial opinion from Abbott downwards."[37]

The arrangement would run only until the end of March of 1948, when all of its components would be reevaluated. The token import scheme remained in place, the British would be allowed to draw on credits of forty-five million dollars over the three months, and a formula was devised to meet the sterling-area deficit with Canada. Finally, and most importantly from the British perspective, the wheat contract was maintained. That was the critical element, "the cardinal point of the whole business," as Chancellor of the Exchequer Sir Stafford Cripps claimed.[38] With wheat selling in Chicago for $3.16 in December of 1947, the Canadian price of two dollars looked far too good to pass up. Once again, Canada had extended itself to the limit.

While the negotiations were successful in that an agreement was reached, they were also very traumatic for both sides and did nothing to improve relations. Under Secretary of State for External Affairs Lester Pearson vehemently denounced the whole process, especially the extension of the credit. In his opinion, "we had no right to be giving

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35. PRO, PREM 8/978, Sir Percivale Liesching to Leslie Rowan, 10 December 1947. See also QUA, Dexter Papers, Box 4, Folder 31, Freedman to Dexter, 26 October 1947. For example, Deputy Minister Taggart of the Department of Agriculture told Freedman that "it would be useless to attempt a large-scale diversion of exports from the UK to the US because the farm bloc in the US [would] oppose the large-scale entry of Canadian foodstuffs. . . . Canada's main market is the UK. That's where we should concentrate."
36. QUA, Dexter Papers, Box 4, Folder 31, "Memo," 8 December 1947.
37. PRO, PREM 8/978, High Commissioner for the UK in Canada (HCUK) to Secretary of State for Commonwealth Relations (SSCR), 15 December 1947. For a more sympathetic treatment of the British, see J. L. Granatstein, *A Man of Influence: Norman A. Robertson and Canadian Statecraft, 1929-68* (Ottawa, 1981), 222-24.
38. PRO, PREM, Memo to Prime Minister Attlee, "Negotiations with Canada," 15 December 1947.

Britain any credit at all now. If we were strictly logical, we should completely cancel the remaining portions of the British credit." Canada had negotiated a short-term loan from the Export-Import Bank to address its immediate dollar problem and Pearson, at least, saw a fundamental inconsistency in the Canadian government borrowing on a short-term basis to extend long-term credit to the United Kingdom. Furthermore, after all the recriminations and anger that characterised the process, the talks produced only "an interim, makeshift policy." Pearson concluded by noting that the 1947 food negotiations "had been the most difficult he had ever known."[39] Part of that distasteful atmosphere was certainly a result of Britain's economic condition in 1947, but it was also partly a result of changing British perceptions of the role that the sterling area and Europe would play in its recovery. In short, these countries, and not Canada, were to be emphasised as Britain pulled back from convertibility and nondiscrimination. Enhanced trade with Canada would be on British terms.[40]

The fallout from these negotiations continued to plague Anglo-Canadian relations. No sooner had the British delegation returned home than letters began crossing the Atlantic "interpreting" the recently signed accord. The British felt that they were not in any way committed to providing dollars to Canada after 31 March, just as the latter was not bound to supply dollars to Britain. As well, if hard currency was not forthcoming after that date, Britain felt that the contracts had been terminated: "no arrangements were made as regards the period thereafter." The Canadian interpretation differed substantially. London had entered into contractual obligations to accept certain products at certain prices for the whole of 1948. As Pearson told Clutterbuck, "the inability of the United Kingdom to finance purchases under the contracts in question does not itself cancel the obligations which the United Kingdom government have accepted."[41]

Controversy also developed over whether the British could draw credits of a maximum of fifteen million dollars per month or a block sum of up to forty-five million dollars whenever they wanted. Naturally, London favoured the flexible rate of drawing, feeling that any restrictions "made nonsense of the settlement." While the Canadian government did not object to a certain amount of flexibility, the entire credit would have been exhausted by the end of February 1948 at the rate of drawing in late January. Towers asked Clutterbuck what would occur in March. The British response was not reassuring: "when the money runs out, we talk."[42]

London was also becoming increasing concerned over the operation of the token import scheme, which had been discussed and renewed during the December negotiations. The Foreign Office particularly was adamantly opposed to it. As members of that department noted, when the United Kingdom could barely pay for necessary imports from hard currency countries, the drain on its reserves "for quite unnecessary imports" would probably be too much to sustain. Moreover, since Canada was sending token

39. QUA, Dexter Papers, Box 5, Folder 31, Freedman to Dexter, 23 March 1948.

40. Alan Milward, *The Reconstruction of Western Europe, 1945-51* (London, 1984), 267.

41. See PRO, Dominions Office Records, Vol. 3502, Clutterbuck to Pearson, 24 January 1948 and Pearson to Clutterbuck, 6 February 1948.

42. PRO, United Kingdom Treasury, OFD Records, Vol. 210, Minute Sheet, A. T. R. Grant, 6 February 1948.

imports to Britain, the United Kingdom could hardly oppose American demands for similar treatment, a further expenditure of rare dollars for luxury goods. This was of great concern to a Labour government which did not want to alienate "the 'big business' support of the [pending] E[uropean] R[ecovery] P[rogram] in the USA whose influence counts for so much."[43]

These developments were not encouraging. In an effort to relieve the pressure cooker of Anglo-Canadian relations and make some plans for the uncertain period after 31 March, when the food contracts were again open for discussion, the Chancellor of the Exchequer took the extraordinary step of suggesting that Ottawa and London involve the United States in their problem. After all, it was clear that the ultimate solution lay in Washington. Cripps hoped that the result of an Anglo-Canadian plea to the United States would be some sort of commitment that Washington would extend backward to 1 April the financing of British purchases in Canada, when and if the European Recovery Program (ERP) finally went into effect. If such an American guarantee were forthcoming, then London would be prepared to take some risks in the matter of Anglo-Canadian trade. If, however, ERP assistance did not materialise, either in time or in sufficient measure, then very disagreeable issues would have to be faced very soon regarding financial arrangements between Britain and Canada.

Although the Canadians denigrated a joint approach, fearing that it would be seen as the Commonwealth "ganging up" on the Americans, the Canadian Ambassador to the United States, Hume Wrong, presented the case for ERP aid early in February. The meeting was depressing. The Americans would make no promises about the availability of Marshall Plan aid or its distribution.[44] When told of the American response, senior officials of the British Treasury were reportedly "pretty shaken."[45] They had counted on a sympathetic American attitude and a firm commitment that they would finance British dollar purchases as of 1 April, regardless of when ERP finally passed Congress.

As a result, the British initiated a campaign to retain access to the Canadian credit after 31 March, asking for a further fifteen million dollars for April. While the initial reaction in Ottawa was to refuse, High Commissioner Norman Robertson counselled otherwise from his vantage point in London. He argued that the circumstances in which the Americans had made their February decision had altered. The Communist takeover in Czechoslovakia late in February had "produced a much higher temperature in the United States . . . which is likely to ensure a more rapid passage of the ERP legislation than would have seemed likely even a fortnight ago."[46] For Canada to appear unwilling to advance a further credit would have appeared small minded and might perhaps have jeopardised Ottawa's chances of substantial offshore purchases. By late in March, the Canadian government was offering more.

43. PRO, Foreign Office Records, FO371, Vol. 68872B, Minute Sheet, F. B. A. Rundall, 20 February 1948.
44. R. D. Cuff and J. L. Granatstein, *American Dollars — Canadian Prosperity: Canadian-American Economic Relations, 1945-50* (Toronto, 1978), 97. See also PRO, United Kingdom Treasury, ONC Records, Vol. 1794, A. R. Bryce to P. Harris, 9 September 1948.
45. CEAR, 154-s, Robertson to Pearson, 1 March 1948.
46. Ibid., Robertson to Pearson, 16 March 1948.

Much to Ottawa's delight, Robertson's analysis was correct: the Marshall Plan was passed into law on 3 April 1948. One of the first acts was to assume responsibility for certain British purchases in Canada. On 5 May 1948, the European Cooperation Administration (ECA), the administrative arm of the ERP, authorised $35.5 million for British purchases of Canadian bacon, wheat, and flour. In the ensuing ten months, Canada's exchange position cleared up quickly, although Britain's financial situation did not improve markedly.

It was partly for this reason that Chancellor Cripps planned to visit Ottawa in September. In preparation, Sir Henry Wilson-Smith, a senior Treasury official, went early in August and Sir James Helmore followed later that month to discuss Anglo-Canadian problems and to try to soothe ruffled Canadian sensibilities. As various Whitehall memoranda pointed out, Canadians did feel a certain amount of resentment and irritation towards London. One such document clearly outlined the basis of Canadian complaints:

> (1) We do not have sufficient regard for the Canadian difficulties, particularly their own acute dollar shortage; that we have been anxious to go on drawing dollars on credit and have been giving no effective return of exports for the extensive Canadian sales to us; and more especially, that we have tended to consider our drawings on the Canadian credit as a matter of right and not as an act of generosity from Canada which can be withheld at her discretion.
>
> (2) Canada has geared her agricultural economy to suit the United Kingdom market at our request, but that we are constantly changing in our demands (and incidentally paying less high prices than we are willing to pay other suppliers).
>
> (3) We are not sending them an adequate share of our exports . . . to help meet the gap.
>
> (4) More generally, the atmosphere of mutual confidence and pooling of information is lacking and that, after long silences, there is a tendency to summon Canadians for urgent consultations when a crisis arises.[47]

Furthermore, by mid-1948, Ottawa did not believe that the United Kingdom was interested in reestablishing multilateral and nondiscriminatory trade in the near future. As Clutterbuck told Cripps, British actions over the past year had destroyed that confidence and "raised grave doubts both as to our objectives and our methods."[48]

While Canadian minds were put partly at ease by the Chancellor in September, tensions remained acute. The separate interests of Ottawa and London could not be reconciled under the conditions that existed in 1948. In an attempt to help ease the strain, the two countries established the United Kingdom-Canada Continuing Committee, a high-level forum where senior bureaucrats from both sides would meet on a regular basis

47. PRO, Dominions Office Records, Vol. 3503, Minute Sheet, Sir Eric Machtig, 17 June 1948. See also PRO, United Kingdom Treasury Records, Vol. 179, Sir James Helmore, "Note of a Discussion at the Department of Trade and Commerce with Mr. Mackenzie, Dr. Clark and Graham Towers," 25 August 1948. In this discussion, most of these points were raised and the Canadians especially emphasised the export theme with Helmore.
48. PRO, United Kingdom Treasury, ONC Records, Vol. 1792, UKHC to CRO, 23 August 1948.

to discuss mutual economic and political issues. Given the high profile of Cripps's visit to Ottawa and the establishment of the Continuing Committee, Clutterbuck was optimistic that the "rot" in Anglo-Canadian relations had finally been stopped.[49] This was a forlorn hope. Its spread gathered speed during the next few years.[50]

CONCLUSION

The Anglo-Canadian political and economic relationship was severely impaired during 1947 and early in 1948 by what seemed to Canadians to be British demands that reminded many in the government of the phrase "having one's cake and eating it too." During the course of the food negotiations, the British delegation received most of what it wanted, while unilaterally terminating several long-term contracts signed the year before with Canadian exporters. The perception, both in Canada and in Britain, was that the former, long tied into the North Atlantic triangle, had very few trade options, a fact consummately exploited by British negotiators. In a very real sense, however, this was as far as Canada could go, for it was stretched to the limit financially and could not afford to underwrite further British demands on its treasury. The search for a return to commercial normalcy among erstwhile allies would henceforth be pursued less vigorously and with less hard currency. Certainly 1947 and all that it brought had caused official Ottawa to begin to reconsider its reliance on the British link, which had been so fundamental in Canadian history.

These events also pose an obvious challenge to those sell-out theorists who have ignored the impact of British policy on Canada. The 1947 negotiations demonstrate the country's commitment to a trading world that extended well beyond the United States, but which was only partially realised because of events that occurred elsewhere. What 1947 graphically demonstrated was that Canada, a small northern country, could not dictate global economic policy as the United States could. Ottawa's options were distinctly limited by the context that then prevailed and the government, always conscious of outside developments, attempted to balance competing forces while simultaneously projecting Canada's interests. Indeed, a case could be made that Canadian trade policy was made only partially in Ottawa and was given much of its shape in London and in Washington.

49. Ibid., Vol. 1796, Clutterbuck to Machtig, 30 September 1948.
50. See, for example, my "Trials and Tribulations: The Decline of Anglo-Canadian Trade, 1945-50," *Journal of Canadian Studies* 24 (1989).